

TRW Pension Scheme



REPORT AND ACCOUNTS 2010

ADVANCED THINKING/SMART THINKING/GREEN THINKING



COGNITIVE SAFETY SYSTEMS



TRW Benefit Administration (UK)

2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE www.trwpensions.co.uk



TRW Pension Scheme

Report and Accounts

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

Report of the Trustee

Trustee and Advisers

Principal Employer	LucasVarity
Trustee	TRW Pensions Trust Limited
Directors of the Trustee Company	S Lunn - Chairman P Almond A Bassett S Blenkinsop* R Benjamin* - until 8 June 2009 R Bull* J C Plant P Palmer* G T Plumley - until 10 March 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 WM Company - for WM50 comparison
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	TRW Benefit Administration (UK) 2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE

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

Constitution of the Scheme

The Directors of the Trustee Company are pleased to present their ninth report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2010.

Trustee

The Trustee of the Scheme is TRW Pensions Trust Limited. During the year, the Trustee Company's Board reduced from nine to seven Directors, named on page 2. Four are Directors for 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 LucasVarity, which is a wholly owned subsidiary of TRW Automotive Holdings Inc. A major shareholder of TRW Automotive Holdings Inc. is the Blackstone Group.

Appointments to the Board

During the year Mr R Benjamin left TRW Limited's employment and was removed from the Board, and Mr G Plumley retired from TRW Limited's employment, and resigned from the Board. The Board would like to place on record its thanks for the contributions made by these individuals to the Board's activities. The Board has agreed that in light of the closure of the Scheme to future accrual of benefits, the number of Directors of the Board will be reduced from nine to seven.

Legal Status

The Scheme was established by a Trust Deed dated 30 June 1928 and is now governed by a Definitive Trust Deed dated 30 March 1993, a Deed of Amendment dated 14 July 1993, three Deeds of Amendment dated 14 July 1998, a Merger Deed dated 27 February 2001 and Amending Deeds dated 1 April 2004, 5 October 2004, 24 March 2006 and 6 April 2006, two deeds dated 27 September 2006, a deed dated 10 January 2007, two deeds of amendment dated 31 January 2008, a deed of amendment dated 31 March 2009, a Resolution of the Trustee dated 24 September 2009 and a deed of amendment dated 28 January 2010.

All sections of the Scheme were closed to any future accrual from 30 September 2009. The Scheme is a contracted out salary related scheme. Following the closure of the Scheme to future accrual from 30 September 2009, the Principal Employer has surrendered its contracting out certificate. 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.

The Scheme was registered as a cross-border Scheme under the provisions of the *Pensions Act 2004* and was granted a general authorisation to accept contributions from European employers under Section 288 of the Act. The determination order by the Pensions Regulator under Section 96(2)(d) of the Act was dated 29 June 2006. The Scheme's cross-border registration has been revoked by the Pensions Regulator on 18 June 2010 following an application by the Trustee. In order for the Scheme's cross-border registration to be revoked, the benefits of nine 'cross-border' members were transferred out of the Scheme through the purchase of individual annuities.

Participating Employer

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

Trustee Meetings

The Board met five 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 five, three of whom are to be Directors for the Principal Employer, and two Member Nominated Directors. The quorum of the Board is currently being reviewed following the decision to reduce the number of Directors from nine to seven. 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. On 21 June 2007 the Board, in order to improve its governance structure, appointed a specialist standing sub-committee to deal with investment matters. During the year this committee met five 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 TRW Benefit Administration (UK); 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. During this year, there were no changes to the Board's external advisers.

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 £402 million. At the year-end the value of the Scheme's assets was £3,072 million compared to £2,670 million at 31 March 2009.

The increase in fund value is accounted for as follows:

■ Excess of expenditure over income	(£154 million)
■ Change in market value of investments	£540 million
■ Investment income (net of expenses)	<u>£ 16 million</u> <u>£402 million</u>

Fund Account

Compared with the year ended 31 March 2009 there was an increase in income of £38.7 million and an increase in expenditure of £23.6 million. The main reasons for these changes are as follows:

Income

- A special grant of £40.0 million received from the TRW Employee Benefits Trust*
- Contributions of £3.8 million received from the Company
- A decrease in investment income of £3.6 million
- A reduction in employee contributions of £1.3 million

* On 18 January 2010 a grant of £40 million was transferred to the TRW Pension Scheme from the TRW Employee Benefits Trust with the support of the Company. The Trustee of the TRW Employee Benefits Trust agreed to the request for a grant from the Trustee of the TRW Pension Scheme after taking legal advice. The grant, which substantially reduces the TRW Pension Scheme's deficit, provides benefit to all members of the Scheme.

