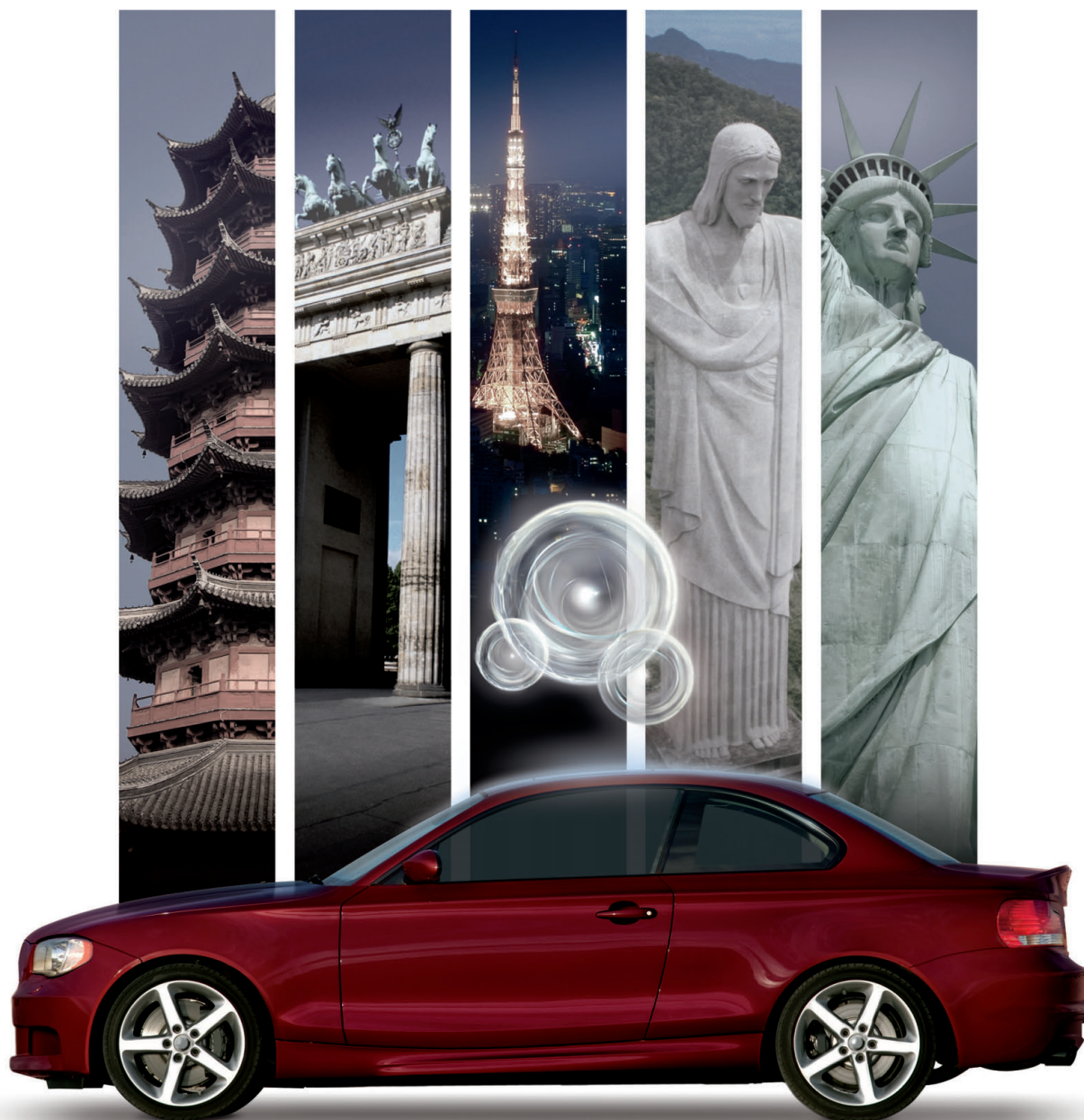


TRW Pension Scheme



REPORT AND ACCOUNTS 2011



THE GLOBAL SAFETY STANDARD.

COGNITIVE SAFETY SYSTEMS

TRW Pension Scheme

Report and Accounts

Contents

- **Report of the Trustee**
 - Trustee and Advisers
 - Constitution of the Scheme
 - Financial Review
 - Actuarial Valuation
 - Membership
 - Scheme Benefits
 - Compliance Statement
 - Investment Report
 - Statement of Trustee responsibilities
 - Conclusion
- **Fund Account & Net Assets Statement**
- **Notes to the Accounts**
- **Report of the Auditors**
- **Summary of Contributions**
- **Auditors statement on contributions**
- **Report of the Actuaries**
- **Statement of Investment Principles**
- **Summary of Funding Statement**

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 P Birkett* – from 29 November 2010 S Blenkinsop* - until 20 September 2010 R Bull* R Johnston* – from 29 November 2010 J C Plant P Palmer* - until 29 November 2010
Secretary	R Middleton
Investment Managers	Legal & General Investment Management Limited Capital International C B Richard Ellis Investors Limited Western Asset Management Company
Investment Advisers	Hymans Robertson LLP
Investment Performance Measurement	Mellon Analytics - for Scheme performance
Custodian of Assets	Bank of New York Mellon
Actuaries	Hymans Robertson LLP Scheme Actuary : R Bowie
Auditors	KPMG LLP
Bankers	Barclays Bank Plc
Solicitors	Allen & Overy LLP Pinsents Masons LLP - Property
Medical Adviser	Capita Health Solutions
Property Valuer	Jones Lang LaSalle
Administrator & address for enquiries or complaints	Capita Hartshead 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 tenth report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2011.

Trustee

The Trustee of the Scheme is TRW Pensions Trust Limited, which is governed by seven Directors, named on page 2. Four are Directors nominated by the Principal Employer and those marked by an asterisk are Member Nominated Directors. The Principal Employer makes all appointments and replacements. The appointment of Member Nominated Directors is in line with Trustee's arrangements for their appointment. See page 13 for details of these arrangements.

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 have all received copies of the guidance published by the Pensions Regulator.

Principal Employer

The Principal Employer is LucasVary, which is a wholly owned subsidiary of TRW Automotive Holdings Corp.

Appointments to the Board

During the year Mr S Blenkinsop left TRW Limited's employment and was removed from the Board. Mrs P Palmer resigned from the Board having previously retired from TRW Limited's employment in 2009. The Board would like to place on record its thanks for the contributions made by these individuals to the Board's activities.

Legal Status

The Scheme was established by a Trust Deed dated 30 June 1928 and is now governed by a Definitive Trust Deed dated 28 March 2011.

All sections of the Scheme were closed to any future accrual from 30 September 2009. The Scheme is a contracted out salary related scheme. The Scheme is 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

Prior to the closure of the Scheme to future accrual on 30 September 2009 the only participating employer whose employees were entitled to be members of the Scheme was 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 currently three, two of whom are to be Directors nominated by the Principal Employer, and one Member Nominated Director.

Trustee decisions are usually unanimous but they may be taken by a majority vote.

A sub-committee has been given delegated authority by the Board to deal with ill health early retirement applications and items of trustee discretion. The Board has also appointed a specialist standing sub-committee to deal with investment matters. During the year this committee met ten times. Other sub-committees meet as required to produce reports for the Board.

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 the Scheme Secretary; the cost is £25.

External Advisers and Service Providers

The Scheme's external advisers are listed on page 2. 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 periodic review procedure.

The Trustee appointed Capita Hartshead as the new administrator of the TRW Pension Scheme in place of TRW Benefit Administration (UK) with effect from 1 July 2011. TRW Benefit Administration (UK) was an internal business operating unit of TRW Limited.

Following the closure of the Scheme to future accrual on 30 September 2009 the Company and the Trustee agreed to review administration arrangements to determine whether an in-house team remained a more cost effective and appropriate arrangement than an external specialist. A Trustee sub-committee appointed to oversee a comprehensive review process was unanimous in recommending that Capita Hartshead be appointed as the new administrator for the Scheme. The Trustee accepted this proposal.

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 £36 million. At the year-end the value of the Scheme's assets was £3,108 million compared to £3,072 million at 31 March 2010.

The increase in fund value is accounted for as follows:

Excess of expenditure over income	(£136 million)
Change in market value of investments	£154 million
Investment income (net of expenses)	£18 million
	<hr/>
	£36 million

In addition to the Scheme's main assets an additional amount (£15 million on 31 March 2011) is held in a Trust Deposit account with Deutsche Bank for the benefit of the Trustee of the TRW Pension Scheme.

