intouch

October 2005

AgustaWestland
A Finmeccanica Company

Westland Pension Scheme

Double awards win

The Scheme was successful not once but twice in the prestigious 2005 Pension Scheme of the Year Awards organised by the leading trade magazine 'Professional Pensions'.

The awards were in the categories for medium sized schemes and we won 'Best Communications' and 'Scheme of the Year', recognising the high standards set by the Trustees and strong support received from members for our recent changes to the Scheme. In the picture below you can see the Trustees with the two awards and receiving congratulations from Alan Johnston on behalf of the Company.

In this issue

Pensions continue to be a hot topic, as the Government, employers and individuals start to focus on the actions they need to take. With rising costs, and after a tricky period for investments, everyone is starting to plan ways they can cover the extra costs of their retirement.

In the last issue of intouch, we explained the changes that were necessary for our Scheme. In this issue, we bring you up to date. As well as a summary of the full Report and Accounts for the year ended 5 April 2005 we also cover the successful launch of smart pensions.

One big talking point is the ongoing reforms to pensions law. Our special insight feature helps you understand what the new tax rules will mean for you, and the opportunities they may offer you in future.

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the year in figures

keeping account

Each year, we publish audited accounts for the Scheme. The summary below is taken from the accounts for the year to 5 April 2005, which have been signed off by our independent auditors, Ernst & Young LLP.

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

pension increases

Pensions in payment on 1 April 2005 were increased by 3.1%. This matched the rise in the retail prices index for the year ended September 2004.

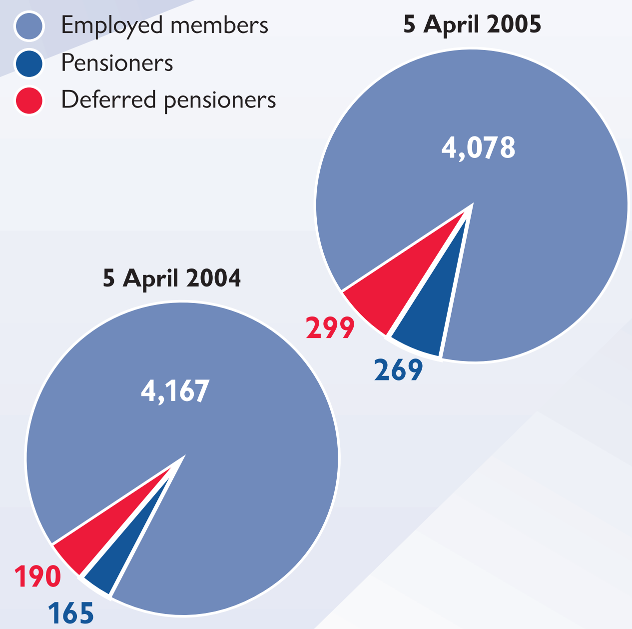
Each year, we review the pensions we are paying to members and dependants. These increase in line with price inflation, up to a maximum level set out in pension regulations. For pension earned before April 2005, the maximum is 5% a year. For pension earned from April 2005 onwards, the maximum is 2.5% a year.

membership numbers

Ours is a young Scheme. In other words, the majority of our members are employees who are paying contributions and building up benefits.

At 5 April 2005, our Scheme had a total of 4,646 members compared with 4,522 at the same time last year. Although there were 127 new joiners during the year, the number of employed members fell due to more members retiring and starting to draw a pension, and leaving service to become deferred pensioners.

	Value of Scheme at 5 April 2004	**£299.8 million**
+	**Income** (from Company and member contributions)	**£25.6 million**
−	**Outgoings** (pensions, cash sums, transfer payments and administration expenses)	**£7.3 million**
+	**Net return on investments** (investment income and increase in values after allowing for expenses)	**£32.3 million**
=	**Value of Scheme at 5 April 2005**	**£350.4 million**



investment plays its part

a professional approach

We are responsible for investing the Scheme's assets, and we make sure we follow good practice and employ the right people to help us.

