

TRW Pension Scheme



Report and Accounts
2006

TRW Pension Scheme

Report and Accounts

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The Scheme is registered with the Pension Schemes
Registry under Registration Number 101699992

Report of the Trustee

Trustee and Advisers

Principal Employer	LucasVarity
Trustee	TRW Pensions Trust Limited
Directors of the Trustee Company	S Lunn - Chairman P Almond A Bassett R Benjamin * <i>from 28 July 2005</i> A Collinson* G Derry * <i>from 3 May 2005 to 18 November 2005</i> J C Plant P Palmer* G T Plumley R Yates * <i>from 21 December 2005</i> K Young* <i>until 20 May 2005</i>
Secretary	R Middleton
Investment Managers	TRW Investment Management Company Limited Capital International C B Richard Ellis Investors Limited Western Asset Management Company
Investment Advisers	Hymans Robertson LLP
Investment Performance Measurement	State Street Analytics - for Scheme performance WM Company - for WM50 comparison
Custodian of Assets	State Street Bank & Trust Company <i>until 3 April 2006</i> ABN-AMRO Mellon <i>from 3 April 2006</i>
Actuaries	Hymans Robertson LLP Scheme Actuary : R Bowie
Auditors	Ernst & Young LLP
Bankers	Barclays Bank plc
Solicitors	Allen & Overy LLP Pinsent Masons - Property Biggart Baillie - Property (Scotland) <i>until 11 October 2005</i>
Medical Adviser	Capita Health Solutions
Property Valuer	Atisreal
Administrator & address for enquiries or complaints	TRW Benefit Administration (UK) 2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE

*The Directors marked with an asterisk are member nominated directors.

Constitution of the Scheme

The Directors of the Trustee Company are pleased to present their sixth report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2006.

Trustee

The Trustee of the Scheme is TRW Pensions Trust Limited. The Trustee Company's Board has nine Directors, named on page 2. Five are Directors for the Principal Employer and those marked by an asterisk are Member Nominated Directors. The Principal Employer makes all appointments and replacements. In appointing Member Nominated Directors the Principal Employer takes into consideration any persons duly nominated by either of the TRW Pension Scheme Consultative Committees. These are committees of employee and pensioner members recognised by the Principal Employer for the purposes of consultation in connection with the Scheme.

The Directors do not receive any remuneration either from the Trustee Company or the Scheme. Contributions from Directors of the Trustee Company have been paid in accordance with the Schedule of Contributions certified by the Actuary. They all have received copies of the guidance published by the Pensions Regulator.

Principal Employer

The principal employer is LucasVarity, which is a wholly owned subsidiary of TRW Automotive. The major shareholder of TRW Automotive is the Blackstone Group.

Appointments to the Board

Mr. Young resigned from the Board on 20 May 2005. Mrs. Derry was appointed and resigned within the year, she was appointed on 3 May 2005 and resigned on 18 November 2005. The Board wishes to place on record its appreciation for the valuable contribution that they have made during their periods of office.

Mr. Benjamin was appointed to the Board on 28 July 2005 and Mr. Yates on 21 December 2005.

Legal Status

The Scheme was established by a Trust Deed dated 30 June 1928 and is now governed by a Definitive Trust Deed dated 30 March 1993, a Deed of Amendment dated 14 July 1993, three Deeds of Amendment dated 14 July 1998, a Merger Deed dated 27 February 2001 and Amending Deeds dated 1 April 2004, 5 October 2004, 24 March 2006 and 6 April 2006. The closed sections are either defined benefit pension arrangements or a defined benefit pension arrangement with a defined contribution underpin. The open sections are defined benefit pension arrangements.

The Scheme is a contracted out salary related (COSR) scheme. It is contracted out of the State Second Pension (S2P) on the basis of the 'Reference Scheme' test.

Up to 6 April 2006 the Scheme had been granted Exempt approval status by the Inland Revenue for the purpose of Chapter I of part XIV of the Income and Corporation Taxes Act 1988. Because of the Scheme's previous exempt approval status it was

automatically classified as a registered pension scheme under Schedule 36 of the *Finance Act 2004* with Her Majesty's Revenue and Customs (HMRC) from 6 April 2006.

Participating Employer

The only participating employer whose employees are entitled to be members of the Scheme is TRW Limited.

Trustee Meetings

The Board met four times during the year to consider matters relating to the administration of the Scheme. The Board has, by resolutions passed at ordinary meetings, set up a number of sub-committees to deal with specified matters.

The quorum for the transaction of the business of the Directors is five, three of whom are to be Directors for the Principal Employer, and two Member Nominated Directors. Trustee decisions are usually unanimous but they may be taken by a majority vote.

A sub-committee meets monthly which has been given delegated authority by the Board to deal with ill health early retirement applications and items of trustee discretion. Other sub-committees meet as required to produce reports for the Board, the recommendations of such sub-committees are tabled for the Directors' consideration at their next ordinary Board meeting.

Annual meetings are held in the autumn, when the representatives of the Board meet the TRW Pension Scheme Consultative Committees.

Trust Deed and Rules

A copy of the Trust Deed and Rules is available for examination in Human Resource Departments. Personal copies can be obtained on written application to TRW Benefit Administration (UK); the cost is £25.

External Advisers

The Scheme's actuaries Hymans Robertson LLP and its solicitors Allen & Overy LLP have advised TRW Automotive and its subsidiaries during the year ended 31 March 2006. Ernst & Young LLP also act as auditors for TRW Automotive.

Review of External Advisers and Service Providers

In line with UK pension scheme best practice, the Trustee has a policy of submitting all of its external advisers and service providers to a review procedure. The following advisers and service providers were subject to a review during the year.

▪ Custodian

Following a detailed review process that was conducted by the Board in conjunction with Thomas Murray Limited - a specialist custodian review company - it was agreed on 11 January 2006 to change the Scheme's custodian.

From 1 April 2006 ABN-AMRO Mellon were appointed as the Scheme's Global Custodian. They will also be responsible for fund accounting and performance measurement.

The appointment on 11 January was subject to the satisfactory conclusion of the contractual terms. These were subsequently agreed and the Board finally approved the documentation on 24 March 2006. The transfer of the custody on assets from State Street Bank & Trust Company to ABN-AMRO Mellon took effect on 3 April 2006.

- **Corporate Bond Manager**

Following a further detailed review process in which the Board was assisted by its Investment Advisors, Hymans Robertson LLP, it was agreed on 11 January to appoint a Corporate Bond Manager. This is a new appointment and Western Asset Management Company was selected as the Scheme's Corporate Bond Manager subject to the satisfactory conclusion of the Investment Management agreement.

Following an intensive review of the documentation by Allen & Overy, the Scheme's solicitors, the Managing Director of TRWIM and the Scheme Secretary, the Board approved the Investment Management Agreement on 24 March 2006. It was further agreed not to transfer any assets to the new manager until the custody transfer had been satisfactorily concluded. Approximately £100 million of assets were subsequently transferred to Western Asset Management Company on 16 June 2006 from assets managed by TRWIM.

- **Property Solicitor - Scotland**

The Scheme's main property solicitor is Pinsents. It has, however, been necessary to appoint a Scottish property solicitor, as Pinsents had no presence in Scotland where the law on property differs from that in England and Wales. Accordingly, the Board appointed Biggart Baillie as its property solicitors in Scotland.

On 6 December 2004 Pinsents merged with another firm of solicitors - Masons - to become Pinsent Masons. The merger brought two Scottish offices to the enlarged firm.

It was agreed on 11 October 2005, following a review by the Board, to appoint Pinsent Masons as the sole solicitors dealing with the Scheme's property assets.

Financial Review

Market value of the Fund

The financial statements have been prepared and audited in accordance with regulations made under Sections 41 (1) and (6) of the *Pensions Act 1995*.

The accounts show that during the year the value of the Scheme's assets, that have been accumulated to meet its commitments, increased by £524 million. At the year-end the value of the Scheme's assets was £3,491 million compared to £2,967 million at 31 March 2005.

The increase in fund value is accounted for as follows:

▪ Change in market value of investments	£573 million
▪ Investment income (net of expenses) less	£107 million
▪ Excess of expenditure over income	<u>£156 million</u> <u>£524 million</u>

Fund Account

Compared with the year ended 31 March 2005 there was a decrease in income of £1.8 million and an increase in expenditure of £7.8 million. The main reasons for these changes are as follows:

Income

The reduction in income of £1.8 million is due to two reasons:

- In the previous period there were transfers-in to the Scheme of £1.4 million more than in the current year.
- Employee contributions reduced by £0.4 million due to the lower number of employees.

Expenditure

The increase in expenditure of £7.8 million was due to three main reasons:

- Increase in benefits payable of £4.3 million
- Increase in payments to leavers of £2.1 million
- Increased professional adviser fees and levies of £1.2 million. The Scheme's payment to the Pension Protection Fund accounted for £831,000 of this amount

Members' Contributions

The normal contributions and the additional voluntary contributions of members in service have all been forwarded to the Trustee in line with the timescales agreed between the Trustee and the Company.

Actuarial Valuation

The latest actuarial valuation was made by Hymans Robertson LLP as at 31 March 2003. They reported the result to the Board on 3 February 2004. The purpose of the valuation is to assess the current financial position of the Scheme and to determine what contributions need to be paid by the Company to provide for the benefits set out under the rules of the Scheme.