Expenditure

- An increase in benefits payable of £15.0 million
- An increase in payments on to leavers of £7.4 million
- An increase in investment expenses £1.3 million

Members' Contributions

The normal contributions of members in service have all been forwarded to the Trustee in line with the timescales agreed between the Trustee and the Company. All members' contributions ceased following the closure of the Scheme to future accrual on 30 September 2009.

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. The Trustee and the Company are currently in the process of agreeing a recovery plan, therefore a new Schedule of Contributions has not yet been prepared.

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 TRW Benefit Administration (UK); the cost is £5.

Membership

There were 53,373 members of the Scheme at 31 March 2010 compared with 54,885 * at 31 March 2009. The change in membership during the year is as follows:

Current Members

Current members at 31 March 2009	2,674
Plus: Prior year adjustment	1
	<hr/>
	2,675 *
Plus: New entrants during the year	0
Less: Early leavers	
Refunds	172
Deferreds	2,283
Short service transfers	17
Retirements	
Normal	2
Early Voluntary	73
Early Redundancy	112
Ill Health	13
Late Voluntary	1
Died in service	2
Current members at 31 March 2010	0

Deferred Pensioners

Deferred Pensioners at 31 March 2009	15,935
Less: Prior year adjustment	(7)
	<hr/>
	15,928 *
Plus: Current members who left the Scheme during the year and became deferred pensioners	2,283
Less: Pensions commencing during the year	963
Deaths of deferred pensioners	33
Transfers to other pension arrangements	72
No liability – Forfeiture clause	52
Deferred pensions annuitised outside of the Scheme	6 **
Deferred pensioners at 31 March 2010	17,085

Total Membership at 31 March 2010

53,373

* These figures have been adjusted from those shown in the 2009 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2009 due to late notifications.

**These annuities were purchased for former ‘Cross Border’ members of the Scheme to enable the Scheme’s Cross Border registration to be revoked.

Pensioners

Pensioners at 31 March 2009	36,273
Plus: Prior year adjustment	9
	<hr/>
	36,282 *
Plus: Retirements during the year	200
Deferred pensions commencing	963
Dependants pensions commencing during the year	461
Less: Deaths of pensioners	1,540
Trivial pensions fully commuted	43
Dependants pensions ceased	32
Pensions annuitised outside of the Scheme	3 **
Pensioners at 31 March 2010	36,288

Comprising of:

Pensioners (former employees)	27,010
Spouses and Qualifying Dependents	9,161
Children	117

Scheme Benefits

Benefit Changes and Basic Scheme Information

The following change in the benefit structure of the Scheme took place in the period in the year ending 31 March 2010:

31 March 2009 Deed of Amendment

- The two open sections of the Scheme were closed so that no person could be admitted or re-admitted to these sections of the Scheme.
- The definition of interest from this was revised and now means from 31 March 2009 such rate as is determined by the Scheme Actuary.
- The reductions applicable to a spouse's pension if they are over ten years younger than the member or if the member's death occurred very soon after a marriage were revised for further pensionable service accrued after 31 March 2009. The reductions for that period of service will be determined by the Scheme Actuary of the Scheme.

Resolution dated 24 September 2009

In June 2009 the Trustee communicated with all affected employee members advising them that a consultation process had been initiated relating to a proposal to modify the TRW Pension Scheme to allow no further benefit accrual by employee members after 30 September 2009. The extensive consultation process, which included site presentations, ended on 18 September 2009. The Trustee and the Company then considered carefully and fully all the inputs received during the consultation process and concluded, with regret, that the proposed modification of the Scheme should be implemented. Future benefit accrual, consequently, ceased for all employee members of the Scheme on 30 September 2009.

The Trustee proposed the closure of the Scheme to future benefit accrual as the result of advice received from both the Scheme Actuary and its solicitor. In June 2009, the Scheme Actuary was conducting an actuarial valuation of the Scheme's funding position as at 31 March 2009 and this was expected to reveal an unprecedented level of under-funding of the benefits promised by the Scheme. The Trustee received advice from an independent assessor that the Company was not in a viable financial position to meet both the cost of future benefit accrual and to make meaningful contributions to correct the past service funding deficit.

In the absence of agreement with the Company to correct the funding deficit in the Scheme and to pay for future service benefits, the Trustee decided that it should not allow employees to accrue more benefits in the Scheme. The Trustee's primary objective was to direct all available monies from the Company to address the Scheme's past service deficit. The Trustee made this decision in order to improve, as far as possible, the security of the benefits accrued to date by current employees, former employees and pensioners.

