TRW Pension Plan

REPORT AND ACCOUNTS 2018

TRW Pension Plan

Report and Accounts

Contents

The Scheme is registered with the Pension Schemes Registry under Registration Number 12009911

Report of the Trustee

Trustee and Advisers

Trustee	TRW Pensions Trust Limited
Principal Employer	TRW LucasVarity Limited
Directors of the Trustee Company	Mr S Batterbee – Chairman Mr P Birkett* Ms J Braithwaite Mr M Furber (until 31 August 2017) Mr D Hopkins Mr N Huish* JMRC Pensions Limited (represented by Mr J Clarke until 31 July 2018) Mr P Lakie* Ross Russell Limited (represented by Mr R Russell) from 1 August 2018 Mr L Wolahan
Secretary	Mr A Saker
Investment Managers	Legal & General Investment Management CBRE Global Investors M&G Investments Barings Global Investment Funds PLC
Investment Advisers	Hymans Robertson LLP
Investment Performance Measurement	Mellon Analytics
Custodian of Assets	Bank of New York Mellon
Actuaries	Hymans Robertson LLP Scheme Actuary: Mr R Shackleton
Administrator	Capita Employee Benefits
Auditor	KPMG LLP
Bankers	National Westminster Bank
Solicitors	Travers Smith LLP Pinsent Masons LLP - Property
Medical Adviser	Health Management Limited
Address for enquiries	TRW Administration Team Capita Hartshead House 2 Cutlers Gate Sheffield S4 7TL

**The Directors marked with an asterisk are Member Nominated Directors*

Constitution of the Plan

The Trustee is pleased to present its annual report to TRW Pension Plan (the "Plan") members, together with the accounts of the Plan, for the year ended 31 March 2018.

Trustee

The Trustee of the Plan is TRW Pensions Trust Limited, which is governed by the directors, named on page 2. Four are directors nominated by the Principal Employer, three are member nominated directors (those marked by an asterisk) and one is an independent director appointed by the Principal Employer. The Principal Employer makes all appointments and replacements. The appointment of member nominated directors is in line with the Trustee's arrangements for their appointment. See page 12 for details of these arrangements.

Changes to the Trustee

Mr M Furber resigned on 31 August 2017.

JMRC Consulting Limited (represented by Mr J Clarke) was replaced by Ross Russell Limited (represented by Mr R Russell) after the accounting year end on 1 August 2018.

The Directors would like to place on record their thanks for the contributions made by Mr Furber and Mr Clarke to the Trustee's activities.

Legal Status

The Plan was established by a Trust Deed dated 6 August 2014. The Plan is a contracted-out salary related scheme. All sections of the Plan were closed to any future accrual from 28 February 2015. The Plan is a registered pension scheme under Schedule 36 of the Finance Act 2004. It was registered with Her Majesty's Revenue and Customs (HMRC) on 11 August 2014.

Principal Employer

The Principal Employer is TRW LucasVarity Limited, which is a wholly owned subsidiary of TRW Automotive Holdings Corp. TRW Automotive Holdings Corp is a wholly owned subsidiary of ZF Friedrichshafen AG.

Participating Employer

The only participating employer whose employees were entitled to be members of the Plan was TRW Limited.

Trustee Meetings

The Trustee met four times during the period to consider matters relating to the administration of the Plan. The Trustee 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 Trustee is currently five directors, three of whom are to be directors nominated by the Principal Employer, and either two member nominated directors or a member nominated director and an independent director. Trustee decisions are usually unanimous but they may be taken by a majority vote.

The Trustee has delegated authority to a standing sub-committee to deal with ill health early retirement applications and items of trustee discretion. The Trustee has also appointed a specialist standing sub-committee to deal with investment matters, which met four times during the year. Other sub-committees meet as required to produce reports and recommendations for the Trustee.

Trust Deed and Rules

A copy of the Trust Deed and Rules is available for examination in Human Resource Departments and personal copies can be obtained on written application to the Trustee Secretary at a cost of £25.

External Advisers and Service Providers

In line with UK pension scheme best practice, the Trustee has a policy of periodically reviewing all of its external advisers and service providers.

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 financial statements show that during the year the value of the assets of the TRW Pension Plan that have been accumulated to meet its commitments, decreased by £103 million. At the year end the value of the Plan's assets was £1,656 million compared to £1,759 million at 31 March 2017.

The reduction in fund value is accounted for as follows:

Excess of expenditure over income	(£161 million)
Change in market value of investments	£20 million
Investment income (net of expenses)	£38 million
Reduction in fund value	(£103 million)

Fund Account

For the year ending 31 March 2018 the income received was £40.3 million (investment income). The expenditure for the year was £163.5 million including investment management expenses of £2.0 million and transfer payments to members of £143.8 million.

Members' Contributions

All sections of the Plan were closed to future accrual on 28 February 2015 and accrual was non-contributory. Therefore, no members' contributions were received for the year ending 31 March 2018.

Actuarial Valuation

The first TRW Pension Plan actuarial valuation was conducted by Hymans Robertson LLP as at 31 March 2015. The purpose of the valuation is to assess the current financial position of the Plan and to determine what contributions need to be paid by the Company to provide for the benefits set out under the rules of the Plan.

The Scheme Actuary reported that on the Trustee's statutory funding or Technical Provisions basis the Plan had a surplus in funding of £161 million calculated as follows:

	£' million
Assets (excluding defined contribution liabilities):	1,400
Liabilities:	1,239
Surplus:	161

The valuation was signed by the Scheme Actuary on 24 May 2016 following agreement between the Company and the Trustee on the Scheme's Statement of Funding Principles, which was signed on 24 May 2016. A copy of the latest actuarial report is available on written application to the Trustee Secretary. The cost is £5.

In light of the funding surplus identified by the Scheme Actuary, the Trustee and the Company were not required to agree a recovery plan to set out how the Plan would be restored to full funding.

The Schedule of Contributions was signed by the Trustee and Company on 24 May 2016. The Schedule of Contributions is based upon a funding basis known as the Conservative[1] basis, which is more prudent than the Trustee's statutory funding objective or Technical Provisions basis.

The Schedule of Contributions requires contributions to be paid at the rate of £2.5 million a month, if the funding level on the Conservative basis falls below 99% for three consecutive months. If the funding level subsequently improves to 101% (or better) for a period of three consecutive months contributions cease. No contributions were payable in accordance with the schedule of contributions.

A report on Actuarial Liabilities which forms part of the Trustee's Report is included on page 58.

Scheme Specific Funding

The Pensions Act 2004 brought a new funding standard for final salary pension schemes into UK law called 'Scheme Specific Funding'. Under Pensions Act 2004 the Trustee must have:

- **A statutory funding objective**

  This objective is usually to have sufficient and appropriate assets to - at least - meet the Plan's accrued liabilities. The Trustee's statutory funding objective is that the Plan will have sufficient and appropriate assets to cover the expected cost of providing members' benefits.

[1] The Conservative basis is similar to the Trustee's statutory funding or Technical Provisions basis except that it incorporates a discount rate assuming returns of 0.85% above Gilt yields.

- **A statement of funding principles**

  This is a statement, in writing, drawn up by the Trustee, 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 Plan's liabilities will be calculated and what assumptions will be used. The Plan 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 Plan's member website, which can be accessed at www.trwpensions.co.uk.

