

# TRW Pension Scheme



# **TRW Pension Scheme**

## Report and Accounts

For the year ending 31 March 2004

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

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# Report of the Trustee

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# Trustee and Advisers

<b>Principal Employer</b>	LucasVarity
<b>Trustee</b>	TRW Pensions Trust Limited
<b>Directors of the Trustee Company</b>	S Lunn - Chairman P Almond A Bassett <i>from 2 April 2003</i> H Fletcher * J C Plant P Palmer* G T Plumley <i>from 2 April 2003</i> T J Smith * K Young *
<b>Secretary</b>	R Middleton
<b>Investment Managers</b>	TRW Investment Management Company Limited Capital International C B Richard Ellis Investors
<b>Investment Advisers</b>	Schroder Investment Management Limited Ives Associates
<b>Investment Performance Measurement</b>	State Street Analytics - for Scheme performance WM Company - for WM50 comparison
<b>Custodian of Assets</b>	State Street Bank & Trust Company
<b>Actuaries</b>	Hymans Robertson Scheme Actuary : R Bowie
<b>Auditors</b>	Ernst & Young LLP
<b>Bankers</b>	Barclays Bank plc
<b>Solicitors</b>	Allen & Overy LLP Pinsents - Property Biggart Baillie - Property (Scotland)
<b>Property Valuer</b>	Atis Real Wetheralls
<b>Administrator &amp; address for enquiries or complaints</b>	TRW Benefit Administration (UK) 2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE

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

# **Constitution of the Scheme**

The Directors of the Trustee Company are pleased to present their fourth report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2004.

## **Trustee**

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

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

## **Principal Employer**

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

## **Appointments to the Board**

Mr A Bassett and Mr G T Plumley were appointed to the Board on 2 April 2003. Both are Directors for the Principal Employer.

## **Legal Status**

The Scheme was established by a Trust Deed dated 30 June 1928 and is now governed by a Definitive Trust Deed dated 30 March 1993, a Deed of Amendment dated 14 July 1993, three Deeds of Amendment dated 14 July 1998, a Merger Deed dated 27 February 2001, and an amending Deed dated 1 April 2004. The closed sections and the senior retirement benefits section are either defined benefit pension arrangements or a defined benefit pension arrangement with a defined contribution underpin. The open sections are defined benefit pension arrangements.

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

Exempt approval has been granted by the Inland Revenue for the purpose of Chapter I of part XIV of the Income and Corporation Taxes Act 1988. The Trustee Board knows no reason why such approval should be prejudiced or withdrawn.

## **Participating Employer**

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

## **Trustee Meetings**

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

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

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

An annual meeting is held in early autumn, when the Board meets the TRW Pension Scheme Consultative Committees.

## **Trust Deed and Rules**

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

## **External Advisers**

The Scheme's actuaries Hymans Robertson and its solicitors Allen & Overy LLP have advised TRW Automotive and its subsidiaries during the year ended 31 March 2004. Ernst & Young LLP also act as auditors for TRW Automotive.

## **Review of External Advisers and Service Providers**

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

- **Investment Performance Measurement**

On 2 June 2004 the Board appointed State Street Analytics as performance measurer for Scheme performance and the WM Company as the provider of universe comparison through their WM 50 statistics.

- **Investment consultant**

The Board decided on 3 February 2003, to appoint an investment consultant instead of two investment advisers. At the year-end the selection procedure had not commenced.

# Financial Review

## Market value of the Fund

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

The accounts show that during the year the value of the Scheme's assets, that have been accumulated to meet its commitments increased by £406 million. At the year-end the value of the Scheme's assets was £2,773 million compared to £2,366 million at 31 March 2003.

The increase in fund value is accounted for as follows:

▪ Change in market value of investments	£477 million
▪ Investment income (net of expenses)	£95 million
less	
▪ Excess of expenditure over income	<u>£166 million</u>
	£406 million

## Fund Account

Compared with the year ended 31 March 2003 there was a decrease in income (including investment income) of £7 million and a decrease in expenditure of £182 million. The main reasons for these changes are as follows:

### Income

During the year the Scheme's investment income decreased by £4 million and the members' contributions and transfer-in payments in total decreased by £3 million.

### Expenditure

The reason for the large decrease in expenditure is that the previous year's accounts included the transfer value of liabilities following the sale of TRW Aeronautical Systems business to the Goodrich Corporation. In addition, the benefits paid out by the Scheme and the administration/investment expenses were each lower by £1 million.

## Members' Contributions

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

## Actuarial Valuation

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

The Scheme Actuary reported that on an ongoing valuation basis the Scheme remains

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

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

The actuarial statement by the Scheme Actuary appears on page 42.

A copy of the latest full actuarial report is available for examination in Human Resource Departments. A personal copy can be obtained on written application to TRW Benefit Administration (UK); the cost is £5.



# Membership

There were 61,791 members of the Scheme at 31 March 2004 compared with 62,907\* at 31 March 2003. The change in membership during the year is as follows:

## Current Members

Current members at 31 March 2003		5037 *
Plus: New entrants during the year		533
Less: Left employment		
	Refunds	201
	Deferreds	252
Retirements:	Normal	26
	Early Voluntary	11
	Early Redundancy	139
	Ill Health	22
Died in service		7
Current members at 31 March 2004		4,912

## Pensioners

Pensioners at 31 March 2003		39,617 *
Plus: Retirements during the year		198
	Deferred pensions commencing	480
	Dependants pensions commencing during the year	558
Less: Deaths of pensioners		1,754
	Trivial pensions fully commuted	124
	Dependants pensions ceased	39
Pensioners at 31 March 2004		38,936

## Deferred Pensioners

Deferred Pensioners at 31 March 2003		18,237 *
Plus: Current members who left the Scheme during the year and became deferred pensioners		252
	Pension sharing former spouses	7
Less: Pensions commencing during the year		480
	Deaths of deferred pensioners	42
	Transfers to other pension arrangements	31
Deferred pensioners at 31 March 2004		17,943
<b>Total Membership</b>		<b>61,791</b>

\* These figures have been adjusted from those shown in the 2003 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2003 due to late notifications.