The Scheme Actuary reported that on an ongoing valuation basis the Scheme remains fully funded with respect to accrued service and recommended that Company contributions remain suspended until the next actuarial valuation, which will be based on data as at 31 March 2006. When the results of that valuation are known the position will be reviewed.

The Scheme Actuary further reported following the 31 March 2003 valuation that the Scheme did not have an excessive surplus. The Scheme, however, comfortably met the Minimum Funding Requirement.

The actuarial statement by the Scheme Actuary appears on page 48.

A copy of the latest full actuarial report is available for examination in Human Resource Departments. A personal copy can be obtained on written application to TRW Benefit Administration (UK); the cost is £5. An actuarial valuation in accordance with section 179 of the *Pensions Act 2004* (Pension Protection Fund Valuations) was undertaken as at 31 March 2005. This revealed that the Scheme as at that date had a Section 179 funding level of 105%.

Membership

There were 58,907 members of the Scheme at 31 March 2006 compared with 60,319* at 31 March 2005. The change in membership during the year is as follows:

Current Members

Current members at 31 March 2005		4,583 *
Plus:	New entrants during the year	229
Less:	Left employment	
	Refunds	196
	Deferreds	560
	Retirements:	
	Normal	2
	Early Voluntary	41
	Early Redundancy	206
	Ill Health	16
	Late Voluntary	2
	Died in service	7
Current members at 31 March 2006		3,782

Pensioners

Pensioners at 31 March 2005		38,157 *
Plus:	Retirements during the year	267
	Deferred pensions commencing	613
	Dependants pensions commencing during the year	522
Less:	Deaths of pensioners	1,669
	Trivial pensions fully commuted	198
	Dependants pensions ceased	7
Pensioners at 31 March 2006		37,685

Deferred Pensioners

Deferred Pensioners at 31 March 2005		17,579 *
Plus:	Current members who left the Scheme during the year and became deferred pensioners	560
	Pension sharing former spouses	4
Less:	Pensions commencing during the year	613
	Deaths of deferred pensioners	34
	Transfers to other pension arrangements	56
Deferred pensioners at 31 March 2006		17,440
Total Membership at 31 March 2006		58,907

** These figures have been adjusted from those shown in the 2005 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2005 due to late notifications.*

Automatic Membership

New employees automatically become members of the Scheme. They can opt-out of the Scheme at any time by giving one complete month's notice and by completing a withdrawal form. These forms are available in Human Resource Departments or from TRW Benefit Administration (UK).

Rejoining the Scheme

From 5 October 2004, employees who refuse membership when their employment with the Company begins may now join at the beginning of any month for a period of twelve months from when their employment commenced.

An employee who joins the Scheme and then opts-out of the Scheme may not rejoin unless the Principal Employer decides otherwise.

Scheme Benefits

Benefit Changes and Basic Scheme Information

The following changes in the benefit structure of the Scheme took place in the period from 1 April 2005 to 6 April 2006:

Closure of existing open sections of the Scheme

The open section for non-executive members of the Scheme was closed to new entrants from 1 April 2006. The executive section 2004 SRBS-C was closed to new entrants from 11 October 2005 and the executive section 2004 SRBS-A was closed to new entrants from 1 April 2006.

New open section for non-executive members of the Scheme

This new section is open to non-executive employees who join the company on or after 1 April 2006 and has the same benefit structure as the Closed 100ths - 2004 section with one exception. Members of the new 2006 Open section will not receive any enhancement to their benefits if they retire early due to ill health or incapacity.

New open executive section

This new executive section is open to anyone offered SRBS membership on or after 1 April 2006. This applies both to new senior employees and existing employees offered SRBS membership on or after 1 April 2006.

The benefit structure of the new section will be similar to the Closed 2004 SRBS-A with the following significant differences:

- The accrual rate will be 1/60ths of Final Pensionable Salary
- Members will not receive any enhancement to their benefits if they retire early due to ill health or incapacity.

Additional Voluntary Contributions (AVC)

Effective from the 5 April 2006, the Scheme's AVC arrangements were closed to any further payments. Existing AVCs will continue to be held in the Scheme and be invested in the same way as currently.

From April 2006 it is possible for members to transfer their AVC funds to a new pension provider whilst remaining in the Scheme.

Transfers-in

From 1 April 2006, the Scheme will no longer accept individual transfer payments from other pension arrangements.

Inland Revenue pension limits

The limits on contributions and benefits set by the Inland Revenue (now Her Majesty's Revenue and Customs - HMRC) have been relaxed due to the *Finance Act 2004*. These limits have, however, been retained with effect from 6 April 2006 as Scheme rules.

The major exception to this is the new tax-free cash provisions introduced by the *Finance Act 2004*.

Commutation rates

These are the conversion rates for converting pension to cash and cash to pension.

Prior to April 2006, these rates were restricted by HMRC. These restrictions ceased from 6 April 2006. Following that date the Trustee has a duty to ensure the Scheme Actuary considers the rates to be reasonable. In consequence of this the rates have been significantly changed

The effect of the change is:

- Members will give up less pension to receive the same tax-free cash.
- Those with cash balances within the Scheme will receive less pension when they convert the cash balance to an annual pension.

Early leavers

Prior to 6 April 2006 those who left the Scheme with less than two years' service (providing they did not already have a deferred pension from a previous period of service or had transferred benefits into the Scheme) received a refund of their contributions, less tax, and less the cost of buying them back into the State Second Pension.

From 6 April 2006, this provision will still apply except early leavers with more than three months service will have the option of transferring the cash equivalent of their pension to another pension provider.

Cross-border

The Scheme has been registered as a cross-border Scheme under the provisions of the *Pensions Act 2004* and has been granted a general authorisation to accept contributions from European employers under Section 288 of the Act. The determination order by the Pensions Regulator under Section 96(2)(d) of the Act is dated 29 June 2006.

Equal Treatment

A benefit improvement package implemented on 12 November 1991 equalised benefits (as between men and women) of all current employees at that date. On 13 December 1994 the Trustee approved the actions required in order to equalise the pension benefits of 3,000 former employees who retired, deferred their pension or died between 17 May

1990 and 11 November 1991. The benefits of those affected were equalised in the Scheme year 1995-1996 and back-dated to the time of retirement or death.

The benefits of Scheme members in employment on or after 17 May 1990 are now equalised except in relation to guaranteed minimum pensions. These are based on the State Pension Ages of 65 (men) and 60 (women). This has a consequential effect on the calculation of benefits in excess of the Guaranteed Minimum Pension.

Pension Increases

Effective 1 April 2006 (Except for Closed Steering Systems, the Closed UK section, Closed 100ths - 2004 section pensioners and deferred pensioners)

- Pensions in payment and deferred pensions are guaranteed under the rules of the Scheme to increase annually by 7% or, if less, the percentage movement in the General Index of Retail Prices (RPI). The Scheme bases its increases on the percentage movement in the RPI in the twelve months ending in January. The full percentage rise in the RPI for the year ended 31 January 2006 was 2.4% and this was the increase applied from 1 April 2006.
- Pensioners over State Pension Age received the 2.4% increase on the excess of their pension over any Guaranteed Minimum Pension (GMP). GMPs are guaranteed to rise fully in line with the RPI providing the GMP is not already greater than what members would have received had they been members of the State Earnings Related Pension Scheme. GMPs earned before April 1988 are increased by the State scheme. The Scheme provides increases on GMPs earned after April 1988 in line with the RPI up to a maximum of 3% a year. The State requires these increases to be based on the percentage movement in the RPI in the twelve months ending in September. The annual increase in the RPI to September 2005 was 2.7%. GMPs earned after April 1988 have, therefore, received Scheme increases of 2.7% from 1 April 2006.
- The Scheme increases detailed above apply only to pensioners who retired on or before 31 March 2005. For members who retired on or after 1 April 2005 the increase applied was 1/12th of the full increase for each complete month of retirement.
- Temporary Pensions and Early Retirement Supplements were increased by the percentage cost of living increase that was applied to State pensions from 6 April 2006. This increase was 2.7% and matched the increase in the RPI for the twelve months to September 2005.

Effective 1 April 2006 (For Closed Steering Systems and Closed UK section pensioners and deferred pensioners)

- Pensions in payment and deferred pensions (with the exception of pensions accrued before 1 January 1986) are guaranteed under the rules of the Scheme to increase annually by 5% or, if less, the percentage movement in the General Index of Retail Prices (RPI). The Scheme bases its increases on the percentage movement in the RPI in the twelve months ending in January. The full percentage rise in the RPI for the year ended 31 January 2006 was 2.4% and this was the increase applied from 1 April 2006.

- The increase for members of the Closed Steering Systems section with benefits accrued after 1 April 1992 and for the Closed UK section was 2.4%. Closed Steering Systems section members who have pensions that accrued prior to 1 April 1992 receive a fixed 2.5% increase on these pensions.
- The Trustee agreed that pensioners who retired and have no guaranteed increases attaching to their pensions, receive the increase applied to closed Steering Systems and UK section pensions in excess of GMP, once their pension is in payment.
- Pensioners over State pension age received the 2.4% increase on the excess of their pension over any Guaranteed Minimum Pension (GMP). GMPs are guaranteed to rise fully in line with the RPI providing the GMP is not already greater than what members would have received had they been members of the State Earnings Related Pension Scheme. GMPs earned before April 1988 are increased by the State scheme. The Scheme provides increases on GMPs earned after April 1988 in line with the RPI up to a maximum of 3% a year. The State requires these increases to be based on the percentage movement in the RPI in the twelve months ending in September. The annual increase in the RPI to September 2005 was 2.7%. GMPs earned after April 1988 have, therefore, received Scheme increases of 2.7% from 1 April 2006.
- The Scheme increases detailed above apply only to pensioners who retired on or before 31 March 2005. For members who retired on or after 1 April 2005 the increase applied was 1/12th of the full increase for each complete month of retirement.