- **A recovery plan**

  If the Plan has insufficient assets to meet its statutory funding objective the Trustee must agree a recovery plan with the employer. This sets out how the Trustee intends to meet its statutory funding objective.

- **A summary funding statement**

  The Trustee must provide all members and beneficiaries with a summary funding statement within a reasonable period following the completion of the Plan's formal actuarial valuation. The Plan's first actuarial valuation was carried out as at 31 March 2015 and was completed by 9 June 2016. The Trustee published a summary funding statement effective 31 March 2017 in accordance with the Pensions Act 2004. The text of the statement is printed on pages 60 to 63.

Membership

Pensioners

Pensioners at 31 March 2017		3,794	
Plus:	Deferred pensions commencing	109	
	Dependants pensions commencing during year	81	
	Pensions reinstated	33	
Less:	Deaths of pensioners	155	
	Deaths of dependants	106	
	Pensions suspended	40	
	Trivial pensions fully commuted	38	
	Child pensions ceased	9	
Pensioners at 31 March 2018			3,669
Comprising of:			
Pensioners (former employees)		*2,458*	
Spouses and Qualifying Dependants		*1,159*	
Children		*52*	

Deferred Pensioners

Deferred Pensioners at 31 March 2017		9,991	
Plus:	Additional beneficiaries traced	2	
Less:	Pensions commencing during the year	109	
	Transfers to other pension arrangements	547	
	Deaths of deferred pensioners	18	
	Trivial pensions fully commuted	4	
Deferred pensioners at 31 March 2018			9,315
Total Membership at 31 March 2018			**12,984**

Pension Increases

The increases to pensions from 1 April 2018 were dependent on which section of the Plan each person is a member.

For pensions in deferment:

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

Notes:

(1) Annual CPI increase (January 2018) up to a maximum of 7%.

(2) Annual CPI increase (September 2017).

(3) Annual CPI increase (January 2018) up to a maximum of 5%.

(4) Annual CPI increase (January 2018) up to a maximum of 2.5%.

For pensions in payment:

Section	Pension Element	Increase
All sections excluding members of the sections listed below	Pension in excess of GMPs	3% (1)
	Temporary pensions	3% (2)
SRBS A, C, A (57.5), and C (57.5)	All pension	3% (1)
	Temporary pensions	3% (2)
Steering Systems	Pension in excess of GMPs accrued pre 1 Apr 1992	2.5% (3)
	Pension in excess of GMPs accrued post 31 Mar 1992	4% (4)
UK	Pension in excess of GMPs	4% (4)
100ths (2004), and SRBS A (2004)	Pension accrued pre 6 Apr 2005	3% (5)
	Pension accrued post 5 Apr 2005	2.5% (6)
	Temporary pensions	3% (2)
100ths (2006)	All pension	2.5% (6)
	Temporary pensions	3% (2)
Guaranteed Minimum Pensions:		
GMP earned between 6 April 1978 and 5 April 1988		N/A (7)
GMP earned between 6 April 1988 and 5 April 1997		3% (8)

Notes:

(1) Annual increase in CPI (January 2018) up to a maximum of 7%.
(2) Annual increase in CPI (September 2017).
(3) Fixed 2.5% a year.
(4) Annual increase in RPI (January 2018) up to a maximum of 5%.
(5) Annual increase in CPI (January 2018) up to a maximum of 5%.
(6) Annual increase in CPI (January 2018) up to a maximum of 2.5%.
(7) All increases are provided by the State.
(8) Annual CPI increase (September 2017) 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 for the year ending 31 March 2018 for the TRW Pension Plan is 1.5%.

For those who retire, die, or transfer their AVCs in the year ending 31 March 2018, no terminal bonus will be paid.

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

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

Money Purchase Underpin Account

This is applicable to members of the Closed 80ths Section of the Plan. 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 Plan.

The full rate of return in the Plan for the year ended 31 December 2017 was 6.5%.

Transfer payments to the Plan

The Plan was established to enable the bulk transfer of residual assets and liabilities from the TRW Pension Scheme. The Plan does not accept individual transfer payments from other pension schemes.

Transfer payments paid into the TRW Pension Scheme before 1 April 1997 received the 6.5% rate of return achieved by the Plan for the year ended 31 December 2017. 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.

Transfer payments from the Plan

The calculation of transfer payments are made on the basis determined by the Plan'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.

The Trustee has agreed that the Plan Actuary will monitor the Plan's funding level and inform the Plan administrator of any reduction in the level of transfer values paid from the Plan that is required to protect the Plan's funding level. Since the Plan's establishment there has been no reduction applied to transfer values.

With effect from 1 April 2017, the Trustee, after consulting with the Plan Actuary, agreed to update the basis for calculating transfer payments.

Additional Information

Pensions Act 1995 and 2004

Appointment of advisers

The Pensions Act 1995 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 Plan. 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.

The Trustee's arrangements involve inviting nominations for vacancies from deferred or pensioner members.

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

Successful candidates are appointed for a period of four years.

Internal Disputes Resolution Procedure

The Trustee has an internal disputes resolution procedure in place. Information on how to refer a complaint to the internal disputes resolution procedure is available by writing to the Trustee Secretary at:

TRW Pensions Trust Limited
Aftermarket Building
Stratford Road
Shirley
Solihull
B90 4AX

Statement of Investment Principles

On 5 October 2017, the Trustee revised its Statement of Investment Principles. See pages 51 to 57 for a copy of the revised statement.

Funding Documents

The Plan's first Statement of Funding Principles was produced as part of its first actuarial valuation, which was calculated as at 31 March 2015 and completed on 24 May 2016. A Schedule of Contributions for the Plan was signed on 24 May 2016, which took effect from 31 May 2016.

Internal Controls

A compliance statement is produced annually by the Trustee Secretary and the Plan's administrator for the Trustee, to provide information regarding the administration of the Plan. 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 Pensions Regulator's code on internal controls the Trustee has prepared a schedule of risks faced by the Plan. The contents of the risk register are taken into account when the Trustee set its goals, as part of its annual business plan.

Myners compliance

On 6 February 2003 the Trustee 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 pension fund trustees are applying these principles. Following the NAPF's recommendations the Government issued a consultation paper outlining six simplified high-level principles.

At a meeting on 4 March 2015 the Trustee approved its Principles of Investment Decision Making document. The document is in line with the best practice outlined in the October 2008 Government response to the consultation paper.

In Notes 8 to 11 to the financial statements 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 Trustee considers corporate, environmental and social responsibility issues as far as they impact the performance of the assets of the Plan. The policies of the Trustee's investment managers are in line with the Trustee's policy.

The Trustee has delegated the exercise of any voting rights to the Plan'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 any votes cast to the Trustee on a quarterly basis.

Investment Report

Investment managers

As at 31 March 2018 the following investment managers were appointed by the Trustee:

- Legal & General Investment Management
- CBRE Global Investors
- M&G Investments
- Barings Global Investment Funds PLC

The Trustee's appointed investment managers were regulated during the year by either or both of the Prudential Regulation Authority and Financial Conduct Authority. In addition, CBRE Global Investors is a member of the Royal Institution of Chartered Surveyors.

The investment management costs are borne by the Plan and detailed in the accounts.

Custody of investments

The majority of the Plan's segregated assets are held by the Trustee's appointed custodian, Bank of New York, Mellon. A custodian agreement between Bank of New York Mellon and TRW Pensions Trust Limited details the terms on which the custodian holds the Plan's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Plan'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 Plan Administrator.

