

TRW Pension Scheme

Report and Accounts
2007

TRW

TRW Pension Scheme

Report and Accounts

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

31 March 2007

Report of the Trustee

Trustee and Advisers

| | |
|--|--|
| Principal Employer | LucasVarity |
| Trustee | TRW Pensions Trust Limited |
| Directors of the Trustee Company | S Lunn - Chairman P Almond A Bassett R Benjamin* A Collinson* J C Plant P Palmer* G T Plumley R Yates * |
| Secretary | R Middleton |
| Investment Managers | TRW Investment Management Company Limited <i>until 2 March 2007</i> Legal & General Investment Management Limited <i>from 20 September 2006</i> Capital International C B Richard Ellis Investors Limited Western Asset Management Company |
| Investment Advisers | Hymans Robertson LLP |
| Investment Performance Measurement | Mellon Analytics - for Scheme performance WM Company - for WM50 comparison |
| Custodian of Assets | ABN-AMRO Mellon |
| Actuaries | Hymans Robertson LLP Scheme Actuary : R Bowie |
| Auditors | Ernst & Young LLP <i>until 17 January 2007</i> KPMG LLP <i>from 17 January 2007</i> |
| Bankers | Barclays Bank plc |
| Solicitors | Allen & Overy LLP Pinsent Masons - Property |
| Medical Adviser | Capita Health Solutions |
| Property Valuer | Atisreal |
| Administrator & address for enquiries or complaints | TRW Benefit Administration (UK) 2020 The Crescent, Birmingham Business Park, Birmingham, B37 7YE |

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

Constitution of the Scheme

The Directors of the Trustee Company are pleased to present their seventh report to Scheme members, together with the accounts of the TRW Pension Scheme and the actuarial statement, for the year ended 31 March 2007.

Trustee

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

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

Principal Employer

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

Appointments to the Board

There were no changes to the Board during the year.

Legal Status

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

The closed sections are either defined benefit pension arrangements or a defined benefit pension arrangement with a defined contribution underpin. The open sections are defined benefit pension arrangements.

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

Up to 6 April 2006 the Scheme had been granted exempt approval status by the Inland Revenue for the purpose of Chapter I of part XIV of the Income and Corporation Taxes Act 1988. Due to the Scheme's previous exempt approval status it was automatically classified as a registered pension scheme under Schedule 36 of the *Finance Act 2004*

with Her Majesty's Revenue and Customs (HMRC) from 6 April 2006.

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

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 Principal Employer, and two Member Nominated Directors. Trustee decisions are usually unanimous but they may be taken by a majority vote.

A sub-committee meets monthly which has been given delegated authority by the Board to deal with ill health early retirement applications and items of trustee discretion. Other sub-committees meet as required to produce reports for the Board.

Annual meetings are held in the autumn, when the representatives of the Board meet the 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 and Service Providers

The Scheme's external advisers are listed on page 2. In line with UK pension scheme best practice, the Trustee has a policy of submitting all of its external advisers and service providers to a periodic review procedure.

During the year, the following advisers and service providers were appointed:

- **Auditor**

As part of its ongoing review of service providers, the Trustee reviewed the appointment of its auditor during the year. Following a detailed tender exercise, and subsequent presentations provided by a short list of auditors, the Trustee agreed to the appointment of KPMG LLP as the auditor to the Scheme from 17 January 2006, in place of Ernst & Young LLP.

- **Corporate Bond Manager**

At its meeting of 10 January 2007 the Board agreed to the appointment of Insight Investment Management Limited to become a second specialist manager of corporate bond investments for the Scheme. As at 31 March 2007, no funds had yet been allocated to this mandate.

- **Custodian**

As reported in the Report & Accounts for 31 March 2006, ABN-AMRO Mellon was appointed as the Scheme's Global Custodian with effect from 1 April 2006.

- **Passive equity manager**

Following a detailed review process, in conjunction with TRW Investment Management Limited and Hymans Robertson LLP, the Board approved the appointment of Legal & General Investment Management Limited to become the investment manager of all of the Scheme's equities that are managed on a passive basis. These assets were transferred from the control of TRW Investment Management to Legal & General Investment Management on 20 September 2006.

- **Lead investment manager**

Following the resignation of the Managing Director of TRW Investment Management Limited during the year, the Board sought the advice of its investment advisers, Hymans Robertson LLP, on the appropriate direction for the Scheme to take in its investment strategy.

In light of the advice received by the Trustee, it was decided that all of the assets actively managed by TRW Investment Management Limited should be transferred to the control of Legal & General Investment Management Limited to be invested on a passive basis within pooled funds. These assets were transferred from the control of TRW Investment Management to Legal & General Investment Management on 2 March 2007.

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 £49 million. At the year-end the value of the Scheme's assets was £3,540 million compared to £3,491 million at 31 March 2006.

The increase in fund value is accounted for as follows:

| | |
|---|---------------------|
| ▪ Change in market value of investments | £107 million |
| ▪ Investment income (net of expenses) | £108 million |
| Less | |
| ▪ Excess of expenditure over income | <u>£166 million</u> |
| | <u>£ 49 million</u> |

Fund Account

Compared with the year ended 31 March 2006 there was a decrease in income of £1.8 million and an increase in expenditure of £9.3 million. The main reasons for these changes are as follows:

Income

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

- Employee contributions reduced by £1.6 million due mainly to the cessation of the additional voluntary contribution facility at the beginning of the period and due to the lower number of employees.
- A reduction in the amount of transfers in to the Scheme of £200,000.

Expenditure

The increase in expenditure of £9.3 million was due to two main reasons:

- Increase in benefits payable of £8.4 million
- Increase in investment expenses £1.2 million
- These increases were offset by reductions in both administration expenses, professional adviser fees and regulatory levies.

Members' Contributions

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

Actuarial Valuation

The latest actuarial valuation was conducted by Hymans Robertson LLP as at 31 March 2006. 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 at least 1 April 2010. The next formal actuarial valuation is scheduled for 31 March 2009.

The 31 March 2006 actuarial valuation was the first valuation conducted in accordance with the new requirements of the *Pensions Act 2004*. The Act brings into UK law a new funding standard for final salary pension schemes called 'Scheme Specific Funding'. It also implements a directive of the European Union on the funding of Occupational Retirement Provision. This is called the *IORP Directive*.

Scheme Specific Funding

The new requirements brought in by the new funding standard involve four main changes to how pension schemes are valued. Schemes must now have:

- **A statutory funding objective**

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

- **A statement of funding principles**

This is a statement, in writing, drawn up by the Trustee of the Scheme, in which they set out their policy on how they intend to meet the statutory funding objective. In this statement they explain the way the scheme's liabilities will be calculated and what assumptions will be used. The Scheme Actuary provides the Trustee with advice before they draw up this statement.

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

- **A recovery plan**

If a scheme has insufficient assets to meet its statutory funding objective the trustee must agree with the employer a recovery plan. This sets out how they intend to meet their statutory funding objective. As the Scheme has a surplus of funding relative to its funding objective no recovery plan is required.

- **A summary funding statement**

The trustee must provide all members and beneficiaries with an annual summary funding statement. The first one had to be provided by 22 September 2006.