Effective 1 April 2006 for Closed 100ths - 2004 section pensioners and deferred pensioners

- Pensions in payment and deferred pensions are guaranteed under the rules of the Scheme to increase annually by 2.5% or, if less, the percentage movement in the General Index of Retail Prices (RPI). The Scheme bases its increases on the percentage movement in the RPI in the twelve months ending in January. The full percentage rise in the RPI for the year ended 31 January 2006 was 2.4% and this was the increase applied from 1 April 2006.
- Temporary Pensions were increased by the percentage cost of living increase that was applied to State pensions from 6 April 2006. This increase was 2.7% and matched the increase in the RPI for the twelve months to September 2005.

Additional Voluntary Contributions

The actuaries have certified that the rate of interest to be applied to cash accumulation AVC balances held in the Scheme for the whole Scheme year ending 31 March 2006 is 11%. Contributions paid during the year receive half this rate. For members who paid cash accumulation AVCs - and retire, die or transfer the cash equivalent of their deferred pension from the Scheme, between 1 April 2006 and 31 March 2007 - a terminal bonus of 5% will be paid providing they commenced paying AVCs before April 1993. Members who commenced paying AVCs on or after 1 April 1993 and who

retire, die or transfer the cash equivalent of their deferred pension from Scheme between 1 April 2006 and 31 March 2007 will receive no terminal bonus. AVCs paid to an external provider receive the return declared by those providers.

Money Purchase Underpin Account

This is only applicable to members of the closed eightieths section of the Scheme. Each year, twice the member's contributions are credited to the account. At the end of the Scheme year interest is applied to the balance of the account as at the end of the previous Scheme year. The rate of interest is the full rate of return of the Scheme. This is made up of dividends from the Scheme's investments and movements - up or down - in the capital value of these investments.

The full rate of return of the Scheme for the year ended 31 December 2005 was 20.2%. Money purchase underpin accounts have been adjusted accordingly. If a member transfers out, retires or dies during the Scheme year, the account as at December has a market value adjustment applied to it.

Transfer payments to the Scheme

The Scheme had a special transfer account, designed to receive payments from other pension arrangements until 31 March 1997. Transfers-in were suspended between 1 April 1997 and 31 March 1998. From 1 April 1998 a new arrangement for transfers-in to the Scheme was introduced. In exchange for the transfer value the Scheme provided a paid-up pension. The paid-up pension increases both before and after retirement in a similar way to a deferred pension. If it is received early it is subject to the Scheme's early retirement actuarial reduction. Up to 6 April 2006, with one proviso, the Scheme would accept a transfer payment if it were sufficient to provide for any GMP liability for which the Scheme becomes responsible.

The proviso concerns transfers from occupational pension schemes where either the whole or part of the liability being transferred accrued after 17 May 1990. The Trustee would only accept a transfer payment if the transferring employer and the transferring Trustee provided a signed undertaking to the Principal Employer and the Trustee. The undertaking confirmed that the transfer payment would be calculated on a basis that takes full account of their obligation to provide benefits for and in respect of the member which are equal as between men and women. In addition, the undertaking had to confirm that if it is established in the future that the transfer payment was not calculated on that basis the transferring pension arrangement would make a further payment to the Trustee to increase the transfer payment to the amount it would have been had it been calculated on that basis. The transferring pension arrangement were also required to undertake to add to the transfer payment compound interest at a rate equal to the base rate of Barclays Bank plc during the period.

Transfer payments made into the transfer account before 1 April 1997 received the 20.2% rate of return achieved by the Scheme for the year ended 31 December 2005.

From 1 April 2006 the Scheme will not accept transfer payments from other pension schemes or other pension providers.

Transfer payments from the Scheme

Transfer payments made from the Scheme to other approved pension arrangements are the greater of:

- The cash equivalent of the deferred pension, or, where appropriate
- The money purchase underpin account

The calculation of transfer payments are made on the basis determined by the Scheme's actuaries and meets the requirements of the *Pension Schemes Act 1993* and the *Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996 No. 1847)*. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

Earnings Cap

The earnings cap is the restriction on pensionable pay for members who joined the Scheme after 31 May 1989. The restriction also applies to those who joined the Scheme before that date if they have elected to become subject to the post 31 May 1989 Inland Revenue limits. The earnings cap for the tax year 2005 - 2006 was £105,600. From 6 April 2006 the Scheme will apply its own earnings cap, set at a level agreed by the Company and the Trustee.

Financial Planning Service

The Company has set up an independent financial planning service for employees and their dependants. The service is provided by two independent financial advisers, authorised by the Financial Services Authority (FSA), who are able to provide a consistent countrywide service. The advisers are Origen Financial Services Ltd and Marsh Financial Services Ltd.

Employees can choose to see a consultant from either of the adviser companies. The cost of the service is borne by the employee, either by commission the adviser receives on investments placed or by the payment of direct fees. The financial advice given is personal to each individual and is a matter between them and their chosen adviser. Neither the Trustee nor TRW Automotive can endorse, or be held responsible for, the outcome of the advice, if taken.

Legislative and Regulatory Changes

Pensions Act 2004 and the Finance Act 2004

A large number of regulatory changes were introduced during the year to implement the requirements of the *Pensions Act 2004* and the *Finance Act 2004*. This has included the publication of over a hundred sets of regulations to implement the detailed requirements of the Acts. In addition, several Codes of Practice and an online guidance manual from HM Revenue & Customs have also been issued. These changes have involved pension schemes putting in place new procedures and extensively modifying their practice before A-Day (6 April 2006). It is expected that the publication of further Regulations and Codes of Practice will continue into the 2006 - 2007 year.

Pension Protection Fund (PPF)

The PPF started in April 2005 and as at December 2005, thirty-five schemes that were underfunded, whose sponsoring employees were insolvent, were in the assessment process before being admitted to the PPF. The PPF is not financed by the Government or by general taxation but is funded entirely by other final salary pension schemes. In 2005 the TRW Pension Scheme paid £830,000 to the PPF.

The levy in 2006 will be based on two components; a Scheme based levy based on the amount of an individual scheme's liabilities and a risk-based levy. Two factors determine the size of the risk-based levy. They are the funding level of the Scheme and the credit rating of the sponsoring employer.

Pensions Commission

A significant development during the year was the publication of the much-anticipated report from the Pensions Commission, led by Lord Turner. This report, *A New Pension Settlement for the Twenty-First century*, was published in November 2005 and prompted considerable debate. The main proposals contained in the report were:

- An increase in the State Pension Age to 68 by 2050 and in line with life expectancy thereafter;
- Re-introduce the link between the Basic State Pension and earnings;
- The introduction of a National Pension Saving Scheme to provide defined contribution benefits for all employees over 21. However, there would be the option to opt-out of the NPSS.
- Reduce the amount of means-tested State benefits.
- Simplify the contracting out process.

Following a period of consultation on this report, the Government has issued a White Paper called *Security in retirement: towards a new pension system*. The main changes proposed in the White Paper mirror those of the Turner Commission. However, as the White Paper was issued in May 2006 consideration of its contents falls outside this report. It is clear that the changes made to pensions' legislation in the last few years will not be the end of the process. Further extensive revision is anticipated in the near future as a result of this White Paper.

Further information about the Scheme

Pensions Act 1995 - Compliance

Appointment of advisers

The Pensions Act 1995 (the Act) requires the Trustee to appoint its own advisers. The following advisers were appointed under the requirements of the Act. All the advisers have formally accepted the appointments and confirmed that they will notify the Trustee should any conflicts of interest arise in relation to the Scheme.

- | | |
|-----------------------|---|
| ▪ Scheme Actuary | Ronald Bowie of Hymans Robertson LLP |
| ▪ Auditor | Ernst & Young LLP |
| ▪ Investment Managers | TRW Investment Management Company Limited
Capital International
C B Richard Ellis Investors
Western Asset Management Company |
| ▪ Custodian | State Street Bank and Trust Company |
| ▪ Solicitors | Allen & Overy LLP
Pinsent Masons - Property |
| ▪ Property Valuer | Atisreal |
| ▪ Investment Advisers | Hymans Robertson LLP |

Member Nominated Directors

The Act introduced a requirement for occupational pension schemes whose trustee is a company to have member nominated directors. Regulations were issued detailing the prescribed rules for appointing directors. The employer can, however, opt-out of the Act's requirements by putting forward an alternative proposal and seeking approval for the alternative proposal through a statutory consultation procedure.

The Company notified the Trustee that it intended to seek an opt-out in order to retain the method of appointing directors of the Trustee Company that had been in place for many years. Following the statutory consultation procedure the Trustee was informed on 26 March 1997 that the Company's alternative was approved. Following the Scheme merger on 1 March 2001, the Company reviewed the 1997 opt-out and following a consultation process with both the Trade Unions and Works Council Consultative Committee, it concluded that a new opt-out proposal was appropriate.

Under the revised opt-out, TRW Pensions Trust Limited will continue to consist of nine directors. Five directors will continue to be appointed by the Company, and there will continue to be four member directors. However, with effect from 1 October 2004, three member directors are selected from the Trade Union Consultative Committee, and a fourth member director is selected from the Works Council Consultative Committee. This amendment to the existing arrangement was proposed to address the lack of representation on the Trustee Board for members from business locations where employee representation is achieved through the means of a Works Council. Following the statutory consultation procedure, the Trustee was informed on 2 June 2004 that the Company's alternative was approved. A member nominated director selected by the Works Council Consultative Committee has been appointed to the Trustee Board.