28 January 2010 Deed of Amendment

The Rules of the Scheme were amended to allow the Scheme to pay members 'small lump sums' in accordance with *Registered Pension Schemes (Authorised Payments) Regulations 2009*, and to continue to pay lump sums on grounds of serious ill health, in accordance with *Finance Act* restrictions.

Pension Increases

The increases to pensions from 1 April 2010 were dependent on which section of the Scheme each person is a member.

For pensions in payment:

Section	Pension Element	Increase	Note
All sections excluding those named below	<i>Pension in excess of Guaranteed Minimum Pension (GMP):</i>	3.7%	(1)
	<i>Temporary Pensions:</i>	0%	(2)
Steering Systems section	<i>Pension in excess of GMP: (pre 1 April 1992 pension)</i>	2.5%	(3)
	<i>Pension in excess of GMP: (post 1 April 1992 pension)</i>	3.7%	(4)
UK section	<i>Pension in excess of GMP:</i>	3.7%	(4)
100ths (2004) and SRBS A (2004)	<i>Pre 6 April 2005 pension:</i>	3.7%	(4)
	<i>Post 6 April 2005 pension:</i>	2.5%	(5)
	<i>Temporary Pensions:</i>	0%	(2)
100ths (2006) and SRBS (2006)	<i>All pension:</i>	2.5%	(5)
	<i>Temporary Pensions:</i>	0%	(2)
Guaranteed Minimum Pensions:			
Earned between 6 April 1978 and 5 April 1988		0%	(6)
Earned between 6 April 1988 and 5 April 1997		0%	(7)

For pensions in deferment:

Section	Pension Element	Increase	Note
All sections excluding those named below	<i>All pension:</i>	3.7%	(1)
	<i>Temporary Pensions:</i>	0%	(2)
Steering Systems section and UK section members who left before 1 January 1985:	<i>All pension</i>	0%	
Steering Systems section and UK section members who left between 1 January 1986 and 1 January 1991:	<i>Pre 1 January 1985 pension up to State Pension Age:</i>	0%	
	<i>Post 1 January 1985 pension up to State Pension Age:</i>	3.7%	(4)
Steering Systems section and UK section members who left after 1 January 1991, 100ths (2004), SRBS A (2004), 100ths (2006) and SRBS (2006):	<i>Pension accrued pre 6 April 2009:</i>	3.7%	(4)
	<i>Pension accrued post 6 April 2009:</i>	2.5%	(5)

Notes

- (1) Annual RPI increase (January 2010) up to a maximum of 7%
- (2) Annual RPI increase (September 2009)
- (3) Fixed 2.5% a year
- (4) Annual RPI increase (January 2010) up to a maximum of 5%
- (5) Annual RPI increase (January 2010) up to a maximum of 2.5%
- (6) All increases are provided by the State
- (7) Annual RPI increase (September 2009) up to a maximum of 3%. Additional inflationary increases are provided by the State.

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 2010 is 7.5%.

For those who retire, die, or transfer their AVCs from the Scheme, between 1 April 2010 and 31 March 2011, 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 2009 was 4.3%.

Transfer payments to the Scheme

Transfer payments paid into the transfer account before 1 April 1997 received the 4.3% rate of return achieved by the Scheme for the year ended 31 December 2009.

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's 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. This reduction in transfer values took effect from the date of the Board meeting – 10 June 2009.

The Board further agreed that the 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. Since June 2009, the Actuary has provided six updated insufficiency reports.

Scheme Earnings Cap

The Scheme earnings cap is a restriction on pensionable pay for members who joined the Scheme after 31 May 1989 or who joined the Scheme before that date and have elected to become subject to the post 31 May 1989 Inland Revenue limits. The Scheme earnings cap for the year commencing 1 April 2009 was £123,600.

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 were 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 Benefit Administration (UK).

Statement of Investment Principles

On 13 October 2010, the Trustee Board revised its Statement of Investment Principles. See pages 47 to 54 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 TRW Benefit Administration (UK).

Member contributions

Up until the closure of the Scheme to future accrual from 30 September 2009, the Principal Employer had in place procedures to ensure the Trustee received member contributions by the nineteenth day of the month following the month in which they were deducted from salaries.