The Trustee has published two summary funding statements during the year in accordance with *Pensions Act 2004*. These were distributed to all members in September 2006 and March 2007 and the text of the most recent statement is printed on pages 54 to 57.

The actuarial statement by the Scheme Actuary, calculating the Scheme's technical provisions as at 31 March 2006, appears on page 46. The certificate is produced in accordance with regulations under section 222 of the *Pensions Act 2004*.

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 57,676 members of the Scheme at 31 March 2007 compared with 58,852* at 31 March 2006. The change in membership during the year is as follows:

Current Members

| | | |
|----------------------------------|------------------------------|---------|
| Current members at 31 March 2006 | | 3,775 * |
| Plus: | New entrants during the year | 185 |
| Less: | Left employment | |
| | Refunds | 105 |
| | Deferreds | 279 |
| | Retirements: | |
| | Normal | 3 |
| | Early Voluntary | 35 |
| | Early Redundancy | 142 |
| | Ill Health | 16 |
| | Late Voluntary | 0 |
| | Died in service | 3 |
| Current members at 31 March 2007 | | 3,377 |

Pensioners

| | | |
|-----------------------------|--|----------|
| Pensioners at 31 March 2006 | | 37,691 * |
| Plus: | Retirements during the year | 196 |
| | Deferred pensions commencing | 517 |
| | Dependants pensions commencing during the year | 498 |
| Less: | Deaths of pensioners | 1,592 |
| | Trivial pensions fully commuted | 3 |
| | Dependants pensions ceased | 26 |
| Pensioners at 31 March 2007 | | 37,281 |

Deferred Pensioners

| | | |
|--------------------------------------|--|---------------|
| Deferred Pensioners at 31 March 2006 | | 17,343 * |
| Plus: | Current members who left the Scheme during the year and became deferred pensioners | 279 |
| | Pension sharing former spouses | 9 |
| Less: | Pensions commencing during the year | 517 |
| | Deaths of deferred pensioners | 41 |
| | Transfers to other pension arrangements | 55 |
| Deferred pensioners at 31 March 2007 | | 17,018 |
| Total Membership at 31 March 2007 | | <u>57,676</u> |

* These figures have been adjusted from those shown in the 2006 Report of the Trustee. The adjustments reflect a more accurate assessment of the statistics at 31 March 2006 due to late notifications.

Scheme Benefits

Benefit Changes and Basic Scheme Information

The following changes in the benefit structure of the Scheme took place in the period from 1 April 2006 to 31 March 2007:

- **Deed of amendment dated 24 March 2006**

This deed documented changes to the Scheme's benefits that were outlined in the Report and Accounts for the year ended 31 March 2006, i.e. changes to benefits for new entrants to the Scheme from 1 April 2006 and the removal of Additional Voluntary Contribution and transfer-in facilities.

- **Deed of amendment dated 6 April 2006**

This deed was executed to retain the historical Inland Revenue maximum limits on benefits as Scheme benefit limits following *Finance Act 2004*'s relaxation of tax restrictions on benefits.

- **Deed of amendment dated 27 September 2006**

This deed clarified the Scheme's existing ill health early retirement provisions for members of the Scheme, and created provisions for new hires to receive an ill health early retirement pension subject to a cost neutral actuarial reduction for early payment of the benefit.

- **Deed of amendment dated 27 September 2006**

This deed clarified the impact of flexible benefit and salary sacrifice arrangements on the calculation of members' pensionable earnings. Cash payments received by individuals in exchange for non pensionable benefits are not deemed to be pensionable.

- **Deed of amendment dated 10 January 2007**

This deed clarified that any cash sums received by members in employment in lieu of a non-pensionable benefit in kind does not increase pensionable earnings.

Pension Increases

The increases to pensions from 1 April 2007 were dependent on which section of the Scheme each person is a member.

For pensions in payment:

| Section | Pension Element | Increase |
|---|---|----------|
| All sections excluding those named below | <i>Pension in excess of Guaranteed Minimum Pension (GMP):</i> | 4.2% (1) |
| | <i>Temporary Pensions:</i> | 3.6% (2) |
| Closed Steering Systems section | <i>Pension in excess of GMP: (pre 1 April 1992 pension)</i> | 2.5% (3) |
| | <i>Pension in excess of GMP: (post 1 April 1992 pension)</i> | 4.2% (4) |
| Closed UK section | <i>Pension in excess of GMP:</i> | 4.2% (4) |
| Closed 100ths (2004) and Closed SRBS A (2004) | <i>Pre 6 April 2005 pension:</i> | 4.2% (4) |
| | <i>Post 6 April 2005 pension:</i> | 2.5% (5) |
| | <i>Temporary Pensions:</i> | 3.6% (2) |
| Open Section (2006) and SRBS (2006) | <i>All pension:</i> | 2.5% (5) |
| | <i>Temporary Pensions:</i> | 3.6% (2) |
| Guaranteed Minimum Pensions: | | |
| Earned between 6 April 1978 and 5 April 1988 | | 0% (6) |
| Earned between 6 April 1988 and 5 April 1997 | | 3.0% (7) |

For pensions in deferment:

| Section | Pension Element | Increase |
|---|---|----------|
| All sections excluding those named below | <i>All pension:</i> | 4.2% (1) |
| | <i>Temporary Pensions:</i> | 3.6% (2) |
| Closed Steering Systems section and Closed UK section | <i>Pre 1 January 1986 pension up to State Pension Age:</i> | 0% |
| | <i>Post 1 January 1986 pension Up to State Pension Age:</i> | 4.2% (4) |
| Closed 100ths (2004), Closed SRBS A (2004), Open Section (2006) and SRBS (2006) | <i>All pension:</i> | 4.2% (4) |

Notes

- (1) Annual RPI increase (January 2007) up to a maximum of 7%
- (2) Annual RPI increase (September 2006)
- (3) Fixed 2.5% a year
- (4) Annual RPI increase (January 2007) up to a maximum of 5%
- (5) Annual RPI increase (January 2007) up to a maximum of 2.5%
- (6) All increases are provided by the State
- (7) Annual RPI increase (September 2006) up to a maximum of 3%. Additional inflationary increases are provided by the State.

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 ended 31 March 2007 is 5.7%.

For members who paid cash accumulation AVCs - and retire, die or transfer the cash equivalent of their deferred pension from the Scheme, between 1 April 2007 and 31 March 2008 - a terminal bonus will be paid. If they commenced paying AVCs before 1 April 1993 the terminal bonus will be 10%. Members who commenced paying AVCs on or after 1 April 1993 up to 31 March 1999 will receive a terminal bonus of 5%, and those who commenced paying after 1 April 1999 will receive a terminal bonus of 20%.

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

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

Money Purchase Underpin Account

This is applicable to members of the closed eightieth section of the Scheme. Each year, twice the member's contributions are credited to the account. Interest is applied to the balance of the account on an annual basis equal to the full rate of return of the Scheme. This is made up of income 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 2006 was 10.5%

Transfer payments to the Scheme

Transfer payments paid into the transfer account before 1 April 1997 received the 10.5% rate of return achieved by the Scheme for the year ended 31 December 2006.

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

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

Transfer payments from the Scheme

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

Scheme Earnings Cap

The Scheme earnings cap is a 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 Scheme earnings cap for the year commencing 1 April 2007 is £112,800. The Scheme earnings cap is set at a level agreed by the Company and the Trustee.