Contracting out

The Scheme is contracted out of the State Second Pension on the basis of the 'Reference Scheme test' (see page 3).

Board procedures

The Trustee has reviewed its procedures to ensure they conform with the Act's requirements.

Internal Disputes Resolution Procedure

On 13 January 1997 the Board approved an Internal Disputes Resolution Procedure. The procedure can be summarised as follows:

- Queries and complaints should initially be referred to TRW Benefit Administration (UK).
- If the complaint is not resolved to the complainant's satisfaction they may apply to have their case reviewed under the Internal Disputes Resolution Procedure. This procedure comprises two formal stages. The query/complaint must be set out in writing in a specified manner. The complainant will then receive an answer to their query/complaint in writing.
- The two stages are as follows:
 - Review by the committee of the Trustee Board.
 - Review by the Trustee Board if the complainant is not willing to accept the first stage decision.

Full information on how to refer a query/complaint to the Internal Disputes Resolution Procedure is available by writing to the Secretary to the Trustee at TRW Benefit Administration (UK).

Transfers

The Scheme's transfer out factors ensure that the requirements of the Act are met. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments (see page 14).

Statement of Investment Principles

On 21 July 2006, the Trustee Board revised its Statement of Investment Principles. See pages 51 to 55 for a copy of the revised statement.

Disclosure of information

The Scheme's Summary of Benefits leaflets contain all the information required by the disclosure of information regulations.

Member contributions

The Principal Employer has put in place procedures that seek to ensure the Trustee receives member contributions by the nineteenth day of the month following the month in which they were deducted from salaries.

Myners Compliance

On 6 February 2003 the Board approved its response to the ten Myner's principles. The response is contained in a document called *Principles of Investment Decision Making*.

The Board also approved a Business Plan on the 6 February 2003, which has been reviewed and updated annually since that date. Both documents are available for downloading from the Scheme's website, www.trwpensions.co.uk

In Notes 16 & 17 to the Accounts are detailed the transaction costs of the equity portfolios and the full management costs of the property portfolio.

Shareholder Activism

Policy

It is the Board's policy to vote in respect of all shares held in the Active UK Equity Fund. No action is normally taken in respect of shares held only in the Passive UK Equity Fund. TRW Investment Management Company, as the Scheme's lead investment manager, will normally vote in line with recommendations from Research, Recommendations and Electronic Voting (RREV). This is a joint venture between the National Association of Pensions Funds and Institutional Shareholder Services and is a leading provider of global research and proxy voting services.

Guidelines for action

In the case of perceived failures of management, if the shares are expensive, then the holding is sold. If the shares are not expensive then, in the first instance, TRWIM aims to meet with the executive management of the company to encourage effective dialogue. If this fails, TRWIM normally meet with the senior non-executive director(s). In addition, they may liaise with other shareholders in order to promote any necessary changes within the company.

Pensioner representation on the consultative committee

Since April 1996 pensioner representatives have been co-opted on to the TRW Pension Scheme Consultative Committees. Their term of office is for three years. Applicants must be receiving a TRW Pension, have been an employee, not have retired on the grounds of ill health and have completed an application form. The consultative committees then consider all the applicants and select the pensioners to be co-opted on to the committees.

Investment Report

Investment Managers

The lead investment manager is TRW Investment Management Company Limited. The emerging market investment manager is Capital International, the corporate bond manager is Western Asset Management Company and the property investment manager is CB Richard Ellis Investors. The Financial Services Authority (FSA) regulates TRW Investment Management Company Limited, Western Asset Management Company and Capital International. CB Richard Ellis Investors is regulated by the FSA and is a member of the Royal Institution of Chartered Surveyors. All are authorised under the *Financial Services and Markets Act 2000* to undertake investment business.

The investment management costs are borne by the Scheme and detailed in the accounts. TRW Investment Management Company Limited is a wholly owned subsidiary of TRW Automotive.

Custody of Investments

Up to 31 March 2006, State Street Bank & Trust Company was the external independent custodian of the Scheme's non-property assets. A custodian agreement between State Street Bank & Trust Company and TRW Pensions Trust Limited detailed the terms on which the custodian would hold the Scheme's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Scheme's assets were held by the custodian under the control of the Trustee. Physical documents are held in a strong room and access is limited by the custodian's own strict security procedures. Regular reconciliations of the holdings are carried out and a copy of the State Street report on internal controls is kept and reviewed by the lead investment manager. (See pages 4-5 for details of the new Scheme custodian from 1 April 2006).

The Scheme's investments held by the custodian are registered as follows:

- United Kingdom investments are in the name of a nominee of the custodian with the designation account 'TRW Pensions Trust Limited' or some other account designation specifying they are the assets of TRW Pensions Trust Limited.
- United States investments are in the name of a nominee with the designation on the books and records of the custodian which is specific to TRW Pensions Trust Limited added to the nominee's name.
- Other investments are in the name of either the custodian or a nominee with a designation to make clear the registered holder is not the beneficial owner.

The custodian will only release title documents after a series of security checks have taken place. These include:

- A dual electronic instruction to the custodian involving the use of passwords.

- Daily authorisation of sales by a senior staff member of TRW Investment Management Company Limited, and approved as soon as practicable by the Managing Director of TRW Investment Management Company Limited.
- The custodian has received payment.

Cash is placed on short-term deposit with banks in the name of the Trustee company.

Pinsent Masons provide custody services for the property documentation relating to the property investments of TRW Pensions Trust Limited. They have secure deeds rooms and operate a computerised deeds record system. No deed can be removed from the deeds room except by specific request from the relevant fee earner or their secretary on behalf of the fee earner. Access to such secure deeds rooms is only by authorised Pinsent Masons personnel.

Internal Controls

The Trustee has received a Global Controls Examination report dealing with the internal control of investment custodians from State Street Bank & Trust Company dated 15 June 2006. The Trustee has also received from Capital International a SAS 70 report on controls and tests on operational effectiveness dated 31 August 2005. In addition, the Trustee has received an un-audited Report on Internal Controls from CB Richard Ellis Investors and a statement on compliance from the Atisreal Group – the Scheme’s property valuer. These reports have been reviewed to ensure that the controls are appropriate to the requirements of the Board.

Asset Allocation

The Trustee considers the asset allocation benchmark detailed below is appropriate for the Scheme. The purpose of the asset allocation benchmark is to establish a notional portfolio distribution for the medium to long term. The actual investment of the Scheme's assets needs, however, to be more flexible to take account of shorter term investment decisions and changes in asset values. Accordingly, the Trustee has authorised the lead investment manager to manage the fund within tactical asset allocation limits. The benchmarks and allocation limits are detailed below:

Investment Benchmark		
	Benchmark %	Range %
UK Equities	40	35 to 45
Overseas Equities		
• Developed markets	19	15 to 25
• Emerging markets	1	0 to 3
Fixed Interest	20	15 to 25
Index Linked	8	3 to 13
Corporate Bonds	3	0 to 5
Property	7	5 to 9
Cash	2	0 to 15

Actual allocation at 31 March 2006	
	% Market Value of the Total Fund
UK equities	41
Overseas Equities	
• Developed markets	23
• Emerging markets	1
Fixed Interest	19
Index Linked	6
Property	6
Cash	4
	100

Analysis of the Scheme Investments at year end

Analysis of UK equities by sector		
	Market Value	% Market Value of the Total Fund
	£million	
Financials	430	12.4
Services	326	9.4
Resources	249	7.1
Consumer goods	235	6.7
General industrials	114	3.2
Utilities	73	2.1
Information Technology	19	0.5
	1,446	41.4

Geographical analysis of investment assets (Excluding external AVCs)

	Market Value £ million	March 2006 %	March 2005 %
UK	2,676	76.6	78.5
USA	227	6.5	8.0
Japan	194	5.6	4.7
France	62	1.8	1.4
Luxembourg	59	1.7	0.1
Germany	48	1.4	1.0
Switzerland	38	1.1	1.0
Italy	27	0.8	0.7
Australia	25	0.7	0.6
Netherlands	21	0.6	0.8
Spain	21	0.6	0.6
Canada	15	0.4	0.4
Sweden	13	0.4	0.4
Hong Kong	11	0.3	0.3
Belgium	9	0.3	0.2
Bermuda	8	0.2	0.1
Finland	6	0.2	0.1
Ireland	6	0.2	0.1
Norway	5	0.1	0.1
Singapore	4	0.1	0.1
Greece	4	0.1	0.1
Other	13	0.4	0.7
	<u>3,492</u>	<u>100.0</u>	<u>100.0</u>

Largest holdings

	Market value £million	% of total investment assets	% of total investment assets in March 2005
Vodafone Group	61.7	1.9	1.7
GlaxoSmithKline	61.5	1.9	1.7
BP	59.8	1.8	1.7
HSBC Holdings	58.0	1.8	1.6
Royal Bank of Scotland	55.2	1.7	1.5
Capital Intl Emerging Markets	53.7	1.7	1.5
Barclays	44.5	1.4	1.4
UK Treasury 7.25% 2007	41.8	1.3	-
UK Treasury 4.75 2038	41.7	1.3	-
Astrazeneca	39.8	1.2	1.1
UK Treasury 4% 2009	39.6	1.2	-
UK Treasury 6% 2028	38.6	1.2	-
Royal Dutch Shell B Shares	37.4	1.2	-
UK Treasury 8% 2021	37.1	1.1	0.8
UK Treasury 7.5% 2006	36.3	1.1	-
UK Treasury 5% 2008	35.9	1.1	1.0
HBOS	34.3	1.0	1.2
UK Treasury 2.5% 2016	34.0	1.0	1.2
UK Treasury 2.5% 2020	32.9	0.9	1.0
UK Treasury 1% 2013	32.8	0.9	-
	876.6	26.7	17.4

Employer related investments

At the year-end the Scheme had no investment in TRW Automotive. At the year-end the Scheme held 10,732 (2005: 11,460) Northrop Grumman Corporation Shares with a market value of £422,523 (2004: £327,376). The Northrop Grumman Corporation is a significant shareholder in TRW Automotive. Member contributions due from the employer amounted to £40,207 (2005: £65,397). On 31 March 2006 this represented approximately 0.01% of the Scheme's assets. This was considerably below the maximum permitted by Section 40 of the *Pensions Act 1995*.