The Plan'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 TRW Pensions Trust Limited.

Internal controls

The Trustee has received and reviewed the following reports dealing with the internal controls of its appointed investment managers and custodian:

Company	Appointment	Reporting Period
Bank of New York Mellon	Custodian	1 April 2017 to 31 March 2018
Legal & General Investment Management	Investment Manager	1 January 2017 to 31 December 2017
CBRE Global Investors	Investment Manager	1 January 2017 to 31 December 2017
M&G Investments	Investment Manager	1 January 2017 to 31 December 2017
Barings Global Investment Funds PLC	Investment Manager	1 September 2016 to 31 August 2017

Asset allocation

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

- To manage the interest rate and inflation risk inherent in the Plan's liabilities by the use of physical and derivative assets.

- 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 Plan 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 Plan's physical assets through exposure to credit markets.

At the year end the majority of the Plan's assets were managed by Legal & General Investment Management. These assets form a 'collateral pool' designed to support the LDI strategy and to provide collared exposure to equity market returns. The collateral pool comprises the following physical assets:

- UK Gilts.
- UK Index-linked Gilts.
- Money market instruments.
- Cash.

The remainder of the Plan's assets are a combination of:

- Property.
- Asset backed securities.
- Secured Loans.
- Global high yield credit.

Changes during the year

During the year, no significant changes in asset allocation were made.

The Plan's largest physical investments

The Plan's largest 20 physical holdings excluding pooled investment vehicles, cash and derivatives at the year end is shown in the table below.

Asset Class	Security	Maturity	Market Value £'million	% of total net assets
UK Treasury	Fixed 4.250%	07/12/40	317.60	19.18
UK Treasury	Fixed 4.250%	07/12/49	303.76	18.34
UK Treasury	Index Linked 0.375%	22/03/62	140.00	8.45
UK Treasury	Fixed 4.250%	07/12/46	116.20	7.02
UK Treasury	Index Linked 0.125%	22/03/46	111.07	6.71
UK Treasury	Index Linked 1.250%	22/11/32	105.88	6.39
UK Treasury	Index Linked 2.000%	26/01/35	104.81	6.33
UK Treasury	Index Linked 0.125%	10/08/48	71.63	4.33
UK Treasury	Index Linked 0.125%	22/03/58	69.69	4.21
UK Treasury	Fixed 1.500%	22/07/47	49.45	2.99
UK Treasury	Index Linked 0.500%	22/03/50	49.38	2.98
UK Treasury	Index Linked 0.750%	22/03/34	40.16	2.43
UK Treasury	Index Linked 0.125%	22/03/29	35.96	2.17
UK Treasury	Index Linked 1.250%	22/11/55	32.49	1.96
UK Treasury	Index Linked 0.625%	22/03/40	28.13	1.7
UK Treasury	Fixed 4.250%	07/03/36	15.88	0.96
UK Treasury	Index Linked 0.250%	22/03/52	14.55	0.88
UK Treasury	Index Linked 0.125%	22/03/24	12.44	0.75
Asset Backed Security	Ripon Mortgages	20/08/56	10.03	0.61
Asset Backed Security	Paragon Mortgages	15/09/39	7.77	0.47
			1,636.88	98.86

Statement of Investment principles

The Statement of Investment Principles deals with the following topics:

- 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 5 October 2017, is included on pages 51 to 57. A separate copy of the statement can be obtained by writing to the Trustee Secretary.

Employer related investments

During the year the Plan had no investment in ZF Friedrichshafen AG, and no direct investments in any connected employer.

There were no member contributions due from the employer.

Stock lending

As at 31 March 2018, the majority of Plan's assets were held under the segregated custody of Bank of New York Mellon, which did not engage in any stock lending.

Review of investments

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

Investment performance

Independent performance measurement is provided to the Plan by Mellon Analytics.

Benchmark

The investment performance benchmark for the Plan is the Plan's liabilities. The Plan's liabilities are measured on a Technical Provisions basis (Statutory Funding Basis) and other actuarial bases. In order to meet the Plan's immediate and long term funding objectives, the Plan's assets must outperform its liabilities. The performance of the Plan's assets measured against its liabilities for the Plan year ending 31 March 2018 is shown below:

Asset performance	*Liabilities measured on a Technical Provisions basis*	*Liabilities measured on an Economic basis*[1]
+4%	2%	-1%

As a consequence of the Plan's asset and liability outperformance, the Plan's estimated funding position as at 31 March 2018 is:

Date	*Funding position on a Technical Provisions basis*	*Funding position measured on an Economic basis*
31 March 2018	125%	98%

Returns

The return of Plan measured over one year, and the combined return of the Plan and TRW Pension Scheme measured over three, five and ten years are detailed below.

Period to 31 December 2017	**Annual Return**
Last year	6.50%
Last 3 years	14.30%
Last 5 years	13.66%
Last 10 years	9.49%

Source: Mellon Analytics (for asset performance) and Hymans Robertson (for liability performance). These figures are based upon various estimates and assumptions and have been provided for the sole use and benefit of the Trustee of the TRW Pension Plan 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.

[1] An 'Economic basis' refers to a level of funding that incorporates more prudent assumptions about future investment returns (i.e. a discount rate in line with the yields available from UK Government bonds or swaps) and life expectancy than the Technical Provisions basis. At this level of funding the Plan would be expected to be in a position to deliver benefits on a self sufficient basis with a high degree of certainty.

Statement of Trustee responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

(i) show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and

(ii) contain the information specified in 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 have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;

- using the going concern basis of accounting unless they either intend to wind up the Plan, or have no realistic alternative but to do so; and

- making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which they 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 is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities.

Conclusion

The Trustee acknowledges with thanks the help and support it has received from everyone associated with the administration of the Plan.

If a member has any queries about the operation of the Plan or about their benefits they should raise them with Capita Employee Benefits at the address shown on page 2.

By order of the directors of TRW Pensions Trust Limited.

Mr Andrew Saker
Trustee Secretary

10 October 2018

Fund Account &
Statement of Net Assets available for Benefits

Fund Account

	Notes	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Benefits			
Benefits paid or payable	3	(15,694)	(16,681)
Payments to and on account of leavers	4	(143,838)	(46,797)
Administration expenses	5	(1,981)	(1,752)
		(161,513)	(65,230)
Net withdrawals from dealings with members		(161,513)	(65,230)
Returns on investments			
Investment income	6	40,284	38,566
Change in market value of investments	7	20,263	326,891
Investment management expenses	10	(1,987)	(3,500)
Net returns on investments		58,560	361,957
Net (decrease)/increase in the fund during the year		(102,953)	296,727
Net assets of the Plan at start of year		1,758,925	1,462,198
Net assets of the Plan at end of year		1,655,972	1,758,925

The accompanying notes on pages 25 to 41 form an integral part of these financial statements.

Statement of Net Assets available for Benefits

	Notes	31 March 2018 £'000	31 March 2017 £'000
Investment assets:			
Pooled investment vehicles	12	430,384	362,493
Bonds*		1,827,224	1,498,134
Derivative assets	13	1,585,701	1,641,504
External additional voluntary contributions	14	600	725
Cash		11,060	15,900
Other investment assets	19	75,004	9,406
		3,929,973	3,528,162
Investment liabilities:			
Derivative liabilities	13	(1,678,137)	(1,767,381)
Other investment liabilities	19	(598,738)	(330)
		(2,276,875)	(1,767,711)
Current assets	18	6,640	1,895
Current liabilities	18	(3,766)	(3,421)
Net assets of the Plan at 31 March		1,655,972	1,758,925

*The value of the bonds in 2017 is lower as a result of a change in reporting by BNYM in 2017 compared to 2018. Some of the investments which are shown as other investment assets/liabilities in 2018 were reported as pending purchases and sales of bonds in 2017, thereby reducing the bond value.