Compliance Statement

Pensions Act 1995 and 2004

Appointment of advisers

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

Member Nominated Directors

The 1995 Act introduced a requirement for occupational pension schemes whose trustee is a company to have member nominated directors. The employer can, however, opt-out of the Act's requirements by putting forward an alternative proposal.

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 Company's alternative was approved. Following the Scheme merger on 1 March 2001, the Company reviewed the original 1997 opt-out and following a consultation process with both the Trade Unions and Works Council Consultative Committee, a new 'opt-out' was approved. Under the revised opt-out, TRW Pensions Trust Limited continues to consist of nine directors. Five directors are appointed by the Company, and there are four member directors. Since 1 October 2004, three member directors have been selected from the Trade Union Consultative Committee, and a fourth member director has been 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.

Pensions Act 2004 ('the 2004 Act') requires trustees of pension schemes to implement their own arrangements for appointment of member nominated directors from 31 October 2007. The Company's existing 'opt-out' will cease to apply from that date.

Internal Disputes Resolution Procedure

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

Statement of Investment Principles

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

Statement of Funding Principles

The Board approved its Statement of Funding Principles on 16 March 2007. A copy is available from the Scheme website, www.trwpensions.co.uk, or upon request from TRW Benefit Administration (UK).

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.

Internal Controls

A formal compliance statement is produced annually by TRW Benefit Administration (UK) for the Trustee, to provide information to the Board regarding the administration of the Scheme. The compliance statement outlines the statutory requirements along with non-statutory best practice. It details any breaches that have occurred during the year. In response to the Pension Regulators code on internal controls the Board has prepared a schedule of risks faced by the Scheme. The contents of the risk register have been taken into account when the Board set its goals, as part of its annual Business Plan. A copy of the Business Plan is available from the Scheme website, www.trwpensions.co.uk

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 2003 document, which is currently being revised, is available for downloading from the Scheme's website, www.trwpensions.co.uk

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

Corporate Governance and Shareholder Activism

The policy of the lead investment manager is as follows:

- Legal & General Investment Management's (LGIM) activity in all facets of corporate governance is integral to their investment process. They apply all the principles set out in the Institutional Shareholders' Committee's "*Responsibilities of Institutional Shareholders' and Agents – Statement of Principles*" which was updated in September 2005. Specifically, they focus on the effectiveness of a company's board of management and its remuneration policy, business strategy and business practices, taking into account social, ethical and environmental business issues.
- By voting on all UK company resolutions and maintaining regular dialogue with company management, the necessity for active intervention is minimized, but not eliminated. LGIM actively intervenes when they believe that this intervention would result in a substantial benefit to shareholders.

- The governance activity of their fund managers/analysts is supported by a manager dedicated to corporate governance and socially responsible investment issues. LGIM also plays a leading role in assisting the Association of British Insurers (ABI) to identify issues and in facilitating discussion with companies.
- A document detailing LGIM's policies on Activism, Voting and Socially Responsible Investment is available on their website www.lgim.com

Investment Report

Investment Managers

The lead investment manager until 2 March 2007 was TRW Investment Management Company Limited. From that date Legal & General Investment Management became the lead investment manager. The emerging market investment manager is Capital International, the corporate bond manager is Western Asset Management Company and the property investment manager is CB Richard Ellis Investors. The Financial Services Authority (FSA) regulates all of these investment managers. In addition, CB Richard Ellis Investors is a member of the Royal Institution of Chartered Surveyors. All the managers are authorised under the *Financial Services and Markets Act 2000* to undertake investment business.

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

Custody of Investments

On 1 April 2006 ABN-AMRO Mellon was appointed as the Scheme's external independent custodian of the Scheme's non-property assets. A custodian agreement between ABN-AMRO Mellon and TRW Pensions Trust Limited details the terms on which the custodian would hold the Scheme's assets and the respective responsibilities of the custodian and the Trustee. All of the title documents of the Scheme's assets were held by the custodian under the control of the Trustee. Physical documents are held in a strong room and access is limited by the custodian's own strict security procedures. Regular reconciliations of the holdings are carried out and a copy of the custodian's report on internal controls is kept and reviewed by the Scheme Administrator.

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

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

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

- A dual electronic instruction to the custodian involving the use of passwords.
- The custodian has received payment.

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

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

Since 2 March 2007, the majority of the Scheme's investments have been transferred to Legal & General Investment Management to be invested within pooled fund arrangements. The underlying assets of the pooled funds are beneficially owned by Legal & General Assurance (Pensions Management) Limited and held in safe custody by their Custodians, HSBC Global Investor Services and Citibank. Custodians are selected and monitored to ensure securities are properly protected through Custodians registering and segregating each fund's securities. Cash is held securely in separate account with approved Counterparties.

Internal Controls

The Trustee has received and reviewed an internal controls SAS70 report dealing with the internal control of investment custodians from ABN-AMRO Mellon covering the period ended 31 December 2006. The Trustee has also received from Capital International a SAS 70 report on controls and tests on operational effectiveness dated 5 October 2006. In addition, the Trustee has received an un-audited Report on Internal Controls from CB Richard Ellis Investors and a statement on compliance from the Atisreal Group – the Scheme's property valuer. These reports have been reviewed to ensure that the controls are appropriate to the requirements of the Board.

Asset Allocation

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

| Investment Benchmark | | |
|-----------------------------|--------------------|----------------|
| | Benchmark % | Range % |
| UK Equities | 40 | 38 to 42 |
| Overseas Equities | | |
| • Developed markets | 19 | 18 to 22 |
| • Emerging markets | 1 | 0.5 to 1.5 |
| Fixed Interest | 20 | 18 to 22 |
| Index Linked | 8 | 7 to 9 |
| Corporate Bonds | 3 | 2.5 to 3.5 |
| Property | 7 | 5.5 to 8.5 |
| Cash | 2 | 1 to 3 |

| Actual allocation of benchmark assets at 31 March 2007 | |
|---|---|
| | % Market Value of the Total Fund |
| UK equities | 41 |
| Overseas Equities | |
| • Developed markets | 20 |
| • Emerging markets | 1 |
| Fixed Interest | 18 |
| Index Linked | 7 |
| Corporate Bonds | 4 |
| Property | 7 |
| Cash | 2 |
| | 100 |

At the year end £80.1 million was held in cash outside the asset allocation benchmark. This cash sub-fund is invested by Legal & General Investment Management and is allocated to meet the Scheme's requirement to pay benefits and meet cash commitments in the short term.