Stock Lending

Stock lending is only permitted by the Trustee in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.

At the year-end the total value of the stock on loan was £1,465,000. The total value of the collateral held by the scheme was £1,567,000.

Analysis of securities on loan	£'000
▪ Overseas equities on loan	£1,465

Analysis of collateral

▪ Collateral for overseas equities - Sovereign debt	£1,567
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Investment principles

The statement of investment principles deals with the following topics:

- Fund managers
- Investment management fees
- Investment adviser
- Investment objectives
- The kind and balance of investments
- Risk
- Expected return on investments
- Mandates to the investment managers
- Realisation of investments
- Minimum funding requirement
- Socially responsible investment
- Exercise of voting rights
- Custodian

The current statement, implemented from 21 July 2006, is included on pages 51 to 55. A separate copy of the statement can be obtained by writing to TRW Benefit Administration (UK).

Review of Investments

During the year the Trustee, with the help of its professional advisers, has carefully considered the Scheme's investments. They are satisfied that the investments conform to all the statutory criteria.

Investment Performance

Independent performance measurement is provided to the Scheme by State Street Analytics. Universe comparison is provided by the WM Company through their WM 50 statistics.

Benchmark

The Trustee has instructed its performance measurers to compare the fund's performance with a specific performance policy benchmark. The benchmark at 31 March 2006 is based on the indices detailed in the table below.

Sector	Index	Weight
■ UK Equities	FTSE All Share ¹	40%
■ Overseas Equities		
• North America	FTSE World Index North America	7%
• Europe ex-UK	FTSE World Index Europe ex-UK	6%
• Japan	FTSE World Index Japan	5%
• Pacific ex-Japan	FTSE World Index Asia Pacific ex Japan	1%
• Emerging markets	MSCI Emerging Markets Free	1%
■ Fixed interest	FT-A All Stocks Gilt Index	20%
■ Index linked	FT-A Over 5 Year Index Linked Index	8%
■ Corporate Bonds	iBoxx sterling Non-Gilts	3%
■ Property	IPD Annualised	7%
■ Cash	LIBID 7 day rate	2%

¹ The index used is based on the FTSE All Share Index with the weighting of any one stock capped to 4% of its market capitalisation. Rebalancing normally takes place at three monthly intervals

Returns

The Scheme return measured against specific policy over one, three, five and ten years are detailed below.

Period to 31 December 2006	£ Benchmark % Annual Return	£ Fund % Annual Return
Last year	23.9	22.7
Last 3 years	19.7	18.7
Last 5 years	3.1	2.8
Last 10 years	8.8	8.4

WM50

The WM Company compares the 50 largest pension funds that it measures. These represent the assets of almost all the largest UK pension schemes. The returns of the WM50 are as follows:

Period to 31 December 2006	WM50 % Annual return	Fund % Annual return
Last year	20.3	22.7
Last 3 years	16.2	18.7
Last 5 years	4.6	2.8
Last 10 years	8.3	8.4

Conclusion

The Directors acknowledge with thanks the help and support they have received from everyone associated with the administration of the Scheme.

If a member has any queries about the operation of the Scheme or about their benefits, they should raise them with their local Human Resources Department or with the Secretary to the Trustee at TRW Benefit Administration (UK).

By order of the Directors of TRW Pensions Trust Limited.

Roy Middleton
Secretary

Fund Account & Net Assets Statement

Fund Account

	Note	2006 £'000	2005 £'000
Contributions and Benefits			
Contributions receivable	3	4,081	4,476
Transfers in	4	225	1,641
		4,306	6,117
Benefits payable	5	(152,758)	(148,430)
Payments to and on account of leavers	6	(3,528)	(1,446)
Administration expenses	14	(1,910)	(1,737)
Professional Adviser Fees and Levies	15	(1,692)	(478)
		(159,888)	(152,091)
Net withdrawals from dealings with members		(155,582)	(145,974)
Returns on investments			
Investment income	7	110,586	98,861
Change in market value of investments	13	572,519	245,361
Investment management expenses	18	(3,979)	(3,931)
Net returns on investments		679,126	340,291
Net increase in the fund during the year		523,544	194,317
Net assets of the Scheme at 1 April 2005		2,967,399	2,773,082
Net assets of the Scheme at 31 March 2006		3,490,943	2,967,399

Net Assets Statement

Investments			
Equities	9 & 13	2,203,087	1,827,914
Fixed interest securities	8 & 13	678,285	631,515
Index-linked securities	8 & 13	193,445	182,219
Property	11 & 13	213,851	199,413
Pooled investment vehicles	10 & 13	58,104	47,062
Cash deposits	13	124,350	59,967
External Additional Voluntary Contributions	12 & 13	1,967	2,162
Other current investment assets less liabilities	13 & 21	20,769	18,387
		3,493,858	2,968,639
Net current liabilities	20	(2,915)	(1,240)
Net assets of the scheme at 31 March 2006		3,490,943	2,967,399
Approved by the Directors of the Trustee Company	Director	Steve Lunn	
27 September 2006	Director	Pam Palmer	

Notes to the Accounts

Note 1 Basis of preparation

The financial statements have been prepared and audited in accordance with the regulations made under *Section 41(1) and (6) of the Pensions Act 1995* and with the guidelines set out in the revised *Statement of Recommended Practice, Financial Reports of Pension Schemes November 2002*.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the actuary on page 48 of the annual report and these financial statements should be read in conjunction with it.

Note 2 Accounting Policies

- Income from equity investments is brought into account at the ex-dividend date. Income from pooled investment vehicles is re-invested. Income from fixed interest securities, index linked securities and cash is recognised as the interest accrues.
- Company and members contributions are accounted for on an accruals basis at rates agreed between the Trustee and the Employer based on the recommendation of the actuary and the schedule of contributions.
- Benefits and expenses are dealt with on an accruals basis.
- Transfer payments in respect of members transferred to and from the Scheme during the year are included in the accounts on the basis of sums advised by the actuary at the time the accounts for the year are finalised.
- Listed investments (including Pooled Investment Vehicles) are stated at the last quoted price on 31 March. Unlisted investments are priced using quotes provided by external brokers.
- Foreign currency investments are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign currency investment income is recorded at the rate ruling at the date of the transaction.
- Stock index futures contracts are valued at market prices at the year-end and, to the extent that the contracts have been entered into for the purpose of obtaining economic exposure, have been reflected in the accounts on the basis of associated economic exposure. The corresponding liability is included in other investment liabilities. The associated economic exposure of a futures contract is the value of an amount of securities, which, if held as an alternative to the futures contract, would provide a similar return in the market to that obtained on the futures contract. All gains and losses on contracts are included in the net movement in market value of investments.
- Where forward sales or purchases of foreign currency have been made as a hedge against exposure on foreign currency investments, held or expected to be acquired, any unrealised profit or loss at the year end, measured by the difference between the spot rate and the contract rate, is included in the net movement in market value of investments under the same category as the foreign currency investment that is the subject of the hedge. Realised gains and losses on forward contracts maturing during the year are also included in the net movement in market value of investments within the same category.
- The property investments of the scheme are included in the accounts at open market value at the balance sheet date. This value is determined by independent external valuers in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. No depreciation is provided on property assets in accordance with SSAP19: Accounting for Investment Properties.
- Purchases and sales of properties are recognised in the accounts upon unconditional exchange of contracts. Property rental income is recognised on an accruals basis.

Note 3 Contributions receivable	2006	2005
	£'000	£'000
Company contributions ¹	0	0
Member's contributions	2,909	3,358
Member's internal additional voluntary contributions ²	1,156	1,095
Member's external additional voluntary contributions ²	16	23
	<hr/>	<hr/>
	4,081	4,476
	<hr/>	<hr/>

¹A two year cessation of Company contributions commenced on 1 August 1985, and has since been extended, initially for a further two years to 31 July 1989 and subsequently following the actuarial valuations as at 31 March 1994, 31 March 1997, 31 March 2000, and 31 March 2003, until at least the next actuarial valuation.

²Members' additional voluntary contributions are for the most part invested either in the Scheme or in the investment vehicles detailed in Note 12. Small amounts invested with London Life Association Limited and The Equitable Life Assurance Society are not included in the accounts.