The accompanying notes on pages 25 to 41 form part of these financial statements.

The financial statements summarise the transactions of the Plan 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 Plan year. The actuarial position of the Plan, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 58 of the Annual Report and these financial statements should be read in conjunction with this report.

Approved by the Directors of the Trustee Company

Director – Ms Julia Braithwaite
10 October 2018

Director – Mr Paul Birkett

Notes to the Financial Statements

Note 1 Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (2014).

Note 2 Accounting policies

The principal accounting policies of the Plan are as follows:

- Contributions are accounted for on the due dates which they are payable in accordance with the Schedule of Contributions
- 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 bonds and cash is recognised as the interest accrues.
- Receipts from annuity policies held by the Trustees to fund benefits payable to Plan members are included within investment income on an accruals basis.
- 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 or, if there is no member choice, on the date of retirement or leaving.
- Transfer payments in respect of members transferred from the Plan during the period are included in the accounts on the basis of sums advised by the actuary at the time the financial statements for the period 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 assets 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 due. Foreign currency investment income is recorded at the rate ruling at the date of the transaction.
- Annuity policies were previously included in the Statement of Net Assets at nil value as permitted by the Audited Accounts Regulations and the previous SORP. Under FRS 102 annuity policies are reported at the value of the related obligation to pay future benefits funded by the annuity policy.

The Trustee has determined that there are no material annuity policies held in the name of the Trustee.

Note 2 Accounting policies (continued)

- Derivatives:
  - 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 with 'Change in Market Value'.
- The property investments of the Plan 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.
- Purchases and sales of properties are recognised in the accounts upon unconditional exchange of contracts. Property rental income is recognised on an accruals basis.
- Repurchase agreements ('repos') – the Plan recognises and values the securities that are delivered as collateral and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.
- Reverse repurchase agreements ('reverse repos') – the Plan does not recognise the securities received as collateral in its financial statements. The Fund does recognise the cash delivered to the counterparty as a receivable in the financial statements.
- The Plan's functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Plan year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Note 3 Benefits paid or payable	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Pensions	12,755	12,932
Commuted lump sums	2,850	3,568
Death benefits	89	181
	15,694	16,681

Note 4 Payments to and account of leavers	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Individual transfers to other schemes	143,838	37,161
Group transfer to other schemes	-	9,632
Refunds	-	4
	143,838	46,797

The group transfer to other schemes in the previous year relates to those money purchase benefits compulsorily transferred out of the Plan as part of a Section 32 transfer to BlackRock. These included internally invested AVCs, transfer accounts and AVCs invested with Fidelity.

Note 5 Administration expenses

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Administration	397	397
Secretarial and Trustee expenses	296	254
Website	3	3
Hymans Robertson – Actuarial fees	206	241
Hymans Robertson – Investment adviser fees	350	244
Travers Smith – Legal fees	66	152
KPMG – Audit fees	52	19
Mercer – Annuity broking	-	7
KPMG – Consultancy advice	38	20
Health Management – Medical fees	10	10
Capita – Liability management activity	-	78
Club Vita – Longevity analysis	10	10
EDM Group – Microfiche archiving	6	6
JLT Wealth Management – Financial advice	-	6
LEBC Group – Financial advice	472	247
Pension Protection Fund – Regulatory levy	63	54
Other advisers	12	4
	1,981	1,752

Note 6 Investment income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Income from bonds	34,402	29,174
Net rents from properties	(40)	1,591
Income from pooled investment vehicles	9,536	7,384
Interest on cash	(3,692)	338
Annuity income	78	79
	40,284	38,566

Note 7 Reconciliation of investments at the beginning and end of the year

	Value at 1 April 2017 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 31 March 2018 £'000
Pooled investment vehicles	362,493	322,264	(258,671)	4,298	430,384
Derivatives					
- Options	105,577	-	(2,492)	6,580	109,665
- Swaps	(230,540)	44,001	(19,315)	3,173	(202,681)
- Foreign Exchange	(914)	8,972	(5,484)	(1,410)	1,164
- Futures	-	1,300	(495)	(1,389)	(584)
Bonds	1,498,134	2,948,689	(2,621,793)	2,194	1,827,224
External additional voluntary contributions	725	-	(151)	26	600
	1,735,475	3,325,226	(2,908,401)	13,472	2,165,772
Cash deposits	15,900				11,060
Other investment assets and liabilities (see note 19)	9,076			6,791	(523,734)
	1,760,451	3,325,226	(2,908,401)	20,263	1,653,098

Note 8 Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Transaction costs analysed by main asset class and type of cost are as follows:

	Fees £'000	Commission £'000	Taxes £'000	Total 2018 £'000	Total 2017 £'000
Bonds	-	-	-	-	-
Other	143	-	-	143	406
	143	-	-	143	406

There were no indirect costs incurred through the bid and offer spread on investments within pooled investment vehicles during the period.

Note 9 Property transaction costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Property sales during the period	-	23,431
Costs associated with property sales:		
Rental guarantee	-	(139)
CBRE transaction fees	-	(152)
Pinsent Masons – transaction fees	-	(24)
Other professional fees	-	(109)
	-	(424)
Net property sales and purchases at cost	-	23,007

Note 10 Investment management expenses

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Non-property Management Expenses		
Legal & General Investment Management	902	1,258
M&G Investments	930	879
Bank of New York Mellon	200	118
Other	(9)	-
	2,023	2,255
Property Management Expenses		
CB Richard Ellis – UK Properties	15	59
Property Management Costs:		
Building and refurbishment	-	98
Head rent & rates	-	26
Vacant unit costs	-	3
Bad debt write offs	14	356
Other professional fees	(65)	279
	(36)	821
Total investment management expenses	1,987	3,076

Note 11 Total investment management expenses

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Non-property Management Expenses (see note 10)	2,023	2,255
Property Management expenses (see note 10)	(36)	821
Property transaction costs (see note 9)	-	424
	1,987	3,500

Note 12 Pooled investment vehicles

	2018 £'000	2017 £'000
The Plan's holdings of pooled investment vehicles are analysed below:		
Versatile European Loans Fund – M&G Investments	142,512	142,941
Liquidity Fund – Legal & General	104,055	36,119
Global Multi-Credit Strategy Fund - Babson	180,847	171,955
European Property Unit Trusts	2,970	11,478
	430,384	362,493

Note 13 Derivatives

Swaps

The Trustee's aim is to match off the Plan'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 Plan's assets to the long term liabilities of the Plan. The Plan had the following swaps contracts outstanding at the year end:

Type	Duration	Notional Exposure £'000	Asset value at 31 March 2018 £'000	Liability value at 31 March 2018 £'000
Credit Default Swaps	2022	217,000	209	(1,273)
Interest Rate Swaps	2018-2068	7,571,553	1,013,180	(869,984)
Inflation Swaps	2018-2067	1,483,456	34,992	(229,730)
Total Return Swaps	2017-2040	151,986	-	(150,075)
			1,048,381	(1,251,062)