Internal Controls

A compliance statement is produced annually by TRW Benefit Administration (UK) 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 19 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 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 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 is Capital International, the corporate bond manager is Western Asset Management Company and the property investment manager is CB Richard Ellis Investors. The Financial Services Authority (FSA) regulates 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

The majority of the Scheme's investments are 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 2009. The Trustee has also received from Capital International a SAS 70 report on controls and tests on operational effectiveness dated 30 June 2009. In addition, the Trustee has received an AAF 01/06 Report on Internal Controls from CB Richard Ellis Investors for the year ending 30 June 2009 and a similar document from Legal & General Investment Management Limited covering the year ended 31 December 2009. 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 83% 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:
 - Corporate bonds (7%)
 - Property (6%).
 - Cash (3%)
 - Equities (1%).

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	361.1	11.75
Treasury 1.25 Index-Linked 22/11/32	200.5	6.53
Treasury 1.25 Index-Linked 22/11/17	191.5	6.23
Network Rail Index-Linked bond 22/11/27	80.9	2.63
Treasury 1.125 Index-Linked 22/11/37	78.1	2.54
Treasury 1.25 Index-Linked 22/11/27	66.4	2.16
Permanent Master Floating rate note 15/04/14	62.7	2.04
Treasury 4.5 07/12/42	50.9	1.66
Treasury 4.25 07/12/55	48.9	1.59
Treasury 4.25 07/12/46	48.9	1.59
Treasury 4.25 07/12/49	48.9	1.59
Treasury 0.75 Index-Linked 22/11/47	46.6	1.52
HBOS Floating rate note 07/12/11	32.4	1.05
Network Rail Index-Linked bond 22/11/27	30.5	0.99
Santander Floating rate note 21/05/10	30.1	0.98
Met Life Global Floating rate note 09/08/10	29.9	0.97
Banque Federal Credit Floating rate note 28/05/10	25.1	0.82
ING Bank Floating rate note 16/06/10	25.0	0.81
Wells Fargo Floating rate note 07/02/11	24.2	0.79
National Australia Bank Floating rate note 08/08/11	23.4	0.76
	1,506.0	49.0

Employer related investments

At the year-end 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 2010, 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 13 October 2010, is included on pages 47 to 54. A separate copy of the statement can be obtained by writing to TRW Benefit Administration (UK).

Review of Investments

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

Investment Performance

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

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 2010 is shown below:

<i>Asset performance</i>	<i>Liabilities measured on a Technical provisions basis</i>	<i>Liabilities measured on an Economic basis</i>
+21.5%	+6.7%	+4.8%

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 2009	82.5%	67.4%
31 March 2010	94.0%	78.1%

Source: Hymans Robertson. These figures are based upon various estimates and assumptions and have been provided is 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 2009	£ Fun % Annual Return
Last year	4.3
Last 3 years	0.3
Last 5 years	6.0
Last 10 years	3.2

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.

WM5O

The WM Company compares the 50 largest pension funds that it measures. These represent the assets of almost all the largest UK pension schemes. The returns of the WM5O are as follows:

Period to 31 December 2009	WM5O % Annual return	Fund % Annual return
Last year	14.8	4.3
Last 3 years	0.7	0.3
Last 5 years	6.3	6.0
Last 10 years	3.4	3.2

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 their local Human Resources Department or with the Secretary to the Trustee at TRW Benefit Administration (UK).

By order of the Directors of TRW Pensions Trust Limited.

R. Middleton
Secretary

Fund Account & Net Assets Statement

Fund Account			
	Note	2010 £'000	2009 £'000
Contributions and Benefits			
Contributions received	3	4,679	2,254
Other income	4	40,000	0
Transfers in	5	0	41
		<u>44,679</u>	<u>2,295</u>
Benefits payable	6	(181,833)	(166,868)
Payments to and on account of leavers	7	(13,511)	(6,094)
Administration expenses	8	(2,128)	(1,866)
Professional adviser fees and levies	9 & 10	(1,592)	(1,802)
		<u>(199,064)</u>	<u>(176,630)</u>
Net withdrawals from dealings with members		<u>(154,385)</u>	<u>(174,335)</u>
Returns on investments			
Investment income	11	24,352	26,452
Change in market value of investments	18	538,174	(516,894)
Investment management expenses	22	(6,358)	(5,142)
Net returns on investments		<u>556,168</u>	<u>(495,584)</u>
Net increase in the fund during the year		<u>401,783</u>	<u>(669,919)</u>
Net assets of the Scheme at 1 April 2009		<u>2,670,283</u>	<u>3,340,202</u>
Net assets of the Scheme at 31 March 2010		<u>3,072,066</u>	<u>2,670,283</u>