We have set up an investment sub-committee, which carries out the detailed work then reports to us with its findings and recommendations. We make the most of independent professional support and advice, appointing advisers to help us identify our objectives, and plan a suitable strategy. We also employ several specialist managers to carry out the day-to-day transactions on our behalf.

We draw up our strategy, which takes account of the Scheme's needs and our attitude to risk. Our overall aim is to achieve long-term growth with the Scheme's investments, to support the benefits that will be due. We pay a lot of attention to deciding on a suitable spread of investments for the Scheme. For example, in the last year we have increased our investments in property and started investing in private equity (see 'branching out' overleaf). We publish our strategy in our Statement of Investment Principles, which also includes guidelines for our managers to follow.

We measure our managers' performances regularly, against benchmark targets that reflect the needs of the Scheme. We receive detailed reports from the managers and review the progress of our strategy.

We regularly check how well our arrangements comply with the voluntary code of practice for trustees in the Myners report. This was published in 2001, following a Government review of the way organisations take decisions about investment, headed up by Paul Myners (then Chairman of Gartmore Investment Management plc).

our managers

We have delegated responsibility for the day-to-day management of the Scheme's assets to six investment managers. These are shown below together with their areas of responsibility and the percentage of the invested assets that each manager holds.

Russell Company (UK and overseas company shares)	**45.6%**
Legal & General Investment Management (UK and overseas company shares)	**29.2%**
Fidelity Pensions Management (corporate bonds)	**10.0%**
ING Real Estate Investment Management (commercial property)	**13.1%**
Standard Life Investments (commercial property)	**2.0%**
Pantheon Ventures (private equity)	**0.1%**

Russell, ING and Pantheon are 'managers of managers'. A 'manager of managers' is responsible for bringing together a mix of specialist investment management firms on behalf of the Scheme. Legal & General manages passive funds which are a low cost way of investing the Scheme's money. These are sometimes called 'tracker' funds because they are invested so that they follow a particular market index.

cash flow

An important issue for us to manage is the Scheme's cash flow. A Scheme like ours, where most of the members are still working, receives more cash in contributions than it pays out in benefits. We have set up a cash flow policy so that we keep up to £1 million in hand. If the cash we have in hand reaches £2 million we invest the 'spare' cash to bring us back down to £1 million again.

how did we do?

The overall return on the Scheme's investments over the year to 31 March 2005 was 12.2%. This was 0.7 % below our composite benchmark return of 12.9%, but in line with the return for the average UK pension scheme.

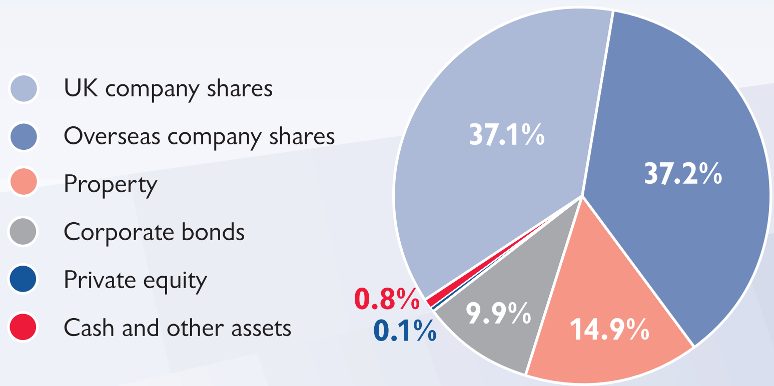
From 2002 when the Scheme was set up to 31 March 2005, the overall return on the Scheme's investments was 15.9% a year. This was 0.1% a year higher than the benchmark return of 15.8% a year, and 1% higher than the average UK pension scheme.

"Spreading the assets across different locations as well as investment types is another way of reducing risk."

investment spread

The way the Scheme's assets were invested at 5 April 2005 is shown in the pie chart on the right.

Additional Voluntary Contributions (AVCs) are invested separately.



branching out

Spreading our investments across a range of different investment types is one way to reduce the risk of poor returns. As part of this strategy, we appointed ING Real Estate Investment Management to help us develop our commercial property portfolio. Over the year to 5 April 2005, our investment in property rose from £15 million to just over £50 million, about 15% of our total assets. This increase has been met from cash flow and a reduction in our bond holdings.