Note 13 Derivatives (continued)

Foreign exchange

The Trustee has taken out a number of foreign exchange forwards to hedge its overseas currency assets back into sterling. The Plan had the following foreign exchange contracts outstanding at the year end:

Type	Duration	Notional Exposure £'000	Asset value at 31 March 2018 £'000	Liability value at 31 March 2018 £'000
EUR/GBP	2018	138,677	1,042	(5)
AUD/GBP	2018	7,640	95	(1)
USD/GBP	2018	29,500	33	-
			1,170	(6)

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 Plan with exposure in global developed equity markets but restrict the negative returns the Plan can make by capping the positive returns the Plan can earn. The Plan also holds some bond options. The Plan had the following option contracts outstanding at the year end:

Type of option	Notional amount £'000	Expiry	Asset value at 31 March 2018 £'000	Liability value at 31 March 2018 £'000
Bond Options	690,000	2018	2,285	(2,176)
Equity Options	411,600	2019	530,252	(420,800)
Bond Options	46,000	2020	3,613	(3,509)
			536,150	(426,485)

Summary of derivative assets and liabilities

	Asset value at 31 March 2018 £'000	Liability value at 31 March 2018 £'000	Net position at 31 March 2018 £'000
Swaps	1,048,381	(1,251,062)	(202,681)
Options	536,150	(426,485)	109,665
Foreign Exchange	1,170	(6)	1,164
Futures	-	(584)	(584)
	1,585,701	(1,678,137)	(92,436)

Note 7 contains additional details about the Plan's derivative investments.

Note 13 Derivatives (continued)

Counterparties to derivatives

The following table shows the total net valuation of the Plan's derivative positions as at 31 March 2018, 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	Options £'million	Repurchase Agreements £' million	Swaptions £'million	Interest Rate Swaps £'million	Inflation Swaps £'million	Credit Default Swaps £'million	Total Return Swaps £'million	Total value £'million
Goldman Sachs	103.5	-	-	54.7	(100.4)	(1.0)	(185.0)	(128.2)
Barclays Capital	-	-	0.1	-	-	-	-	0.1
UBS	-	-	-	(6.6)	-	-	-	(6.6)
Deutsche	-	-	-	(95.3)	(18.2)	-	-	(113.5)
RBS	-	1.2	-	(54.4)	(15.7)	-	-	(68.9)
Lloyds	-	7.5	-	-	-	-	-	7.5
Merrill Lynch	-	1.7	-	-	-	0.2	-	1.9
HSBC	-	-	-	1.8	4.7	-	-	6.5
Morgan Stanley	4.5	-	0.1	240.9	-	(0.3)	(28.5)	216.7
Total	108.0	10.4	0.2	141.1	(129.6)	(1.1)	(213.5)	(84.5)

In addition, for the repurchase agreements, the Plan has received collateral in the form of bonds from counterparties. This collateral is not recognized as an asset of the Plan as it does not have the economic benefits of the collateral. As at 31 March 2018, the value of such collateral was £9,601,000 (2017: £599,000).

Note 14 External additional voluntary contributions

The Trustees hold assets invested separately from the main Plan in the form of individual insurance policies securing additional benefits on a money purchase basis for some 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.

The aggregate amounts of AVC investments are as follows:

	2018 £'000	2017 £'000
Clerical Medical	211	251
Royal London	267	312
Standard Life	109	149
Phoenix	13	13
	600	725

Note 15 Concentration of investments

The following assets exceeded 5% of the Plan at the year end:

	Market Value £'000	Approx % of Fund 2018	2017
Babson Global Multi-credit Strategy Fund	180,847	10.9	9.8
M&G Versatile European Loan Fund	142,512	8.6	8.1
Equity Option Call Apr 19 207.500 ED 4/17/19	109,452	6.6	6.0
LGIM Sterling Liquidity	104,055	6.3	2.1
Repurchase agreement 0.730% 17-Oct-2018	(111,161)	(6.7)	-
Repurchase agreement 0.510% 16-May-2018	(105,278)	(6.4)	-
Interest Rate Swap 3.906% 07-Dec-2049	(102,321)	(6.2)	(6.1)
Interest Rate Swap 3.9315% 07-Dec-2040	(101,391)	(6.1)	(6.2)
Total Return Swaps 22-Nov-2032	(95,208)	(5.7)	(5.6)
Repurchase agreement 0.640% 18-Jul-2018	(85,410)	(5.1)	-

There were no other investments (other than UK Government Securities) which made up more than 5% of the total net assets.

Note 16 Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Plan's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

As at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	1,827,224	-	1,827,224
Pooled investment vehicles	-	430,384	-	430,384
Derivatives	-	(202,101)	109,665	(92,436)
Other investment assets / liabilities	(523,734)	-	-	(523,734)
Cash	11,060	-	-	11,060
AVC investments	-	-	600	600
	(512,674)	2,055,507	110,265	1,653,098

As at 31 March 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	1,498,134	-	1,498,134
Pooled investment vehicles	-	362,493	-	362,493
Derivatives	-	(231,454)	105,577	(125,877)
Other investment assets / liabilities	9,076	-	-	9,076
Cash	15,900	-	-	15,900
AVC investments	-	-	725	725
	24,976	1,629,173	106,302	1,760,451

Note 17 Investment risk disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines their investment strategy after taking advice from a professional investment adviser. The Plan has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Plan.

Investment Strategy

The investment objective of the Trustee is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Plan payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy for the Plan taking into account considerations such as the strength of the employer covenant, the long term liabilities of the Plan and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

The current strategy is to hold:

a. 50% in investments that move in line with the long term liabilities of the Plan. This is referred to as Liability Driven Investment (LDI) and comprises UK government bonds, interest rate swaps and inflation swaps, the purpose of which is to hedge against the impact of interest rate and inflation movement on long term liabilities.

b. 50% in return seeking investments comprising exposure to equity and credit markets through a combination of physical assets and derivatives and direct investment in property, asset backed securities, global high yield credit and secured loans.

Note 17 Investment risk disclosures (continued)

Credit Risk

The Plan is subject to credit risk as it invests in bonds, OTC derivatives, asset backed securities and has cash balances. The Plan also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

Analysis of direct credit risk

As at 31 March 2018	Investment Grade £'000	Non-investment Grade £'000	Unrated £'000	Total £'000
Bonds	1,578,940	-	-	1,578,940
OTC Derivatives (assets)	1,676,111	-	-	1,676,111
Asset backed securities	252,469	-	-	252,469
Cash	11,060	-	-	11,060
Pooled investment vehicles	-	-	430,384	430,384
	3,518,580	-	430,384	3,948,964

As at 31 March 2017	Investment Grade £'000	Non-investment Grade £'000	Unrated £'000	Total £'000
Bonds	1,562,953	-	-	1,562,953
OTC Derivatives (assets)	1,641,504	-	-	1,641,504
Asset backed securities	249,521	-	-	249,521
Cash	15,900	-	-	15,900
Pooled investment vehicles	-	-	362,493	362,493
	3,469,878	-	362,493	3,832,371

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. This is the position at the year end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Plan is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 13). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be at least investment grade.

Cash is held within financial institutions which are at least investment grade credit rated.