Approved by the Directors of the Trustee Company

S. Lunn
Director

A. Bassett
Director

Date: 28 October 2010

Net Assets Statement			
Investment assets			
Pooled investment vehicles	12 & 18	2,677,711	2,343,124
Fixed interest securities	13 & 18	209,501	145,314
Property	14 & 18	170,778	170,896
Equities	15 & 18	535	307
External Additional Voluntary Contributions	16 & 18	1,417	1,504
Current investment assets	18 & 24	6,840	8,003
Cash deposits	18	11,441	5,733
Derivative assets	17 & 18	482	1,634
		<u>3,078,705</u>	<u>2,676,515</u>
Investment liabilities			
Derivative liabilities	17 & 18	(2,477)	(1,266)
Current investment liabilities	18 & 24	(4,942)	(4,652)
		<u>(7,419)</u>	<u>(5,918)</u>
Current assets	23	5,252	3,567
Current liabilities	23	(4,472)	(3,881)
Net assets of the scheme at 31 March 2010		<u>3,072,066</u>	<u>2,670,283</u>

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

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 Scheme.*, (the Revised SORP).

Notes to the Accounts

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 and members' contributions are accounted for on an accruals basis at rates agreed between the Trustee and the Employer based on the recommendation of the actuary and the schedule of contributions.
- 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

	2010 £'000	2009 £'000
Member's contributions	929	2,254
Company contributions ¹	3,750	0
	<u>4,679</u>	<u>2,254</u>

Note 4 Other income

	2010 £'000	2009 £'000
Grant received from the Employee Benefits Trust	40,000	0
	<u>40,000</u>	<u>0</u>

Note 5 Transfers in

	2010 £'000	2009 £'000
Transfers from other schemes – bulk ²	0	41
	<u>0</u>	<u>41</u>

Note 6 Benefits payable

	2010 £'000	2009 £'000
Pensions	153,302	152,606
Commutted lump sums	27,995	13,470
Death benefits	481	542
Child allowances	218	223
External AVC receipts	(163)	27 ³
	<u>181,833</u>	<u>166,868</u>

Note 7 Payments to and on account of leavers

	2010 £'000	2009 £'000
Transfers to other schemes – Individual	7,362	5,951
Annuities purchased externally to the Scheme ⁴	5,897	0
Transfers to State Scheme	173	107
Refunds to leavers	79	36
	<u>13,511</u>	<u>6,094</u>

Note 8 Administration expenses

	2010 £'000	2009 £'000
Administration	1,368	1,203
Computing costs	754	635
Web Site	6	28
	<u>2,128</u>	<u>1,866</u>

¹ A two year cessation of Company contributions commenced on 1 August 1985, and has been extended, subsequently following each successive actuarial valuation. Provisional deficit contributions of £1.25 million a month commenced from January 2010.

² This transfer payment is in respect of an adjustment to a historical bulk transfer out of the Scheme.

³ This was a prior year adjustment to reflect a new accounting practice - external AVC disinvestment receipts were previously netted off against benefit payments but are now noted explicitly.

⁴ This payment 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.

Note 9 Professional adviser fees

	2010 £'000	2009 £'000
Hymans Robertson - Actuarial fees	309	367
Allen & Overy - Legal fees	275	379
Hymans Robertson - Investment Adviser fees	186	220
KPMG – Audit fees	83	82
Zolfo Cooper – Investigating accountant	35	0
Other advisers	24	16
Capita Health Solutions – Medical fees	31	51
Club Vita – Longevity analysis	10	0
Ernst & Young – Audit and tax fees	3	3
Kroll LLP – Investigating accountant	0	69
	956	1,187

Note 10 Regulatory levies

	2010 £'000	2009 £'000
Pension Protection Fund (Scheme based)	505	471
The Pensions Regulator	129	132
Pension Protection Fund (Risk based)	0	9
Financial Reporting Council	0	2
Financial Services Authority	2	1
	636	615

Note 11 Investment income

	2010 £'000	2009 £'000
Net rents from property	12,379	13,497
Income from fixed interest securities	11,342	11,151
Income from pooled investment vehicles	441	635
Annuity Income	177	186
Interest on cash account	162	265
Dividends from equities	4	30
Stock lending	2	4
Income from index linked securities	0	1
Write-off of non recoverable withholding tax	(22)	(13)
Other investment expenses less income	(56)	(89)
Foreign exchange gains less losses	(77)	785
	24,352	26,452

