intouch

Autumn 2008

AgustaWestland

Westland Pension Scheme

Review of the year

This edition of intouch provides you with a summary of the latest Trustees' Report and Accounts. Inside you can find;

- The year in figures - the key information from the Scheme accounts for the year
- Investment report - how the investments have performed and how strategy has changed
- Funding report - the estimated valuation position at the year end

Introducing our new trustee

We are pleased to introduce Colin Grindle who was appointed by the Company on 10 July 2008 to serve as a Trustee of the Scheme. Colin has a wealth of experience in pensions which we hope will inform and enhance the decision making of the Trustees. Prior to his recent early retirement, Colin was responsible for the pension arrangements at Lloyds TSB group. He lives in the Bristol area and is rediscovering what it is like to be a father again as he has a daughter of almost two. He is a keen photographer and enjoys rock music and films.

Colin Grindle
New Trustee

Elsewhere in this edition

- AVC flexibility - a message for current members
- Westland Retirement Association - a message for pensioners
- Transfer values - a message for deferred members

The year in figures

The table below is taken from the Scheme accounts for the year to 5 April 2008, which have been audited by Ernst & Young LLP.

	05 April 2008 £m	05 April 2007 £m
Value of Scheme at year start	**508.5**	**462.1**
+ Income		
Company contributions	32.5	15.3
Member Contributions	0.3	0.6
smart	10.4	7.3
Other contributions	3.8	2.9
	47.0	**26.1**
- Outgoings		
Pensions	8.0	7.0
Lump sums	5.2	2.1
Other benefits	0.9	1.3
Administration expenses	1.0	0.7
Pension Protection Fund	0.8	0.3
	15.9	**11.4**
+ Net return on investments		
Investment income and change in market value	9.8	33.6
Less investment expenses	1.3	1.9
	8.5	**31.7**
Value of Scheme at year end	**548.1**	**508.5**

If you would like to see a copy of the full annual Report and Accounts please contact the Pensions Department. The contact details are on the back page.

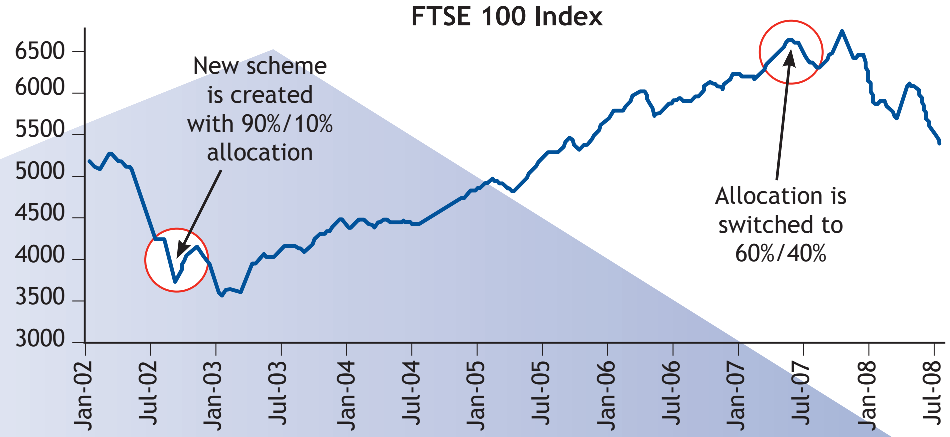
Investment report

One of the most important things the Trustees have to do is invest the money that is in the Scheme. If we can achieve good investment returns it will help to keep the level of contributions as low as possible, ensuring at the same time we don't take unnecessary risk.

All the key decisions are taken by the Trustees together but we also have an investment sub-committee to do detailed investigation and analysis. Most importantly we rely on our professional investment consultants to provide expert advice and guide us through the more complex investment ideas.

Last year we did a very detailed review of our investment strategy with our new investment consultants, Watson Wyatt, and concluded that the strategy had an unacceptable level of risk. This year we have been implementing a new strategy which has involved:

- changes in asset allocation,
- a new method of managing liability risk, and
- an extended and diversified line up of investment managers.