Note 17 Investment risk disclosures (continued)

The Plan's holdings in pooled investment vehicles are primarily investment grade and non-investment grade with the exception of the Plan's European Property investments which are unrated. Direct credit risk arising from pool investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environments of the pooled manager.

A summary of the pooled investment vehicles by type of arrangement is as follows:

	2018 £'000	2017 £'000
Authorised unit trusts	2,970	7,267
Open ended investment companies	427,415	355,227
	430,385	362,494

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by ensuring the investment manager diversifies the portfolio to minimise the impact of default by any one issuer.

(i) Currency Risks

The Plan is subject to currency risk because some of the Plan's investments are held in overseas markets, either as segregated investments or through pooled investment vehicles. The Plan limits overseas currency exposure through a currency hedging policy using forward foreign currency contracts.

31 March 2018	Gross Exposure £'000	Hedged Exposure £'000	Net Unhedged Exposure £'000
Euro	227,404	227,688	(284)
US Dollar	177,783	179,590	(1,807)
Other	5,722	5,714	8
	410,909	412,992	(2,083)

31 March 2017	Gross Exposure £'000	Hedged Exposure £'000	Net Unhedged Exposure £'000
Euro	213,122	212,621	353
US Dollar	147,871	148,891	(1,019)
Other	5,985	5,886	99
	366,978	367,398	(567)

Note 17 Investment risk disclosures (continued)

(ii) Interest rate risk

The Plan is subject to interest rate risk because some of the Plan's investments are held in bonds, interest rate swaps and cash. Under the Plan's LDI strategy, if interest rates fall, the value of the LDI investments will rise to help match the increase in the actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year end the LDI portfolio comprised:

	2018 £'000	2017 £'000
Direct		
Bonds	1,578,940	1,562,953
Swaps	(202,681)	(228,760)
Indirect		
Cash PIV	104,055	36,119
	1,272,204	1,370,312

(iii) Other price risk

Other price risk arises principally in relation to the Plan's return seeking portfolio which includes exposure to equities (through the use of derivatives) and investment properties.

The Plan manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets. Equity risk is managed through the use of derivative collars to limit the volatility associated with equity investments.

At the year end, the Plan's exposure to investments subject to other price risk was:

	2018 £'000	2017 £'000
Direct		
Equity derivative contracts	109,665	105,002
Indirect		
European property PIVs	2,970	11,479
	112,635	116,481

Note 18 Current assets and liabilities

	2018 £'000	2017 £'000
Current Assets		
Cash at bank	6,624	1,853
Administration VAT receivable	16	34
Other debtors	-	8
	6,640	1,895
Current Liabilities		
Unpaid benefits	(131)	(192)
Advisers' fees payable	(1,932)	(1,526)
Other creditors	(1,703)	(1,703)
	(3,766)	(3,421)
Net current liabilities	2,874	(1,526)

Note 19 Current investment assets and liabilities

	2018 £'000	2017 £'000
Current Investment Assets		
Interest receivable – bonds	7,717	9,224
Interest receivable – cash	-	2
Dividends receivable	-	15
Property debtors	4	165
Reverse repurchase agreements	67,283	-
	75,004	9,406
Current Investment Liabilities		
Property creditors	-	(316)
Property investment VAT	-	(14)
Repurchase agreements	(508,328)	-
Other investment liabilities	(90,410)	-
	(598,738)	(330)
Net current investment assets	(523,734)	9,076

Note 20 Taxation

The Plan is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Note 21 Related party transactions

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

- During the year £40,478 (2017: £36,478) was paid to JMRC Pensions Limited in respect of fees for the Independent Trustee Director.
- £254,219 (2017: £215,162) was reimbursed to TRW Limited in respect of costs incurred directly in relation to the internal Pensions Administration Department.
- During the year, two Trustee directors had CETVs paid to Momentum SIPP (£747,533) and Royal London (£1,477,274). No further benefits are payable from the Plan for these two directors.

Report of the Auditor

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

Opinion

We have audited the financial statements of TRW Pension Plan ("the Plan") for the year ended 31 March 2018 which comprise the Fund Account and the Statement of Net Assets available for benefits and related notes.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year ended 31 March 2018 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 Plan year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Plan in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Trustee is responsible for the other information, which comprises the Report of the Trustee. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 20, the Plan Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Plan, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Plan 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 Plan Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan Trustee, for our audit work, for this report, or for the opinions we have formed.

Iryndeep Kaur-Delay **10 October 2018**
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Statement of Trustee's responsibilities in respect of contributions

The Plan'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 Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid. The Plan's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Plan in accordance with the Schedule.

Summary of Contributions payable under the Schedule in respect of the year ended 31 March 2018

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 Plan under the Schedule of Contributions certified by the actuary on 24 May 2016 in respect of the Plan year ended 31 March 2018. The Plan Auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions.

During the year period ended 31 March 2018 the contributions payable to the Plan under the Schedules of Contributions were as follows:

	£'000
Company contributions – deficit funding	-
Contributions payable under the Schedules of Contributions (as reported on by the Scheme Auditor)	-

Information about contributions

Under the Schedules of Contributions in place for the year ended 31 March 2018, no contributions were payable. There were no normal contributions from members as active accrual ceased on 28 February 2015 and was on a non-contributory basis.

Approved by the Board

Director – Ms Julia Braithwaite
10 October 2018

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

Statement about contributions

We have examined the Summary of Contributions payable under the schedule of contributions to the TRW Pension Plan in respect of the Plan year ended 31 March 2018 which is set out on page 43.

In our opinion contributions for the Plan year ended 31 March 2018 as reported in the Summary of Contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 24 May 2016.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the schedule of contributions.

Respective responsibilities of Trustee and auditor

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

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

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Plan'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 Plan's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan's Trustee, for our work, for this statement, or for the opinions we have formed.

Iryndeep Kaur-Delay **10 October 2018**

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

Schedule of Contributions

Schedule of Contributions

Period of Schedule: 5 years from 31 May 2016

Under Section 227 of the Pensions Act 2004, the Trustee of the TRW Pension Plan ('the Plan') must put in place a Schedule of Contributions which is certified by the Scheme Actuary. This is the required Schedule of Contributions. The Scheme Actuary's certification is included in the appendix.

This schedule replaces the interim schedule which came into effect on 14 November 2014.

This schedule has been prepared with the agreement of TRW Limited ('the employer') after taking the advice of Ronald S Bowie (the 'Scheme Actuary').

The Plan is closed to future accrual and so there are no members' contributions or employer contributions to cover the accrual of new benefits.

The Plan was over 100% funded on its Technical Provisions basis as at 31 March 2015. Consequently no employer contributions are required in respect of the Technical Provisions position.

Employer Contributions

With effect from 31 May 2016 and until the Schedule of Contributions relating to the next actuarial valuation of the Plan has been signed, the employer will:

1. Commence (or recommence) paying monthly contributions of £2.5 million per month to the Plan in the month immediately following the event that the funding level of the Plan, calculated on the Conservative Basis[1], has been less than 99% for any three consecutive month ends[2];

2. Once contributions have commenced under 1. above, cease paying monthly contributions of £2.5 million per month to the Plan with effect from the month immediately following the event that the funding level of the Plan, calculated on the Conservative Basis, has exceeded 101% for three consecutive month ends.

Monthly contributions may commence and cease multiple times.

If monthly employer contributions are due to commence or cease the Scheme Actuary will inform the Secretary to the Trustee who will inform the employer. The Scheme Actuary will provide such confirmation as soon as practical following the month end at which contributions are due to commence or cease.