Note 12 Pooled investment vehicles

	UK registered <i>Legal & General*</i>	2010 £'000	2009 £'000
Client Specific Unitised Fund			
Bonds – Index Linked	1,039,802	945,898	
Bonds – Corporate	648,909	728,014	
Equity Options	222,505	34,688	
UK Equity Index Fund	209,725	138,969	
Bonds – UK Government Fixed Interest	192,924	196,638	
Cash	134,227	18,211	
Swaps (net mark to market)	91,961	95,175	
Accrued Income	8,472	10,407	
Total	2,548,525	2,168,000	
Asia Pacific (ex-Japan) Equity Index Fund	0	23,782	
Cash Fund	84,532	124,269	
<i>Other</i>			
Fidelity	1,351	1,025	
Montanaro Smaller Euro Co Fund	656	425	
Merrill Lynch Unquoted Unit Funds	6	6	
<i>Overseas registered</i>			
Capital International Emerging Markets Fund	42,641	25,617	
	2,677,711	2,343,124	

*The majority of assets managed by Legal & General are held in a single pooled fund of which the Scheme is the sole unit holder. The closing figures from 2009 have been revised to reflect a more accurate assessment of bid values of these assets as at 31 March 2009.

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 2010
	£'000		£'000
Call	157,000	2015-2019	9,575
Low put, high put and call option	150,000	2012	(28,185)
Low put, high put, call and at the money options	300,000	2014	69,248
Low put, high put ,call and at the money options	686,000	2019	171,867
			<u>222,505</u>

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 2010
	£'000		£'000
Zero coupon interest rate swaps (pay floating receive fixed)	967,430	2024 to 2057	155,512
Credit default swaps	(1,045,850)	2019	9,539
Interest rate swaps (pay fixed receive floating)	200,000	2042 to 2055	6,905
Inflation swaps (pay fixed receive floating)	1,841,171	2015 to 2057	(1,585)
Asset swaps (pay Index linked Gilt return receive floating return)	890,024	2017 to 2047	(78,410)
			<u>91,961</u>

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 2010, 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 £'million	Interest Rate Swaps £'million	Inflation Swaps £'million	Asset Swaps £'million	Credit Default Swaps £'million	Total value £'million
Goldman Sachs	253.3	163.7	0.8	(74.1)		343.7
Barclays Capital			0.1	(2.7)	6.0	3.4
Credit Suisse			0.6			0.6
Deutsche			(0.5)			(0.5)
RBS			(2.5)	(2.1)		(4.6)
UBS					(0.6)	(0.6)
Morgan Stanley	(28.5)				4.2	(24.3)
Total	224.8	163.7	(1.5)	(78.9)	9.6	317.7

Note 13 Fixed interest and index linked securities

Fixed Interest	2010 £'000	2009 £'000
UK Quoted		
Corporate – Western Asset Management Company	173,918	116,085
Overseas		
Corporate – Western Asset Management Company	35,583	29,223
Corporate – Other	0	6
	<u>209,501</u>	<u>145,314</u>

Note 14 Market value of property investments

Sector	2010	2009	Geographical	2010	2009
	£'000	£'000		£'000	£'000
Industrials	58,265	54,625	South East	75,020	73,325
Offices	27,975	28,050	European Unit Trusts	32,163	38,187
Retail Warehouses	25,700	27,250	Scotland	21,075	20,100
European Unit Trusts	32,163	38,187	Yorkshire	12,665	11,950
Motor dealerships	10,500	8,625	East Midlands	11,025	9,300
Retail	12,953	11,754	North West	7,604	7,425
UK Unit Trusts	3,026	2,209	West Midlands	6,200	6,100
Residential	196	196	UK Unit Trusts	3,026	2,209
			South West	2,000	2,300
Total	170,778	170,896		170,778	170,896

See page 28 for details of the valuation basis.

Note 15 Equities

	2010	2009
	£'000	£'000
Overseas	535	307
	535	307

All the equity investments held by the Scheme are quoted.

Note 16 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.

	2010	2009
	£'000	£'000
Clerical Medical	616	693
Scottish Life	387	450
Standard Life	276	257
Fidelity	122	88
Phoenix (Formerly Alba Life)	6	10
Phoenix (Formerly Century Life)	10	6
	1,417	1,504

Note 17 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 2010	Liability value at 31 March 2010
		£'000	£'000	£'000
Bond futures	2010	(285)	27	(264)
Options	2010	6,895	26	0
Interest rate swaps	2020 to 2040	18,180	17	(212)
Foreign exchange				
EUR/GBP	2010	42,382	54	(182)
USD/GBP	2010	32,461	0	(1,771)
GBP/USD	2010	12,037	358	(48)
			482	(2,477)

£58,000 of collateral had been deposited by the Scheme in respect of the swap contracts.