Fund Account

Compared with the year ended 31 March 2010 there was a decrease in income of £4.3 million (including investment income) and a decrease in expenditure of £22.5 million (including investment management expenses). The main reasons for these changes are as follows:

Income

- Contributions of £41.25 million received from the Company for the year ending 31 March 2011. This included advance contributions of £25 million received from the Company for the years ending 31 March 2012 and 2013¹.
- A decrease in investment income of £0.8 million
- There were no employee contributions following the Scheme's closure to future accrual in the previous Scheme year

Expenditure

- A decrease in benefits payable of £17.6 million
- A decrease in payments on to leavers of £8.3 million
- A decrease in investment expenses £1.1 million

Members' Contributions

Members' contributions ceased following the closure of the Scheme to future accrual on 30 September 2009. Therefore no members' contributions were received during the year ending 31 March 2011.

¹ On 20 December 2010 the Company paid advance contributions of £40 million in respect of the years ending 31 March 2012 and 2013. £25 million was paid directly in to the Scheme, and £15 million was paid in to a Trust Deposit account held with Deutsche Bank for the benefit of the Trustee of the TRW Pension Scheme.

Actuarial Valuation

The latest actuarial valuation was conducted by Hymans Robertson LLP as at 31 March 2009. 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 the Trustee's statutory funding basis the Scheme had a deficit in funding of £555 million calculated as follows:

	<i>£' million</i>
Assets (excluding defined contribution liabilities):	2,670
Liabilities:	<u>3,225</u>
Shortfall:	<u>(555)</u>

The valuation was signed by the Scheme Actuary on 23 June 2010 following agreement between the Company and the Trustee on the Scheme's Statement of Funding Principles. In light of the funding deficit identified by the Scheme Actuary, the Trustee and the Company were obliged to agree a recovery plan to set out how the Scheme would be restored to full funding. A recovery plan and Schedule of Contributions were signed by the Trustee on 29 November 2010 and the Company on 2 December 2010.

The 31 March 2009 actuarial valuation was the second triennial valuation conducted in accordance with the new requirements of the *Pensions Act 2004*. The Act brought into UK law a new funding standard for final salary pension schemes called 'Scheme Specific Funding'. It also implements a directive of the European Union on the funding of Occupational Retirement Provision. This is called the *IORP Directive*.

Scheme Specific Funding

Under *Pensions Act 2004* schemes must have:

- **A statutory funding objective**

This means that all schemes must, by law, have a funding objective. This objective is usually to have sufficient and appropriate assets to - at least - meet the scheme's accrued liabilities. The Trustee's statutory funding objective is that the Scheme will have sufficient and appropriate assets to cover the expected cost of providing members' benefits.

- **A statement of funding principles**

This is a statement, in writing, drawn up by the Trustee of the Scheme, in which it sets out its policy on how it intends to meet the statutory funding objective. In this statement it explains the way the Scheme's liabilities will be calculated and what assumptions will be used. The Scheme Actuary provides the Trustee with advice on this statement.

The Trustee has published its statement of funding principles and it is available for downloading on the Scheme's website, www.trwpensions.co.uk.

- **A recovery plan**

If a scheme has insufficient assets to meet its statutory funding objective the trustee must agree with the employer a recovery plan. This sets out how they intend to meet their statutory funding objective. The Trustee and the Company are currently in the process of agreeing a recovery plan.

- **A summary funding statement**

The Trustee must provide all members and beneficiaries with an annual summary funding statement. The Trustee has published a summary funding statement during the year in accordance with *Pensions Act 2004*. The text of the most recent statement is printed on pages 55 to 59.

A copy of the latest full actuarial report is available on written application to the Scheme Secretary; the cost is £5.

Membership

There were 51,745 members of the Scheme at 31 March 2011 compared with 53,358 * at 31 March 2010. The change in membership during the year is as follows:

Pensioners

Pensioners at 31 March 2010		36,288	
Plus:	Prior year adjustment	21	
		<u>36,309</u>	*
	Deferred pensions commencing	544	
	Dependants pensions commencing during the year	512	
Less:	Deaths of pensioners	1,686	
	Trivial pensions fully commuted	282	
	Dependants pensions ceased	30	
Pensioners at 31 March 2011			35,367
<i>Comprising of:</i>			
	<i>Pensioners (former employees)</i>	26,204	
	<i>Spouses and Qualifying Dependents</i>	9,053	
	<i>Children</i>	110	

Deferred Pensioners

Deferred Pensioners at 31 March 2010		17,085	
Less:	Prior year adjustment	(30)	
		<u>17,055</u>	*
	Pensions commencing during the year	544	
	Deaths of deferred pensioners	38	
	Transfers to other pension arrangements	74	
	No liability – Forfeiture clause	21	
Deferred pensioners at 31 March 2011			16,378

Total Membership at 31 March 2011		<u><u>51,745</u></u>
--	--	----------------------

* These figures have been adjusted from those shown in the 2010 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2011 due to late notifications.

Scheme Benefits

Definitive Trust Deed and Rules

On 28 March 2011 the Trustee and Company signed an updated Definitive Trust Deed and Rules to document the provisions of the Scheme as at 1 April 2009. This Definitive Deed did not implement any changes to Scheme benefits other than to clarify existing practices which had not been formally documented in previous Trust Deeds. The Scheme's legal adviser has been closely involved with the production of the Deed and has provided advice to the Trustee. The Trustee also consulted the Scheme Actuary and the Principal Employer as required under the provisions of the existing Trust Deed to ensure that the accrued rights of Scheme members have not been impacted by the updated Definitive Deed.

Pension Increases

In April 2011 following a consultation the Government decided to base statutory increases to occupational pensions on the consumer prices index (CPI) as opposed to the retail prices index (RPI). The Government also decided to base increases to State pensions on the CPI instead of the RPI. On 1 March 2011 the Trustee decided that where it had discretion as to the index used for increases to pensions in payment the index should be the consumer prices index (CPI) without exception. This decision was made in light of the Scheme's current funding position, a request from the Company and advice from both the Scheme Actuary and the Trustee's appointed legal adviser. The position will be reviewed on an annual basis. Increases to deferred pensions are automatically based on the CPI by operation of the Scheme's Trust Deed and Rules and the change adopted by the Government.

The increases to pensions from 1 April 2011 were dependent on which section of the Scheme each person is a member.

For pensions in payment:

Section	Pension Element	
All sections excluding members of the sections listed below	Pension in excess of GMPs	4% ⁽¹⁾
	Temporary pensions	3.1% ⁽²⁾
SRBS A, C, A (57.5), and C (57.5)	All pension	4% ⁽¹⁾
	Temporary pensions	3.1% ⁽²⁾
Steering Systems	Pension accrued pre 1 April 1992	2.5% ⁽³⁾
	Pension in excess of GMPs accrued post 31 March 1992	5% ⁽⁴⁾
UK	Pension in excess of GMPs	5% ⁽⁴⁾
	Pension accrued pre 6 April 2005	4% ⁽⁵⁾
	Pension accrued post 5 April 2005	2.5% ⁽⁶⁾
100ths (2004), and SRBS A (2004)	Temporary pensions	3.1% ⁽²⁾
100ths (2006)	All pension	2.5% ⁽⁶⁾
	Temporary pensions	3.1% ⁽²⁾

Guaranteed Minimum Pensions:

GMP earned between 6/4/1978 and 5/4/1988	N/A ⁽⁷⁾
GMP earned between 6/4/1988 and 5/4/1997	3% ⁽⁸⁾

Notes:

- (1) Annual CPI increase (January 2011) up to a maximum of 7%.
- (2) Annual CPI increase (September 2010).
- (3) Fixed 2.5% a year.
- (4) Annual RPI increase (January 2011) up to a maximum of 5%.
- (5) Annual CPI increase (January 2011) up to a maximum of 5%.
- (6) Annual CPI increase (January 2011) up to a maximum of 2.5%.
- (7) All increases are provided by the State.
- (8) Annual CPI increase (September 2010) up to a maximum of 3%. Additional inflationary increases are provided by the State.

For pensions in deferment:

Section	Pension Element	Increase
All sections excluding members of the sections listed below	All pension	4% ⁽¹⁾
	Temporary and Early Retirement Allowance	3.1% ⁽²⁾
Steering Systems and UK (leavers pre 1 January 1986)	All pension	0%
Steering Systems and UK (leavers post 31 December 1985 and pre 1 January 1991)	Pension accrued pre 1 January 1985	0%
	Pension accrued post 31 December 1984	4% ⁽³⁾
Steering Systems and UK, (leavers post 31 December 1990), 100ths (2004), Closed SRBS A (2004), and 100ths (2006)	Pension accrued pre 6 April 2009	4% ⁽³⁾
	Pension accrued post 5 April 2009	2.5% ⁽⁴⁾

Notes:

- (1) Annual CPI increase (January 2011) up to a maximum of 7%.
- (2) Annual CPI increase (September 2010).
- (3) Annual CPI increase (January 2011) up to a maximum of 5%.
- (4) Annual CPI increase (January 2011) up to a maximum of 2.5%.