All employer contributions shall fall due to be paid not later than 19 days after the end of the calendar month to which they relate or, if later, no later than 19 days after the end of the calendar month in which the Secretary to the Trustee informs the employer that contributions are due to commence.

The employer shall also pay to the Plan any additional employer contributions required from time-to-time on the advice of the Scheme Actuary in respect of augmentations or discretionary benefits, as required from time to time under the Plan's trust deed and rules.

[1] the above Technical Provisions basis adjusted to incorporate a single discount rate of UK Government bonds plus 0.5% pa.
[2] assessed at the end of each month based on the monthly funding updates provided to the Trustee by the Scheme Actuary

Expenses, Levies and Fees

The employer's contributions include all expenses, levies (including the Pension Protection Fund levy[1]) and fees in connection with the Plan.

Prepared by the Trustee of the Plan

Print name	Paul Birkett
	on behalf of TRW Pensions Trust Limited
Position	Director
Date	24 May 2016

Agreed by the Employer

Print name	Daniel Shattock
	on behalf of TRW Limited
Position	Director
Date	9 June 2016

[1] The most recent PPF levy was less than £30,000.

APPENDIX

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: The TRW Pension Plan

ADEQUACY OF RATES OF CONTRIBTUIONS

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 the 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. the Trustees of the Plan have put in place the interim Schedule of Contributions to which this certificate is appended.

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 24 May 2016.

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 plan were to be wound up.

Signature

Date	24 May 2016
Name	R S Bowie
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street, Glasgow, G2 6DB

Statement of Investment Principles

Introduction

This statement sets out the principles, which the Trustee of the TRW Pension Plan will follow in determining its investment policy for the purposes of the Plan. It has been prepared in accordance with the requirements of Section 35 of the *Pensions Act 1995 as amended* and the Occupational Pension Schemes (Investment) Regulations 2005 *as amended.* 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 5 October 2017. 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 its appointed Investment Adviser, Hymans Robertson LLP, which is qualified to provide such advice.

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 Plan's assets to the following professional investment managers:

Liability Driven Investment Manager

- Legal & General Investment Management - equity option collars, interest rate and inflation hedging instruments and repurchase agreements.

Credit Investment Managers

- Legal & General Investment Management - synthetic credit and cash instruments.
- M&G Investment Management – asset backed securities and secured loans.
- Barings – global high yield credit.

Property Manager

- CBRE Global Investors –indirect European property

Additional Voluntary Contribution (AVC) Managers

- Phoenix Life – Insured Additional Voluntary Contributions
- Clerical Medical – Insured Additional Voluntary Contributions
- Scottish Life – Insured Additional Voluntary Contributions
- Standard Life – Insured Additional Voluntary Contributions

All the above organisations are regulated by either or both of the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). They are all authorised under the Financial Services and Markets Act 2000 (as amended) to undertake investment business. The appointments are reviewed periodically.

The appointed investment managers 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. In addition, they are responsible for maintaining suitably diversified portfolios.

The AVC managers are responsible for the investment of external AVC's. These were the appointed managers of legacy pension arrangements.

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 investment managers. This is a separate appointment to that of Hymans Robertson LLP as actuaries to the Plan.

The Board has appointed an Investment Sub-Committee (ISC), which is chaired by the Independent Trustee. The ISC comprises representatives from:

- The Trustee Board
- The Investment Adviser
- The investment managers
- The Company
- The Company's investment advisers

The role of the ISC is to conduct in-depth research on investment strategies and to advise the Trustee on both its investment objectives and the strategies to achieve them. In addition, the ISC may exercise discretion over investment decisions that have been delegated to it by the Trustee.

The Trustee has appointed Hymans Robertson LLP to provide quantitative analysis of the Plan's assets and liabilities. The analysis is used by the ISC to monitor the performance of the Trustee's investment strategy, model the effect of proposed investment strategies and highlight risks.

Investment objectives

The Trustee's investment objectives are:

- To retain sufficient long-term, risk controlled exposure to investment markets to help restore over time the Plan to a funding level of self-sufficiency.

- To achieve a rate of return from the assets of the Plan that is in excess of the movement in the Plan's liabilities by a combination of exposure to:

    - Equity risk
    - Credit risk
    - Interest rate and inflation risk
    - Alternative asset classes (e.g. property) risk
    - Illiquidity 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 Plan's benefits as set out in the Plan's Trust Deed and Rules.

- To reduce the level of investment risk over time in order to lock in improvements in the Plan'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 ISC, its Investment Adviser and the Plan's actuaries have put in place an investment structure whereby the Plan's liabilities determine the type of assets held by the Plan. 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 Plan's liabilities by the implementation of swap contracts and repurchase agreements.

- To retain, as required, an exposure to equity and credit markets through a combination of physical assets and derivatives.

- The use of derivatives to create tailored strategies to limit the Plan'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 Plan's physical assets by taking equity and credit risk.

- On an ongoing basis, approximately 50% of the Plan's physical assets are designed to support the LDI strategy, including:

    - Gilts
    - Index-linked Gilts
    - Repurchase agreements
    - Cash

- The remainder of the Plan's physical assets are a combination of:

    - Property
    - Asset backed securities
    - Secured loans
    - Global high yield credit

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

Risk

The Board recognises that the funding position of the Plan 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 outperformance 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. The investment manager responsible for implementing the LDI strategy is Legal & General Investment Management.

- It has introduced equity collar strategies (limiting downside and upside) to protect the Plan against adverse equity movements, whilst maintaining exposure to equity outperformance that is sufficient to meet its stated objectives.

- The majority of LDI assets are selected by the LDI investment manager, based on its view of the credit risk and interest rate risk of the investment relative to the London interbank offered rate (LIBOR). The LDI 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 Plan's derivatives obligations.

- The LDI assets have 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 Legal & General Investment Management'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.
    - The ISC regularly reviews the risks associated with posting collateral to counterparties with a view to limiting exposures to counterparties whose credit quality may be deteriorating.

- 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 Plan's actuaries in assessing the funding of the Plan. 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:

Manager/Asset class	Index	Target return over the index (p.a.)
Legal & General Investment Management		
LDI assets	Liability benchmark and credit benchmark	0.25%
CBRE Investors		
Property	Retail Prices Index	5%
M&G Investment Management		
Asset backed securities	LIBOR (3 month)	2.5%
Secured loans	LIBOR (3 month)	4%
Barings		
Global high yield credit	LIBOR (3 month)	5%

The target returns are goals and the investment managers do not 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 basis of fees agreed with Legal & General Investment Management in respect of the majority of the Plan assets is a flat fee adjusted in line with the UK Retail Prices Index plus a capped performance fee which, if applicable, varies based on excess performance and the level of assets.

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 other investment managers 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 AVC's are built into the historical group policy terms for each arrangement and are reflected in the value of individual members' AVC accounts.

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, although there would be a risk of capital loss. 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. The Trustee's advisers monitor cash flow requirements explicitly using liquidity projections.

Statutory Funding Objective

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

Details of the Plan's Statutory Funding Objective and its policy for securing that the objective will be met along with the Plan's funding method and actuarial assumptions will be contained in the Plan's *Statement of Funding Principles*. The Plan's first *Statement of Funding Principles* will be agreed as part of its first triennial actuarial valuation on 31 March 2015 and will be available from the Trustee Secretary or via the Plan's website www.trwpensions.co.uk.