## **Automatic Membership**

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

## **Rejoining the Scheme**

Employees who refuse membership or who leave the Scheme whilst still in employment can automatically either join or rejoin at the beginning of any month within a period of five years from when they either refused membership or opted-out. They can only rejoin the Scheme once. A health declaration form must be completed by an employee who wishes to join or rejoin the Scheme after a period of five years has elapsed since they either refused membership or opted-out of the Scheme. The form is reviewed by the Company and in the case of opters-out by the Company and the Trustee. Scheme membership commences at the beginning of the month after the completed application form has been reviewed and the employee has been informed in writing that their application has been accepted. Employees may be offered restricted membership of the Scheme.

# Scheme Benefits

## Benefit Changes and Basic Scheme Information

The following benefit changes took effect from 1 April 2004 and apply to new hires whose employment commences on or after that date. They also apply to new entrants to an executive section of the Scheme on or after 1 April 2004.

On 31 March 2004 all the current open sections were closed to new hires/new entrants. Three sections were closed, the eightieths open section of the Scheme and the two executive sections: SRBS-A and SRBS-C. Three new open sections were introduced from 1 April 2004.

### Benefit structure of the new open section for non-executive employees

- The section remains defined benefit and has the same benefit structure as the current open section with the exception of the changes detailed below:
- The new open section has an accrual rate of 1.0% rather than the current 1.25%. It has a Reference Scheme underpin, but does not have a money purchase underpin.
- This means when a member retires, leaves or dies the benefit payable is the greater of that calculated under the Scheme rules and that calculated under the Reference Scheme.
- The employee contribution rate remains at 3%.
- The death in service spouses/dependant's pension will be calculated in the same way as the current open section with the exception of the accrual rate. This will be reduced from 1.0% to 0.8%.
- The lump sum death in service benefit is reduced to two times salary.
- The escalation of pensions both in deferment and in retirement is the rate of Limited Price Indexation. This is currently capped at 5% and may fall to 2.5% from April 2005, if the Government's proposals in the recently issued *Pensions Bill* take effect.

### Benefit structure of the new open section to replace SRBS-C

- The section remains defined benefit and has the same benefit structure as the current SRBS-C with the exception of the changes detailed below:
- The new section has an accrual rate of 2.66% rather than the current 3.33%.
- The employee contribution rate remains at 4.5%.
- The normal retirement date is increased from age 62.5 to age 65. This change involves two further modifications:

- Voluntary early leavers will have their pensions reduced by 0.3% for each month they retire before age 65.
- There will be no provision for an early retirement allowance.
- The escalation of pensions both in deferment and in retirement is the rate of Limited Price Indexation. This is currently capped at 5% and may fall to 2.5%, if the Government's proposals in the recently issued *Pensions Bill* take effect.

### **Benefit structure of the new open section to replace SRBS-A**

- The section remains defined benefit and has the same benefit structure as the current SRBS-A with the exception of the changes detailed below:
- The normal retirement date is increased from age 62.5 to age 65. This change involves two further modifications:
  - Voluntary early leavers will have their pensions reduced by 0.3% for each month they retire before age 65.
  - There will be no provision for an early retirement allowance.
- The employee contribution rate remains at 4.5%.
- The escalation of pensions both in deferment and in retirement is the rate of Limited Price Indexation. This is currently capped at 5% and may fall to 2.5%, if the Governments proposals in the recently issued *Pensions Bill* take effect.

### **Equal Treatment**

The benefit improvement package implemented on 12 November 1991 equalised benefits (as between men and women) of all current employees at that date. On 13 December 1994 the Trustee approved the actions required in order to equalise the pension benefits of 3,000 former employees who retired, deferred their pension or died between 17 May 1990 and 11 November 1991. The benefits of those affected were equalised in the Scheme year 1995-1996 and back-dated to the time of retirement or death.

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

### **Pension Increases**

#### **Effective 1 April 2004 (Except for closed Steering Systems and UK section pensioners and deferred pensioners)**

- Pensions in payment and deferred pensions are guaranteed under the rules of the Scheme to increase annually by 7% or, if less, the percentage movement in the

General Index of Retail Prices (RPI). The Scheme bases its increases on the percentage movement in the RPI in the twelve months ending in January. The full percentage rise in the RPI for the year ended 31 January 2004 was 2.6% and this was the increase applied from 1 April 2004.

- Pensioners over State pension age received the 2.6% increase on the excess of their pension over any Guaranteed Minimum Pension (GMP). GMPs are guaranteed to rise fully in line with the RPI providing the GMP is not already greater than what members would have received had they been members of the State Earnings Related Pension Scheme. GMPs earned before April 1988 are increased by the State scheme. The Scheme provides increases on GMPs earned after April 1988 in line with the RPI up to a maximum of 3% a year. The State requires these increases to be based on the percentage movement in the RPI in the twelve months ending in September. The annual increase in the RPI to September 2003 was 2.8%. GMPs earned after 1988 have been increased, therefore, by 2.8% from 1 April 2004.
- The Scheme increases detailed above apply only to pensioners who retired on or before 31 March 2003. For members who retired on or after 1 April 2003 the increase applied was 1/12th of the full increase for each complete month of retirement.
- Temporary Pensions and Early Retirement Supplements were increased by the percentage cost of living increase that was applied to State pensions from 6 April 2004. This increase was 2.8% and matched the increase in the RPI for the twelve months to September 2003.