Additional Voluntary Contributions (AVCs)

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 ended 31 March 2011 is 2.3%.

For those who retire, die, or transfer their AVCs from the Scheme, between 1 April 2011 and 31 March 2012, no terminal bonus will be paid.

AVCs paid to an external provider receive the return declared by those providers.

The Scheme's AVC arrangements were closed to further contributions from 5 April 2006.

Money Purchase Underpin Account

This is applicable to members of the Closed Eightieths Section of the Scheme. Each year, twice the member's contributions are credited to the account. Interest is applied to the balance of the account on an annual basis equal to the full rate of return of the Scheme.

The full rate of return of the Scheme for the year ended 31 December 2010 was 8.16%.

Transfer payments to the Scheme

Transfer payments paid into the transfer account before 1 April 1997 received the 8.16% rate of return achieved by the Scheme for the year ended 31 December 2010.

Transfer payments received from 1 April 1998 up to 31 March 2006 provided deferred pensions. These are increased in line with standard deferred pensions on 1 April each year.

Since 1 April 2006 the Scheme has not accepted transfer payments from other pension schemes or other pension providers.

Transfer payments from the Scheme

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.

Following an insufficiency report from the Scheme Actuary and covenant advice that it had received from Zolfo Cooper LLP the Board agreed to reduce transfer values in line with the insufficiency report on 10 June 2009. The Board further agreed that the Scheme Actuary would monitor the Scheme funding level and inform the Scheme administrator of any further changes to the level of transfer values paid from the Scheme so that they could be implemented as recommended.

From 31 March 2011 there was no reduction being applied to transfer values in accordance with the latest advice from the Scheme Actuary.

Compliance Statement

Pensions Act 1995 and 2004

Appointment of advisers

The Pensions Act 1995 ('the 1995 Act') requires the Trustee to appoint its own advisers. 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. The advisers are listed on page 2.

Member Nominated Directors

The *Pensions Act 2004* requires trustees of pension schemes to implement their own arrangements for appointing Member Nominated Directors (MNDs).

The Trustee's arrangements involve inviting nominations for vacancies from active, deferred or pensioner members. Widow(ers), dependant members and pension sharing spouses are ineligible for nomination.

The nominations are then reviewed by the Board's appointments committee and a shortlist created. Short-listed candidates are then interviewed by a Trustee sub-committee and a decision on an appointment is then made by the Trustee sub-committee.

Successful candidates are appointed for a period of four years.

Internal Disputes Resolution Procedure

The Board has in place an Internal Disputes Resolution Procedure. 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 Pension Scheme
Corporate Services
Shirley
Solihull
B90 4JJ

Statement of Investment Principles

On 4 October 2011, the Trustee Board revised its Statement of Investment Principles. See pages 46 to 53 for a copy of the revised statement.

Statement of Funding Principles

The Board approved its Statement of Funding Principles on 21 June 2010. Printed copies are available for download from the Scheme website, www.trwpensions.co.uk, or upon request from the Scheme Secretary.

Internal Controls

A compliance statement is produced annually by the Scheme Secretary and the Scheme's administrator for the Trustee, to provide information to the Board regarding the administration of the Scheme. The statement outlines the statutory requirements along with non-statutory best practice. It details any breaches that have occurred during the year. In response to the Pension Regulator's code on internal controls the Board has prepared a schedule of risks faced by the Scheme. The contents of the risk register are taken into account when the Board set its goals, as part of its annual Business Plan.

Myners Compliance

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

In 2007 the Government asked the National Association of Pensions Funds (NAPF) to assess the extent to which pensions fund trustees are applying these principles. Following the NAPF's recommendations the Government issued a consultation paper outlining six simplified high-level principles.

At the Board meeting on 13 October 2010 the Board approved a revised *Principles of Investment Decision Making*. The revision updates the document in line with the best practice outlined in the October 2008 Government response to the consultation paper. The revised document is available for downloading at the Scheme's website www.trwpensions.co.uk.

In Notes 18 to 21 to the Accounts the transaction and management costs of the investment portfolios are disclosed. This is in line with the requirements of the original Myners principles.

Corporate Governance and Shareholder Activism

The policy of the lead investment manager is as follows:

- Legal & General Investment Management's (LGIM) activity in all facets of corporate governance is integral to their investment process. They apply all the principles set out in *Responsibilities of Institutional Shareholders' and Agents – Statement of Principles* which was published by the Institutional Shareholders' Committee (now the Institutional Investors' Committee) and was updated in June 2007. Specifically, they focus on the effectiveness of a company's board of management and its remuneration policy, business strategy and business practices, taking into account social, ethical and environmental business issues.
- By voting on all UK company resolutions and maintaining regular dialogue with company management, the necessity for active intervention is minimized, but not eliminated. LGIM actively intervenes when they believe that this intervention would result in a substantial benefit to shareholders.
- The governance activity of their fund managers/analysts is supported by a manager dedicated to corporate governance and socially responsible investment issues. LGIM also plays a leading role in assisting the Association of British Insurers (ABI) to identify issues and in facilitating discussion with companies.
- A document detailing LGIM's policies on Activism, Voting and Socially Responsible Investment is available on their website www.lgim.com.

Investment Report

Investment Managers

Legal & General Investment Management is the Scheme's lead investment manager. The emerging market investment manager was Capital International until 15 September 2010 when this portfolio was sold by the Scheme. 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 all of these investment managers. In addition, CB Richard Ellis Investors is a member of the Royal Institution of Chartered Surveyors. All the managers 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.

Custody of Investments

On 31 March 2011 the majority of the Scheme's investments were managed by Legal & General Investment Management (LGIM) within pooled fund arrangements. The underlying assets of the pooled funds are beneficially owned by Legal & General Assurance (Pensions Management) Limited and held in safe custody by their custodians, HSBC Global Investor Services and Citibank. Custodians are selected and monitored to ensure securities are properly protected through custodians registering and segregating each fund's securities. Cash is held securely in a separate account with approved counterparties.

Bank of New York Mellon are the Scheme's external independent custodian of non-property assets that are not managed by LGIM. A custodian agreement between Bank of New York Mellon and TRW Pensions Trust Limited details the terms on which the custodian holds the Scheme's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Scheme's assets are 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 custodian's report on internal controls is kept and reviewed by the Scheme Administrator.

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.
- The custodian has received payment.

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

Pinsent Masons LLP 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 Mason's personnel.

Internal Controls

The Trustee has received and reviewed an internal controls SAS70 report dealing with the internal control of investment custodians from Bank of New York Mellon covering the period ended 31 December 2010. The Trustee has also received from Western Asset Management Company a SAS70 report on controls and tests on operational effectiveness dated 30 June 2010. In addition, the Trustee has received an AAF 01/06 Report on Internal Controls from CB Richard Ellis Investors for the year ending 31 March 2011 and a similar document from Legal & General Investment Management Limited covering the year ended 31 December 2010. These reports have been reviewed to ensure that the controls are appropriate to the requirements of the Scheme.

Asset allocation

The Trustee acts on the advice of its Investment Sub-Committee, its investment adviser and the Scheme Actuary to put in place an investment structure whereby the Scheme's liabilities determine the type of assets held by the Scheme. This approach to investments is called 'liability driven investment' (LDI). The Trustee considers the investments to be suitable to the Scheme's stated objectives. The central features of this strategy are as follows:

- To manage the interest rate and inflation risk inherent in the Scheme's liabilities by the implementation of swap contracts.
- To retain an exposure to equity markets through a combination of physical assets and derivatives to target a level of long term investment return necessary for the Scheme to meet its funding objective. This exposure is managed through the use of derivative collars to limit the volatility associated with equity investments.
- A controlled use of derivatives to increase the yield on the Scheme's physical assets through exposure to credit markets.

At the year end 80% of the Scheme's assets were held in a single pooled fund of which the Scheme is the sole unit holder. Assets held within this fund form a 'collateral pool' designed to support the LDI strategy and to provide collared exposure to equity market returns. This 'pool' is established in the form of a regulated life fund and is subject to Financial Services Authority regulations in respect of funding, liquidity and leverage. The collateral pool comprises the following physical assets:

- UK Gilts
 - UK Index-linked Gilts
 - Corporate bonds
 - Money market instruments
 - Pooled equities
 - Cash
- The remainder of the Scheme's assets are a combination of:
 - Pooled equities (6%)
 - Property (6%)
 - Corporate bonds (8%).