Asset allocation

A key decision the Trustees take is the balance between "return-seeking" and "matching" assets. By return-seeking we mean riskier assets (e.g. equities) whose values go up and down but are expected over the long term to perform well and, hence, help to control the amount of contribution that has to be paid. By matching we mean safer assets (e.g. Government and corporate bonds) whose values are expected to change over time in line with the change in value of the Scheme's pension liabilities but will not add any extra value.

This balance between risky and safe assets is a key decision for the Trustees. The funding position of the scheme means we need help from investment returns but the volatility of markets means that returns in the short term can be poor. In July last year funding conditions were quite favourable and so the Trustees took the opportunity to switch from 90% return-seeking assets and 10% matching assets to 60% return-seeking and 40% matching. This reduced the Scheme's exposure to market volatility while keeping the overall expected return in line with the assumption in the Scheme's funding plan.

The chart, top right, shows the two major asset allocation decisions taken by the Trustees so far for the Scheme against the history of the FTSE 100 Index of UK shares.

Liability risk

In addition to this asset allocation switch, the Trustees have been implementing a "swaps" strategy. A lot of the volatility in the funding position of the Scheme comes from interest rates and inflation which influence significantly the value that the Actuary places on the Scheme's liabilities. Swaps allow this risk to be taken by a bank.

For example if interest rates fall and hence the value of the liabilities rise, an investment bank owes the Scheme money to cover the rise in value. If interest rates rise, by contrast, the Scheme owes money to the bank, but importantly the liabilities will have fallen in value as well.

We have appointed a swaps manager, Barclays Global Investors, and have agreements in place with four banks. So far (and including our holding in matching index linked gilts) we have swaps in place over 32% of the liabilities. The Trustees are expecting to put swaps in place over more of the liabilities, although this does depend on what market conditions are like.

Diversified managers

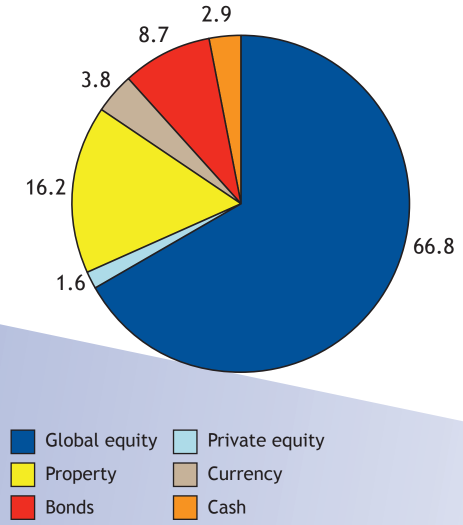
Another way to reduce risk is to have investment managers that pursue different strategies compatible with overall objectives. Over the year the Trustees have ended their relationship with four managers for whom there were concerns about past or future performance. They have appointed 13 new ones while 6 have been retained from the previous line up. We need this many managers to get access to the various different asset types and management styles and ensure that under performance of a single strategy does not affect us too severely. Our investment consultants, Watson Wyatt, have been given a "proactive" mandate to bring their best ideas to us quickly and help us implement them promptly.

The new line up (including one that happened after the end of the year) is set out below:

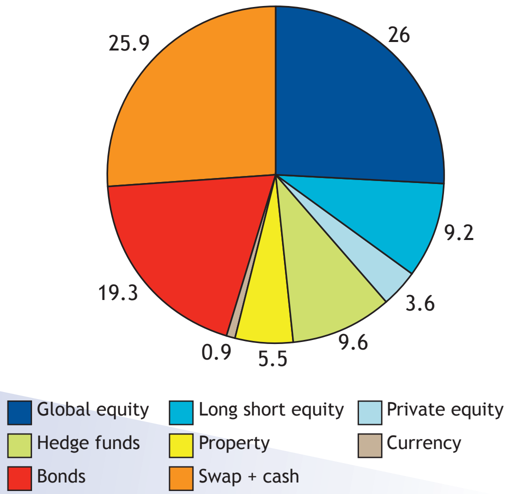
Return seeking assets (60%)		Matching assets (40%)
Equity (40%)	Alternatives (20%)	
Global equity: Alliance Bernstein, Baillie Gifford, Carnegie, Edinburgh Partners and WCM	**Private equity:** Pantheon, HarbourVest, Matlin Patterson	**Bonds:** Rogge, Goldman Sachs, Barclays Global Investors
Long short equity: Levin, RWC, Indus	**Hedge funds:** K2, BlueBay	**Swaps and cash:** Barclays Global Investors
	Property: ING	
	Infrastructure: Alinda	
	Currency: Record	

