intouch

October 2007

AgustaWestland

Westland Pension Scheme

Review of the year

This edition of intouch provides you with a summary of the latest Trustees Report and Accounts together with an update on the Scheme's funding position as at 5 April 2007.

It has been a challenging year for the Scheme as the Trustees have completed their first valuation (as at 5 April 2006) under the new pension regulations. In the August 2007 intouch we described the process we have been through and the responsibilities we have fulfilled to prepare our recovery plan for the Scheme's deficit. **We are pleased to confirm that we have now received a response from the Pensions Regulator who has accepted the plan.**

We were also pleased to note that, following some further concessions and clarifications from the Company, the various changes to our Scheme associated with the recovery plan now have the support of the Pensions Council. We have summarised the various benefit changes elsewhere in this issue.

Also elsewhere in this issue you will find the key information from the Report, including:

- **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
- **Rule changes** - a summary of the benefit and contribution changes from 1 May 2007.

The year in figures

	05-Apr-07		05-Apr-06	
Value of scheme at start of year	**£462.1**	**m**	**£350.4**	**m**
+ Income				
Company contributions	£15.3	m	£15.0	m
Member contributions	£0.6	m	£2.3	m
Smart	£7.3	m	£5.2	m
Other contributions	£2.9	m	£6.4	m
	£26.1	**m**	**£28.9**	**m**
- Outgoings				
Pensions	£7.0	m	£5.5	m
Lump sums	£2.1	m	£10.3	m
Other benefits	£1.3	m	£0.6	m
Administration expenses	£0.7	m	£0.7	m
Pension Protection Fund	£0.3	m	£0.1	m
	£11.4	**m**	**£17.2**	**m**
+ Net return on investments				
Investment income and change in market value	£33.6	m	£101.4	m
Investment expenses	£1.9	m	£1.4	m
Value of scheme at year end	**£508.5**	**m**	**£462.1**	**m**

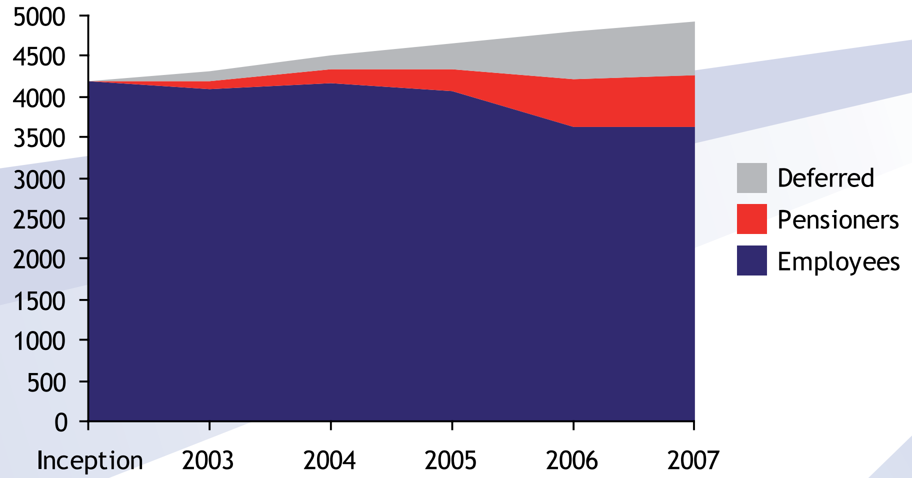
The table left is taken from the Scheme accounts for the year to 5 April 2007, which have been audited by Ernst & Young LLP.

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.

Membership

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.

You can see how the membership has developed since the start of the Scheme below:



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 get good returns it will help to keep the level of contributions as low as possible, but we need to make sure as well that we don't take too much 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.

This year the Trustees have conducted a major review of its investment strategy and, in particular, the level of risk being taken by the Scheme. We wanted to think through in detail the implications of the volatile nature of the funding position and the potential impact this has on both members and the Company.

We concluded that the strategy should, over time, evolve to reduce the short term volatility while still seeking appropriate returns to achieve the funding objective. To pursue this revised objective, the Trustees also concluded that it was the right time to change the investment consultants.

We interviewed a number of providers and decided to appoint Watson Wyatt with effect from 1 February 2007.