**Effective 1 April 2004 (For closed Steering Systems and UK section pensioners and deferred pensioners)**

- Pensions in payment and deferred pensions (with the exception of pensions accrued before 1 January 1986) are guaranteed under the rules of the Scheme to increase annually by 5% or, if less, the percentage movement in the General Index of Retail Prices (RPI). The Scheme bases its increases on the percentage movement in the RPI in the twelve months ending in January. The full percentage rise in the RPI for the year ended 31 January 2003 was 2.6% and this was the increase applied from 1 April 2004.
  - The increase for members of the closed Steering Systems section with benefits accrued after 1 April 1992 and for the closed UK section was 2.6%. Closed Steering Systems section members who have pensions that accrued prior to 1 April 1992 receive a fixed 2.5% increase on these pensions.
  - Pensioners who retired and have no guaranteed increases attaching to their pensions, receive the increase applied to closed Steering Systems and UK section pensions in excess of GMP, once their pension is in payment.
- Pensioners over State pension age received the 2.6% increase on the excess of their pension over any Guaranteed Minimum Pension (GMP). GMPs are guaranteed to rise fully in line with the RPI providing the GMP is not already greater than what members would have received had they been members of the State Earnings Related Pension Scheme. GMPs earned before April 1988 are increased by the

State scheme. The Scheme provides increases on GMPs earned after April 1988 in line with the RPI up to a maximum of 3% a year. The State requires these increases to be based on the percentage movement in the RPI in the twelve months ending in September. The annual increase in the RPI to September 2003 was 2.8%. GMPs earned after 1988 have been increased, therefore, by 2.8% from 1 April 2004.

- The Scheme increases detailed above apply only to pensioners who retired on or before 31 March 2003. For members who retired on or after 1 April 2003 the increase applied was 1/12th of the full increase for each complete month of retirement.

## **Additional Voluntary Contributions**

The actuaries have certified that the rate of interest to be applied to cash accumulation AVC balances held in the Scheme for the whole Scheme year ending 31 March 2004 is 10.5%. Contributions paid during the year receive half this rate. For members paying cash accumulation AVCs - who retire, die or transfer the cash equivalent of their deferred pension from the Scheme, between 1 April 2004 and 31 March 2005 - no terminal bonus will be paid. AVCs paid to an external provider receive the return declared by those providers.

## **Money Purchase Underpin Account**

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

The full rate of return of the Scheme for the year ended 31 December 2003 was 17%. Money purchase underpin accounts have been adjusted accordingly. If a member transfers out, retires or dies during the Scheme year, the account as at December has a market value adjustment applied to it.

## **Transfer payments to the Scheme**

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

The proviso concerns transfers from occupational pension schemes where either the whole or part of the liability being transferred accrued after 17 May 1990. The Trustee

will only accept a transfer payment if the transferring employer and the transferring Trustee provide a signed undertaking to the Principal Employer and the Trustee. The undertaking confirms that the transfer payment will be calculated on a basis that takes full account of their obligation to provide benefits for and in respect of the member which are equal as between men and women. The undertaking also confirms that if it is established in the future that the transfer payment was not calculated on that basis they will make a further payment to the Trustee to increase the transfer payment to the amount it would have been had it been calculated on that basis. They also undertake to add to the transfer payment compound interest at a rate equal to the base rate of Barclays Bank plc during the period.

Transfer payments made into the transfer account before 1 April 1997 received the 17% rate of return achieved by the Scheme for the year ended 31 December 2003.

### **Transfer payments from the Scheme**

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

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

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

### **Earnings Cap**

The earnings cap is the restriction on pensionable pay for members who joined the Scheme after 31 May 1989. The restriction also applies to those who joined the Scheme before that date if they have elected to become subject to the post 31 May 1989 Inland Revenue limits. The earnings cap for the tax year 2003 - 2004 was £99,000.

### **Financial Planning Service**

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

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

## Legislative and Regulatory Changes

The year under review has been dominated by developments with the Government's proposed changes to pension legislation and to the tax position of pension schemes. This resulted towards the end of the year with two sets of proposals that, when implemented, will mark a considerable change for the regulations governing UK pension schemes.

The first of these was the publication on 11 February of the *Pensions Bill*. This provided a firmer indication of the Government's plans regarding the running of pension schemes and the protection provided to members. The Bill is largely an enabling document and we must wait until the regulations are published for much of the detail.

The second was the Chancellor's Budget Speech on 17 March. This contained the details of the Government's proposals for the simplification of the taxation position for pension schemes.

### **Pensions Bill**

The Pensions Bill is currently proceeding through Parliament and is being amended as it makes its progression. However, it does provide some clear indications of the changes to be expected. These include the introduction of a Pensions Protection Fund, a new and improved regulator to replace OPRA and changes to the Minimum Funding Requirement.

One of the most publicised amendments to the Pensions Bill was the Government's proposal to make £400m of public money available to compensate scheme members who have lost their pensions.

### **Simplification of taxation for pensions**

The proposed changes are mainly along the lines of the announcement discussed in last year's report. However, the Chancellor did make a number of modifications to his earlier proposals, most notably to the limits and the proposed effective date of the changes.

- The limit on tax advantaged pension saving has increased. The Chancellor has also set out proposed increases for these limits for the first five years of the new regime, which make clear that the limits will increase faster than the anticipated rate of inflation.
- The implementation date has been put back to 6 April 2006. This is intended to allow time for the changes to be implemented properly. Some of the detailed regulation, however, remains outstanding and unless they are forthcoming shortly the time gained for this implementation will be lost.