Note 18 Change in market value of investments

	Value at 31 March 2009	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in Market Value	Value at 31 March 2010
	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles	2,343,124	200,310	(337,735)	472,012	2,677,711
Derivatives					
- <i>Futures</i>	191	1,518	(1,288)	(658)	(237)
- <i>Options</i>	12	1,773	(1,629)	(130)	26
- <i>Swaps</i>	(108)	5,864	(3,473)	(2,478)	(195)
- <i>Foreign Exchange</i>	273	11,680	(16,665)	3,123	(1,589)
Fixed Interest securities	145,314	187,191	(184,373)	61,369	209,501
Equities	307	2,285	(2,286)	229	535
Property	170,896	1,551	(6,299)	4,630	170,778
External Additional Voluntary Contributions	1,504	0	(164)	77	1,417
	<u>2,661,513</u>	<u>412,172</u>	<u>(553,912)</u>	<u>538,174</u>	<u>3,057,947</u>
Cash deposits	5,733				11,441
Other current investment assets and liabilities (See note 24).	3,351				1,898
	<u>2,670,597</u>				<u>3,071,286</u>

Note 19 Transaction Costs

	2010 £'000	2009 £'000
Equities		
UK	0	1,905
Overseas	174	227
Total	<u>174</u>	<u>2,132</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.		
Note 20 Property transaction costs		
Property sales during the year	(6,250)	0
Property purchases during the year	0	0
	<u>(6,250)</u>	<u>0</u>
Costs associated with property sales:		
Rental guarantee	47	0
CB Richard Ellis – transaction fees	25	0
Dilapidation/remediation costs	0	0
PinSENT CURTIS - transaction fees	11	0
HP FOUR LLP – transaction fees	38	0
Costs associated with property purchases:		
0	0	0
	<u>121</u>	<u>0</u>
Net property sales and purchases at cost	(6,129)	0

Note 21 Investment Management Expenses

Non-property Management Expenses	2010 £'000	2009 £'000
Legal & General Investment Management	1,541	1,139
Western Asset Management Company	470	462
TRW Investment Management Company Ltd	81	43
Bank of New York Mellon	91	68
Property Lease	0	469
	2,183	2,181
Property management expenses	2010 £'000	2009 £'000
Pinsent Masons	266	255
CB Richard Ellis – UK Properties	261	462
CB Richard Ellis – European Unit Trusts	82	118
Jones Lang La Salle	35	26
Atisreal	0	25
Property Management Costs:		
Building & refurbishment	899	591
Provision for bad debts	791	205
Head rent & rates	602	510
Vacant unit costs	491	309
Marketing & letting	370	429
Bad debt write offs	158	0
Other professional fees	99	31
	4,054	2,961
Total investment management expenses	6,237	5,142

Note 22 Total Investment Management and Transaction costs

	2010 £'000	2009 £'000
Non-property Management expenses (See note 21)	2,183	2,181
Property Management expenses (See Note 21)	4,054	2,961
Property transaction costs (See Note 20)	121	0
	6,358	5,142

Note 23 Current assets and liabilities

Current Assets	2010 £'000	2009 £'000
Cash at Bank	5,048	3,411
Administration VAT receivable	202	36
Other debtors	2	88
Prepayments	0	0
Employee contributions	0	32
	5,252	3,567
Current liabilities		
Unpaid benefits	(2,707)	(2,440)
Payable to TRW Limited	(910)	(234)
Investment expenses	(542)	(469)
Advisers' fees	(183)	(248)
Accrual and deferred income	(130)	(10)
Pension Protection Fund levy	0	(480)
Net current assets	(4,472)	(3,881)
	780	(314)
Note 24 Current investment assets and liabilities		
Current Assets	2010 £'000	2009 £'000
Interest receivable – bonds	4,507	4,187
Rent receivable	2,333	3,430
Dividends receivable	0	386
Balances due from brokers	0	0
	6,840	8,003
Current liabilities		
Deferred rental income	(2,568)	(2,765)
Provision for property bad debts	(1,568)	(777)
Rental deposits	(293)	(357)
Property creditors	(513)	(750)
Other creditors	0	(3)
Net current investment assets	(4,942)	(4,652)
	1,898	3,351

Note 25 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 is administered by TRW Benefit Administration, which is part of TRW Limited. Fees payable in respect of administration and processing are detailed in Note 8 of the accounts.

Reports of the Auditors and the Actuaries

Independent Auditors' Report to the Trustee of the TRW Pension Scheme

We have audited the financial statements of the TRW Pension Scheme for the year ended 31 March 2010 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 auditors

As described in the Statement of Trustee's responsibilities on page 21, the Scheme Trustee is responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the 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. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustee's report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

Show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the scheme during the scheme year ended 31 March 2010 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year); and

Contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

K. MacKenzie

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

29 October 2010

Continued....

