WESTLAND
An AgustaWestland Company

intouch

November 2004

Westland Pension Scheme

meeting the challenge

Successfully managing the Westland Pension Scheme involves some very long-term planning. We cannot predict the future, but we are thinking about the potential risks facing the Scheme and how we can manage them effectively.

Inside, we report on the latest actuarial valuation of the Scheme as at 5 April 2003. Like many other final salary schemes, the valuation showed a shortfall of assets against liabilities. As a result, the Company increased its contributions from 1 January 2004. Over the last year we have also reviewed our investment strategy so that it is more closely tailored to the needs of our Scheme. In this issue, we highlight the investment changes that are being introduced.

The Government's wide-ranging plans for pension reform in 2005 and 2006 will bring new challenges for all UK pension schemes. Our advisers are helping us keep up-to-date with the changes, and we take a look at the main issues inside.

"The challenge we face is preparing the Scheme for the risks arising from a rapidly changing pensions environment."

Andrew Milne
Chairman of Trustees

IN THIS ISSUE

pension reform update

The Government is well underway to introducing the most significant pension reforms for a generation. The reforms aim to make company pensions more secure and to simplify the tax treatment of pensions.

protection for Scheme members

On 12 February 2004, the Government published its Pensions Bill setting out its proposed changes to the way pension schemes are administered. Generally speaking, the Government hopes the proposals will bring about greater protection for pension scheme members. The main provisions include:

- Establishing a new Pensions Regulator to replace the current body, Opra (Occupational Pensions Regulatory Authority). The new Regulator will focus on protecting members' benefits, and providing guidance to help trustees and professionals understand how to run their schemes in line with best practice and legislation.
- Setting up a new Pension Protection Fund (PPF). This is intended to provide members of final salary schemes with a minimum level of pension if a company goes under and is unable to meet its pension promises in full.
- The cost of the PPF will be met by a levy on pension schemes. The Government plans to offset this extra cost on schemes by reducing the statutory minimum increase for pensions in payment.

  Currently, pensions are increased by the lesser of the retail prices index and 5% a year. The Bill will allow for pensions earned after April 2005 to be increased by the lesser of the retail prices index and 2.5% a year.

  Pensions already in payment or earned for service up to April 2005 would **not** be affected by this change.

Our current understanding of the Government's intentions is that the Pensions Regulator, the Pension Protection Fund and the change to the statutory minimum pension increase will be introduced in April 2005.

simplifying the tax laws

In the UK, there are currently eight different sets of tax rules that apply to pension schemes. Which set applies to you generally depends on when you joined a scheme and it puts limits on the contributions you can pay and the benefits you can receive. The Inland Revenue's aim is to replace these existing tax rules with one set of rules going forward.

The Government's final proposals on the simplification of pension tax laws are contained in the Finance Act. This became law in July 2004 and the changes will be introduced from April 2006.

"We are following the progress of all these reforms closely and will keep you informed of further developments."

David Lee
Chairman of the Administration Committee

The key feature of the proposals is that there will no longer be any limit on the total amount you can save towards your pension, or on the amount of pension you can receive. Instead, there will be allowances for the amount of tax relief you receive on your pension. The main allowances are:

- A lifetime allowance starting at £1.5 million for your pension savings from all sources when you retire.
- An annual allowance starting at £215,000 for adding to your pension fund.
- A maximum tax-free cash sum when you retire of 25% of the value of your benefits.

Pension savings above the allowances will be subject to additional tax charges. However, the Government believes that the vast majority of people's pension savings will be unaffected by the changes.

Other changes include an increase in the lowest age for early retirement from 50 to 55, and proposals to allow retirement to be more flexible, such as allowing the Company to permit you to draw a pension while you are still working and building up benefits.

all figured out

Our independent auditors are Ernst & Young LLP. They audit the Scheme's accounts every year. Their report is included in our full annual report and accounts for the year to 5 April 2004.

For a copy of the full accounts, please contact the Pensions Department. The details are on the back page. On the other hand, if you just want a quick update on income and outgoings during the year, here is a summary.

	Value of Scheme at 5 April 2003	**£224.7 million**
+	**Income**	
	(from contributions and transfer payments into the Scheme)	£24.5 million
−	**Outgoings**	
	(pensions, cash sums, payments for leavers and administration expenses)	£4.8 million
+	**Net return on investments**	
	(investment income and increase in values after allowing for expenses)	£55.4 million
=	**Value of Scheme at 5 April 2004**	**£299.8 million**

pension increases match inflation

Once you start to draw your pension, we review it every year. We currently award increases in line with inflation, up to a maximum of 5% a year, to help protect its value.

Pensions in payment on 1 April 2004 were increased by 2.8%. This increase matched the rise in the retail prices index for the year ended September 2003. Pensions in payment on 1 April 2005 will be increased by 3.1% to match the rise in the retail prices index for the year ended September 2004.