## Further information about the Scheme

### Re-instatement Scheme policy

In October 1994 the Securities and Investments Board (SIB) announced details of a programme to secure redress for people wrongly sold personal pensions. SIB's preferred method of redress is re-instatement in the occupational scheme. The TRW Pension Scheme's policy on re-instatement is as follows:

#### Opters-out of the Scheme who are still in TRW employment

- **Future benefits**

Employees are eligible to join the new employee section of the Scheme at the beginning of any month, providing they have not been out of the Scheme for more than five years. If a period in excess of five years has elapsed they may rejoin the Scheme subject to the procedure detailed on page 8.

- **Previous benefits**

Whilst the Scheme will accept transfer payments from a personal pension it will not re-instate opted-out service. Transfers-in will be treated in accordance with the procedure detailed on pages 12 and 13.

#### Employees who have left TRW employment and transferred their benefits out of the Scheme

Past benefits will not be re-instated. The Scheme will not accept such transfer payments.

The Trustee makes a charge to complete questionnaires from personal pension providers. The charge, which is subject to annual review, is currently £250.

### Pensions Act 1995 - Compliance

#### Appointment of advisers

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

- Scheme Actuary                      Ronald Bowie of Hymans Robertson
- Auditor                                      Ernst & Young LLP
- Investment Managers                      TRW Investment Management Company Limited  
Capital International  
C B Richard Ellis Investors
- Custodian                                      State Street Bank and Trust Company
- Solicitors                                      Allen & Overy LLP  
Pinsents - Property  
Biggart Baillie - Property (Scotland)
- Property Valuer                              ATIS Real Wetheralls
- Investment Advisers                      Schroder Investment Management Ltd  
Ives Associates

## **Member Nominated Directors**

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

The Company notified the Trustee that it intended to seek an opt-out in order to retain the method of appointing directors of the Trustee Company that had been in place for many years.

Following the statutory consultation procedure the Trustee was informed on 26 March 1997 that the Company's alternative was approved. Following the Scheme merger on 1 March 2001, the Company reviewed the 1997 opt-out and following a consultation process with both the Trade Unions and Works Council Consultative Committee, it concluded that a new opt-out proposal was appropriate.

Under the new proposal, TRW Pensions Trust Limited will continue to consist of nine directors. Five directors will continue to be appointed by the Company, and there will continue to be four member directors. However, with effect from 1 October 2004, three member directors will be selected from the Trade Union Consultative Committee, and a fourth member director will be selected from the Works Council Consultative Committee.

This amendment to the existing arrangement was proposed to address the lack of representation on the Trustee Board for members from business locations where employee representation is achieved through the means of a Works Council.

Under the statutory consultation procedure, 47,325 members were invited to register objections to the Company's proposals before 19 April 2004. Assuming that less than 10% of these members objected (4,732), the Company's proposal would become effective. In total 133 objections were received.

Accordingly, the Trustee was informed on 2 June 2004 that the Company's alternative was approved.

## **Contracting out**

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

## **Board procedures**

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

## **Internal Disputes Resolution Procedure**

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

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

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

### **Transfers**

New transfer out factors have been introduced to ensure the Scheme meets the requirements of the Act. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments (see page 13).

### **Statement of Investment Principles**

On 6 May 2003, the Trustee Board revised its Statement of Investment Principles. See pages 44 to 48 for a copy of the revised statement.

### **Disclosure of information**

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

### **Member contributions**

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

### **Myners Compliance**

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

The Board also approved a Business Plan on the 6 February 2003, which was reviewed and updated on 2 June 2004. Both documents are available for downloading from the

Scheme's website, [www.trwpensions.co.uk](http://www.trwpensions.co.uk)

In Notes 10 & 11 to the Accounts are detailed the transaction costs of the equity portfolios and the full management costs of the property portfolio.

## **Shareholder Activism**

### **Policy**

It is the Board's policy to vote in respect of all shares held in the Active UK Equity Fund. No action is normally taken in respect of shares held only in the Passive UK Equity Fund. TRW Investment Management Company as the Scheme's lead investment manager will normally vote in line with recommendations from the National Association of Pension Fund's voting issues service.

### **Guidelines for action**

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

### **Pensioner representation on the consultative committee**

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

# Investment Report

## Investment Managers

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

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

## Custody of Investments

State Street Bank & Trust Company is the external independent custodian of the Scheme's non-property assets. A custodian agreement has been drawn up between State Street Bank & Trust Company and TRW Pensions Trust Limited that details the terms on which the custodian will hold the Scheme's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Scheme's assets were held by the custodian under the control of the Trustee. Physical documents are held in a strong room and access is limited by the custodian's own strict security procedures. Regular reconciliations of the holdings are carried out and a copy of the State Street report on internal controls is kept and reviewed by the lead investment manager.

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

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

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

- A dual electronic instruction to the custodian involving the use of passwords.
- Daily authorisation of sales by a senior staff member of TRW Investment Management Company Limited, and approved as soon as practicable by the Managing Director of TRW Investment Management Company Limited.

- The custodian has received payment.

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

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

## Internal Controls

The Trustee has received a Global Controls Examination report dealing with the internal control of investment custodians from State Street Bank & Trust Company dated 17 October 2003. The Trustee has also received from Capital International a SAS 70 report on controls and tests on operational effectiveness dated 22 August 2003.