The pie charts below show the actual allocation between these asset classes at the beginning of the year and what the allocation was at the end:

Asset Allocation at 5 April 2007



Asset Allocation at 5 April 2008

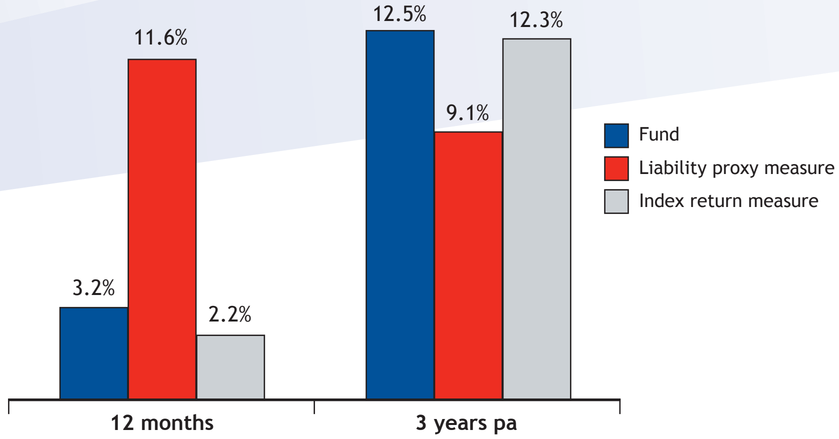


Have our changes worked?

Associated with the investment risk review, the Trustees have been reviewing how they assess what success means in investment performance. In the past we have always looked at a measure of the appropriate "index returns" for each asset type in which the Scheme has invested. This shows how well we have done in finding investment managers that are better than the average.

The Trustees think it is also helpful to consider how the investments have performed compared to a measure of how the overall obligation to provide pensions has grown over the relevant period. We call this the "liability proxy".

The tables below show you how well we have done against each of these benchmarks over one year and three year periods to 5 April 2008.



You can see that over three years we have outperformed both of these benchmarks.

Over one year we have done better than the index return for our investments so our managers have done better than average. However we have done significantly worse than the growth in our liabilities – reflecting the fact that through the "credit crunch" period there has been no investment reward for taking risk. This effect can also be seen in the deterioration of our funding position described below.

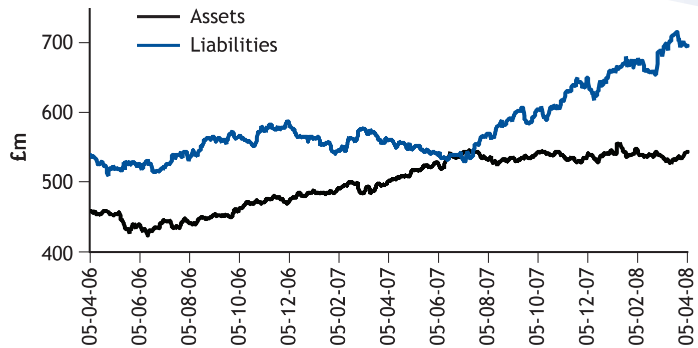
While this performance below liabilities is disappointing, the Trustees have evidence that the actions they have taken to reduce risk have provided valuable protection. For example the Actuary has indicated that if the previous 90/10 strategy had remained in place through the "credit crunch", our funding position at the end of the year would have been worse by £27m.