With the assistance of Watson Wyatt, we are considering a number of changes in asset allocation strategy to reduce risk and volatility.

One significant change was a revision of the balance of the allocation between return-seeking and matching assets which took effect on 11 July 2007. By return seeking we mean riskier assets that in the long term are expected to add value for the Scheme. By matching we mean low risk assets that move in line with our liabilities. Previously the allocation was 90% return-seeking assets (e.g. equities) and 10% matching assets (e.g. bonds) and this was changed to 60% return-seeking and 40% matching.

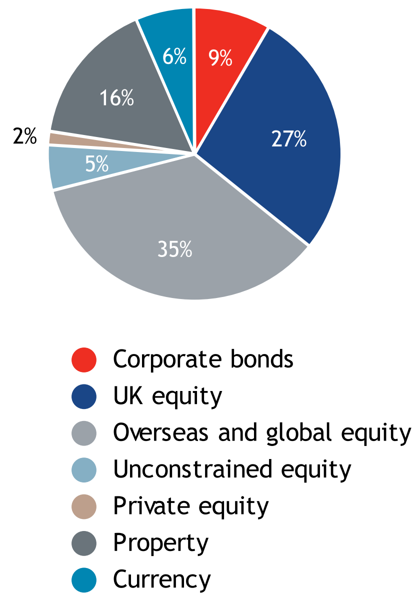
This switch was implemented at a time when the funding level of the Scheme was favourable and it has provided helpful protection during the recent period of market instability.

Associated with this change new bond mandates have been signed with Rogge and Goldman Sachs as well as a new index linked mandate with Legal & General. The Trustees are also considering other forms of investment solution that help to reduce risk.

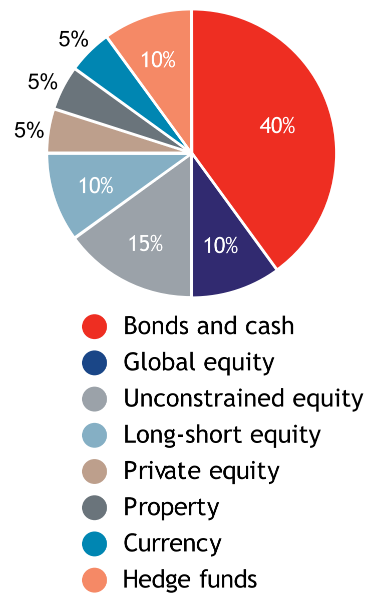
Within the 60% currently allocated to return-seeking assets the Trustees are also looking for more efficient performance through diversification. To date new mandates have been signed with a private equity manager (Matlin Patterson), a Japanese market long/short equity manager (Indus) and a fixed income hedge manager (BlueBay). Discussions with other potential new managers are also underway.

We have provided below two pie charts. The first shows what the investments were at the end of the last Scheme year. The second illustrates what the revised strategy may look like at the end of the review process. We expect to have concluded the transition to our new strategy by the end of the next Scheme year and will provide more information in our next annual report.

Asset Allocation at 5 April 2007



Target Asset Allocation



Investment line up

The table below provides you with the line up of investment managers as at 5 April 2007, with the proportion of the fund that they held and a summary of the service they provide. You will see that several of the providers are shown as being "manager of managers" which means that they select a mix of specialist investment firms on behalf of the Trustees.

Provider	Size	Type of mandate	Manager of managers?
Russell	28.5%	Company shares in the UK and overseas on an active basis	Yes
Legal & General	22.3%	Company shares in the UK and overseas on a low cost 'passive' basis	No
Alliance Bernstein	9.9%	Company shares around the globe on an active basis performance incentive	No
Baillie Gifford	5%	Company shares around the globe unconstrained by a benchmark	No
ING	14.3%	Commercial UK property	Yes
Standard Life	1.7%	Commercial UK property	No
Fidelity	8.6%	Company bonds	No
Pantheon and HarbourVest	1.5%	Private equity commitments	Yes
Record	6.4%	Currency markets	No