The Scheme's largest physical investments at the year end

Largest Twenty Holdings (excluding derivatives)		
	Market value £'million	% of total Investment assets
Treasury 1.875 Index-Linked 22/11/22	378.5	12.18
Treasury 4.25 07/12/40	208.9	6.72
Treasury 1.25 Index-Linked 22/11/32	207.2	6.67
Treasury 1.25 Index-Linked 22/11/17	204.0	6.56
Treasury 1.125 Index-Linked 22/11/37	110.8	3.57
Permanent Master Floating rate note 15/04/14	63.6	2.05
Treasury 4.25 07/12/55	50.0	1.61
Treasury 4.25 07/12/49	49.8	1.60
Treasury 0.625 Index-Linked 22/03/40	48.2	1.55
Bank of Scotland Floating rate note 07/12/11	32.6	1.05
Treasury 1.25 Index-Linked 22/11/27	31.6	1.02
National Australia Bank Floating rate note 08/08/11	23.2	0.75
GE Capital UK Floating rate note 01/08/11	18.5	0.60
Permanent Master Floating rate note 15/04/20	18.4	0.59
Deutsche Bank Floating rate note 26/04/12	17.9	0.58
BPCE Floating rate note 29/10/12	14.9	0.48
Arkle 2006 Floating rate note 17/02/52	14.9	0.48
ARRMF 2006 Floating rate note 20/09/56	14.2	0.46
GRANM 2007 Floating rate note 20/12/54	11.9	0.38
LOTHM Floating rate note 24/04/50	11.8	0.38
	1,530.9	49.26

Employer related investments

During the year the Scheme had no investment in TRW Automotive, and no direct investments in any connected employer.

There were no member contributions due from the employer.

Stock Lending

As at 31 March 2011, the majority of Scheme assets were managed by Legal & General Investment Management in pooled funds. Over the year, Legal & General Assurance (Pensions Management) Limited engaged in stock lending within the Asia Pacific (ex Japan) Developed Equity Index Fund as follows:

- Stock lending is subject to a maximum of 15% of the fund value, and normally 75%, but no more than 95% of any one stock.
- The approved borrowers are Citibank International plc, ABN, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Deutsche, Daiwa, Goldman Sachs, HSBC, ING,

Merrill Lynch, Morgan Stanley, Nomura, RBS, UBS and JP Morgan.

- The loaned stock is secured by collateral of G7 Bonds to a value of 105% of the stock loaned, this collateral being secured from a range of separately approved counterparties.
- The operation of the stock lending programme and the management of collateral is delegated to the custodian, Citibank.
- All profits from stock lending are credited to the pooled fund.

Investment principles

The Statement of Investment Principles deals with the following topics:

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

The current statement, implemented from 4 October 2011, is included on pages 46 to 53. A separate copy of the statement can be obtained by writing to the Scheme Secretary.

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 Mellon Analytics.

Benchmark

The investment performance benchmark for the Scheme is the Scheme's liabilities. The Scheme's liabilities are measured on a Technical Provisions basis (Statutory Funding Basis) and an Economic basis¹. In order to meet the Scheme's immediate and long term funding objectives, the Scheme's assets must outperform its liabilities. The performance of the Scheme's assets measured against its liabilities for the year ended 31 March 2011 is shown below:

<i>Asset performance</i>	<i>Liabilities measured on a Technical provisions basis</i>	<i>Liabilities measured on an Economic basis</i>
+5.9%	+5.2%	+3.1%

Source: Mellon Analytics (for asset performance) and Hymans Robertson (for liability performance).

As a consequence of this outperformance, the Scheme's estimated funding deficit reduced over the year:

<i>Date</i>	<i>Funding position on a Technical Provisions basis</i>	<i>Funding position measured on an Economic basis</i>
31 March 2010	94%	78.2%
31 March 2011	94.6%	80.3%

Source: Hymans Robertson. These figures are based upon various estimates and assumptions and have been provided for the sole use and benefit of the Trustee of the TRW Pension Scheme and not for any other party. Hymans Robertson LLP makes no representation or warranty to any third party as to the accuracy or completeness of the information.

Returns

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

Period to 31 December 2010	£ Fund % Annual Return
Last year	8.16
Last 3 years	1.03
Last 5 years	3.81
Last 10 years	4.15

¹ 'Economic basis' refers to a level of funding at which all of the Scheme's liabilities may be matched using liability matching swaps, with underlying assets targeting a return equal to 3 month Sterling LIBOR. At such a level of funding, the Scheme would be in a position to deliver benefits on a self sufficient basis with a very high degree of certainty.

Statement of Trustee responsibilities for the financial statements

The audited financial statements are the responsibility of the Trustee. They are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Pension scheme regulations require the Trustee to make available to 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 the Scheme 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 accounts 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 and has agreed suitable accounting policies, to be applied consistently, making estimates and judgments on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary 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, including the maintenance of appropriate internal controls.

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 Capita Hartshead at the address shown on page 2.

By order of the Directors of TRW Pensions Trust Limited.

Roy Middleton
Secretary

Fund Account & Net Assets Statement

Fund Account

Contributions and Benefits	Note	2011 £'000	2010 £'000
Contributions received	3	41,250	4,679
Other income	4	0	40,000
		41,250	44,679
Benefits payable	5	(164,257)	(181,833)
Payments to and on account of leavers	6	(5,206)	(13,511)
Administration expenses	7	(1,661)	(2,128)
Professional adviser fees and levies	8 & 9	(6,621)	(1,592)
		(177,745)	(199,064)
Net withdrawals from dealings with members		(136,495)	(154,385)
 Returns on investments			
Investment income	10	23,488	24,352
Change in market value of investments	17	154,162	538,174
Investment management expenses	20	(5,523)	(6,358)
Net returns on investments		172,127	556,168
Net increase in the fund during the year		35,632	401,783
Net assets of the Scheme at 1 April 2010		3,072,066	2,670,283
Net assets of the Scheme at 31 March 2011		3,107,698	3,072,066

Net Assets Statement

Investment assets			
Pooled investment vehicles	11 & 17	2,714,543	2,677,711
Fixed interest securities	12 & 17	202,007	209,501
Property	13 & 17	173,334	170,778
Equities	14 & 17	714	535
External Additional Voluntary Contributions	15 & 17	1,319	1,417
Current investment assets	23	7,338	6,840
Cash deposits	17	18,075	11,441
Derivative assets	16 & 17	20,978	482
		3,138,308	3,078,705
Investment liabilities			
Derivative liabilities	16 & 17	(21,738)	(2,477)
Current investment liabilities	23	(6,522)	(4,942)
		(28,260)	(7,419)
Current assets	22	1,539	5,252
Current liabilities	22	(3,889)	(4,472)
Net assets of the Scheme at 31 March 2011		3,107,698	3,072,066

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 Summary Funding Statement and actuarial certificates included on page 45 of the annual report and these financial statements should be read in conjunction with the Summary Funding Statement and actuarial certificates.

Approved by the Directors of the Trustee Company

Director

Director

Date: 4 October 2011

Notes to the Accounts

Note 1 Basis of preparation

The financial statements have been prepared and audited in accordance with the *Occupational Pension Schemes (requirement to obtain audited accounts and a statement from the auditor regulations 1996)* and with the guidelines set out in the *Statement of Recommended Practice (revised May 2007), Financial Reports of Pension Schemes* (the Revised SORP).

Note 2 Accounting policies

The principal accounting policies of the Scheme are as follows:

- Income from equity investments is brought into account at the ex-dividend date. Income from pooled investment vehicles is re-invested and reflected in the unit price. Property income is earned in accordance with the terms of the lease. Income from fixed interest securities, index linked securities and cash is recognised as the interest accrues.
- Company 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.
- Expenses are dealt with on an accruals basis.
- Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.
- 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 are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net asset statement. Unlisted investments are priced using quotes provided by external brokers.
- Pooled investment vehicles are stated at bid price for funds with bid/offer spread or single price where there are no bid/offer spreads, as provided by the investment manager.
- Foreign currency investments are translated into sterling at the rates of exchange ruling at the net assets statement date. Foreign currency investment income is recorded at the rate ruling at the date of the transaction.
- Derivatives are stated at market value.

Exchange traded derivatives are stated at market values determined using market quoted prices.

For exchange traded derivative contracts which are assets, market value is based on quoted bid prices.