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 2010

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 21 March 2007 in respect of the Scheme year ended 31 March 2010. The scheme auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

During the year ended 31 March 2010 the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	£'000
Employee normal contributions	929
Contributions payable under the Schedule (as reported on by the Scheme auditors)	<u>929</u>

Approved by the Board

S. Lunn

28 October 2010

Information about contributions

Under the Schedule of Contributions in place at 31 March 2010, employer contributions remained suspended. However, provisional deficit contributions of £1.25 million a month commenced from January 2010 pending completion of the 31 March 2009 actuarial valuation and the agreement of a Recovery Plan. Members' normal contributions up to 30 September 2009 were at the rates specified in the Scheme rules for the different sections of the Scheme. 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):	929
Contributions payable in addition to those due under the Schedule of Contributions and not reported on by the Scheme Auditor:	
Employer deficit contributions	<u>3,750</u>
Total contributions reported in the accounts:	<u>4,679</u>

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

We have examined the summary of contributions payable under the schedule of contributions to the TRW Pension Scheme in respect of the scheme year ended 31 March 2010 which is set out on page 44.

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 auditors' 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 auditors

As described on page 44, the Scheme's Trustee is responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out 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 has a general responsibility for procuring that contributions are made to the Scheme in accordance with the schedule of contributions.

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

We read the Trustee's report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

Basis of statement about contributions

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

Statement about contributions payable under the schedule

In our opinion contributions for the Scheme year ended 31 March 2010 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 21 March 2007.

K. MacKenzie

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

29 October 2010

Actuarial Certification of the calculation of technical provisions as required by regulation 7(4) (a) of the Occupational Pension Schemes Scheme Funding Regulations 2005

My certification of the calculation of the estimated cost of past service benefits ('technical provisions') is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions, that certificate will be appended to the contribution schedule.

Actuarial Certification of the calculation of technical provisions as required by regulation 7(4) (a) of the Occupational Pension 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 2006 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 16 March 2007.

Ronald S Bowie
Fellow of Faculty of Actuaries
Hymans Robertson LLP, 20 Waterloo Street Glasgow, G2 6DB

21 March 2007

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 continue to be met for the period for which the schedule is to be in force.

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 16 March 2007.

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.

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

27 March 2007

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 13 October 2010. 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 recognises 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	FTSE World Index Asia Pacific (Developed)	0%
	- ex-Japan	
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 fifth 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 scheme funding requirements of *Pensions Act 2004*.

Funding level

The ongoing funding valuation of the TRW Pension Scheme

	31 March 2006	31 March 2009
Assets	£3,472 million	£2,670 million
Amount needed to provide benefits	£3,041 million	£3,225 million
Surplus/(Shortfall)	£431 million	(£555 million)
Funding level	114%	83%

Following the surplus in funding revealed by the 31 March 2006 valuation, the Company was not required to pay contributions into the Scheme until at least 1 April 2010. In light of the deterioration in the Scheme's funding position since that time, the Company commenced provisional deficit contributions of £15 million a year from January 2010. The Scheme was closed to all future benefit accrual from 30 September 2009. No further employee contributions are subsequently payable to the Scheme.

At the time of producing this statement, a Recovery Plan was still to be agreed between the Trustee and the Company. The Recovery Plan will set out the level of contributions to be paid by the Company to restore the Scheme to a position of full funding.

Change in the funding position since the 31 March 2006 valuation

Since the previous formal actuarial valuation took place, the funding level is estimated to have changed from 114% to 83%, with a deficit of £555 million.

The main reasons for the change have been an dramatic fall in the value of the Scheme's investments during the global financial crisis, an excess of expenditure over income, and an increase in the current value of liabilities due to reductions in bond yields since 2006.

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.

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 the 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 Trustees' 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 was 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 the 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 became 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 a 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 Trustees' 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.

Further information

If you have any other questions, or would like any more information, please contact us at the address on the bottom of this leaflet. A list of more detailed documents which provide further information is shown below. Most of these documents are available on the Scheme's website www.trwpensions.co.uk

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 call the IFA promotion helpline on 0800 0853250 or go to www.unbiased.co.uk.

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

Additional documents available on request

Annual Benefit Statements

All Scheme members – employees, 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 2009 is available on the Scheme website.

Statement of Investment Principles

This explains how the trustees invest 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.

TRW Benefit Administration
2020 The Crescent
Birmingham Business Park
Birmingham B37 7YE
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