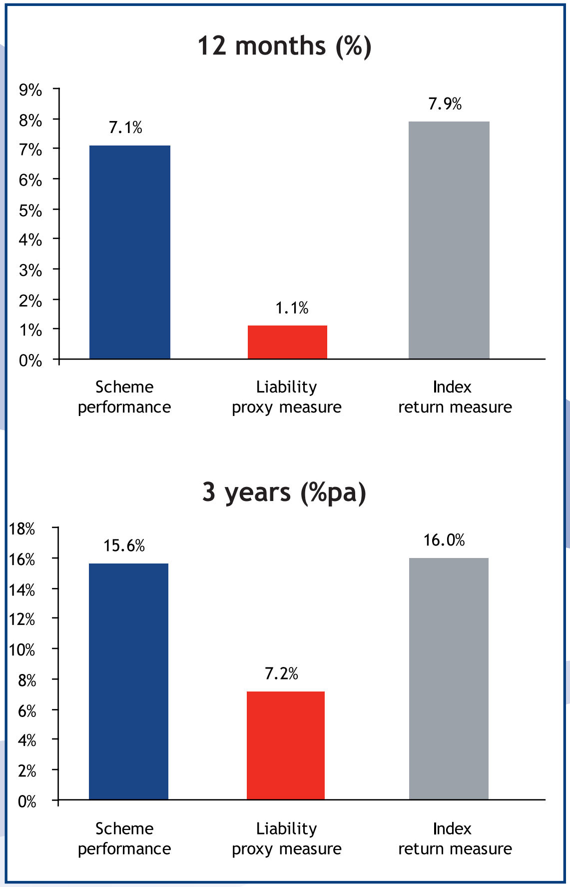
In addition 1.8% of the fund was in cash, AVCs and amounts due at the year end.

Performance

Associated with the investment risk review, the Trustees have been reviewing how they assess what success means in the 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 think about how the investments have performed compared to a "liability proxy" measure which estimates how the overall obligation to provide pensions has grown over the relevant period.

The charts opposite show you how well we have done against each of these benchmarks over one year and three year periods to 5 April 2007.



Scheme funding

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. A major task for the Trustees over the past year has been the first formal triennial valuation prepared under the new Scheme Specific Funding requirements of the Pensions Act 2004.

The first estimate completed by the Actuary found a significant funding shortfall and this led to a lengthy series of consultations between the Company and the Trustees and separately between the Company and the Pensions Council. A number of changes to contributions and benefits were made with effect from 1 May 2007 which are described elsewhere in intouch.

The Actuary then finalised his valuation report and the key figures are set out below:

Assets	£458m
Liabilities	£538m
Shortfall	£80m
Funding level	85%

In addition to the cost of benefits for future service, the Company is paying additional contributions to recover the shortfall. As the Scheme is now closed to new entrants the Trustees asked the Company to make the additional payments in the recovery plan as absolute £ numbers (rather than as a percentage of a reducing payroll).

The payments are as follows;

- Six payments of £5m, the first paid in May 2007 and then in January of each year until 2012.
- A payment of £4.1m in May 2007 followed by £6.3m each January from 2008 to 2017 increasing by 4.1% each year.

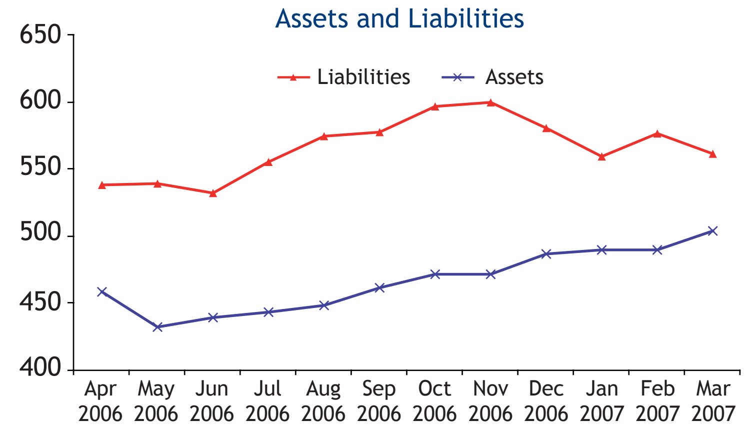
The Company also pays each calendar year's future service contributions in advance with an adjustment at the end of the period for any under or over payment based on the actual membership.