Company contributions increase

Although the increase in the value of the Scheme is good news, the stock market fluctuations over the last few years have had a major impact on the Scheme's funding position. In the June issue of intouch, we reported that the formal review or valuation of the Scheme, carried out by our Actuary and using information at 5 April 2003, showed a shortfall.

Our Actuary recommended an increase in Company contributions to make up the shortfall over the next few years. The Company agreed to increase its contributions by 2.2% of pensionable salaries from 1 January 2004 to make up the shortfall. This means additional contributions of about £2.7 million a year.

Given the uncertain nature of the investment markets, we asked our Actuary to carry out regular reviews of our funding position so that we could monitor events more closely.

monitoring our investments

As trustees, we are responsible for drawing up an investment strategy for the Scheme, and appointing specialist managers to invest the Scheme's assets. We monitor the managers' performance, and meet with them regularly to discuss investment issues.

We produce a document called a Statement of Investment Principles, which the investment managers use as a guide. This statement sets out our investment objectives, the types of assets our managers should invest in to meet the objectives and how their performance will be monitored.

our managers

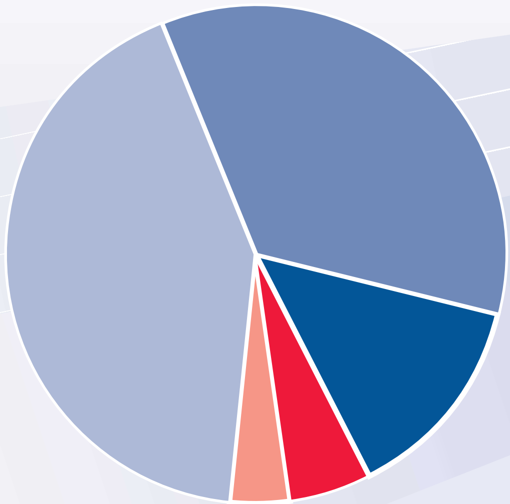
We have delegated responsibility for the day-to-day management of the Scheme's assets to five investment managers. These are shown below, together with their areas of responsibility and the percentage of the invested assets that each manager holds.

Frank Russell Company (UK and overseas company shares)	50.6%
Legal & General Investment Management (UK and overseas company shares)	29.8%
Fidelity Pensions Management (corporate bonds)	14.2%
ING Real Estate Investment Management (commercial property)	3.4%
Standard Life Investments (commercial property)	2.0%

All the Scheme's assets are invested in 'pooled funds'. These are collective investment arrangements into which money is invested by a number of investors. By joining up with other investors, we are able to save on dealing costs and can spread our assets over a wider range of investments than we could on our own.

investment spread

The way the Scheme's assets were spread at 5 April 2004 is shown in the pie chart below.



UK company shares	42.4%
Overseas company shares	35.0%
Corporate bonds	13.7%
Property	5.2%
Cash and other assets	3.7%

AVCs are invested separately.

how did we do?

The overall return on the Scheme's investments over the year to 31 March 2004 was 26.8%. As trustees we had determined a 'benchmark' return for the Scheme against which we could compare the Scheme's overall performance. This was worked out on the basis of returns on various indices, such as the FTSE All-Share Index.

In the year ended 31 March 2004, the benchmark return was 27.0%. The actual return achieved was 0.2% below the benchmark return.

who's in the Scheme?

At 5 April 2004, our Scheme had 4,522 members.

Employed members	**4,167**
Pensioners	**165**
Deferred pensioners	**190**

insight

new investment strategy balances risks with long-term returns

"I'm very impressed with the way the Scheme is run and all the training that has been done by the trustees."

Brian Edwards

New Trustee from July 2004

With our investment consultants, Hymans Robertson, we have carried out a review of the way our assets are invested. Our aim has been to ensure that our investments are tailored to the needs of the Scheme.

Having only been established so recently, our Scheme is a relatively 'young' one with many more employed members than pensioners. The ratio is about 25:1 (see 'who's in the Scheme?' above). This means that our outgoings in terms of benefit payments are far lower than the income we receive from contributions and investments. By comparison, a 'mature' scheme would tend to have more pensioners and deferred pensioners than employed members.

Whatever the type of scheme, a pension scheme needs to invest to survive. Nearly all investments have some risk attached and some carry more risk than others. Usually, the opportunity to make more money in the form of higher returns goes hand-in-hand with a greater risk of possibly losing some.