During the year we appointed Pantheon Ventures to help us develop our private equity portfolio. Private equity is a way to invest in companies that are not listed on the Stock Exchange. This enables us to invest in a far wider range of smaller companies with potential for growth over the long term. As at 5 April 2005, we had just under £0.5 million invested in private equity, about 0.1% of our total assets. Our target allocation is to have 5% invested in private equity, but it will take several years to reach this, while the investment managers find the most suitable opportunities.

funding update

In our last issue of intouch we promised to give you a fuller explanation of how a valuation works and to update you on the latest position regarding the Scheme's assets and liabilities.

The value of the Scheme has grown over the year, as it benefited from higher contributions and improving investment performance. While this is encouraging, the value of the Scheme's assets is only half the story. The value placed on the benefits promised to members has also grown, and the imbalance between the two continues to worsen.

There are several causes of this funding challenge. The Scheme's liabilities are linked to interest rates which are currently very low - good news for our mortgages but not helpful in funding your final salary pension. Schemes like ours must pay pensions for longer because people are living longer. Everyone's expectations of the investment markets are lower, so our assumptions about investment growth need to be more cautious.

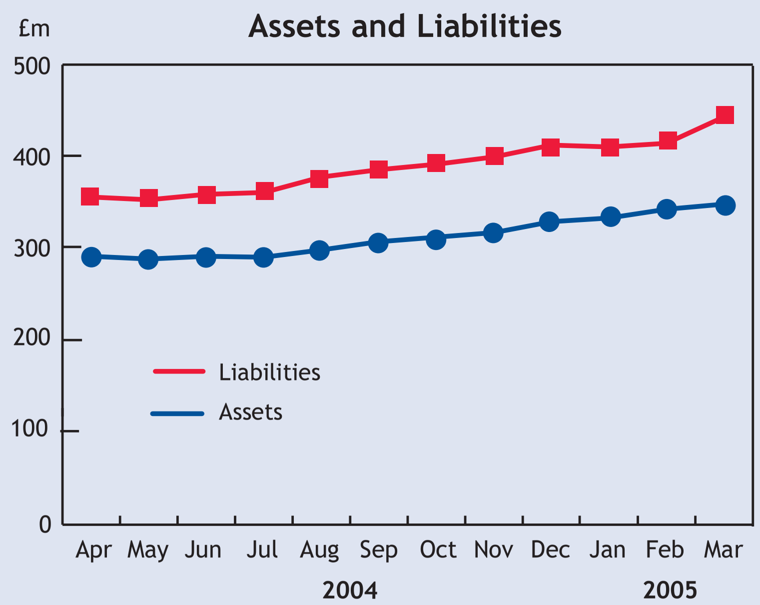
Since the beginning of 2004, the Company has been paying an extra 2.2% of pensionable salaries to cover a small shortfall revealed by the 2003 actuarial valuation. We asked for another report from the actuary at 5 April 2004. This showed that the shortfall had worsened and the funding ratio fallen further. As you know, we agreed a plan in March 2005 with the Company in response. The Company extra payment went up to 3.2% and members increased their contributions by 1.5%. We also changed the way pension increases will work for current employees and introduced smart pensions. We are currently working through the implication of the actuary's latest report on the position at 5 April 2005.