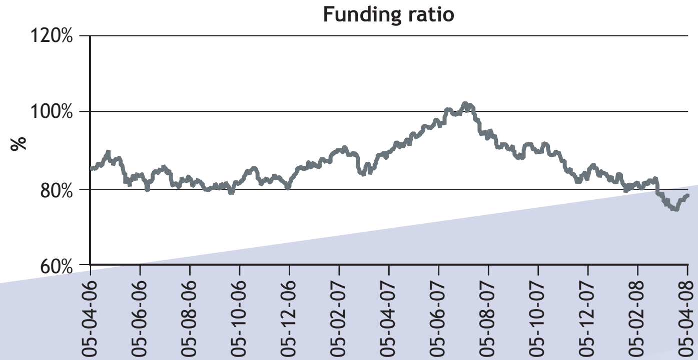
Funding report

The valuation is the very important process of determining the amount of money that needs to be paid into the Scheme to build up the common fund from which the pensions are paid.

The last formal valuation took place as at 5 April 2006 when, after detailed discussions between the Trustees, the Company and the Pensions Council, a ten year plan to recover the deficit was put in place.

The Trustees monitor the funding position regularly and the chart below shows how the position has developed since the formal valuation:





You can see how the funding position improved up to July last year when the switch to 60/40 took place. It then deteriorated through the "credit crunch" period as is reflected in the investment performance figures. One of the main causes has been the increase in inflation expectations.

Figures in detail

The actual figures at the last valuation and the estimated figures at the end of the last two Scheme years is shown in the table below.

	5 April 2006 valuation	5 April 2007 estimate	5 April 2008 estimate
Assets	£458m	£503m	£544m
Liabilities	£538m	£560m	£696m
Shortfall	£80m	£57m	£152m
Funding level	85%	90%	78%

You can see how volatile the funding position is. The Trustees are currently conducting an interim valuation which is intended to help prepare for the next formal valuation which is due as at 5 April 2009. This research has suggested that there is a need to use more demanding assumptions for the growth in salary increases and (because of regulatory recommendations) life expectancy. While it is to be hoped that conditions will improve by next year, it is important to recognise at this stage that the Scheme faces a significant challenge to achieve greater funding stability.

What if?

The funding numbers we have shown you are from the “on-going” valuation. It assumes that the Scheme will continue with the support of AgustaWestland. In addition the Trustees are required to review the position if that support was no longer available.

The “solvency” position is what might happen if the Scheme stopped and the benefits were instead “bought out” with an insurance company. The solvency position is worse than the ongoing one because an insurance company would manage the money much more cautiously than the Trustees are currently able to do with the ongoing support of AgustaWestland. A margin is also built in for the insurance company’s expenses and profit. At the last valuation date (5 April 2006) the estimated funding ratio on this measure stood at 50% and the latest estimate at the year end was 60%. The position has improved because of increasing competition among insurers and better terms for the assets the insurers would use to support a buy-out.

The Covenant

The Trustees are able to manage the Scheme on the “on-going” basis because of the continuing support of AgustaWestland. This is crucial because in a defined benefit plan like ours, all of the money is held in a common fund and ultimately, if there is not enough money to pay the benefits, the Company is required by law to put more in. This means that we can carry on paying benefits in full while the funding level is below the target.

As part of the research for the valuation the Trustees review AgustaWestland’s financial strength. To do this we look at lots of information from different sources. For example this year we have received presentations from Company management about business results and obtained independent analysis of the accounts of both AgustaWestland and its ultimate parent company, Finmeccanica.

For the avoidance of doubt, the Trustees have made no payments to the Company out of Scheme funds other than those required for the pension administration services provided by employees of Westland Helicopters Limited.

Worst case scenario

The “what if “ section opposite illustrates the amount of money the Company would need to pay to the Scheme if ever it wanted to wind up the Scheme.

The Trustees are also required to pay levies to the Pension Protection Fund (PPF). Our levy for the year to 5 April 2008 was £769,000 compared with £340,000 the previous year. In the unlikely event that the Company became insolvent, the Trustees could call upon the PPF to compensate members, which currently provides up to 90% benefit protection in most cases.