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 | 11.9 |
| Oil and gas | 195 | 5.5 |
| Consumer services | 184 | 5.2 |
| Consumer goods | 143 | 4.0 |
| Industrials | 112 | 3.2 |
| Basic materials | 107 | 3.0 |
| Healthcare | 106 | 3.0 |
| Telecommunications | 79 | 2.2 |
| Utilities | 68 | 1.9 |
| Technology | 15 | 0.4 |
| | <u>1,429</u> | <u>40.3</u> |

| Largest Twenty Holdings | | |
|-------------------------|--------------|-------------------|
| | Market value | % of total |
| | £million | investment assets |
| BP | 59.3 | 1.7 |
| Royal Dutch Shell | 57.2 | 1.7 |
| HSBC Holdings | 56.8 | 1.7 |
| GlaxoSmithKline | 54.8 | 1.6 |
| Vodafone Group | 52.9 | 1.5 |
| Royal Bank of Scotland | 50.6 | 1.5 |
| UK Treasury 8% 2021 | 43.5 | 1.3 |
| UK Treasury 2.5% 2016 | 41.7 | 1.2 |
| Barclays | 37.5 | 1.1 |
| UK Treasury 2.5% 2020 | 35.6 | 1.0 |
| UK Treasury 2.5% 2013 | 35.4 | 1.0 |
| AstraZeneca | 33.8 | 1.0 |
| UK Treasury 2.5% 2024 | 32.8 | 1.0 |
| Anglo American | 31.9 | 0.9 |
| HBOS | 31.9 | 0.9 |
| Treasury 4.25% 2032 | 31.1 | 0.9 |
| Treasury 5.0% 2025 | 30.9 | 0.9 |
| Treasury 4.0% 2009 | 30.5 | 0.9 |
| Treasury 4.75% 2038 | 29.6 | 0.9 |
| Tesco | 28.4 | 0.8 |
| | <u>806.2</u> | <u>23.5</u> |

Employer related investments

At the year-end the Scheme had no investment in TRW Automotive, and no direct investments in any connected employer. However, at the year-end, 0.175% of the Scheme's pooled investments in North American equities related to holding in Northrop Grumman Corporation Shares. This equates to a market value of approximately £414,000 (2006: £423,000). The Northrop Grumman Corporation is a significant shareholder in TRW Automotive.

Member contributions due from the employer amounted to £186,384 (2006: £40,207). On 31 March 2007 this represented approximately 0.01% of the Scheme's assets. This was considerably below the maximum permitted by Section 40 of the *Pensions Act 1995*.

Stock Lending

As at 31 March 2007, the majority of Scheme assets were managed by Legal & General Investment Management in pooled funds. Legal & General Assurance (Pensions Management) Limited engages in stock lending within Europe (ex UK) Equity Index Fund and the Japan Equity Index Fund as follows:

- Stock lending is subject to a maximum of 15% of the fund value, and normally 75%, but no more than 95% of any one stock. All profits are credited to the Fund.
- The maximum value of stock loaned to any one borrower is currently within the range of £60 million to £100 million for Japanese Equities and £500 million for European Equities.
- The approved borrowers are Morgan Stanley, Merrill Lynch, Goldman Sachs, Citigroup, UBS Warburgs, Deutsche Bank, ING Baring, and Barclays Capital.
- The loaned stock is secured by collateral of G7 Bonds to a value of 105% of the stock loaned, this collateral being secured from a range of separately approved counterparties.
- The operation of the stock lending programme and the management of collateral is delegated to the custodian, Citibank.
- All profits from stock lending in the above sector funds are credited to those specific sector funds.
- The pooled funds that the Scheme invests in that engage in stock lending are the L&G's Europe (ex UK) equity index fund and the Japanese equity index fund. The Scheme's holding in these two funds equated to having £402 million on loan at the year end.

Investment principles

The statement of investment principles deals with the following topics:

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

The current statement, implemented from 13 August 2007, is included on pages 48 to 52. A separate copy of the statement can be obtained by writing to TRW Benefit Administration (UK).

Review of Investments

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

Investment Performance

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

Benchmark

The Trustee has instructed its performance measurers to compare the fund's performance with a specific performance policy benchmark. The benchmark at 31 March 2007 is based on the indices detailed in the table on the following page.

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

Returns

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

| Period to 31 December 2006 | £ Benchmark % Annual Return | £ Fund % Annual Return |
|-----------------------------------|--|---------------------------------------|
| Last year | 10.5 | 10.4 |
| Last 3 years | 13.8 | 14.1 |
| Last 5 years | 8.3 | 8.5 |
| Last 10 years | 8.3 | 8.1 |

WM50

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

| Period to 31 December 2006 | WM50 % Annual return | Fund % Annual return |
|-----------------------------------|---------------------------------|---------------------------------|
| Last year | 10.7 | 10.4 |
| Last 3 years | 14.1 | 14.1 |
| Last 5 years | 8.6 | 8.5 |
| Last 10 years | 8.4 | 8.1 |

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

Conclusion

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

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

By order of the Directors of TRW Pensions Trust Limited.

Roy Middleton
Secretary

Fund Account & Net Assets Statement

Fund Account

| | Note | 2007 £'000 | 2006 £'000 |
|---|---------|---------------|---------------|
| Contributions and Benefits | | | |
| Contributions receivable | 3 | 2,515 | 4,081 |
| Transfers in | 4 | 16 | 225 |
| | | 2,531 | 4,306 |
| Benefits payable | 5 | (161,205) | (152,758) |
| Payments to and on account of leavers | 6 | (3,780) | (3,528) |
| Administration expenses | 14 | (1,774) | (1,910) |
| Professional adviser fees and levies | 15 & 16 | (1,272) | (1,692) |
| | | (168,031) | (159,888) |
| Net withdrawals from dealings with members | | (165,500) | (155,582) |
| Returns on investments | | | |
| Investment income | 7 | 112,770 | 110,586 |
| Change in market value of investments | 13 | 106,776 | 572,519 |
| Investment management expenses | 19 | (5,169) | (3,979) |
| | | 214,377 | 679,126 |
| Net returns on investments | | 214,377 | 679,126 |
| Net increase in the fund during the year | | 48,877 | 523,544 |
| Net assets of the Scheme at 1 April 2006 | | 3,490,943 | 2,967,399 |
| Net assets of the Scheme at 31 March 2007 | | 3,539,820 | 3,490,943 |

Net Assets Statement

| | | | |
|--|---------|-----------|-----------|
| Investments | | | |
| Equities | 9 & 13 | 816 | 2,203,087 |
| Fixed interest securities | 8 & 13 | 63,477 | 678,285 |
| Index-linked securities | 8 & 13 | 0 | 193,445 |
| Property | 11 & 13 | 242,152 | 213,851 |
| Pooled investment vehicles | 10 & 13 | 3,185,544 | 58,104 |
| Cash deposits | 13 | 47,004 | 124,350 |
| External Additional Voluntary Contributions | 12 & 13 | 1,821 | 1,967 |
| Other current investment assets | 13 & 22 | 1,849 | 20,769 |
| | | 3,542,663 | 3,493,858 |
| Net current assets (liabilities) | 21 | (2,843) | (2,915) |
| Net assets of the scheme at 31 March 2007 | | 3,539,820 | 3,490,943 |

Approved by the Directors of the Trustee Company Director

S Lunn

Date: 29 October 2007

Director

R Benjamin

Notes to the Accounts

Note 1 Basis of preparation

The financial statements have been prepared and audited in accordance with the *Occupational Pension Schemes (requirement to obtain audited accounts and a statement from the auditor regulations 1996)* and with the guidelines set out in the 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 46 of the annual report and these financial statements should be read in conjunction with it.