## Asset Allocation

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

<b>Investment Benchmark</b>		
	<b>Benchmark%</b>	<b>Range %</b>
UK Equities	50	45 to 55
Overseas Equities		
• Developed markets	19	15 to 25
• Emerging markets	1	0 to 3
Fixed Interest	15	10 to 20
Index Linked	8	3 to 13
Property	5	3 to 7
Cash	2	0 to 15

**Actual allocation at 31 March 2004**

	Market Value %
UK equities	52
Overseas equities:	
• Developed markets	20
• Emerging markets	2
Fixed Interest	12
Index Linked	6
Property	6
Cash	2
	<hr/>
	100

## Analysis of the Scheme Investments at year end

Analysis of UK equities by sector		
	Market Value	% Market Value of the Total Fund
	£million	
Financials	420	15.14
Services	390	14.06
Consumer goods	243	8.76
Resources	190	6.85
General industrials	121	4.36
Utilities	49	1.76
Information Technology	16	0.57
	<u>1,429</u>	<u>51.50</u>

Geographical analysis of investment assets (Excluding external AVCs)			
	Market Value		March 2003
	£million	%	%
UK	2,149	77.44	79.70
USA	228	8.22	8.20
Japan	146	5.26	4.60
France	41	1.48	1.40
Switzerland	30	1.08	1.00
Germany	29	1.05	0.90
Netherlands	22	0.79	0.80
Australia	17	0.61	0.60
Spain	17	0.61	0.50
Italy	14	0.50	0.50
Sweden	10	0.36	0.30
Canada	8	0.29	0.30
Hong Kong	8	0.29	0.30
Finland	7	0.25	0.20
Other	49	1.77	0.70
	<u>2,775</u>	<u>100.0</u>	<u>100.0</u>



### Largest holdings

	Market value £million	% of total investment assets	% of total investment assets in March 2003
BP	65.0	2.34	2.03
Royal Bank of Scotland	60.6	2.18	2.26
Vodafone	57.9	2.08	2.31
HSBC Holdings	56.2	2.02	2.14
GlaxoSmithKline	52.2	1.88	2.22
AstraZeneca	51.4	1.85	2.05
Shell	43.2	1.55	2.22
Capital Intl Emrgng Mrkts	40.8	1.47	1.10
Barclays	40.7	1.46	1.51
HBOS	40.5	1.45	1.54
Diageo	33.5	1.20	1.37
UK Treasury 2.5% 2016	31.3	1.12	1.30
UK Treasury 2.5% 2011	29.8	1.07	0.89
Lloyds TSB Group	29.6	1.06	1.16
UK Treasury 8% 2021	27.0	0.97	1.57
UK Treasury 2.5% 2013	26.8	0.96	0.89
UK Treasury 6.75% 2004	26.3	0.94	0.29
UK Treasury 2.5% 2024	26.3	0.94	1.03
Tesco	25.2	0.90	0.69
Anglo American	25.2	0.90	0.80
	789.5	28.34	29.37

## **Employer related investments**

At the year-end the Scheme had no investment in TRW Automotive. At the year-end the Scheme held 5,730 (2003; 6,705) Northrop Grumman Corporation Shares with a market value of £306,851 (2003; £363,957). Member contributions due from the employer amounted to £9,421 (2003; £104,279). On 31 March 2004 this represented less than 0.01% of the Scheme's assets. This was considerably below the maximum permitted by *Section 40 of the Pensions Act 1995*.

## **Stock Lending**

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

## **Investment principles**

The statement of investment principles deals with the following topics:

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

The current statement is included on pages 44 to 48. A separate copy of the statement can be obtained by writing to TRW Benefit Administration (UK).

## **Review of Investments**

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

## **Investment Performance**

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

## **Benchmark**

The Trustee instructed its performance measurers to compare the fund's performance with a specific performance policy benchmark. The benchmark at 31 December 2003 is based on the indices detailed in the following table:

<b>Sector</b>	<b>Index</b>	<b>Weight</b>
■ UK Equities	FTSE All Share	50%
■ Overseas Equities		
• North America	FTSE World Index North America	7%
• Europe ex-UK	FTSE World Index Europe ex-UK	6%
• Japan	FTSE World Index Japan	5%
• Pacific ex-Japan	FTSE World Index Pacific ex Japan	1%
• Emerging markets	MSCI Emerging Markets Free	1%
■ Fixed interest	FT-A All Stocks Gilt Index	15%
■ Index linked	FT-A Over 5 Year Index Linked Index	8%
■ Property	IPD Annualised	5%
■ Cash	LIBID 7 day rate	2%

## Returns

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

<b>Period to 31 December 2003</b>	<b>£ Benchmark % Annual Return</b>	<b>£ Fund % Annual Return</b>
Last year	17.2	17.0
Last 3 years	-3.0	-2.5
Last 5 years	2.1	2.2
Last 7 years	5.9	5.7

## WM50

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

<b>Period to 31 December 2003</b>	<b>WM50 % Annual return</b>	<b>Fund % Annual return</b>
Last year	17.0	17.0
Last 3 years	-2.2	-2.5
Last 5 years	2.4	2.2
Last 7 years	6.0	5.7

## **Conclusion**

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

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

By order of the Directors of TRW Pensions Trust Limited.

Roy Middleton  
Secretary

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# Fund Account & Net Assets Statement

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## Fund Account

	Note	2004 £'000	2003 £'000
<b>Contributions and Benefits</b>			
Contributions receivable	3	4,580	7,140
Transfers in	4	265	632
		4,845	7,772
Benefits payable	5	(148,771)	(149,894)
Payments to and on account of leavers	6	(19,162)	(199,239)
Administration expenses	7	(2,672)	(2,205)
		(170,605)	(351,338)
<b>Net withdrawals from dealings with members</b>		(165,760)	(343,566)
<b>Returns on investments</b>			
Investment income	8	98,615	103,012
Change in market value of investments	9	477,329	(737,459)
Investment management expenses	18	(3,597)	(4,909)
		572,347	(639,356)
<b>Net returns on investments</b>		572,347	(639,356)
<b>Net increase/(decrease) in the fund during the year</b>		406,587	(982,922)
<b>Net assets of the Scheme at 1 April 2003</b>		2,366,495	3,349,417
<b>Net assets of the Scheme at 31 March 2004</b>		2,773,082	2,366,495