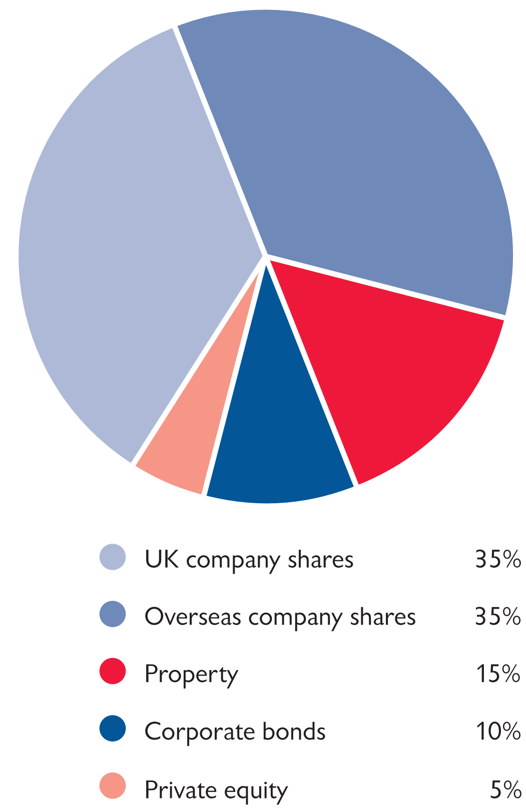
As a young Scheme we can afford to invest for the long term. We believe that even if our investments might decrease in value in the short term, over the long term they will still achieve higher returns than if we had invested in lower risk investments throughout.

One way to help reduce the risk of poor returns is to spread our investments across a range of different investment types. With advice from our investment advisers, we have decided to reduce our holdings of UK company shares and to increase our investments in property and to start investing in private equity. During the year we appointed ING Real Estate Investment Management to help expand our property portfolio.

Private equity is a way to invest in companies that are not listed on the Stock Exchange. It will enable us to invest in a far wider range of smaller companies with potential for growth over the long term. We have appointed a specialist fund manager to help us with this.

Our aim is to have this new investment allocation in place in the medium term. As part of this, we have introduced a new target spread of investments for our managers. This is shown in the pie chart.

new target investment spread



managing the Scheme

As trustees, we are responsible for managing the Scheme in the best interests of all our members, including pensioners and deferred pensioners. There are nine of us. Five of us are appointed by the Company and four by the members.

Running a Scheme worth nearly £300 million is no easy undertaking. To help us manage it we have set up two trustee committees to deal with Scheme investment and administration matters. The committees undertake all the detailed work and then report back to us with their recommendations. We also employ a number of independent professional advisers to give us the best advice possible on legal, actuarial and investment issues.

Nominated by the Company

Andrew Milne (Chairman of trustees)

Bert Brookes	Alan Ladd
Nigel Hunter	David Lee

Selected by members

Brian Edwards	Jim Hawke
Malcolm Gillam	Steve Pym

Secretary to the trustees

Mike Nixon

Professional advisers

Scheme Actuary	Simon St.Leger-Harris Hewitt Bacon & Woodrow
Auditors	Ernst & Young LLP
Bankers	National Westminster Bank
Investment Managers	(see 'monitoring our investments' inside)
Solicitors	Linklaters
AVC Scheme Administrators	Prudential

member trustee elections

During May 2004, we invited members to apply to become member trustees from 1 July. Of our four member trustees, Malcolm Gillam, Jim Hawke and Steve Pym were re-selected to serve for four years to 30 June 2008. We told you in the June issue of intouch that Peter Flannery retired from the Company in 2003. Peter was replaced as a member trustee by Brian Edwards from 1 July 2004.

The Pensions Council handled the process for selecting member trustees. The Council is made up of six Company and ten trade union representatives with two representatives for non-procedurally covered staff.

introducing Mike Nixon

Following the retirement of John Stuffins, Mike Nixon joined the Company on 1 September 2004 as head of pensions. Mike is 41 and married with three boys. Mike came to us from Willis, an insurance broker, where he was pension director for 7 years.

Mike says the Willis pension scheme was a mature scheme with more deferred pensioners than active members, and he is looking forward to the challenge of looking after a considerably younger scheme!

Mike is in the middle of relocating to Yeovil. His interests include church and sports. He has been a lay preacher in his local parish church and has managed his sons' football teams.

"Please think of us as your first point of contact for all your pension questions."

Helen Pass
Senior Pensions Administrator

your pensions team

Your pensions team is based here at Westland. The team is headed by Mike Nixon. Mike is supported by Helen Pass, Sue Johnson and Sue Smith. If you want to get in touch with the team, phone 01935 704139.

Or write to:
Westland Pensions Department, Box 205, Westland, Lysander Road, Yeovil, Somerset BA20 2YB.

Please note that if you want to visit us on site, we have recently moved from 'Dallas' to 'Building 212'.

If you are a Scheme pensioner or a deferred pensioner, you should contact our administrators, Aon, with any questions. If you want to get in touch with Aon, phone 0117 945 3518.

Or write to:
Aon Consulting, Netherton House, 25 Marsh Street, Bristol BS1 4AQ

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