Note 2 Accounting policies

The Principal accounting policies of the Scheme are as follows:

- Income from equity investments is brought into account at the ex-dividend date. Income from pooled investment vehicles is re-invested and reflected in the unit price. Property income is earned in accordance with the terms of the lease. Income from fixed interest securities, index linked securities and cash is recognised as the interest accrues.
- Company and members contributions are accounted for on an accruals basis at rates agreed between the Trustee and the Employer based on the recommendation of the actuary and the schedule of contributions.
- Expenses are dealt with on an accruals basis.
- Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.
- Transfer payments in respect of members transferred to and from the Scheme during the year are included in the accounts on the basis of sums advised by the actuary at the time the accounts for the year are finalised.
- Listed investments (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 net assets statement date. Foreign currency investment income is recorded at the rate ruling at the date of the transaction.
- Stock index futures contracts are valued at market prices at the year-end and, to the extent that the contracts have been entered into for the purpose of obtaining economic exposure, have been reflected in the accounts on the basis of associated economic exposure. The corresponding liability is included in other investment liabilities. The associated economic exposure of a futures contract is the value of an amount of securities, which, if held as an alternative to the futures contract, would provide a similar return in the market to that obtained on the futures contract. All gains and losses on contracts are included in the net movement in market value of investments.
- Where forward sales or purchases of foreign currency have been made as a hedge against exposure on foreign currency investments, held or expected to be acquired, any unrealised profit or loss at the year end, measured by the difference between the spot rate and the contract rate, is included in the net movement in market value of investments under the same category as the foreign currency investment that is the subject of the hedge. Realised gains and losses on forward contracts maturing during the year are also included in the net movement in market value of investments within the same category.
- The property investments of the scheme are included in the accounts at open market value at the net assets statement date. This value is determined by independent external valuers in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. The properties have been valued by the Scheme's property valuer (see page 2). No depreciation is provided on property assets in accordance with SSAP19: Accounting for Investment Properties.
- Purchases and sales of properties are recognised in the accounts upon unconditional exchange of contracts. Property rental income is recognised on an accruals basis.

| Note 3 Contributions receivable | 2007 | 2006 |
|---|-------|-------|
| | £'000 | £'000 |
| Member's contributions | 2,494 | 2,909 |
| Members external additional voluntary contributions | 21 | 16 |
| Member's additional voluntary contributions | 0 | 1,156 |
| Company contributions ¹ | 0 | 0 |
| | <hr/> | <hr/> |
| | 2,515 | 4,081 |
| | <hr/> | <hr/> |

¹A two year cessation of Company contributions commenced on 1 August 1985, and has been extended, subsequently following each successive actuarial valuation.

| Note 4 Transfers in | 2007 | 2006 |
|---|-------|-------|
| | £'000 | £'000 |
| Transfers from other schemes – individual | 16 | 225 |
| | <hr/> | <hr/> |
| | 16 | 225 |
| | <hr/> | <hr/> |

| Note 5 Benefits payable | 2007 | 2006 |
|--------------------------------|---------|---------|
| | £'000 | £'000 |
| Pensions | 145,395 | 142,896 |
| Commuted lump sums | 15,053 | 8,384 |
| Death benefits | 484 | 1,187 |
| Child allowances | 273 | 291 |
| | <hr/> | <hr/> |
| | 161,205 | 152,758 |
| | <hr/> | <hr/> |

| Note 6 Payments to and on account of leavers | 2007 | 2006 |
|---|-------|-------|
| | £'000 | £'000 |
| Transfers to other schemes - Individual | 3,734 | 3,233 |
| Transfers to State Scheme | 26 | 247 |
| Refunds to leavers | 20 | 48 |
| | <hr/> | <hr/> |
| | 3,780 | 3,528 |
| | <hr/> | <hr/> |

| Note 7 Investment income | 2007 | 2006 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Dividends from equities | 60,589 | 57,606 |
| Income from fixed interest securities | 33,079 | 33,282 |
| Net rents from property | 13,209 | 13,311 |
| Income from index linked securities | 3,940 | 4,469 |
| Interest on cash account | 3,609 | 3,294 |
| Stock lending | 261 | 439 |
| Income from pooled investment vehicles | 173 | 0 |
| Tax reimbursement | 16 | 23 |
| Other investment income | 5 | 36 |
| Foreign exchange losses | (768) | (689) |
| Write-off of non recoverable withholding tax | (1,343) | (1,185) |
| | <u>112,770</u> | <u>110,586</u> |

Note 8 Fixed interest and index linked securities

| Fixed Interest | 2007 | 2006 |
|--|---------------|----------------|
| | £'000 | £'000 |
| UK Quoted | | |
| Government | 0 | 667,617 |
| Corporate – Western Asset Management Company | 69,785 | 0 |
| Corporate – Other | 0 | 10,635 |
| Overseas | | |
| Corporate – Western Asset Management Company | (6,317) | 0 |
| Corporate – Other | 9 | 33 |
| | <u>63,477</u> | <u>678,285</u> |

| Index linked | 2007 | 2006 |
|---------------------|----------|----------------|
| | £'000 | £'000 |
| UK Quoted | | |
| Government | 0 | 182,012 |
| Corporate | 0 | 11,433 |
| | <u>0</u> | <u>193,445</u> |

Note 9 Equities

| | Market Value | |
|----------|---------------|------------------|
| | 2007 | 2006 |
| | £'000 | £'000 |
| UK | 502 | 1,445,811 |
| Overseas | 20,224 | 757,276 |
| | <u>20,726</u> | <u>2,203,087</u> |

All the equity investments held by the Scheme are quoted.

Note 10 Pooled investment vehicles

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

| UK registered | 2007 | | 2006 | |
|---|-----------|------------------|-------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Legal & General | | | | |
| UK Index Fund | 1,413,909 | | 0 | |
| Gilts Index Fund | 605,691 | | 0 | |
| North America Fund | 236,417 | | 0 | |
| Over 5 years Gilts Index Fund | 232,887 | | 0 | |
| Europe Fund | 229,033 | | 0 | |
| Japan Fund | 175,366 | | 0 | |
| Money Markets & Cash Instruments | 146,395 | | 0 | |
| Asia Pacific Fund | 42,956 | | 0 | |
| Corporate Bonds Fund | 34,380 | | 0 | |
| CS Unitised Fund | 24,343 | | 0 | |
| | | 3,141,377 | 0 | 0 |
| Fidelity | | 1,414 | | 1,210 |
| Montanaro Smaller Euro Co Fund | | 731 | | 0 |
| Merrill Lynch Unquoted Units Fund | | 5 | | 0 |
| RIT Capital Partners plc | | 0 | | 836 |
| Invesco English & International Trust plc | | 0 | | 534 |
| Scottish Investment Trust | | 0 | | 465 |
| F & C Emerging Markets | | 0 | | 179 |
| Templeton Emerging Markets Inv Trust | | 0 | | 849 |
| Schroder UK Growth Fund plc | | 0 | | 153 |
| Eurotunnel plc | | 0 | | 153 |
| Mercury Unquoted Security Trust | | 0 | | 35 |
| Overseas registered | | | | |
| Capital International Emerging Markets Fund | | 42,017 | | 53,690 |
| | | <u>3,185,544</u> | | <u>58,104</u> |

Note 11 Market value of property investments

| Sector | 2007 | 2006 | Geographical | 2007 | 2006 |
|----------------------|---------|---------|----------------------|---------|---------|
| | £'000 | £'000 | | £'000 | £'000 |
| Industrials | 102,460 | 94,750 | South East | 132,370 | 113,875 |
| Offices | 48,825 | 44,800 | Scotland | 31,875 | 27,950 |
| Retail Warehouses | 52,900 | 50,300 | Yorkshire | 20,750 | 19,525 |
| Motor dealerships | 12,210 | 0 | East Midlands | 18,650 | 16,700 |
| Retail | 20,269 | 18,900 | North West | 11,800 | 10,160 |
| Residential | 181 | 160 | West Midlands | 10,375 | 10,250 |
| | | | Wales | 6,725 | 6,100 |
| | | | South West | 4,300 | 4,350 |
| Property Unit Trusts | 5,307 | 4,941 | Property Unit Trusts | 5,307 | 4,941 |
| Total | 242,152 | 213,851 | | 242,152 | 213,851 |

See page 29 for details of the valuation basis.