For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

Over the counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'

- The property investments of the Scheme are included in the accounts at open market value at the net assets statement 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. The properties have been valued by the Scheme's property valuer (see page 2). 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	2011	2010
	£'000	£'000
Member's contributions	0	929
Company contributions ¹	41,250	3,750
	<u>41,250</u>	<u>4,679</u>

Note 4 Other income	2011	2010
	£'000	£'000
Grant received from the Employee Benefits Trust	0	40,000
	<u>0</u>	<u>40,000</u>

Note 5 Benefits payable	2011	2010
	£'000	£'000
Pensions	156,166	153,302
Commuted lump sums	7,532	27,995
Death benefits	418	481
Child allowances	232	218
External AVC receipts	(91)	(163)
	<u>164,257</u>	<u>181,833</u>

Note 6 Payments to and on account of leavers	2011	2010
	£'000	£'000
Transfers to other schemes – Individual	4,963	7,362
Annuities purchased externally to the Scheme ²	176	5,897
Transfers to State Scheme	62	173
Refunds to leavers	5	79
	<u>5,206</u>	<u>13,511</u>

Note 7 Administration expenses	2011	2010
	£'000	£'000
Administration	1,133	1,368
Computing costs	523	754
Web Site	5	6
	<u>1,661</u>	<u>2,128</u>

¹ A two year cessation of Company contributions commenced on 1 August 1985, and has been extended, subsequently following each successive actuarial valuation. Deficit contributions of £20 million a year for the Scheme year ending 31 March 2011, and advanced contributions of £20 million a year for the Scheme years ending 31 March 2012 and 2013, were received by December 2010.

² These payments related to the annuitisation of benefits of former 'Cross-border' members of the Scheme to enable the Scheme's Cross-border registration to be revoked.

8 Professional adviser fees	2011	2010
	£'000	£'000
Hymans Robertson - Actuarial fees	273	309
Allen & Overy - Legal fees	275	275
Hymans Robertson - Investment Adviser fees	119	186
KPMG	77	83
Zolfo Cooper – Investigating accountant	0	35
Other advisers	8	24
Capita Health Solutions – Medical fees	15	31
Club Vita – Longevity analysis	14	10
Ernst & Young – Tax fees	7	3
	<hr/>	<hr/>
	788	956
	<hr/>	<hr/>

Note 9 Regulatory levies	2011	2010
	£'000	£'000
Pension Protection Fund (Scheme based)	495	505
The Pensions Regulator	116	129
Pension Protection Fund (Risk based)	5,222	0
Financial Services Authority	0	2
	<hr/>	<hr/>
	5,833	636
	<hr/>	<hr/>

Note 10 Investment income	2011	2010
	£'000	£'000
Rents from property	1,373	12,379
Income from fixed interest securities	1,107	11,342
Income from pooled investment vehicles	694	441
Annuity income	139	177
Interest on cash account	97	162
Dividends from equities	248	4
Stock lending	0	2
Write-off of non recoverable withholding tax	(10)	(22)
Other investment expenses less income	24	(56)
Derivative gains less losses	(184)	(77)
	<hr/>	<hr/>
	23,488	24,352
	<hr/>	<hr/>

Note 11 Pooled investment vehicles

UK registered	2011 £'000	2010 £'000
<i>Legal & General*</i>		
Client Specific Unitised Fund		
Bonds – Index Linked	975,975	1,039,802
Bonds – Corporate	671,236	648,909
Bonds – UK Government Fixed Interest	304,470	192,924
Bonds - Overseas	8,360	0
Equity Options	301,773	222,505
UK Equity Index Fund	199,564	209,725
Cash	150,752	134,227
Swaps (net mark to market)	67,960	91,961
Accrued Income	16,720	8,472
Total	2,696,810	2,548,525
Cash Fund	7,361	84,532
<i>Other</i>		
Western Asset Management Pooled Fund	8,000	0
Fidelity	1,521	1,351
Montanaro Smaller Euro Co Fund	849	656
Merrill Lynch Unquoted Unit Fund	2	6
Overseas registered		
Capital International Emerging Markets Fund	0	42,641
	<u>2,714,543</u>	<u>2,677,711</u>

Derivative contracts held within the Legal & General pooled fund include equity options and swaps. Further details of these are shown below:

Equity options

The Trustee's objective is to benefit from the potentially greater returns available from investing in equities but wishes to minimise potential losses of value through adverse equity price movements. It has therefore taken out a series of 'put', 'call' and 'at the money' options which provide the Scheme with exposure to global developed equity markets but restrict the negative returns the Scheme can make by capping the positive returns the Scheme can earn.

The Scheme had the following outstanding option contracts at the year end as follows:

Type of option	Notional amount	Expiry	Value at 31 March 2011
	£'000		£'000
Call	156,976	2015 - 2019	6,903
Low put, high put and call option	180,000	2010	(5,621)
Low put, high put, call and at the money options	300,000	2014	82,577
Low put, high put ,call and at the money options	686,000	2019	217,914
			301,773

Swaps

The Trustee's aim is to match part of the Scheme's long term liabilities with its fixed income assets, in particular in relation to the liabilities' sensitivities to interest rate movements and inflation. The Trustee has entered into interest rate, inflation and credit default swaps to better align the Scheme's assets to the long term liabilities of the Scheme.

Within the Legal and General fund, the Scheme had the following 'over the counter' positions:

Type of swap	Notional amount	Expiry	Value at 31 March 2011
	£'000		£'000
Interest rate swaps (pay fixed receive floating)	1,135,808	2040 - 2060	14,293
Credit default swaps	1,118,500	2021	(16,720)
Inflation swaps (pay fixed receive floating)	1,841,171	2020 - 2060	(7,012)
Asset swaps (pay Index linked Gilt return receive floating return)	800,730	2010 – 2040	(100,051)
Total return swaps	723,538	2040 – 2050	(1,079)
Zero coupon interest rate swaps (pay floating receive fixed)	967,430	2020 – 2060	178,529
			67,960

Counterparties to derivatives

The following table shows the total net valuation of the derivative positions within the Legal & General Client Specific Unitised fund as at 31 March 2011, split by counterparty and type of derivative. The values quoted are based on mid prices. All derivative positions are fully collateralised on a daily basis.

Counterparty	Equity Options	Interest Rate Swaps	Inflation Swaps	Asset Swaps	Credit Default Swaps	Total Return Swaps	Total value
	£'million	£'million	£'million	£'million	£'million	£'million	£'million
Goldman Sachs	310.5	191.7	0.2	(94.1)		(0.3)	408
Barclays Capital			(0.8)	(3.9)	(8.6)	(1.6)	(14.9)
Credit Suisse			(0.1)				(0.1)
Deutsche		2.2	(1.6)				0.6
RBS		0.7	(4.8)	(3.2)			(7.3)
Morgan Stanley	(5.7)	0.3			(8.4)	0.8	(13)
Total	304.8	194.9	(7.1)	(101.2)	(17.0)	(1.1)	373.3

Note 12 Fixed interest and index linked securities

Fixed Interest	2011 £'000	2010 £'000
UK Quoted		
Corporate – Western Asset Management Company	190,626	173,918
Overseas		
Corporate – Western Asset Management Company	11,381	35,583
	202,007	209,501

Note 13 Market value of property investments

	2011	2010		2011	2010
Sector	£'000	£'000	Geographical	£'000	£'000
Industrials	59,950	58,265	South East	76,365	75,020
Offices	17,147	27,975	South West	1,850	2,000
Retail	44,593	38,653	Scotland	21,725	21,075
Other Commercial	16,884	10,500	Yorkshire	13,850	12,665
Residential	196	196	East Midlands	12,150	11,025
European Unit Trusts	31,441	32,163	North West	7,580	7,604
UK Unit Trusts	3,123	3,026	West Midlands	5,250	6,200
			UK Unit Trusts	3,123	3,026
			European Unit Trusts	31,441	32,163
Total	173,334	170,778		173,334	170,778

See page 27 for details of the valuation basis.

Note 14 Equities

	2011	2010
	£'000	£'000
Overseas	714	535
	<u>714</u>	<u>535</u>

All the equity investments held by the Scheme are quoted.

Note 15 External additional voluntary contributions

The Trustee holds 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.

	2011	2010
	£'000	£'000
Clerical Medical	541	616
Scottish Life	390	387
Standard Life	292	276
Fidelity	80	122
Phoenix	16	16
	<u>1,319</u>	<u>1,417</u>

Note 16 Derivative assets held under segregated custody

Futures, options and swaps

The Trustee has invested in futures, options and swaps within its segregated fixed interest portfolio to gain additional bond like returns.

Foreign exchange

The Trustee has taken out a number of foreign exchange forwards to hedge its overseas currency assets back into sterling.