Note 4 Transfers in	2006	2005
	£'000	£'000
Transfers of the Lucas Supplementary Scheme assets ³	0	1,186
Transfers from other funds – individual	225	150
Transfers from other funds - group	0	305
	<hr/>	<hr/>
	225	1,641
	<hr/>	<hr/>

³ The Company and the Trustee approved in a previous financial year the transfer of the assets and liabilities of the Lucas Supplementary Pension Scheme into the Scheme.

Note 5 Benefits payable	2006	2005
	£'000	£'000
Pensions	142,896	140,304
Child allowances	291	298
Commuted lump sums	8,384	7,315
Death benefits	1,187	513
	<hr/>	<hr/>
	152,758	148,430
	<hr/>	<hr/>

Note 6 Payments to and on account of leavers	2006	2005
	£'000	£'000
Refunds to leavers	48	50
Transfers to other funds - Individual	3,233	1,197
Transfers to other funds - Group	0	6
Transfers to State Scheme	247	193
	<hr/>	<hr/>
	3,528	1,446
	<hr/>	<hr/>

Note 7 Investment income	2006 £'000	2005 £'000
Dividends from equities	57,606	60,117
Income from fixed interest securities	33,282	19,762
Income from index linked securities	4,469	4,293
Net rents from property	13,311	13,973
Interest on cash account	3,294	1,838
Stock lending	439	351
Income from pooled investment vehicles	0	15
Tax reimbursement	23	0
Miscellaneous expenses	0	(41)
Overdraft expense	0	(16)
Foreign exchange losses	(689)	(270)
Write-off of non recoverable withholding tax	(1,185)	(1,109)
Other investment income/(expense)	36	(52)
	<hr/>	<hr/>
	110,586	98,861

Note 8 Fixed Interest Securities and Index Linked Securities

Fixed Interest	Market Value	
UK Quoted	2006 £'000	2005 £'000
Government	667,617	325,461
Government futures contracts	0	302,858
Corporate	10,635	3,094
Overseas		
Government	0	0
Corporate	33	102
	<hr/>	<hr/>
	678,285	631,515

Index linked	2006 £'000	2005 £'000
UK Quoted	2006 £'000	2005 £'000
Government	182,012	171,416
Corporate	11,433	10,803
	<hr/>	<hr/>
	193,445	182,219

Note 9 Equities

	Market Value	
	2006 £'000	2005 £'000
UK	1,445,811	1,236,828
Overseas	757,276	591,086
	<hr/>	<hr/>
	2,203,087	1,827,914

All the equity investments held by the Scheme are quoted.

Note 10 Pooled Investment Vehicles

Included within the investments are the following amounts in respect of pooled investment vehicles

	Market Value	
	2006 £'000	2005 £'000
UK registered		
Fidelity	1,210	1,018
Templeton Emerging Markets Investment Trust plc	849	498
RIT Capital Partners plc	836	569
Invesco English & International Trust plc	534	0
Scottish Investment Trust	465	0
Foreign & Colonial Emerging Markets Investment	179	107
Schroder UK Growth Fund plc	153	124
Eurotunnel PLC	153	0
Mercury Unquoted Security Trust	35	33
Schroder Institutional Pacific Fund	0	3
Overseas registered		
Capital International Emerging Markets Fund	53,690	44,710
	<hr/>	<hr/>
	58,104	47,062

Note 11 Market Value of property investments

Sector	2006	2005	Geographical	2006	2005
	£'000	£'000		£'000	£'000
Industrials	94,750	80,375	South East	113,875	113,700
Offices	44,800	53,600	Scotland	27,950	23,125
Retail Warehouses	50,300	43,600	Yorkshire	19,525	16,600
Retail	18,900	17,350	East Midlands	16,700	14,750
Residential	160	160	West Midlands	10,250	8,750
			North West	10,160	9,460
			Wales	6,100	4,700
			South West	4,350	4,000
Property Unit Trusts	4,941	4,328		4,941	4,328
Total	213,851	199,413		213,851	199,413

Note 12 External Additional Voluntary Contributions

The Trustee held assets invested separately from the main fund in the form of individual insurance policies and building society accounts securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

	2006	2005
	£'000	£'000
Clerical Medical	728	771
Scottish Life	663	786
Standard Life	433	479
Fidelity	123	102
Century Life	6	11
Alba Life	14	13
	1,967	2,162

Note 13 Change in market value of investments

	Value at 1 April 2005	Purchases at cost	Sales Proceeds	Change in Market Value	Value at 31 March 2006
	£'000	£'000	£'000	£'000	£'000
Equities	1,827,914	508,226 ²	(619,963)	486,910	2,203,087
Fixed Interest securities	631,515	940,670	(907,390)	13,490	678,285
Index-linked securities	182,219	90,750	(91,587)	12,063	193,445
Pooled investment vehicles	47,062	43,350	(63,244)	30,936	58,104
Property	199,413	469	(14,985)	28,954 ³	213,851
External Additional Voluntary Contributions	2,162	16	(377)	166	1,967
	<u>2,890,285</u>	<u>1,583,481</u>	<u>(1,697,546)</u>	<u>572,519</u>	<u>3,348,739</u>
Cash deposits	59,967				124,350
Other current investment assets and liabilities (See note 21).	<u>18,387</u>				<u>20,769</u>
	<u>2,968,639</u>				<u>3,493,858</u>

² See Note 16 for a breakdown of the transaction costs included in the cost of purchase.

³ See Note 17 for a breakdown of the transaction and management costs for the property portfolio.

Note 14 Administration expenses

	2006	2005
	£'000	£'000
Administration	1,242	1,032
Computing costs	574	593
Archive legacy TRW records	0	11
Imaging	4	13
Mortality Verification	0	3
Web Site	90	85
	<u>1,910</u>	<u>1,737</u>

Note 15 Professional Adviser Fees and Levies

	2006	2005
	£'000	£'000
Pension Protection Fund levy	831	0
Merrill Lynch – Transition management	240	0
Hymans Robertson - Actuarial fees	193	177
Hymans Robertson - Investment Adviser fees	129	0
Allen & Overy - Legal fees	102	70
Ernst & Young - Audit and tax fees	97	122
Thomas Murray – Custodian review	59	0
Capita Health Solutions - Medical fees	32	34
Other advisers	9	43
OPRA Levy	0	32
	<u>1,692</u>	<u>478</u>

Note 16 Transaction Costs - Ordinary Shares

Ordinary share portfolio	Brokerage commission £'000	Taxes, duty £'000	Other charges, fees £'000	Total £'000
UK Equity - Passive	79	257	12	348
UK Equity - Quant	5	0	0	5
UK Equity - Active	796	1,032	0	1,828
European Equity - Active	144	2	0	146
European Equity - Passive	8	11	0	19
North American Equity - Passive	4	0	0	4
Japanese Equity - Passive	15	0	1	16
Asia Pacific Equity - Passive	1	0	1	2
Transaction costs 2006	<u>1,052</u>	<u>1,302</u>	<u>14</u>	<u>2,368</u>
Transaction costs 2005	<u>1,073</u>	<u>1,168</u>	<u>10</u>	<u>2,251</u>

Note 17 Property transaction and management costs

The property transactions and management costs are shown in two places in the accounts, as follows:

- Costs associated with the purchase and sale of property are capitalised in the purchase price or deducted from the receipts of sales - see Note 13
- Included in the property section of the investment management expenses - see Note 18

The purpose of this note is to detail the costs that are included in the purchases and sale receipts in Note 13 that otherwise would not be transparent.

	2006		2005	
	£'000	£'000	£'000	£'000
Purchases during the year		443		8,437
Costs associated with purchase				
Stamp Duty	13		338	
CB Richard Ellis Investors - transaction fees	7		72	
Pinsent Masons - transaction fees	3		23	
Gooch Cunliffe Whale - transaction fees	0		50	
Other purchase costs	3		4	
Total purchase costs		469		8,924
Sales during the year		(15,613)		(9,520)
Costs associated with sales				
CB Richard Ellis - transaction fees	158		83	
Pinsent Curtis - transaction fees	25		18	
Rental guarantee	279		0	
Dilapidation/remediation costs	144		0	
Insurance	17		0	
Other Sales Cost	5		0	
Total sales proceeds less costs		(14,985)		(9,419)
Net purchases and sales at cost		(14,516)		(495)
Total Property transaction and management costs				
Costs associated with property sales and purchases		654		588
Property management costs (see note 18)		1,885		1,915
		2,539		2,503

Note 18 Investment Management Expenses

	2006 £'000	2005 £'000
Non-property Management Expenses		
TRW Investment Management Company Ltd	1,711	1,633
State Street Bank and Trust Company (Custodian)	383	380
Other	0	3
	<u>2,094</u>	<u>2,016</u>
Property Management Expenses		
	2006 £'000	2005 £'000
CB Richard Ellis	602	438
Pinsent Masons	102	132
Biggart Baillie	2	8
Atisreal	126	115
Property Management Costs:		
Building & Refurbishment	341	188
Marketing & Letting	111	19
Head rent & rates	211	225
Bad debts - amounts provided for	0	709
Vacant unit costs	142	74
Lease surrender	228	0
Other	20	7
	<u>1,885</u>	<u>1,915</u>
Total investment management expenses	<u>3,979</u>	<u>3,931</u>

Note 19 Total Investment Management and Transaction costs

	2006 £'000	2005 £'000
Non-property Management expenses (See note 18)	2,094	2,016
Property Management expenses (See Note 18)	1,885	1,915
Transaction costs - Ordinary shares (See Note 16)	2,368	2,251
Transaction costs - Property (See Note 17)	654	588
	<u>7,001</u>	<u>6,770</u>