## Net Assets Statement

<b>Investments</b>			
Equities	9 & 13	1,990,156	1,700,357
Fixed interest securities	12	336,820	340,973
Index-linked securities	12	175,840	170,885
Property	9 & 11	177,539	167,489
Pooled investment vehicles	14	43,023	28,707
Cash deposits	9	30,483	31,986
External Additional Voluntary Contributions	15	2,393	2,669
Other current investment assets less liabilities	9&17	19,219	23,299
		2,775,473	2,466,365
<b>Net current assets/ (liabilities)</b>	16	(2,391)	(99,870)
<b>Net assets of the scheme at 31 March 2004</b>		2,773,082	2,366,495
Approved by the Directors of the Trustee Company 5 October 2004	Director	S Lunn	
	Director	K Young	

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## Notes to the Accounts

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## **Note 1 Basis of preparation**

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

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits, which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the actuary on page 42 of the annual report and these financial statements should be read in conjunction with it.

## **Note 2 Accounting Policies**

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



<b>Note 3 Contributions receivable</b>	2004	2003
	£'000	£'000
Company contributions <sup>1</sup>	0	0
Members contributions	3,433	4,910
Members internal additional voluntary contributions <sup>2</sup>	1,111	2,175
Members external additional voluntary contributions <sup>2</sup>	36	55
	<hr/>	<hr/>
	4,580	7,140
	<hr/>	<hr/>

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

<sup>2</sup>Members' additional voluntary contributions are for the most part invested either in the Scheme or in the investment vehicles detailed in Note 15. Small amounts invested with London Life Association Limited and The Equitable Life Assurance Society are not included in the accounts.

<b>Note 4 Transfers in</b>	2004	2003
	£'000	£'000
Transfers from other funds – individual	265	632
	<hr/>	<hr/>
	265	632
	<hr/>	<hr/>

<b>Note 5 Benefits payable</b>	2004	2003
	£'000	£'000
Pensions	139,242	136,783
Child allowances	265	297
Commutated lump sums	7,950	11,364
Death benefits	1,314	1,017
Disinvestment of external AVCs	0	433
	<hr/>	<hr/>
	148,771	149,894
	<hr/>	<hr/>

<b>Note 6 Payments to and on account of leavers</b>	2004	2003
	£'000	£'000
Refunds to leavers	56	109
Transfers to other funds - individual	1,388	1,739
Transfers to other funds - Group	17,578	197,205
Transfers to State Scheme	140	186
	<hr/>	<hr/>
	19,162	199,239
	<hr/>	<hr/>

<b>Note 7 Administration expenses</b>	2004	2003
	£'000	£'000
Administration	1,168	1,071
Computing costs	572	547
Office Refurbishment	0	7
TRW Pension Scheme Merger costs	0	21
CCTV & Smoke Screen	39	0
Mortality Verification	10	0
Web Site	18	26
Accounts System	0	22
Actuaries fees	431	217
Legal fees	85	51
Audit and tax fees	260	144
Towers Perrin - External administrator cost	0	14
OPRA Levy	21	22
Medical fees	45	37
Other advisers	23	26
	<hr/>	<hr/>
	2,672	2,205
	<hr/>	<hr/>

<b>Note 8 Investment income</b>	2004	2003
	£'000	£'000
Dividends from equities	60,942	64,541
Income from fixed interest securities	19,596	24,603
Income from index linked securities	4,187	5,809
Net rents from property	13,968	12,577
Interest on cash account	1,287	1,468
Stocklending	403	507
Income from pooled investment vehicles	11	0
Underwriting commission	13	0
Tax reimbursement	34	0
Liquidation proceeds	14	0
Miscellaneous expenses	(23)	0
Overdraft expense	(17)	0
Foreign exchange losses	(538)	0
Write-off of non recoverable debtor	(545)	0
Write-off of non recoverable withholding tax	(724)	(6,669)
Other investment income	7	176
	<hr/>	<hr/>
	98,615	103,012
	<hr/>	<hr/>

## Note 9 Change in market value of investments

	Value at 1 April 2003	Purchases at cost	Sales Proceeds	Change in Market Value	Value at 31 March 2004
	£'000	£'000	£'000	£'000	£'000
Equities	1,700,357	435,487 <sup>1</sup>	(602,175)	456,487	1,990,156
Fixed Interest securities	340,973	222,571	(215,342)	(11,382)	336,820
Index-linked securities	170,885	111,080	(112,931)	6,806	175,840
Pooled investment vehicles	28,707	50	(61)	14,327	43,023
Property	167,489	0 <sup>2</sup>	(849)	10,899 <sup>2</sup>	177,539
External Additional Voluntary Contributions	2,669	36	(504)	192	2,393
	<u>2,411,080</u>	<u>769,224</u>	<u>(931,862)</u>	<u>477,329</u>	<u>2,725,771</u>
Cash deposits	31,986				30,483
Other current investment assets and liabilities (See note 17).	23,299				19,219
	<u>2,466,365</u>				<u>2,775,473</u>

<sup>1</sup> See Note 10 for a breakdown of the transaction costs included in the cost of purchase

<sup>2</sup> See Note 11 for a breakdown of the transaction and management costs of the property portfolio

## Note 10 Transaction Costs - Ordinary Shares

Ordinary share portfolio	Brokerage commission	Taxes, duty	Other charges, fees	Total
	£'000	£'000	£'000	£'000
UK Equity - Passive	64	169	1	234
UK Equity - Quant	5	19	0	24
UK Equity - Active	957	1,158	1	2,116
European Equity - Active	84	1	3	88
European Equity - Passive	15	0	4	19
North American Equity - Passive	22	1	0	23
Japanese Equity - Passive	25	0	0	25
Asia Pacific Equity - Passive	4	0	0	4
Transaction costs 2004	<u>1,176</u>	<u>1,348</u>	<u>9</u>	<u>2,533</u>
Transaction costs 2003	<u>1,538</u>	<u>2,962</u>	<u>18</u>	<u>4,518</u>