The Scheme had the following derivative contracts outstanding at the end of the year:

Type	Duration	Notional exposure	Asset value at 31 March 2011	Liability value at 31 March 2011
		£'000	£'000	£'000
Bond futures	2011	416	167	(34)
Credit Default Swaps	2015 - 2016	23,250	20,583	(20,703)
Foreign exchange				
EUR/GBP	2011	44,599	0	(703)
USD/GBP	2011	32,972	1	(297)
GBP/EUR	2011	3,357	122	0
GBP/USD	2011	17,868	105	(1)
			<hr/>	<hr/>
			20,978	(21,738)

Note 17 Change in market value of investments

	Value at 31 March 2010	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in Market Value	Value at 31 March 2011
	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles	2,687,252 ¹	31,461	(152,197)	148,027	2,714,543
Derivatives					
- <i>Futures</i>	(237)	4,278	(3,037)	(871)	133
- <i>Options</i>	26	0	0	(26)	0
- <i>Swaps</i>	(195)	1,308	(828)	(405)	(120)
- <i>Foreign Exchange</i>	(1,589)	8,972	(10,667)	2,511	(773)
Fixed Interest securities	190,764 ²	122,864	(113,348)	1,727	202,007
Equities	535	0	0	179	714
Property	170,778	923	(1,886)	3,519	173,334
External Additional Voluntary Contributions	1,417	0	0	(98)	1,319
	<u>3,048,751</u>	<u>169,806</u>	<u>(281,963)</u>	<u>154,563</u>	<u>3,091,157</u>
Cash deposits	20,637 ³			(400)	18,075
Other current investment assets and liabilities (See note 23).	1,898				816
	<u>3,071,286</u>			<u>154,163</u>	<u>3,110,048</u>

¹ The figure for 31 March 2010 is higher than that shown in the 31 March 2010 accounts because £9,541 of fixed interest assets have been reclassified as pooled investment vehicles.

² The figure for 31 March 2010 is lower than that shown in the 31 March 2010 accounts because £9,541 of fixed interest assets have been reclassified as pooled investment vehicles and £9,196 of fixed interest assets have been reclassified as cash.

³ The figure for 31 March 2010 is higher than that shown in the 31 March 2010 accounts because £9,196 of fixed interest assets have been reclassified as cash.

Note 18 Transaction Costs

	2011 £'000	2010 £'000
Equities		
UK	0	0
Overseas	0	174
Total	<u>0</u>	<u>174</u>

The transaction fees listed above are in respect of physical assets managed by Legal & General Investment Management. The deduction of these fees is reflected in the change in market value of the investments. During the year there have been no transaction costs other than those disclosed within unit prices.

Note 19 Property transaction costs

	2011 £'000	2010 £'000
Property sales during the year	(1,800)	(6,250)
Property purchases during the year	0	0
	<u>(1,800)</u>	<u>(6,250)</u>
Costs associated with property sales:		
Rental guarantee	0	47
CB Richard Ellis – transaction fees	18	25
Dilapidation/remediation costs	0	0
Pinsent Masons - transaction fees	7	11
HP Four LLP – transaction fees	0	38
Costs associated with property purchases:	0	0
	<u>25</u>	<u>121</u>
Net property sales and purchases at cost	<u>(1,775)</u>	<u>(6,129)</u>

Note 20 Investment Management Expenses

Non-property Management Expenses	2011 £'000	2010 £'000
Legal & General Investment Management	1,368	1,541
Western Asset Management Company	547	470
TRW Investment Management Company Ltd	221	81
Bank of New York Mellon	50	91
	<hr/> 2,186	<hr/> 2,183
 Property management expenses	 2011 £'000	 2010 £'000
Pinsent Masons	240	266
CB Richard Ellis – UK Properties	275	261
CB Richard Ellis – European Unit Trusts	77	82
Jones Lang La Salle	33	35
Property Management Costs:		
Provision for bad debts ¹	N/A	791
Building & refurbishment	886	899
Head rent & rates	545	602
Vacant unit costs	235	491
Marketing & letting	105	370
Bad debt write offs	667	158
Other professional fees	249	99
	<hr/> 3,312	<hr/> 4,054
Total investment management expenses	<hr/> 5,498	<hr/> 6,237

Note 21 Total Investment Management and Transaction costs

	2011 £'000	2010 £'000
Non-property Management expenses (See note 20)	2,186	2,183
Property Management expenses (See Note 20)	3,312	4,054
Property transaction costs (See Note 19)	25	121
	<hr/> 5,523	<hr/> 6,358

¹ Provision for bad debts is a balance sheet liability and should not have been reflected in the property management expenses note for the year ending 31 March 2010.

Note 22 Current assets and liabilities

	2011 £'000	2010 £'000
Current Assets		
Cash at bank	1,451	5,048
Administration VAT receivable	9	202
Other debtors	79	2
	<hr/>	<hr/>
	1,539	5,252
Current liabilities		
Unpaid benefits	(2,093)	(2,707)
Payable to TRW Limited	0	(910)
Investment expenses	0	(542)
Advisers' fees	(1,430)	(183)
Accrual and deferred income	(366)	(130)
	<hr/>	<hr/>
	(3,889)	(4,472)
Net current assets	<hr/>	<hr/>
	(2,350)	780

Note 23 Current investment assets and liabilities

	2011 £'000	2010 £'000
Current Assets		
Interest receivable – bonds	3,872	4,507
Interest receivable – cash	5	0
Rent receivable	3,160	2,333
Dividends receivable	293	0
Property debtors	8	0
	<hr/>	<hr/>
	7,338	6,840
Current liabilities		
Deferred rental income	(2,334)	(2,568)
Provision for property bad debts	(2,144)	(1,568)
Rental deposits	(276)	(293)
Property creditors	(958)	(513)
Property investment VAT	(810)	0
	<hr/>	<hr/>
	(6,522)	(4,942)
Net current investment assets	<hr/>	<hr/>
	816	1,898

Note 24 Related party transactions

Transactions with related parties of the Scheme have been disclosed in the Trustee report as follows:

- Contributions in respect of Board member's who are active members of the Scheme have been made in accordance with the Trust Deed and Rules.
- The Scheme was administered by TRW Benefit Administration (UK), which was part of TRW Limited. The Scheme is now administered by Capita Hartshead. Fees payable in respect of administration and processing are detailed in Note 8 of the accounts.

Reports of the Auditors and the Actuaries

Independent Auditor's Report to the Trustee of the TRW Pension Scheme

We have audited the financial statements of TRW Pension Scheme for the year ended 31 March 2011 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it 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 Scheme Trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's responsibilities set out on page 20, the Scheme Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Continued...

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2011 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;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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.

K Mackenzie
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

4 October 2011

Statement of Trustee's responsibilities in respect of contributions

The Scheme's 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 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 Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the scheme in accordance with the schedule.

Summary of Contributions payable under the schedule in respect of the Scheme year ended 31 March 2011

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the scheme under the schedule of contributions certified by the actuary on 29 November 2010 in respect of the Scheme year ended 31 March 2011. The scheme auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

During the year ended 31 March 2011 the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	£'000
Employee normal contributions	0
Contributions payable under the Schedule (as reported on by the Scheme auditors)	<u>0</u>

Approved by the Board

4 October 2011

Information about contributions

Under the Schedule of Contributions in place at 31 March 2011, the employer had commenced deficit contributions of £20 million a year beginning for the year ending 31 March 2010. There were no normal contributions due from members following the closure of the Scheme to future accrual of benefits on 30 September 2009. A reconciliation of total contributions to the Scheme reported in the accounts is shown below.

Reconciliation of Contributions

	£'000
Contributions payable under the Schedule of Contributions reported in the accounts in respect of the Scheme year (as above):	0
Contributions payable in addition to those due under the Schedule of Contributions and not reported on by the Scheme Auditor:	0
Employer deficit contributions	<u>41,250</u>
Total contributions reported in the accounts:	<u>41,250</u>

Independent Auditor's Statement about Contributions to the Trustee of the TRW Pension Scheme

We have examined the summary of contributions payable under the schedule of contributions to the TRW Pension Scheme in respect of the Scheme year ended 31 March 2011 which is set out on page 43.

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 43, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

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

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an 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.

Statement about contributions payable under the schedule of contributions

In our opinion contributions for the Scheme year ended 31 March 2011 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions dated 29 November 2010.

K Mackenzie
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
Date

4 October 2011

ACTUARIAL CERTIFICATION OF THE CALCULATION OF TECHNICAL PROVISIONS AS REQUIRED BY REGULATION 7(4)(A) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005

Name of scheme: TRW Pension Scheme

CALCULATION OF TECHNICAL PROVISIONS

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 March 2009 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the scheme and set out in the statement of funding principles dated 23 June 2010.

Signature

Date	23 June 2010
Name	Ronald S Bowie
Qualification	Fellow of the Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street, Glasgow, G2 6DB

ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS AS REQUIRED BY REGULATION 10(6) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005

Name of scheme: TRW Pension Scheme

ADEQUACY OF RATES OF CONTRIBUTIONS

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 29 November 2010.