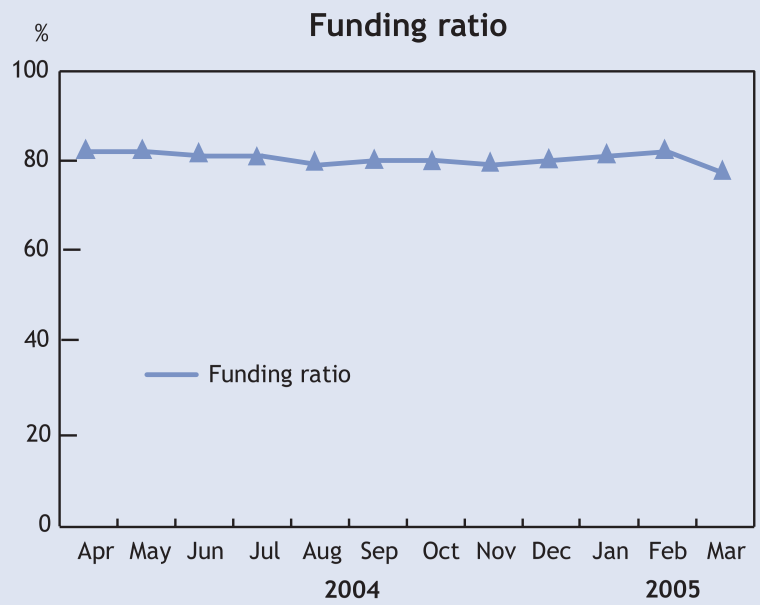
The charts below show the changes in the assets, liabilities and funding ratio since 5 April 2004. Overall, the funding situation deteriorated, so we are discussing with the Company and the actuary what further changes may be needed.

a smart move

From 1 July 2005, employee members can take the smart option. With smart, the Company pays your Scheme contributions out of your salary before you receive it. This means that you pay lower National Insurance contributions and may benefit from an increase in your take-home pay.

April's intouch introduced the smart pension, and a leaflet followed with more details. Pension presentations explained how smart would work and gave employees the chance to ask questions. The launch was a success, with a take-up rate of 94%. We know that smart is unsuitable for a small number of members, but over 3,400 members are now benefiting from the savings smart pensions bring.





insight

what do the new tax rules mean for you?

“We will be looking at the Scheme’s AVC investment options, to make sure they support this increased flexibility.”

new allowances

An approved pension scheme like ours receives valuable tax concessions. In return, the Revenue has always placed limits on the contributions and benefits. From 6 April 2006, the Finance Act 2004 replaces these limits with two allowances.

- The **Lifetime Allowance** covers the total benefits you can build up over your working life. This Allowance will not affect the vast majority of people because it has been set at £1.5 million which is equal to an annual pension today of £75,000! If you want to check your Scheme pension against the Lifetime Allowance, multiply the pension you have built up by 20 (the ‘accrued pension to date’ on your benefit statement).
- The **Annual Allowance** covers the amount that the value of your pension benefits can increase by in any one tax year. It replaces the current limit on employee contributions of 15% of taxable earnings. The Allowance has also been set high at £215,000. So, from April 2006, you can pay as much as you want into your pension arrangements, up to the total of your earnings in any one tax year.

The new allowances will increase in line with inflation. They cover benefits from **all** your pension schemes from different employers and from personal policies. People with benefits above the allowances will pay tax penalties.

simpler and more flexible

The aim of the tax changes is to make saving for a pension simpler and more flexible. You should make the most of the opportunities the new laws will give you. For example, in certain circumstances it is possible to have a **tax-free cash allowance** of 25% of the value of your benefits. For most people this is more than the current allowance.

Review your plans regularly. Remember to include any benefits you may have in other pension arrangements.

As a starting point, look at the benefit statement that we sent to you in July.

Are you building up enough to give you the income you want or will need when you retire? It is worth thinking carefully about paying more and taking advantage of favourable tax treatment to boost your pension. Remember, you no longer have to keep to the 15% limit on contributions. The option to take part of your AVCs as cash will be available to everyone who draws their pension after April 2006.

are you a deferred pensioner over 50?

If so, there is a Scheme rule change which may affect you. You now have the right to retire early and draw your Westland pension. Previously, you had to have the Company’s consent to do this.

reforming pensions

The Pensions Act 2004 introduces wide reforms that benefit pension scheme members across the UK.

a new Pensions Regulator

The Pensions Regulator has replaced Opra from 6 April 2005. It aims to identify and reduce risks to work-based pension schemes. Its codes of practice set out standards for trustees, advisers, administrators and employers.