## Note 11 Property transaction and management costs

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

- Costs associated with the purchase and sale of property are capitalised in the purchase price or deducted from the receipts of sales - see Note 9
- Included in the property section of the investment management expenses - see Note 18

The purpose of this note is to detail the costs included in the purchases and sale receipts in Note 9 that otherwise would not be transparent

	2004		2003	
	£'000	£'000	£'000	£'000
Purchases during the year		0	0	7,639
Costs associated with purchase				
Stamp Duty	0		299	
CB Richard Ellis - transaction fees	0		67	
Pinsent - transaction fees	0		27	
Other purchase costs	0		2	
		0		395
Purchase at cost (See note 9)		0		8,034

	2004	2003
	£'000	£'000
<b>Total Property transaction and management costs</b>		
Costs associated with property purchase	0	395
Property management costs (see note 18)	1,451	1,528
	<u>1,451</u>	<u>1,923</u>

## Note 12 Fixed Interest Securities and Index Linked Securities

### Fixed interest

	Market Value	
	2004	2003
	£'000	£'000
<b>UK Quoted</b>		
Government	328,884	331,522
Corporate	7,722	5,538
<b>Overseas</b>		
Government	0	3,836
Corporate	214	77
	<hr/>	<hr/>
	336,820	340,973
	<hr/>	<hr/>

### Index linked

	Market Value	
	2004	2003
	£'000	£'000
<b>UK Quoted</b>		
Government	175,840	164,339
Corporate	0	6,546
	<hr/>	<hr/>
	175,840	170,885
	<hr/>	<hr/>

## Note 13 Equities

	Market Value	
	2004	2003
	£'000	£'000
UK	1,429,015	1,235,347
Overseas	561,141	465,010
	<hr/>	<hr/>
	1,990,156	1,700,357
	<hr/>	<hr/>

## Note 14 Pooled Investment Vehicles

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

	Market Value	
	2004 £'000	2003 £'000
Capital International Emerging Markets Fund	40,778	27,064
RIT Capital Partners plc	627	403
Templeton Emerging Markets Investment Trust plc	464	306
Schroder UK Growth Fund plc	117	84
Foreign & Colonial Emerging Markets Investment Trust plc	98	61
Schroder Institutional Pacific Fund	3	2
Mercury Unquoted Security Trust	26	32
Fidelity	910	755
	<hr/>	<hr/>
	43,023	28,707

## Note 15 External Additional Voluntary Contributions

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

	2004	2003
	£'000	£'000
Clerical Medical	807	807
Scottish Life	935	1,155
Standard Life	522	592
Fidelity	106	88
Century Life	10	13
Alba Life	13	13
Provident Mutual	0	1
	<hr/>	<hr/>
	2,393	2,669

## Note 16 Current assets and liabilities

	2004	2003
<b>Current Assets</b>	£'000	£'000
Individual transfers in	11	0
Employee contributions	9	104
Cash at Bank	2,244	0
Recoverable from TRW Limited	102	0
VAT receivable	29	0
Prepaid business rates	42	0
Other debtors	1	768
	<u>2,438</u>	<u>872</u>
<b>Current liabilities</b>		
Unpaid benefits	(1,435)	(1,787)
Group transfers out	(1,598)	(96,500)
Bank overdraft	0	(933)
Administration expenses	(160)	(22)
Advisers fees	(195)	(213)
Investment expenses	(669)	(773)
Net property VAT payable	(672)	(414)
Customs & Excise	(100)	(100)
	<u>(4,829)</u>	<u>(100,742)</u>
Net current (liabilities)	<u>(2,391)</u>	<u>(99,870)</u>

## Note 17 Other current investment assets and liabilities

	2004	2003
<b>Current Assets</b>	£'000	£'000
Balances due from brokers	8,452	9,238
Dividends receivable	15,917	16,196
Interest receivable - bonds	5,770	6,091
Income tax recoverable	306	319
Rent receivable	1,068	633
Interest receivable - cash/term deposits	62	37
VAT recoverable	49	0
	<u>31,624</u>	<u>32,514</u>
<b>Current liabilities</b>		
Balances due to brokers	(8,800)	(5,759)
Deferred rental income	(2,961)	(2,809)
Provision for property bad debts	(257)	0
Property creditors	(198)	(486)
Rental deposits	(189)	(161)
	<u>(12,405)</u>	<u>(9,215)</u>
Net other current investment balances	<u>19,219</u>	<u>23,299</u>

## Note 18 Investment Management Expenses

	2004	2003
	£'000	£'000
<b>Non-property Management Expenses</b>		
TRW Investment Management Company Ltd	1,703	2,733
State Street Bank and Trust Company (Custodian)	443	624
WM Company	0	15
Other	0	9
	<u>2,146</u>	<u>3,381</u>
<b>Property Management Expenses</b>		
	2004	2003
	£'000	£'000
CB Richard Ellis	416	338
Pinsents	82	138
ATIS Real Weatherall	105	100
Property Management Costs:		
Building & Refurbishment	331	407
Marketing & Letting	34	202
Head rent & rates	184	229
Bad debts - amounts provided for	257	0
Customs & Excise - amounts provided for	0	100
Landlord costs	33	0
Vacant unit costs	8	0
Other	1	14
	<u>848</u>	<u>952</u>
	<u>1,451</u>	<u>1,528</u>
Total investment management expenses	<u>3,597</u>	<u>4,909</u>

## Note 19 Total Investment Management and Transaction costs

	2004	2003
	£'000	£'000
Non property Management expenses (See note 18)	2,146	3,381
Property Management expenses (See Note 18)	1,451	1,528
Transaction cost - Ordinary shares (See Note 10)	2,533	4,518
Transaction costs - Property (See Note 11)	0	395
	<u>6,130</u>	<u>9,822</u>



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## Reports of the Auditors and the Actuaries

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## Report of the Independent auditors to the Trustee of the TRW Pension Scheme

We have audited the Scheme's financial statements for the year ended 31 March 2004 which comprise Fund Account, Net Assets Statement and related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with regulations 3 (c) and 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustees those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees as a body, for our audit work, for this report, or the opinions we have formed.