Note 12 External additional voluntary contributions

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

| | 2007 | 2006 |
|------------------|-------|-------|
| | £'000 | £'000 |
| Clerical Medical | 713 | 728 |
| Scottish Life | 569 | 663 |
| Standard Life | 396 | 433 |
| Fidelity | 124 | 123 |
| Century Life | 6 | 6 |
| Alba Life | 13 | 14 |
| | 1,821 | 1,967 |

Note 13 Change in market value of investments

| | Value at 1 April 2006 | Reclassify opening values | Purchases at cost | Sales Proceeds | Change in Market Value | Value at 31 March 2007 |
|--|--------------------------|---------------------------------|----------------------|--------------------|---------------------------|---------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equities | 2,203,087 | (7,730) | 523,371 | (2,732,055) | 14,143 | 816 |
| Fixed Interest securities | 678,285 | 3,404 | 731,450 | (1,329,111) | (20,551) | 63,477 |
| Index-linked securities | 193,445 | (3,423) | 152,767 | (346,667) | 3,878 | 0 |
| Pooled investment vehicles | 58,104 | 7,749 | 4,155,932 | (1,130,133) | 93,892 | 3,185,544 |
| Property | 213,851 | 0 | 12,970 | 0 | 15,331 | 242,152 |
| External Additional Voluntary Contributions | 1,967 | 0 | 0 | (229) | 83 | 1,821 |
| | <u>3,348,739</u> | <u>0</u> | <u>5,576,490</u> | <u>(5,538,195)</u> | <u>106,776</u> | <u>3,493,810</u> |
| Cash deposits | 124,350 | | | | | 47,004 |
| Other current investment assets and liabilities (See note 22). | 20,769 | | | | | 1,849 |
| | <u>3,493,858</u> | | | | | <u>3,542,663</u> |

Following the change of custodian the opening market value categories have been reviewed and a number of investments have been reclassified. The reclassification has no impact on the net assets of the scheme at 1 April 2006.

Note 14 Administration expenses

| | 2007 | 2006 |
|------------------------|-------|-------|
| | £'000 | £'000 |
| Administration | 1,144 | 1,242 |
| Computing costs | 577 | 574 |
| Web Site | 44 | 90 |
| Mortality Verification | 9 | 0 |
| Imaging | 0 | 4 |
| | <hr/> | <hr/> |
| | 1,774 | 1,910 |

Note 15 Professional adviser fees

| | 2007 | 2006 |
|--|-------|-------|
| | £'000 | £'000 |
| Hymans Robertson - Actuarial fees | 265 | 193 |
| Hymans Robertson - Investment Adviser fees | 144 | 129 |
| Allen & Overy - Legal fees | 159 | 102 |
| KPMG – Audit fees | 65 | 0 |
| Capita Health Solutions - Medical fees | 41 | 32 |
| Kroll LLP – Investigating accountant | 25 | 0 |
| Elkins/McSherry – Transaction costs analysis | 10 | 0 |
| Other advisers | 4 | 9 |
| Merrill Lynch – Transition management | 0 | 240 |
| Ernst & Young – Audit and tax fees | 0 | 97 |
| Thomas Murray – Custodian review | 0 | 59 |
| | <hr/> | <hr/> |
| | 713 | 861 |

Note 16 Regulatory levies

| | 2007 | 2006 |
|---|-------|-------|
| | £'000 | £'000 |
| Pension Protection Fund (Scheme based) | 439 | 747 |
| The Pensions Regulator | 90 | 38 |
| Pension Protection Fund (Risk based) | 29 | 0 |
| Financial reporting council | 1 | 0 |
| Pension Protection Fund (Administration levy) | 0 | 46 |
| | <hr/> | <hr/> |
| | 559 | 831 |

Note 17 Transaction Costs – Ordinary Shares

| Ordinary share portfolio | Brokerage commission £'000 | Taxes, duty £'000 | Other charges, fees £'000 | Total £'000 |
|--------------------------|----------------------------------|----------------------|---------------------------------|----------------|
| UK | 821 | 1,339 | 0 | 2,160 |
| Overseas | 225 | 120 | 0 | 345 |
| Transaction costs 2007 | 1,046 | 1,459 | 0 | 2,505 |
| Transaction costs 2006 | 1,052 | 1,302 | 14 | 2,368 |

Note 18 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 capitalized in the purchase price or deducted from the receipts of sales – see Note 13
- Included in the property section of the investment management expenses – see Note 19

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

| | 2007 | | 2006 | |
|---|-------|--------|-------|----------|
| | £'000 | £'000 | £'000 | £'000 |
| Purchases during the year | | 12,200 | | 443 |
| Costs associated with purchase | | | | |
| Stamp Duty | 488 | | 13 | |
| CB Richard Ellis Investors – transaction fees | 122 | | 7 | |
| Ashworth Sibal Welch | 122 | | 0 | |
| Pinsent Curtis – transaction fees | 33 | | 3 | |
| Other purchase costs | 5 | | 3 | |
| | | 770 | | 26 |
| Total purchase costs | | 12,970 | | 469 |
| Sales during the year | | | | (15,613) |
| Costs associated with sales | | | | |
| Rental guarantee | 0 | | 279 | |
| CB Richard Ellis – transaction fees | 0 | | 158 | |
| Dilapidation/remediation costs | 0 | | 144 | |
| Pinsent Curtis – transaction fees | 0 | | 25 | |
| Insurance | 0 | | 17 | |
| Other sales cost | 0 | | 5 | |
| | | 0 | | 628 |
| Total sales proceeds less costs | | 0 | | (14,985) |
| Net purchases and sales at cost | | 12,970 | | (14,516) |

Total property transaction and management costs

| | | |
|--|-------|-------|
| Property management costs (see note 19) | 1,525 | 1,885 |
| Costs associated with property purchases | 770 | 26 |
| Costs associated with property sales | 0 | 628 |
| | 2,295 | 2,539 |