I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

ADHERENCE TO STATEMENT OF FUNDING PRINCIPLES

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 23 June 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met 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 to be wound up.

Signature

Date	29 November 2010
Name	R S Bowie
Qualification	Fellow of the Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street, Glasgow, G2 6DB

Statement of Investment Principles

Introduction

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*. The statement is subject to periodic review by the trustee, at least every three years and as soon as practicable following any significant changes in investment policy.

This revised statement was approved at a meeting of the Trustee Board held on 4 October 2011. 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 who 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:

Core Managers

- Legal & General Investment Management (the lead investment manager): This investment manager is currently responsible for all Scheme assets except the corporate bond and the property portfolios and some Additional Voluntary Contributions. They are also responsible for managing the Scheme's portfolio of risk reducing swaps and other derivatives and for managing most of the collateral pool of assets backing these instruments.
- Western Asset Management – Corporate bond portfolio
- CBRE Investors – Property

Additional Voluntary Contribution Managers

- Phoenix 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

All the above organisations are regulated by the Financial Services Authority (FSA). They are all authorised under the Financial Services and Markets Act 2000 (as amended) to undertake investment business. The appointments are reviewed periodically. The lead investment manager, the property manager and the corporate bond manager are responsible for the day to day investment of their mandates (including the treatment of income) and are responsible for investing additional funds allocated to them or for disinvesting assets as required.

The final five 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.

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.

To improve its governance structure the Board set up an Investment Sub-Committee (ISC) on 21 June 2007. The committee, which is chaired by the Scheme Secretary, comprises representatives from:

- The Investment Adviser
- The lead investment manager
- Merchant Banks
- The Scheme Administrator
- The Company
- The Company's investment advisers

The role of the ISC is to do in-depth research on investment strategies and to advise the Board on both its investment objectives and the strategies to achieve them.

Investment objectives

The Trustee's investment objectives are:

- To retain long-term, risk controlled exposure to investment markets to help restore over time the Scheme to a funding level of self-sufficiency.
- To achieve a rate of return from the assets of the Scheme that is in excess of the movement in the Scheme's liabilities by a combination of exposure to:
 - Equity risk
 - Credit risk
 - Inflation and interest rate risk
 - Liquidity and other market risks
- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of the Scheme's benefits as set out in the *Trust Deed and Rules*.
- To reduce the level of investment risk over time in order to lock in improvements in the Scheme's funding position and to limit the risk of the assets failing to meet the liabilities over the long term.

The kind and balance of investments

The Trustee, acting on the advice of its Investment Sub-Committee, its Investment Adviser and the Scheme Actuary have put in place an investment structure whereby the Scheme's liabilities determine the type of assets held by the Scheme. This approach to investments is called 'liability driven investment' (LDI).

The central features of this strategy are as follows:

- To control the interest rate and inflation risk inherent in the Scheme's liabilities by the implementation of swap contracts.
- To retain a significant exposure to equity markets through a combination of physical assets and derivatives.
- The use of derivatives to create tailored strategies to limit the Scheme's exposure to potential falls in equity markets whilst retaining sufficient exposure to growth assets in order to achieve self sufficiency funding over a reasonable timescale.

- The controlled use of derivatives to increase the yield on the Scheme’s physical assets by taking credit risk.
- Approximately 80% of the Scheme’s assets are held in a ‘collateral pool’ designed to support the LDI strategy. This ‘pool’ is established in the form of a regulated life fund and is subject to Financial Services Authority regulations in respect of funding, liquidity and leverage.
- The collateral pool comprises the following physical assets:
 - Gilts
 - Index-linked Gilts
 - Corporate bonds
 - Money market instruments
 - Cash
- The remainder of the Scheme’s assets are a combination of:
 - Pooled equities (6%).
 - Property (6%).
 - Corporate bonds (8%)

In addition, the Trustee holds some cash in a unitised fund to meet ongoing benefit and expenditure payments from the Scheme. This cash will be topped up from time to time, as required. The Trustee considers the investments to be suitable to the Scheme's stated objectives.

Risk

The Board recognizes that the funding position of the Scheme will be improved by a combination of investment returns and support from the Company. It, therefore, continues to take investment risk, in order to target long term out performance relative to its liabilities.

An outline of the Board’s attitude to risk is as follows:

- It considers interest and inflation risks to be so significant it has introduced an LDI strategy to limit its exposure in these areas.
- It has introduced equity collar strategies (limiting downside and upside) to protect the Scheme against adverse equity movements, whilst maintaining exposure to equity out performance that is sufficient to meet its stated objectives.
- The majority of assets are held within a collateral pool. Investments held in this pool are selected by the lead investment manager, based on its view of the credit risk and interest rate risk of the investment relative to the London inter bank offered rate (LIBOR). The lead investment manager is required to ensure suitable liquidity of assets for funding benefit payments and that there are sufficient assets, both in terms of liquidity and eligibility, to act as collateral for the Scheme’s derivatives obligations.
- The collateral pool of assets has been so structured to manage counterparty risk to provide a level of protection against failure of any derivative counterparty. There are three main components to this counterparty risk protection:
 - Counterparties are limited to financial institutions on the lead investment manager’s approved panel.
 - All derivatives are marked to market, with collateral posted on a daily basis.
 - In order to manage the risk of any counterparty concentration, the underlying assets are structured to provide a measure of protection in the event of counterparty failure.
- In order to further control risk the Trustee has imposed the following restrictions:
 - 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 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 LDI investment strategy is 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 (p.a.)
UK Equities	FTSE All Share	0%
Overseas Equities		
• North America	FTSE World Index North America	0%
• Europe ex-UK	FTSE World Index Europe ex-UK	0%
• Japan	FTSE World Index Japan	0%
• Asia Pacific ex-Japan	FTSE World Index Asia Pacific (Developed) - ex-Japan	0%
Collateral pool	LIBOR (Three month)	0%
Corporate Bonds	iBoxx Sterling non-gilts all stocks index	1.25%
Property	Retail Prices Index	5%

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 its investment managers. The managers are to invest the assets in accordance with the asset allocation benchmark and the Board's guidelines on risk control.

Investment management fees

The holdings with Legal & General Investment Management are invested in pooled funds. The fee structure is on a flat fee basis adjusted in line with the UK Retail Prices Index.

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

Realisation of investments

Over 80% 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 policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements, both for benefit payments and collateral calls, in the majority of foreseeable circumstances without realising the assets that cover derivatives.

Statutory Funding Objective

In arriving at its investment principles account has been taken by the Trustee of the liabilities of the Scheme in respect of pensioners, deferred pensioners and active members together with the Scheme's funding position. This has been done in relationship to the Scheme's Statutory Funding Objective, which is that the Scheme must have 'sufficient and appropriate' assets to cover the expected cost of providing members' past service benefits.

Details of the Scheme's Statutory Funding Objective and its policy for securing that the objective will be met along with the Scheme's funding method and actuarial assumptions are contained in the Scheme's *Statement of Funding Principles*. This document is available from the Secretary to the Board. It can also be downloaded at the Scheme's website www.trwpensions.co.uk

Responsible ownership

The policy of the lead investment manager is as follows:

- Legal & General Investment Management's (LGIM) activity in all facets of corporate governance is integral to their investment process. They apply all the principles set out in the Institutional Shareholders' Committee's *Responsibilities of Institutional Shareholders' and Agents – Statement of Principles* which was updated in June 2007. Specifically, they focus on the effectiveness of a company's board of management and its remuneration policy, business strategy and business practices, taking into account social, ethical and environmental business issues.
- By voting on all FTSE 100 UK company resolutions and maintaining regular dialogue with company management, the necessity for active intervention is minimized, but not eliminated. LGIM actively intervenes when they believe that this intervention would result in a substantial benefit to shareholders.
- The governance activity of their fund managers/analysts is supported by a manager dedicated to corporate governance and socially responsible investment issues. LGIM also plays a leading role in assisting the Association of British Insurers (ABI) to identify issues and in facilitating discussion with companies.

- A document detailing LGIM's policies on Activism, Voting and Socially Responsible Investment is available on their website www.lgim.com.

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. The investment managers provide reports on votes cast to the Trustee on a quarterly basis.

Custodian

The segregated assets of the Scheme are held by Bank of New York Mellon under the control of the Trustee. Pooled investments are held by the investment managers' custodian. The Scheme custodian, Bank of New York Mellon has been appointed by the Trustee. The appointment is reviewed periodically.

Summary of Funding Statement

TRW Pension Scheme

Summary Funding Statement

TRW Pension Trust Limited is the Trustee of the Scheme and is responsible for its administration.