### *Respective responsibilities of trustees and auditor*

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

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

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

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

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards

We report to you our opinion as to whether the financial statements give a true and fair view and contain the information specified in the schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor ) Regulations 1996 made under the Pensions Act 1995. We also provide a statement about contributions, in which we report to you our opinion as to whether contributions have been paid in accordance with the Schedule of Contributions certified by the actuary. We report to you if, in our opinion, the Trustee's report is not consistent with the financial statements or if we have not received all the information and explanations that we require for our audit.

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

***Basis of audit opinion and statement about contributions***

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

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

Our work also included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments in order to provide us with reasonable assurance that contributions have been paid in accordance with the Schedule of Contributions certified by the actuary on 11 December 2000.

***Statement about contributions under the scheme***

In our opinion contributions payable to the Scheme during the year ended 31 March 2004 have been paid in accordance with the Schedule of Contributions certified by the actuary on 11 December 2000.

***Opinion***

In our opinion the financial statements give a true and fair view of the financial transactions of the Scheme during the scheme year ended 31 March 2004, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year, and contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Ernst & Young LLP  
Registered Auditor  
Reading  
5 October 2004

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

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

Effective date of latest valuation 31 March 2003

## **1. Security of prospective rights**

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

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

## **2. Summary of methods and assumptions used**

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

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

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

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

## **3. Valuation Assumptions**

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

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

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

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

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

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

27 February 2004

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

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

**1. Adequacy of rates of contributions**

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

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

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

14 May 2004

**NOTE:**

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

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## Statement of Investment Principles

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## Statement of Investment Principles

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

This revised statement was approved at a meeting of the Trustee Board held on 6 May 2003. The Principal Employer has been consulted. The investment principles set out in this statement will be reviewed periodically and revised as necessary. Prior to the preparation of this statement the Trustee has obtained and considered written advice from Hymans Robertson and TRW Investment Management Company Limited both of which are qualified to provide such advice in connection with the investment of the Scheme.

### Fund managers

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

- TRW Investment Management Company Limited : This is the lead investment manager and is responsible for all Scheme assets except the emerging markets and property portfolios.
- Capital International - Emerging markets portfolio.
- CB Richard Ellis Investors – Property.

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

### Investment management fees

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

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

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

### Investment objectives

The Trustee's investment objectives are:

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

## The kind and balance of investments

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

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

Asset Class	Benchmark %	Minimum %	Maximum %
UK Equities	50	45	55
Overseas Equities			
• North America	7	5	9
• Europe - ex UK	6	4	8
• Japan	5	3	7
• Pacific - ex-Japan	1	0	3
• Emerging Markets	1	0	3
Fixed Interest			
• UK	15	10	20
• Overseas	0	0	3
Index Linked Bonds			
• UK	8	3	13
• Overseas	0	0	2
Property	5	3	7
Cash	2	0	15

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

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

## Risk

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

- Diversification among the selected asset classes is designed to reduce the risk that after taking account of the ongoing long-term liability there will be insufficient assets to cover its liability on both the Minimum Funding Requirement and on an ongoing basis.
- In order to control risk the Trustee has imposed the following restrictions:



- The maximum actively held percentage in one investment will not exceed the limits set down by the Trustee for each investment manager in writing.
- Stock Lending is only permitted in circumstances where the loan is fully collateralised and the collateral meets strict acceptability requirements.
- Constraints are placed on the use of derivatives, which may not be used to gear up the portfolio or for speculative purposes.
- Certain types of investment are not permitted. These include commodities, works of art and precious metals.

## Expected return on investments

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

Asset class	Index	Target return over the index
UK Equities	FTSE All Share <sup>1</sup>	
• Active		1%
• Passive		0%
• Quant		0.5%
Overseas Equities		
• North America	FTSE World Index North America	0%
• Europe ex-UK	FTSE World Index Europe ex-UK	
Active		1%
Passive		0%
• Japan	FTSE World Index Japan	0%
• Pacific ex-Japan	FTSE World Index Pacific - ex-Japan	0%
• Emerging markets	MSCI Emerging Markets Free	2%
Fixed interest	FT-A All Stocks Gilt Index	0.5%
Index linked	FT-A Over 5 year Index Linked Index	0.5%
Property	IPD Annualised	Exceed index <sup>2</sup>
Cash	LIBID 7 day rate	0%

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

## Mandates to the Investment managers

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

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

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

<sup>2</sup> The property target return is expressed as 6% over the annual increases in the Retail Prices Index and to exceed the IPD index

## **Realisation of investments**

Over 90% of the assets are directly or indirectly invested in securities traded on major recognised investment exchanges. These investments can therefore be realised quickly, if necessary. The Trustee's policy is that there should be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in the majority of foreseeable circumstances.

## **Minimum Funding Requirement (MFR)**

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

## **Socially responsible investment**

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

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

## **Exercise of voting rights**

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

## **Custodian**

The assets of the Scheme are held by State Street Bank & Trust Company under the control of the Trustee. The custodian has been appointed by the Trustee. The appointment will be reviewed periodically.

Approved - 6 May 2003

Reviewed and no changes made - 2 June 2004



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