Responsible Ownership

The Trustee considers corporate, environmental and social responsibility issues as far as they impact the performance of the assets of the Plan. The policies of the Trustee's investment managers are in line with the Trustee's policy. Documents detailing the policies of all the investment managers appointed by the Trustee in respect of corporate, environmental and social responsibility are available on the managers' websites.

The Plan no longer has any significant investments in company shares. In any event, the Trustee has delegated the exercise of any voting rights to the Plan'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 any votes cast to the Trustee on a quarterly basis.

Custodian

The segregated assets of the Plan are held by the Trustee's appointed custodian, Bank of New York Mellon, and are under the control of the Trustee. The appointment is reviewed periodically.

Report on Actuarial Liabilities

Report on Actuarial Liabilities (forming part of the Trustee's report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Plan members on request.

The most recent full actuarial valuation of the Plan was carried out as at 31 March 2015. This showed that on that date:

The value of the Technical Provisions was:	£1,239 million
The value of the assets at that date was:	£1,400 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles).

Method

The actuarial method to be used in the calculation of the Technical Provisions is the Projected Unit Method.

Significant Actuarial Assumptions

Discount rate before retirement:	Dependent on term and assumed to be 1.2% p.a. above the market implied gilt yield curve.
Discount rate after retirement:	Dependent on term and assumed to be 1.2% p.a. above the market implied gilt yield curve.
Price inflation (Retail Price Inflation):	Market expectation of future inflation dependent on term as measured by the market implied gilt based inflation curve.
Price inflation (Consumer Price Inflation):	1.0% p.a. lower than the market implied RPI assumption at all terms.
Pension increases:	Inflation linked increases are assumed to be in line with price inflation adjusted to take account of any maximum or minimum increase that may apply.
Deferred revaluation:	Inflation linked increases are assumed to be in line with the relevant price inflation assumption capped at any maximum or minimum increase that may apply. Fixed increases are assumed to increase at the appropriate fixed rate.
Mortality:	Post-retirement mortality base tables: A suite of bespoke assumptions which reflect the characteristics of the Plan membership. The "VitaCurves" adopted will be based on pooled experience from occupational pension schemes as collated by Club Vita. They will make allowance for observed variations in mortality according to age, gender, reason for retirement (illness or normal health), pension amount, salary and postcode based lifestyle group. Pre-retirement mortality base tables: AMC00 / AFC00 Future improvements in longevity will be assumed to be in line with the CMI model, with a long term rate of improvement of 1.5% for males and 1.25% for females.

Summary of Funding Statement

Introduction

As part of our legal duties we are required to give you the following information regarding the funding position of the TRW Pension Plan.

The most recent actuarial valuation was carried out as at 31 March 2015 and confirmed the Plan has a surplus. A Recovery Plan is therefore not required.

Updates have been completed annually since March 2015. The next full actuarial valuation is due as at 31 March 2018, and it is anticipated that results will be available towards the end of the year.

What did the 2015 valuation and the 2016 and 2017 annual check-ups show?

	31 March 2017	31 March 2016	31 March 2015
Assets	£1,754 million	£1,447 million	£1,400 million
Amount needed to provide benefits	£1,432 million	£1,259 million	£1,239 million
Surplus	£322 million	£187 million	£162 million
Funding level	122%	115%	113%

Change in the funding position since 31 March 2015

Since the formal actuarial valuation took place, the funding level is estimated to have improved from 113% to 122%, with a surplus of £322 million. The main reason for the change over the period has been an increase in the value of the Plan's investments; although in part this has been offset by reductions in the returns available on government bonds, which has put a higher value on pensions.

Payments to the Company

There has not been any payment to the Company out of Plan funds in the period since the 31 March 2015 valuation, and no such payments are anticipated. No such payment is possible unless the Plan's funding position is sufficiently strong to secure all benefits with insurance policies. As at 31 March 2017, the Plan actuary has estimated the Plan had a funding shortfall on this basis of approximately £850 million. We are required by law to give you this information. The reason this amount differs from the ongoing funding information detailed above is because insurance policies are expensive.

Some questions answered:

How does the Plan operate?

The TRW Pension Plan is a closed defined benefit pension plan. With this type of plan, when required, the Company pays contributions in accordance with any Recovery Plan and its Schedule of Contributions. 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 Plan needs worked out?

Every three years the Plan actuary carries out a financial review of the Plan – this is called an actuarial valuation. The actuary estimates the amount of each member's future pension payments and how long each pension is likely to be paid. 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 Plan actuary, the Trustee comes to an agreement with the Company on its future rate of contributions, if any are required.

Why is the Company's support important?

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

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

Whilst the Plan remains ongoing, benefits will continue to be paid in full. If, however, the Company goes out of business or decides to stop paying for the Plan, it is expected that it will pay the Plan enough money to enable members' benefits to be completely secured with an insurance company. This is known as the Plan being "wound-up". The comparison of the Plan's assets to the cost of buying the benefits from an insurance company is known as the "solvency position", and this is the estimated £850 million funding shortfall mentioned above. The fact that we have shown this funding position does not mean that the Company is thinking of winding -up the Plan. It is included here in order to provide further information as to the financial security of your benefits.

What happens if the Plan is wound-up and there is not enough money to pay for all my benefits?

If the Plan is wound-up and the Plan and the Company do not have enough money to cover the cost of buying all members' benefits with an insurer; the Government has set up the *Pension Protection Fund* which might be able to take over the Plan and pay compensation to members.

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 plans similar to the TRW Pension Plan 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 Plan gets into difficulties members will receive the majority of their pension. This is, currently, around 90% of the pension earned for most members who have not reached retirement age and 100% for those over retirement age. The actual amount a member receives will depend on when they retire and how much benefit they have earned. In addition, benefits will increase on a basis set down by the PPF which may be less than those provided by the Plan.

Further information and guidance is available on the Pension Protection Fund's website at www.pensionprotectionfund.org.uk. Alternatively, you can email the Pension Protection Fund at information@ppf.gsi.gov.uk or write to them at Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA.

Can I leave the Plan before I am due to retire?

If you have not yet taken payment of your pension and you are thinking of leaving the Plan for any reason, (for example, transferring your benefits to another pension arrangement) you should consult an independent financial advisor (IFA), before taking any action. For a list of IFAs in your area, you can log onto www.unbiased.co.uk.

How are the Plan's assets invested?

The Plan's investment managers invest the Plan's assets with the aim of managing key financial risks and to ensure the Plan has sufficient funds to meet its pension liabilities as they fall due. The Plan's investment strategy is to target returns necessary to provide long term self-sufficiency of funding, with minimal risk. The Trustee's current policy is structured around the following risks:

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

Credit risk: Exposing the Plan 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, asset backed securities (e.g. mortgage backed securities) and by derivative contracts.

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

Interest rate risk: Ensuring a large proportion of the Plan'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 Plan. This is achieved by holding physical Government and corporate bonds, and by derivative contracts.

Further information

The following documents are available on the Plan’s website or upon request to Capita Employee Benefits at the address shown on page 8: Trustee Report and Accounts; Statement of Investment Principles; Statement of Funding Principles; Schedule of Contributions; and Actuarial Valuation Report (available upon request at a cost of £5).

TRW Pension Plan
Stratford Road
Solihull
B90 4AX

www.trwpensions.co.uk