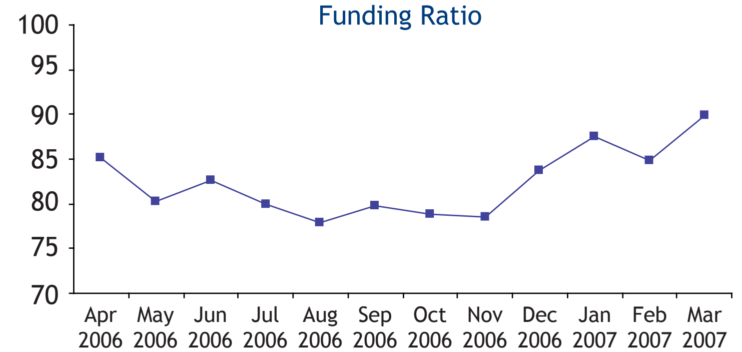
Recent developments

The Trustees also track the progress of the valuation (on an estimated basis) over time. The Actuary has provided his estimate of the position as at 5 April 2007 (the date of the Trustees Report) which is that the funding ratio had improved to 90% or a shortfall of £57m.

The reasons for the improvement are that the investment returns have been higher than expected. Also long term interest rates have increased which, all other things being equal, results in a lower value being placed on the liabilities.

It is important to recognise that the valuation position does change greatly from month to month (even from day-to-day). To illustrate this the graphs below show the funding position at each month end throughout the last Scheme year.





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 also look at some worst case scenarios:

The "wind up" position is what might happen if the Scheme stopped and the money was instead passed to an insurance company. As at 5th April 2006 the funding ratio on this measure stood at 50% or a shortfall of £456m. The estimated position as at 5th April 2007 is a ratio of 54% or a shortfall of £432m. The costs of "wind up" are so large 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 companies expenses and profit.

The Trustees also monitor the "closed fund" position. This assumes that the Scheme stops but the Trustees carry on by themselves rather than pass the money to an insurance company. Over the year to 5th April 2007 the funding ratio improved from 69% to 73%.

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 illustrates the amount of money the Company would need to pay into the Scheme if it ever wanted to wind it up. In the unlikely event that the Company became insolvent a claim could be made to the Pension Protection Fund which might be able to take over the Scheme and pay compensation to members.

The Scheme is required to pay levies to the Pension Protection Fund because of this protection. Our levy for the year to 5 April 2007 was £340,000.

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 with effect from 1 May 2007 as part of our recovery plan for the deficit identified at the valuation. 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.
- 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 plus inflation over the period to retirement (retail prices index up 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.

The Trustees also updated the actuarial administration factors to be consistent with the valuation as at 5th April 2006. This has seen an improvement in the terms available for commuting pension into a cash lump sum.

Closure to new entrants

Associated with these changes the Company decided to close the Scheme to new recruits. Those affected have been able to join the Scheme as interim members and receive lump sum death in service cover only while the Company considered and consulted over its revised arrangements. The Scheme formally closed on 11 September 2007 with interim members at that date being able to decided between joining the Scheme or a separate defined contribution plan being set up by the Company. There will be no back service cost for the Scheme for these new members. While the closure will cause our liabilities to mature more quickly, we remain a "young" Scheme (small number of pensioners and deferred members) and we do not anticipate any significant change in the way the Scheme is run for many years.

New actuary

The Actuary is the person who provides expert pensions advice to the Trustees, particularly on the process of setting the contributions to be paid into the Scheme.

During the year there was a change to our Actuary. Simon St Leger-Harris had served as the appointed actuary since the formation of the Scheme in 2002. Simon resigned following the end of the year as he had decided to cease working in pensions and pursue other interests. The Trustees interviewed a number of potential replacements, all who work for Hewitt Associates, the same firm as Simon. The person who has been appointed is Chris Vaughan-Williams.

Hewitt Associates Actuary
Chris Vaughan-Williams

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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 2007
- **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 2007.

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.

Getting in touch

If you have any comments or queries you can contact the Pensions Department by telephone on: 01935 705353

or write to:
Westland Pension Scheme
Box 205,
Yeovil,
BA20 2YB

If you would like to visit us on site we are in building 212

Or if you prefer, you can contact us by email at: pensions@agustawestland.com

Don't forget to let us know if you change your address