Note 19 Investment Management Expenses

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| Non-property Management Expenses | | |
| TRW Investment Management Company Ltd | 2,821 | 1,711 |
| Legal & General Investment Management | 275 | 0 |
| Western Asset Management Company | 259 | 0 |
| ABN-AMRO Mellon | 233 | 0 |
| State Street Bank and Trust Company | 56 | 383 |
| | <hr/> | <hr/> |
| | 3,644 | 2,094 |
| | <hr/> | <hr/> |
| Property Management Expenses | | |
| | 2007 £'000 | 2006 £'000 |
| CB Richard Ellis | 591 | 602 |
| Atisreal | 142 | 126 |
| Pinsent Curtis | 87 | 102 |
| Biggart Baillie | 0 | 2 |
| Property Management Costs: | | |
| Vacant unit costs | 243 | 142 |
| Marketing & letting | 217 | 111 |
| Building & refurbishment | 145 | 341 |
| Lease capital contribution | 100 | 228 |
| Other | 21 | 20 |
| Head rent & rates | (21) | 211 |
| | <hr/> | <hr/> |
| | 1,525 | 1,885 |
| | <hr/> | <hr/> |
| Total investment management expenses | 5,169 | 3,979 |
| | <hr/> | <hr/> |

Note 20 Total Investment Management and Transaction costs

| | 2007 £'000 | 2006 £'000 |
|---|---------------|---------------|
| Non-property Management expenses (See note 19) | 3,644 | 2,094 |
| Property Management expenses (See Note 19) | 1,525 | 1,885 |
| Transaction costs - Ordinary shares (See Note 17) | 2,505 | 2,368 |
| Transaction costs - Property (See Note 18) | 770 | 654 |
| | <hr/> | <hr/> |
| | 8,444 | 7,001 |
| | <hr/> | <hr/> |

Note 21 Current assets and liabilities

| | 2007 | 2006 |
|-------------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Current Assets | | |
| Cash at Bank | 1,917 | 406 |
| Prepayments | 707 | 0 |
| Employee contributions ¹ | 186 | 40 |
| Other debtors | 43 | 4 |
| Administration VAT receivable | 41 | 52 |
| | <u>2,894</u> | <u>502</u> |
| Current liabilities | | |
| Unpaid benefits | (2,666) | (1,719) |
| Payable to TRW Limited | (1,920) | (518) |
| Investment expenses | (1,069) | (545) |
| Advisers fees | (70) | (205) |
| HM Revenue & Customs | (10) | (100) |
| Accrual and deferred income | (2) | (2) |
| Net property VAT payable | 0 | (177) |
| Administration expenses | 0 | (151) |
| | <u>(5,737)</u> | <u>(3,417)</u> |
| Net current liabilities | <u>(2,843)</u> | <u>(2,915)</u> |

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

Note 22 Other current investment assets and liabilities

| | 2007 | 2006 |
|--|---------|---------|
| | £'000 | £'000 |
| Current Assets | | |
| Dividends receivable | 2,868 | 13,445 |
| Interest receivable - bonds | 1,578 | 7,967 |
| Rent receivable | 1,141 | 1,663 |
| Balances due from brokers | 85 | 944 |
| Income tax recoverable | 0 | 247 |
| Interest receivable - cash/term deposits | 0 | 235 |
| VAT recoverable | 0 | 0 |
| | <hr/> | <hr/> |
| | 5,672 | 24,501 |
| Current liabilities | | |
| Balances due to brokers | 0 | (13) |
| Deferred rental income | (2,744) | (2,534) |
| Provision for property bad debts | (572) | (897) |
| Rental deposits | (276) | (195) |
| Property creditors | (228) | (93) |
| Other creditors | (3) | 0 |
| | <hr/> | <hr/> |
| | (3,823) | (3,732) |
| | <hr/> | <hr/> |
| Net other current investment balances | 1,849 | 20,769 |

Reports of the Auditors and the Actuaries

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

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

We have audited the financial statements of the TRW Pension Scheme for the year ended 31 March 2007 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Trustee and auditors

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable 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 of contributions received and for procuring that contributions are made to the Scheme in accordance with the Schedules of Contributions.

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

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the scheme during the scheme year ended 31 March 2007 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year); and

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

KPMG LLP
Chartered Accountants
Registered Auditor
2 Cornwall St
Birmingham
B3 2DL

29 October 2007

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Summary of Contributions

During the year ended 31 March 2007 the contributions payable to the Scheme under the Schedule of Contributions were as follows:

| | £'000 |
|--|-------------------|
| Employer normal contributions | 0 |
| Employee normal contributions | 2,494 |
| Total contributions under Schedule of Contributions | <hr/> 2,494 <hr/> |
| Employee additional voluntary contributions | 21 |
| Total contributions per Note 3 of the financial statements | <hr/> 2,515 <hr/> |

Approved by the Board

Date: 29 October 2007

Information about contributions

Contributions by the Company remain suspended until the next actuarial valuation, which will be based on data as at 31 March 2009. Members' normal contributions are at the rates specified in the Scheme rules for the different sections of the Scheme.

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

We have examined the summary of contributions payable under the Schedule of Contributions to the TRW Pension Scheme in respect of the scheme year ended 31 March 2007 which is set out on page 44.

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

Respective responsibilities of Trustee and auditors

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable 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 of contributions received and for procuring that contributions are made to the Scheme in accordance with the Schedule of Contributions.

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

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

Basis of statement about contributions

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

Statement about contributions payable under the schedule

In our opinion contributions for the scheme year ended 31 March 2007 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 14 May 2004.

KPMG LLP
Chartered Accountants
Registered Auditor
2 Cornwall St
Birmingham
B3 2DL

29 October 2007

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

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

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

Name of Scheme : TRW Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2006 is made in accordance with regulations under Section 222 of the Pensions Act 2004. the Calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 16 March 2007.

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

21 March 2007

Statement of Investment Principles

TRW Pensions Trust Limited

Statement of Investment Principles

This statement sets out the principles, which the Trustee of the TRW Pension Scheme will follow in determining its investment policy for the purposes of the Scheme. It has been prepared in accordance with the requirements of Section 35 of the *Pensions Act 1995 as amended by section 244 of the Pensions Act 2004*. The statement is subject to periodic review by the Trustee, at least every three years and without delay after any significant changes in investment policy.

This revised statement was approved at a meeting of the Trustee Board held on 13 August 2007. The Principal Employer has been consulted. The investment principles set out in this statement will be reviewed periodically and revised as necessary. Prior to the preparation of this statement the Trustee has obtained and considered written advice from Hymans Robertson LLP who are qualified to provide such advice in connection with the investment of the Scheme.

Fund managers

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

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

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

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

Investment management fees

The holdings with Legal & General Investment Management are invested in pooled funds. The fee structure is set out in the policy documentation and is based on the asset class and the amount invested within each asset class.

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

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

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

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

Investment Adviser

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

Investment objectives

The Trustee's investment objectives are:

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

The kind and balance of investments

The Trustee, acting on the basis of asset liability studies and subsequent advice provided to it by both the Scheme Actuary and Hymans Robertson, 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 investment managers to manage the fund within specified 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 the specified limits are as follows:

| Asset Class | Benchmark % | Minimum % | Maximum % |
|---------------------------------------|--------------------|------------------|------------------|
| Total Equities | 60 | 57 | 63 |
| UK Equities | 40 | 38 | 42 |
| Overseas Equities | | | |
| • North America | 7 | 6 | 8 |
| • Europe – ex UK | 6 | 5 | 7 |
| • Japan | 5 | 4 | 6 |
| • Asia Pacific – ex-Japan | 1 | 0.5 | 1.5 |
| • Emerging Markets | 1 | 0.5 | 1.5 |
| Total Bonds, Property and Cash | 40 | 37 | 43 |
| Fixed Interest | | | |
| • UK | 20 | 17 | 22 |
| Index Linked Bonds | | | |
| • UK | 8 | 7 | 9 |
| Corporate Bonds | 3 | 2.50 | 4.5 |
| Property | 7 | 5.5 | 8.5 |
| Cash | 2 | 1 | 3 |

In addition, the Trustee holds some cash in a unitised fund to meet ongoing payments from the Fund. This cash will be topped up from time to time, as required.