The Regulator has investigating powers to gather information to help them check on risks to schemes. Where they discover problems, they can:

- issue notices requiring specific actions within set time limits;
- recover money from an employer who defaults on contributions;
- 'freeze' a scheme's activities until the problem is resolved;
- impose fines and bring prosecutions.

blowing the whistle

One of the codes of practice sets out our duties to report to the Regulator. For example, if we believe that a law is being broken in connection with the Scheme, we have a 'whistleblowing' duty. We must also write to the Regulator when things happen that could affect our Scheme. We are reviewing the new code and putting procedures in place to make sure we meet the standards.

funding framework

There are also new requirements under the 'statutory funding framework'. We must agree a funding strategy and contribution levels for the Scheme with the Company. As well as getting an actuarial valuation report at least every three years, we must also get actuarial reviews for the years in between. If the Scheme is not meeting its funding targets, we must draw up a recovery plan with the Company, and send a copy to the Regulator.

additional protection

A new Pension Protection Fund (PPF) aims to pay compensation if a pension scheme does not have enough money to pay members' benefits and the employer is insolvent. Schemes will have to pay a new levy to pay for the PPF, which will increase costs for UK pension schemes.

Pensioners who have reached normal retirement age will be a priority for the PPF, which will pay their full pension amount - however, only pension benefits earned after 6 April 1997 will receive increases (in line with inflation up to 2.5% a year). However, for other members, the PPF will not cover the full level of the benefits from a scheme. For example, the PPF will provide 90% of a member's pension up to an overall limit of £25,000 a year. The PPF also restricts pension increases and benefits if you die.

entrusted with our pensions

Currently, the law says that at least one-third of any scheme's trustees must be nominated by members. This is likely to change in future to at least one half of the trustees.

Under the Pensions Act 2004, all trustees in the UK must know enough about the law and their own Scheme rules to carry out their duties. They do not need the same level of technical expertise as each of their advisers. However, they must know when to ask for help, and be able to understand and question the advice they receive.

We receive regular training on technical issues and five of us have passed the Trustees Certificate of Essential Pensions Knowledge. This is awarded by a professional body called the PMI (Pensions Management Institute).

People news

Your Trustees

The Scheme is set up under trust. The aim of the trust is to provide pension and lump sum benefits to members when they retire, or to their dependants if they die. The rules set out who can qualify for benefits, what they will receive and when. Our job is to run the Scheme on behalf of all its members and in line with the trust deed and rules. We are:

Any questions?

If you need to ask anything about your benefits or anything in this issue of intouch, please contact the pensions team.

Westland Pensions Department
Box 205
Westland
Lysander Road
Yeovil
Somerset BA20 2YB

Pensions helpline: 01935 705353

Employee members can also find information about the Scheme in the pensions area of **helinet.**

Professional advisers

To help us carry out our responsibilities, we appoint a range of independent specialists. These are:

Actuary	Simon St. Leger-Harris, Hewitt Bacon & Woodrow Limited
Administrator	AgustaWestland Holdings Limited
Auditors	Ernst & Young LLP
Bankers	National Westminster Bank PLC
Solicitors	Linklaters
Investment consultants	Hymans Robertson LLP
Investment managers	Fidelity Pensions management Russell Company Limited ING Real Estate Investment Management (UK Funds) Limited Legal & General Assurance (Pensions Management) Limited Pantheon Ventures Limited Standard Life Investments Limited

Our new chairman

Since the last issue of intouch, Alan Ladd has taken up his duties as Chairman of Trustees.

After studying Industrial & Systems Engineering, Alan began his career in the motor industry. He joined Westland Helicopters in 1989 and his current role is IT Director for AgustaWestland. He also represents the Company on the CBI and is President of the Westland Health and Welfare Society.

"As Chairman, I want to thank the other Trustees and our support staff for their hard work over the past year. The Trustees are constantly looking forward, to plan our strategy to make the Scheme sustainable for the future. I am confident in our team of Trustees, pension professionals and advisers to see us through the challenges to come."

A. Ladd

Alan Ladd, Chairman of Trustees

Our thanks to Andrew Milne

We'd like to thank Andrew, the outgoing Chairman, for all his work on behalf of the Scheme and its members.

Andrew played a major role in establishing the new Scheme and ensuring that our governance has been in line with best practice from the outset.