This is our seventh annual summary funding statement and it is based on a formal actuarial valuation carried out as at 31 March 2009. The formal valuation has been conducted in accordance with the scheme funding requirements of *Pensions Act 2004*.

Funding level

The ongoing funding valuation of the TRW Pension Scheme

	31 March 2011	31 March 2010	31 March 2009
Assets	£3,123 million	£3,069 million	£2,670 million
Amount needed to provide benefits	£3,304 million	£3,260 million	£3,225 million
Surplus/(Shortfall)	(£181 million)	(£191 million)	(£555 million)
Funding level	95%	94%	83%

The Scheme was closed to all future benefit accrual from 30 September 2009. No further employee contributions are subsequently payable to the Scheme.

In light of the deficit in funding identified by the 31 March 2009 valuation the Company commenced provisional deficit contributions of £15 million a year from January 2010. The Company and the Trustee agreed a Recovery Plan on 2 December 2010. The Recovery Plan incorporates contributions from the Company at a rate of £20 million a year, effective from 1 January 2010 ending on 31 March 2019. Contributions payable for the period ended 31 December 2012 have been paid in advance by the Company (including £15 million which has been placed in a special trust account for the sole benefit of the Scheme).

Change in the funding position since the 31 March 2009 valuation

Since the previous formal actuarial valuation took place, the funding level is estimated to have changed from 83% to 95%, with a deficit of £181 million.

The main reasons for the change have been an increase in the value of the Scheme's investments during the period and a special contribution to the Scheme from the TRW Employee Benefits Trust of £40 million. However, the amount estimated by the Scheme Actuary as being needed in order to fund benefits from the Scheme has increased, primarily as a result of reduced yields available from Government bonds.

Payments to the Company

There has not been any payment to the Company out of Scheme funds in the previous twelve months, and no such payments are anticipated. No such payment is possible unless a scheme's funding position is sufficiently strong to secure all benefits with insurance policies.

Your questions answered

How does the Scheme operate?

The TRW Pension Scheme is a closed final salary pension scheme. With this type of scheme the Company pays contributions in accordance with a Recovery Plan. These contributions are then invested in funds that are expected to provide income, and to increase in value. The combination of contributions, investment income and growth is then used to pay members' pensions. The money to pay for members' pensions is held in a common fund. It is not held in separate individual funds for each member.

How is the amount of funding that the Scheme needs worked out?

Every three years the Scheme's actuary carries out a financial review of the Scheme – this is called an actuarial valuation. The actuary estimates the amount of each member's future pension payments and how long each pension is likely to be in payment. These future payments are then added up and compared with the value of the fund and its expected future investment returns. The result indicates how much money is needed to pay members' benefits.

Using this information, along with the advice provided by the Scheme's actuary, the Trustee comes to an agreement with the Company on its future rate of contributions.

Why is the Company's support important?

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, success for the Scheme relies on the Company's continuing support as more money may be needed in the Scheme if:

- Due to the funding level fluctuating there is a funding shortfall.
- The target funding level did not turn out to be enough.

What would happen if the Company could not continue to support the Scheme?

The current financial position assumes that the Scheme will continue, with the Company's support. In the event that the Scheme was to terminate (this is called winding up), the Scheme Actuary has estimated that, as at 31 March 2009, the Scheme would have needed £4,045 million to ensure that all members' benefits could be paid in full. This suggested a shortfall of around £1,389 million compared with the amount of money actually in the Scheme at that date.

The reason this amount differs from the ongoing funding valuation, is because if the Scheme winds up it is assumed that the money will be used to buy a policy from an insurance company that will then be used to pay the pensions promised. Such insurance policies are very expensive.

If the Company could not continue to support the Scheme, an alternative to buying insurance policies might be for the Scheme to run on as a closed fund and the Trustee would seek to continue to meet benefit payments as it does now. This would avoid the need to purchase expensive insurance policies. However, as at 31 March 2009 the Scheme would have been unlikely to have been able to fund members' full benefit entitlements.

Would I still receive my pension if the Company did not or could not support the Scheme and it was not run on as a closed fund?

Whilst the Scheme remains ongoing, benefits will continue to be paid in full. If, however, the Company could not support the Scheme, and as a result the Scheme were to be wound up, you might not get the full amount of pension you have built up, even if the Scheme is fully funded on an ongoing actuarial basis.

If the Scheme were to start to wind up, the Company is required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. It may be, however, that the Company would not be able to pay this full amount and become insolvent. If this happened the *Pension Protection Fund* might be able to take over the Scheme and pay compensation to members.

What is the Pension Protection Fund?

The Pension Protection Fund (PPF) became operational on 6 April 2005. The purpose of the PPF is to ensure that those who are members of schemes similar to the TRW Pension Scheme receive pensions even if their company goes out of business. The PPF is not intended to replicate a member's pension, but ensures that if a Scheme gets into difficulties members will receive the majority of their pension. This is, currently, around 90% of the pension earned for most members who have not reached retirement age and 100% for those over retirement age. The actual amount a member receives will depend on when they retire and how much benefit they have earned. In addition, benefits will increase on a basis set down by the PPF which may be less than those provided by the Scheme.

Further information and guidance is available on the Pension Protection Fund's website at www.ppf.gov.uk. Alternatively you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and will include a margin for profits in what they charge. The Scheme's funding plan assumes that the Company will continue in business and support the Scheme. It also assumes that the Scheme would continue to be run as a non-profit entity.

Why have pensions become more expensive?

The main reasons are as follows:

- People are, on average, living longer than before. This means that pensions are paid for longer and cost considerably more to provide.
- In recent years the expectation of the future returns from the Scheme's investments has been reduced. This increases the amount of funds needed now to provide for future pensions.
- The Government has made many changes to the laws governing pension schemes. This has significantly increased costs.

How are the Scheme's assets invested?

The Scheme's investment managers invest the Scheme's assets with the aim of managing key financial risks and to ensure the Scheme has sufficient funds to meet its pension liabilities as they fall due. The Scheme's investment strategy is to target returns necessary to return the Scheme to a position of full funding, and to provide long term self sufficiency of funding, with minimal risk. The Trustee's policy as at 31 March 2009 was structured around the following risks:

Equity risk Exposing the Scheme to potential returns from global stock markets to help close the Scheme's funding deficit, but with protection against dramatic stock market falls and volatility. This is achieved by physical equity holdings and derivative contracts.

Credit risk Exposing the Scheme to potential returns from securities issued by global corporate entities to provide an extra return over the rate of interest available from securities issued by the UK Government (i.e. Gilts). This is achieved by physical holdings in corporate bonds and by derivative contracts.

Inflation risk Ensuring a large proportion of the Scheme's investments will increase and decrease in value in line with inflation, in order to match the pension liabilities due from the Scheme. This is achieved by holding physical Index Linked Government bonds, and by derivative contracts.

Interest rate risk Ensuring a large proportion of the Scheme's investments will increase and decrease in value in line with long term interest rates, in order to match the pension liabilities due from the Scheme. This is achieved by holding physical Government and corporate bonds, and by derivative contracts.

Property risk Exposing the Scheme to potential returns from property markets to help close the Scheme's funding deficit. This is achieved by physical holdings in commercial property.

Important

If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor (IFA), before taking any action. For a list of IFAs local to you go to www.unbiased.co.uk.

The Scheme's website also contains useful links to the Government's own consumer information on financial advice.

Additional documents available on request

Annual Benefit Statements

All Scheme members – pensioners and deferred pensioners (whose addresses we know) receive statements of their pension entitlements.

Summary of Benefits leaflets

You should have been given a copy when you joined the Scheme of the *Summary of Benefits leaflet* appropriate to the section of the Scheme of which you are a member. The details of all the sections are also on the Scheme's website.

Report and Accounts of the TRW Pension Scheme

This shows the Scheme's income and expenditure in the year. The Report and Accounts for the year ending 31 March 2010 is available on the Scheme's website.

Statement of Investment Principles

This explains how the Trustee invests the money paid into the Scheme. The Statement is included in the Report and Accounts.

Statement of Funding Principles

This explains the Trustee's policy to ensure the Scheme is sufficiently well funded to be able to meet all its current liabilities. It is also available on the Scheme's website.

Actuarial Valuation

Every three years the Scheme Actuary does a full valuation of the Scheme. Copies of this are available at a cost of £5.

Schedule of Contributions

This shows how much money is being paid into the Scheme. It is updated following each actuarial valuation.

The address for all queries is:

**TRW Pension Scheme
c/o Capita Hartshead
2020 The Crescent
Birmingham Business Park
Birmingham B37 7YE**

Email: trwpensions@capita.co.uk



TRW Pension Scheme

TRW Corporate Services, Stratford Road, Solihull, B90 4JJ www.trwpensions.co.uk