Note 20 Current assets and liabilities

	2006	2005
	£'000	£'000
Current Assets		
Employee contributions ¹	40	65
Cash at Bank	406	1,909
VAT receivable	52	36
Other debtors	4	12
	<u>502</u>	<u>2,022</u>
Current liabilities		
Unpaid benefits	(1,719)	(1,702)
Payable to TRW Limited	(518)	(562)
Administration expenses	(151)	(86)
Advisers fees	(205)	(165)
Investment expenses	(545)	(462)
Net property VAT payable	(177)	(185)
Accrual and deferred income	(2)	0
HM Revenue & Customs	(100)	(100)
	<u>(3,417)</u>	<u>(3,262)</u>
Net current liabilities	<u>(2,915)</u>	<u>(1,240)</u>

¹ These employee contributions outstanding at the year end were subsequently paid within the required timescales

Note 21 Other current investment assets and liabilities

	2006	2005
	£'000	£'000
Current Assets		
Balances due from brokers	944	2,581
Dividends receivable	13,445	12,819
Interest receivable - bonds	7,967	5,236
Income tax recoverable	247	276
Rent receivable	1,663	1,835
Interest receivable - cash/term deposits	235	150
VAT recoverable	0	41
	<hr/>	<hr/>
	24,501	22,938
Current liabilities		
Balances due to brokers	(13)	(13)
Deferred rental income	(2,534)	(2,846)
Provision for property bad debts	(897)	(967)
Property creditors	(93)	(423)
Other creditors	0	(70)
Rental deposits	(195)	(232)
	<hr/>	<hr/>
	(3,732)	(4,551)
	<hr/>	<hr/>
Net other current investment balances	20,769	18,387

Reports of the Auditors and the Actuaries

Report of the Independent auditor to the Trustee of the TRW Pension Scheme

We have audited the Scheme's financial statements for the year ended 31 March 2006 which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of trustee and auditor

The Scheme's Trustee is responsible for obtaining audited financial statements which comply with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain other information about the Scheme in the form of an Annual Report.

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to the Scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- Show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and
- Contain the information specified in the Schedule to *The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996*, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible under pensions legislation for keeping records in respect of contributions received in respect of any active member of the Scheme and for ensuring that contributions are made to the Scheme in accordance with the Schedule of Contributions.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the relevant legislation We also report to you if, in our opinion, the Trustee's report is not consistent with the financial statements or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial

statements. The other information comprises the Trustee's Report, Investment Report, Actuarial Statements and Statements of Investment Principles.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by or on behalf of the Trustees in the preparation of the financial statements and of whether the accounting policies are appropriate to the Scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements show a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial transactions of the Scheme during the Scheme year ended 31 March 2006, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, and contain the information specified in Regulation 3 of and the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Ernst & Young LLP
Registered Auditor
Birmingham

27 September 2006

Summary of Contributions

During the year ended 31 March 2006, the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	£'000
Employer normal contributions	0
Employee normal contributions	2,909
Total contributions under Schedule of Contributions	<hr/> 2,909 <hr/>
Other contributions	0
Employee additional voluntary contributions	1,172
Total contributions per Note 3 of the financial statements	<hr/> 4,081 <hr/>

Approved by the Board

Steve Lunn
Pam Palmer

Date: 27 September 2006

Information about contributions

Contributions by the Company remain suspended until the next actuarial valuation, which will be based on data as at 31 March 2006. Members' normal contributions are at the rates specified in the Scheme rules for the different sections of the Scheme.

Independent Auditor's Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the TRW Pension Scheme.

We have examined the summary of contributions to the TRW Pension Scheme in respect of the Scheme year ended 31 March 2006 to which this statement is attached.

This statement is made solely to the Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our work, for this statement, or the opinion we have formed.

Respective responsibilities of Trustee and Auditor

The Trustee is also responsible under the pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a Schedule of Contributions showing the rates of normal contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule of Contributions.

Our responsibility is to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions payable, as reported in the attached Summary of Contributions, have been paid in accordance with the relevant requirements. For this purpose the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions. Our statement about contributions is required to refer to those breaches of the schedule of contributions which come to our attention in the course of our work.

Statement about contributions

In our opinion the contributions payable to the Scheme during the year ended 31 March 2006, as reported in the attached summary of contributions, have been paid in accordance with the Schedule of Contributions certified by the Scheme actuary on 14 May 2004.

Ernst & Young LLP
Registered Auditor
Birmingham
27 September 2006

Actuarial Statement made for the purposes of Regulation 30 of the Occupational Pensions Schemes (Minimum Funding Requirement & Actuarial Valuation) Regulations 1996

Name of Scheme: The TRW Pension Scheme ("the Scheme")

Effective date of latest valuation 31 March 2003

1. Security of prospective rights

In my opinion, the resources of the scheme are likely in the normal course of events to meet in full the liabilities of the scheme as they fall due. On giving this opinion, I have assumed that the following amounts will be paid to the Scheme.

Members contributions:	At the rates set out in the Trust Deed and Rules
Employers' normal contributions:	Nil until 31 March 2007, 15.1% of pensionable salaries after 31 March 2007.

2. Summary of methods and assumptions used

My opinion on the security of prospective rights is based on a two-stage calculation as follows. The technical name for this approach is the Projected Unit method:

First, I have considered the value of benefits which will be earned by employee members over the period until retirement. This assessment allows for future increases in pensionable salary. I have expressed this value as a contribution rate by dividing by the pensionable salaries payable to employees over the same period.

I have made an adjustment to allow for expenses and members' contributions to derive the employer's normal contribution.

Second, I have considered the value of benefits earned by members from service prior to the valuation date. For employee members this assessment allows for future increases in pensionable salary. I have compared this with the value of Scheme assets. I have adjusted the contribution rate in respect of future service to allow for the excess of assets over liabilities.

3. Valuation Assumptions

The main actuarial assumptions used in my valuation are as follows:

Rate of investment return prior to retirement:	7.0% per annum
Rate of investment return after retirement:	5.5% per annum
Rate of earnings increase:	4.0% per annum
Rate of pension increase (excluding GMP):	2.5%

Assets were taken into account at a value closely related to market value.

I have made allowance for members dying, withdrawing and retiring from the scheme prior to normal retirement age. I have also made allowance for members to exchange part of their pension for a cash sum at retirement.

Further details of the method and assumptions used are set out in my actuarial valuation addressed to the Trustees dated 27 February 2004.

R S Bowie
Fellow of the Faculty of Actuaries
Hymans Robertson, 221 West George Street, Glasgow, G2 2ND

27 February 2004

**Actuarial Certificate given for the purposes of Section 58 of the Pensions Act 1995
(Certification of Schedule of Contributions)**

Name of scheme: TRW Pension Scheme (“The Scheme”)

1. Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of contributions payable in accordance with the schedule of contributions dated 9 April 2004 are adequate for the purpose of securing that throughout the period it covers the Scheme will meet the minimum funding requirement imposed by section 56(1) of the Pensions Act 1995.

- 2.** In forming this opinion I have complied with the requirements imposed by sections 56(3) and 58 of the Pensions Act 1995, the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 and the mandatory guidelines on minimum funding requirement (GN27) prepared and published by the Institute of Actuaries and the Faculty of Actuaries, and have made the assumptions prescribed by them.

Ronald S Bowie
Fellow of the Faculty of Actuaries
Hymans Robertson, 221 West George Street, Glasgow, G2 2ND

14 May 2004

NOTE:

The certification of the adequacy of rates of contribution for the purpose of securing the meeting of the minimum funding requirement is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were wound up.

Statement of Investment Principles

Statement of Investment Principles

This statement sets out the principles, which the Trustee of the TRW Pension Scheme will follow in determining its investment policy for the purposes of the Scheme. It has been prepared in accordance with the requirements of Section 35 of the *Pensions Act 1995 as amended by section 244 of the Pensions Act 2004*.

This revised statement was approved at a meeting of the Trustee Board held on 21 July 2006. The Principal Employer has been consulted. The investment principles set out in this statement will be reviewed periodically and revised as necessary. Prior to the preparation of this statement the Trustee has obtained and considered written advice from Hymans Robertson LLP and TRW Investment Management Company Limited both of which are qualified to provide such advice in connection with the investment of the Scheme.

Fund managers

The Trustee does not take day to day investment decisions, the Board considers investment management to be a specialist activity that is most appropriately undertaken by professional managers. It has delegated responsibility for the selection and management of the Scheme's assets to the following professional investment managers:

- TRW Investment Management Company Limited: This is the lead investment manager and is currently responsible for all Scheme assets except the emerging markets, property portfolios and some Additional Voluntary Contributions.
- Capital International - Emerging markets equity portfolio
- Western Asset Management – Corporate bond portfolio
- CB Richard Ellis Investors – Property
- Alba Life – Insured Additional Voluntary Contributions
- Century Life – Insured Additional Voluntary Contributions
- Clerical Medical – Insured Additional Voluntary Contributions
- Fidelity – Additional Voluntary Contributions
- Scottish Life – Insured Additional Voluntary Contributions
- Standard Life – Insured Additional Voluntary Contributions

The first three organisations are regulated by the Financial Services Authority (FSA). The regulated part of the business of the fourth organisation is also supervised by the FSA. All are authorised under the Financial Services Act 1986 to undertake investment business. The appointments are reviewed periodically. The lead investment manager, the emerging market manager and the corporate bond manager are responsible for investing the Scheme's assets and for deciding when and where to invest new money from contributions, investment income or transfers into the Scheme. They are responsible particularly for tactical asset allocation around the Scheme's strategic benchmark. All the Fund managers are responsible for deciding whether investments under their management should be kept or sold.