If you would like more information about the Pension Protection Fund you can visit their website at www.pensionprotectionfund.org.uk or write to them at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

Rule changes

A number of changes to contributions and benefits were made during the year with effect from 1 May 2007. In summary the changes were as follows:

- Member contributions for the main section increased by 1.5% of relevant salary. For the various senior sections the increase was 2%.
- Pensionable age is 63 for future pensionable service (other than under the Pilot section which is 60).
- Pensionable salary is averaged over the best three consecutive years in the last ten at the date of leaving service. There is an underpin of the value at the date of change increased with price inflation, subject to a maximum of 5% per annum.
- An option to “buy up” to an accrual rate of 65ths or 60ths for future service was introduced for the main section.
- The ill health rule was clarified as applying to permanent incapacity only.
- Changes were made to take advantage of the simplified tax regime effective from 6th April 2006. Some restrictions on AVCs were removed and cash commutation terms were improved. A new option was introduced to draw pension payable on death in service as a lump sum.

Associated with these changes the Company decided to close the Scheme to future employees on 11 September 2007. Instead new employees are able to join a separate defined contribution scheme known as FuturePlanner.

Other information

If you want more information about the Scheme there are several documents you can ask for:

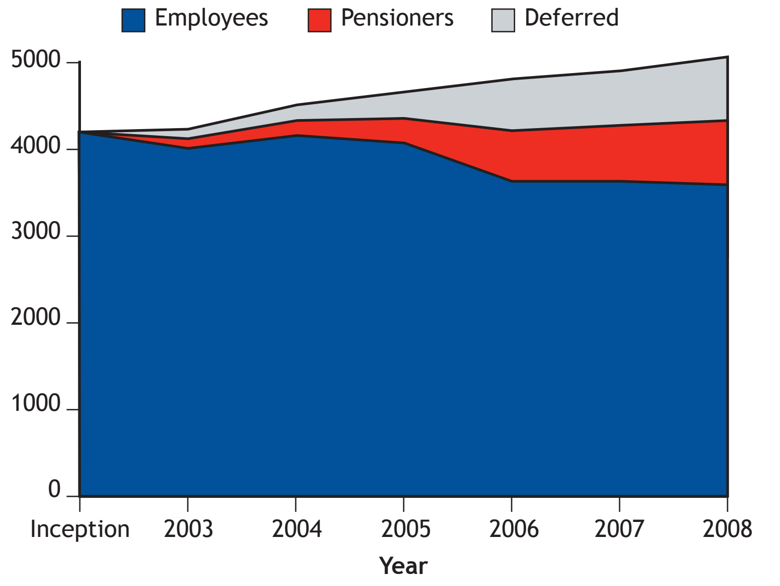
- Report and Accounts - for the period ended 5 April 2008
- Statement of Funding Principles - sets out the Scheme's funding plan.
- Statement of Investment Principles - explains how the Trustees invest the money paid into the Scheme.
- Recovery Plan - explains how the funding deficit is being made up.
- Schedule of Contributions - shows how much money is being paid into the Scheme.
- Actuarial Valuation Report - shows the results of the Actuary's investigation of the valuation position as at 5 April 2006.
- Actuarial Update - shows the Actuary's estimate of the valuation position as at 5 April 2008.

Please contact the Pensions Department if you would like to see any of them.

If anything you have read in intouch has caused you to think of leaving the Scheme for any reason, it is recommended that you seek professional financial advice before taking any action.

Membership numbers

As our Scheme was only launched back in 2002 it is very "young". This means that the majority of our members are employees who are paying contributions and building up benefits. By contrast, most schemes in the UK are "mature" with most of the benefits belonging to retired members or those who have left service. The Scheme closed to new entrants on 11 September 2007. You can see below how the membership has developed since the start of the Scheme.



AVC flexibility

The spring 2008 edition of intouch (sent only to current members of the Scheme) described changes in the Scheme's voluntary savings options.

These consist of the popular "buy up" option which allows members of the main section each May to elect to pay an increased amount that will provide an accrual rate of 65ths or 60ths (instead of the standard 70ths) for the next year of pensionable service.

In addition all members of the Scheme are able to pay AVCs which provide "money purchase" pension benefits. These involve more risk than "buy up" depending on which investment option you pick but they are also more flexible.

In particular please note that **AVCs can be changed** at any time. You can start, stop, increase or decrease the amount you pay in any month, subject only to notice being given to meet payroll deadlines.

You can also pay a one off amount in any month provided that it is within your salary for that month (although you may wish to think carefully before paying beyond your tax free personal tax allowance).