The proportion of the portfolio calculated at current market values shall be within the ranges shown above unless 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 lead manager will take such as is practicable and prudent, to bring the proportions within the specified limits. It has been agreed in principle how the lead manager will tackle any required rebalancing.

The Trustee considers that due to the indexed nature of approximately 85% 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 Scheme.

Risk

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

- Diversification among the selected asset classes is designed to reduce the risk that after taking account of the ongoing long term liability there will be insufficient assets to meet its Statutory

- Funding Objective and to cover its liability 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 ² | |
| • | | |
| • Passive | | 0% |
| • | | |
| Overseas Equities | | |
| • North America | FTSE World Index North America | 0% |
| • Europe ex-UK | FTSE World Index Europe ex-UK | 0% |
| • Japan | FTSE World Index Japan | 0% |
| • Asia Pacific | FTSE World Index Asia Pacific | 0% |
| • ex-Japan | (Developed)- ex-Japan | |
| • Emerging markets | MSCI Emerging markets free | 2% |
| Fixed interest | FT-A all stocks Gilt Index | 0% |
| Index linked | FT-A Over 5 year Index-linked Gilt index | 0% |
| Corporate Bonds | IBoxx sterling Non-Gilts All stocks index | 1.25% |
| Property | Retail Prices Index | 5% |
| Cash | LIBID 7 day rate | 0% |

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

Mandates to the Investment managers

The Board has explicit written mandates with 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. The lead investment manager is authorised to manage the assets within specified limits.

² 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

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.

Statutory Funding Objective

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

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

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. However, the Trustee notes that Legal & General take very seriously voting and engagement with companies.

Exercise of voting rights

The Trustee has delegated the exercise of voting rights to the Scheme's investment managers on the basis that voting rights should be exercised with the aim of preserving and enhancing long-term shareholder value. The investment managers provide reports on votes cast to the Trustee on a quarterly basis

Custodian

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

13 August 2007

Summary of Funding Statement

TRW Pension Scheme

Summary Funding Statement

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

This is our second annual summary funding statement and it is based on an actuarial valuation carried out as at 31 March 2006. This valuation has taken into account the new scheme funding requirements of the *Pensions Act 2004*.

Funding level

The ongoing funding valuation of the TRW Pension Scheme

| | 2006 | 2003 |
|-----------------------------------|----------------|----------------|
| Assets | £3,472 million | £2,534 million |
| Amount needed to provide benefits | £3,041 million | £2,475 million |
| Excess | £431 million | £59 million |
| Funding level | 114% | 102% |

The company is not required to pay contributions into the Scheme until at least 1 April 2010. There is no change in the rate of active members' contributions.

Change in the funding position since the 31 March 2003 valuation

Since the above actuarial valuation took place, the funding level improved from 102%, with an excess of £59 million, to the level detailed above.

The main reason for the change has been very strong investment returns between 2003 and 2006. These returns have, however, been offset by a reduction of around £529 million due to changes in the assumptions used in the 2006 actuarial valuation. These changes include modification to the financial assumptions, a further allowance for future improvements in life expectancy and changes in cash commutation rates when retiring members exchange some of their pension for a tax-free lump sum. These modifications to the assumptions explain the reduction in the estimated funding level of 125% as at June 2006 (based on the 2003 actuarial assumptions) that was disclosed in our first *Summary Funding Statement*.

Payments to the Company

There has not been any payment to the Company out of Scheme funds in the previous twelve months, and no such payments are anticipated.

Your questions answered

How does the Scheme operate?

The TRW Pension Scheme is a final salary pension scheme. With this type of scheme, employee members and the Company pay contributions (although the Company has not been required to pay contributions into this Scheme for some time). These contributions are then invested in funds that are expected to provide income, and to increase in value. The combination of contributions, investment income and growth is then used to pay members' pensions. The money to pay for members' pensions is held in a common fund. It is not held in separate individual funds for each member.

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

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

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

Why is the Company's support important?

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

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

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

The current financial position assumes that the Scheme will continue, with the Company's support. In the event that the Scheme was to close (this is called winding up), the Scheme Actuary has estimated that, as at 31 March 2006, the Scheme would need £4,158 million to ensure that all members' benefits could be paid in full. This suggests a shortfall of around £686 million compared with the amount of money actually in the Scheme at that date. The comparable figure at 31 March 2003 was £1,405 million.

The reason these amounts differ from the ongoing funding valuations, which show a surplus both in 2003 and 2006, is because if the Scheme winds up it is assumed that the money will be used to buy a policy from an insurance company that will then be used to pay the pensions promised. Such insurance policies are very expensive.

If the Company could not continue to support the Scheme, an alternative to buying insurance policies would be for the Scheme to run on as a closed fund. This means that no further benefits would be granted and the Scheme would continue to meet benefit payments as it does now. This would avoid the need to purchase expensive insurance policies. In this event it is likely that the Trustee would transfer Scheme funds into more secure investments such as bonds. It is estimated that at 28 February 2007, the Scheme has sufficient assets to invest largely in Government Stock with a small proportion in high quality corporate bonds and meet the cost of all benefits earned to date in full.

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

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

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

What is the Pension Protection Fund?

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

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

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

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

Why have pensions become more expensive?

The main reasons are as follows:

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

How are the Scheme's assets invested?

The Scheme's investment managers invest the Scheme's assets with the aim of increasing their value and providing income that can be used to pay the promised benefits. The Trustees' policy, which is regularly reviewed, is to invest broadly in line with the following benchmark:

| Asset Class | Benchmark % |
|----------------------|--------------------|
| UK Equities | 40 |
| Overseas Equities | 20 |
| Fixed interest bonds | 20 |
| Index linked bonds | 8 |
| Corporate bonds | 3 |
| Property | 7 |
| Cash | 2 |

Further information

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

Important

If you are thinking of leaving the scheme for any reason, you should consult a professional advisor, such as an independent financial advisor (IFA), before taking any action. For a list of IFAs local to you call the IFA promotion helpline on 0800 0853250 or go to www.unbiased.co.uk

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

Additional documents available on request

Annual Benefit Statements

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

Summary of Benefits leaflets

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

Report and Accounts of the TRW Pension Scheme

These show the Scheme's income and expenditure in the year. The Report and Accounts for the year ending 31 March 2006 are available on the Scheme website.

Statement of Investment Principles

This explains how the trustees invest the money paid into the scheme. The Statement is included in the Report and Accounts.

Statement of Funding Principles

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

Actuarial Valuation

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

Schedule of Contributions

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

TRW Benefit Administration
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Birmingham B37 7YE
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