The final six managers listed, responsible for the investment of external Additional Voluntary Contributions, were the appointed managers of legacy pension arrangements transferred into the TRW Pension Scheme. They are all regulated by the FSA.

Investment management fees

The in-house lead investment manager's costs are paid out of the assets of the Scheme and published in the Scheme accounts. Each year the lead investment manager submits a budget to the Board for review. Following this review a budget is agreed. In the budget review process for the coming year the Board also reviews the actual outcome for the previous year against the agreed budget for the previous year. This fee structure has been chosen as appropriate to an in-house manager whose total costs in relation to external managers is kept under continual review.

The fee structure of the property investment manager is in two parts; a base management fee and a fee on the completion of each purchase or sale. This fee structure was chosen in order to compensate the manager appropriately in relation to the work undertaken on behalf of the Trustee.

The basis of fees agreed with the corporate bond manager is based on a percentage of the value of the portfolio controlled by the manager. This fee structure was chosen in order to compensate the manager appropriately in relation to the work undertaken on behalf of the Trustee.

The emerging market portfolio is a holding in a pooled vehicle. The charging structure is detailed in the prospectus of the fund and is reflected in the share price of the holding. The Board has no control over this fee structure.

The charging structures of the managers responsible for external Additional Voluntary Contributions are built into the historical group policy terms for each arrangement, and is reflected in the value of individual members' Additional Voluntary Contributions account.

Investment Adviser

The Trustee has appointed an Investment Adviser, Hymans Robertson LLP, to assist it in determining and reviewing its ongoing investment policy. The Investment Adviser provides routine advice on the suitability of the Trustee's investments relative to its liabilities, and also assists the Trustee in reviewing the performance of its lead investment manager and specialist investment managers. This is a separate appointment to that of Hymans Robertson LLP as actuaries to the Scheme.

Investment objectives

The Trustee's investment objectives are:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions, the cost of current and future scheme benefits as set out in the *Trust Deed and Rules*.
- To limit the risk of the assets failing to meet the liabilities over the long term.
- To minimise the long-term cost of the Scheme by maximising the return on the assets whilst having regard to the above objectives.

The kind and balance of investments

The Trustee, acting on the basis of asset liability studies and subsequent advice provided to it by both the Scheme Actuary, Hymans Robertson and the lead Investment Manager, have set an asset allocation benchmark as appropriate to the Scheme. The purpose of the asset allocation benchmark is to establish a notional portfolio distribution which would be an appropriate allocation of the Scheme's assets in the medium, to long term. However, the actual investment of the Scheme's assets needs to be more flexible to take account of shorter-term investment decisions and changes in asset values. Accordingly the Trustee has authorised the lead investment manager to manage the fund within tactical asset allocation limits.

The asset allocation benchmark and tactical allocation limits are agreed by the Trustee after taking such investment advice as they consider appropriate and after consulting the employer. The asset allocation benchmark and tactical allocation limits are as follows:

Asset Class	Benchmark %	Minimum %	Maximum %
UK Equities	40	35	45
Overseas Equities			
• North America	7	5	9
• Europe - ex UK	6	4	8
• Japan	5	3	7
• Asia Pacific	1	0	3
- ex-Japan			
• Emerging Markets	1	0	3
Fixed Interest			
• UK	20	15	25
• Overseas	0	0	4
Index Linked Bonds			
• UK	8	3	13
• Overseas	0	0	2
Corporate Bonds	3	0	5
Property	7	5	9
Cash	2	0	15

The proportion of the portfolio calculated at current market values shall be within the ranges shown above unless the lead manager and the Board agree otherwise. If these limits are exceeded because of movements in market values or because of transfers by the Board to or from the Portfolio the Manager shall take such action, as the Manager considers practicable and prudent, to bring the proportions within the limits.

The Trustee considers that due to the indexed nature of approximately 40% of the assets and the spread among different asset classes, a sufficient degree of diversification has been obtained. The Trustee also considers the investments to be suitable to the Scheme's liabilities. Overall the Trustee considers the investment structure and management style adopted will enable the control of risk in a manner appropriate to the circumstances of the Fund.

Risk

The Trustee's policy regarding risk is set out in detail in Appendix 8 to its *Principles of Investment decision making*. This document is the Board's response to the Myners principles and is available from the Secretary to the Board. It can also be downloaded at the Scheme's website www.trwpensions.co.uk. A summary of the Board's attitude to risk is as follows:

- Diversification among the selected asset classes is designed to reduce the risk that after taking account of the ongoing long-term liability there will be insufficient assets to cover its liability on both the Minimum Funding Requirement and on an ongoing basis.
- In order to control risk the Trustee has imposed the following restrictions:
 - The maximum actively held percentage in one investment will not exceed the limits set down by the Trustee for each investment manager in writing.
 - Stock Lending is only permitted in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.
 - Constraints are placed on the use of derivatives, which may not be used to gear up the portfolio or for speculative purposes.
 - Certain types of investment are not permitted. These include commodities, works of art and precious metals.

Expected return on investments

In the long term the investments are expected to deliver a return which either matches or exceeds the real rate of return assumed by the actuary in assessing the funding of the Scheme. The Trustee will monitor the returns of each fund manager and asset class against an appropriate benchmark. The individual benchmarks will be constructed using data provided by external index providers and will be independently verified by a recognised pension fund performance measurement company on behalf of the Trustee. The projected investment returns are relative to the appropriate index benchmark for each asset class. The projected returns and index benchmarks are as follows:

Asset class	Index	Target return over the index
UK Equities	FTSE All Share ⁴	
• Active		1%
• Passive		0%
• Quant		0.5%
Overseas Equities		
• North America	FTSE World Index North America	0%
• Europe ex-UK	FTSE World Index Europe ex-UK	
• Active		1%
• Passive		0%
• Japan	FTSE World Index Japan	0%
• Asia Pacific	FTSE World Index Asia Pacific	0%
• ex-Japan	(Developed)- ex-Japan	
• Emerging markets	MSCI Emerging markets free	2%
Fixed interest	FT-A all stocks Gilt Index	0.5%
Index linked	FT-A Over 5 year Index-linked Gilt index	0.5%
Corporate Bonds	iBoxx sterling Non-Gilts All stocks index	1.25%
Property	IPD Annual	Exceed index ⁵
Cash	LIBID 7 day rate	0%

The target returns are goals and neither the lead investment manager nor the specialist managers guarantee they will be achieved.

Mandates to the Investment managers

The Board has explicit written mandates with the lead investment manager and its specialist investment managers. The managers are to invest the assets in accordance with the asset allocation benchmark and the Board's guidelines on risk control. In order to respond to shorter-term investment decisions the lead investment manager is authorised to manage the assets within maximum and minimum tactical asset allocation limits.

Further details of the mandates regarding each asset class are set out in the Board's *Principles of Investment decision making* at 5.1 to 5.18 (see the above section on 'Risk' for the availability of this document)

Realisation of investments

Over 85% of the assets are directly or indirectly invested in securities traded on major recognised investment exchanges. These investments can therefore be realised quickly, if necessary. The Trustee's

⁴ The index used is based on the FTSE All Share Index with the weighting of any one stock capped to 4% of its market capitalisation. Rebalancing normally takes place at three monthly intervals

⁵ The property target return is expressed as 6% over the annual increase in the Retail Prices Index and to exceed the IPD index

policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances.

Minimum Funding Requirement (MFR)

In arriving at its investment principles account has been taken by the Trustee of the liabilities of the Scheme in respect of pensioners and active members together with the disclosed level of surplus. This has been done relative to the funding bases used both on an ongoing basis and on an MFR basis. The selection of a spread of investments, which closely matches the Scheme's liabilities under the MFR, would indicate a more substantial investment in fixed interest and indexed linked bonds. The Trustee, however, believes that in the long term investment in UK and overseas equities gives a better prospect of greater investment returns. They have concluded, therefore, with the agreement of the Scheme's Actuary, that a spread of investments with a substantial emphasis on equities is appropriate for the Scheme and that the MFR does not represent a constraint on the asset allocation decisions.

Socially responsible investment.

The Trustee has examined the extent to which social, environmental and ethical issues should influence the purchase, holding and realisation of investments in the actively managed portions of the portfolio. In order to ensure that their duty of acting in the best interests of Scheme members is fulfilled, the Trustee considers that the principal concern of their investment managers should be to ensure that, when taking investment decisions, they are in the long-term financial interest of members. Social environmental or ethical issues may be considered where this principal concern is not compromised.

The purpose of the passively managed portion of the portfolio is to track a specific index. Accordingly, on this portion of the portfolio, social, environmental and ethical issues form no part of the investment manager's mandate.

Exercise of voting rights

The Trustee has delegated the exercise of voting rights to the Scheme's investment managers on the basis that voting rights should be exercised with the aim of preserving and enhancing long-term shareholder value. Voting rights are exercised more often on stocks held in the UK active equity fund than in the other funds, as their impact is usually greater and the lead investment manager will have undertaken more research. The investment managers will provide reports on votes cast to the Trustee on a quarterly basis

Custodian

The assets of the Scheme are held by ABN AMRO Mellon under the control of the Trustee. The custodian has been appointed by the Trustee. The appointment is reviewed periodically.

21 July 2006

TRW Benefit Administration (UK)

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