Which voluntary saving option is best for you is an impossible question to answer. In general terms the Trustees have tried to set up suitable options for different types of investment need. You will find below a further copy of the table we provided in the last edition of intouch which groups the AVC investment options (and "buy up") by those different needs:

Saving for extra pension: **"Buy up" or Lifestyle or With profits**
Long term saving for extra cash: **Absolute return**
Short term saving for extra cash: **Cash option from Pick & Mix**
Expert investor: **Pick & Mix**

Please note that there is no guarantee that these options will work best for the relevant investment need.

If you invest in the Lifestyle fund please remember that you can select a **target retirement date**. This sets the period over which your funds will be moved from equities into the cash and the retirement protection funds. The default target retirement date is age 65. If your retirement plans change and you would like to select a different target retirement date please contact the Pensions Department.

Please note that you are wholly responsible for the investment decisions you take. If you are not sure what to do it is recommended that you take professional financial advice.

A message for deferred members – change in transfer values

Deferred members of the Scheme may be interested to know that new transfer value regulations come into force from 1 October 2008. These give responsibility to the Trustees, after taking advice from the Actuary, for setting the value available if you wish to transfer your pension to another pension arrangement.

The previous transfer regulations tended to result in relatively ungenerous sums being available and as a result it has become rare for deferred members to transfer their pensions.

The Trustees are currently in the process of setting the new basis and you may wish to note that it is expected to result in an increase in the amount of money that would be payable.

Of course, it is still a difficult decision to know whether to transfer your pension. In particular transfers often result in you giving up a guaranteed benefit in the hope of getting a better result from managing the money in a different way - but clearly the result could also be worse.

If you are considering a transfer it is recommended that you take professional independent financial advice. In particular you may find it helpful to ask about the "critical yield" – this is the amount of investment return you may need to get a better pension than the one that is currently guaranteed by the Scheme.

Please note that the Trustees reserve the right to charge you for a transfer quotation if you request one more than once each year.

New development

The Trustees have, in the past, made available some simple modelling tools on the Scheme's intranet site which have been popular with members. You may be interested to learn that we are in discussion with our third party administrators, Aon with a view to creating, during 2009, a full internet site. This would provide "self service" access to your records and the ability to obtain online forecasts at any time (rather than just through the annual Benefits Statement). We will keep you informed as this project progresses.

Westland Retirement Association - a message to pensioners from the membership secretary

As a recipient of intouch and if you are receiving a pension from the Westland Scheme, you, your wife or partner, are entitled to a free ‘lifetime’ membership of the above Association.

The Association was founded in 1981 and is run solely by a committee of retired volunteers. Its aim is to help pensioners have an active and enjoyable retirement, and keep in contact with their past and present work mates. There is a branch at Yeovil, Isle of Wight, Portsmouth, and Weston Super Mare.

The branch here at Yeovil, provides many fun activities, such as regular coffee mornings, with guest speakers, dancing, draws, bingo, etc. For the more energetic, there is rambling, tea dances, and keep fit.

For those who like coach outings, the branch have a very professional travel team, who organise many half and full day excursions, together with mid and weekend breaks. This is supported by several annual opportunities for foreign holidays.

The branch has an active Welfare team who provide support and communication for those who are suffering or finding life a little more difficult.

I have asked intouch for the privilege to write this, in an effort to inform all of you of this excellent provision. If you knew - great! If you were unaware and wish to know more, please feel free to contact me:-

Mr Paul Murley
Group Membership Secretary
‘Shervil’
6 The Torre
Yeovil
BA21 3SL.

Telephone 01935 475531

E-Mail mightymurl@shervil.fsnet.co.uk

Or visit www.westlandretirementassociation.org

Getting in touch

There are a number of ways you can contact the Scheme.

If you have questions about your benefits you can speak to our third party administrators, Aon, direct on:	**0117 945 3517**
or you can email them at:	**westland@aonconsulting.co.uk**
Alternatively for questions to the Trustees or other matters you can contact the Pensions Department on:	**01935 705353**
you can email them at:	**pensions@agustawestland.com**
or visit the Yeovil site Pensions Department in:	**Building 212**
The Scheme address is:	**Westland Pension Scheme, Box 205, Yeovil, BA20 2YB**