

LEONARDO HELICOPTERS PENSION SCHEME

Report and Financial Statements for the year ended 5 April 2018

Scheme Registration No: 10260073



Queen's Quay, 33-35 Queen Square, Bristol BS1 4LU

XPS Administration is a trading name of PS Administration Limited
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Part of XPS Pensions Group

LEONARDO HELICOPTERS PENSION SCHEME

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CHAIR'S INTRODUCTION

YEAR ENDED 5 APRIL 2018

I am pleased to present the Report and Financial Statements for the Leonardo Helicopters Pension Scheme (the "Scheme") for the year ended 5 April 2018.

Since our last Report the Trustee and Company have reviewed and agreed the actuarial valuation report as at 5 April 2017. A number of actions have been taken to control the Scheme's liabilities, including the Pension Increase Exchange ('PIE') project for pensioners, and there has been an overall improvement in the funding position related to past service benefits. The deficit is £67m with a funding ratio of 96% (compared to £123m and 88% three years ago). However there has also been a significant increase in the cost of providing pensions for the future service of employees. To address this, the deficit includes a reserve element for future service costs and the Company has agreed to increase its contributions into the Scheme.



There were no changes to contributions for employees but, following a Company consultation, there will be one change that affects pensions which accrue from future service after 5 April 2019. This will continue to grow in line with inflation up to 2.5% per annum, but inflation will be measured by the statutory CPI measure (rather than RPI). The change is reflective of the PIE option which will, in due course, be offered to employees at the point they reach retirement.

Since the valuation date the investment world has been more challenging, particularly in the first quarter of 2018, and the total portfolio fell in value by -1.7% over the year. Within this our on-risk assets grew by 2.9% but this was behind the target rate we assume. Also our hedging portfolio did not track the liabilities quite as efficiently as in the past, principally due to one-off technical effects associated with updating the strategy for the new valuation basis. Looking forward we have structured our strategy with a strong focus on risk control, particularly for the next 12 months or so given the number of uncertainties associated with the market environment.

Another significant project during the year has been the transition to a new administrator, XPS Administration (formerly known as PS Administration). This was completed on 1 February 2018 and the experience and initial feedback from members is positive. The one outstanding aspect of the new service is online access to pension illustrations and modelling and this is planned to be delivered towards the end of this year.

During the year Richard Smith left the business and therefore ceased to be a Trustee Director, having served on the board for 11 years. Nicola McKenzie was appointed as a Trustee Director in July 2017.

In July 2017 we also completed the merger of the assets and liabilities of the Hadland Photonics Pension Fund and Life Assurance Scheme which was agreed as part of the restructuring of the business into Leonardo MW Ltd during the prior year. I would like to welcome the former Hadland members to the Scheme.

I am grateful to all the Trustee Directors and our advisers for their significant contribution to the management of the Scheme and I look forward to working with them over the coming year.

MARTIN FLAVELL
Chair of the Trustee

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TRUSTEE AND ADVISERS

Trustee:	Leonardo Helicopters Pension Scheme (Trustee) Limited
Trustee Directors:	Martin Flavell * (Chair) Caroline Beaumont* Michael Bird ** Malcolm Gillam ** Steve Jenkins ** Simon Jones * Simon P Jones * Nicola McKenzie * (Appointed 12 July 2017) Richard Smith * (Retired 1 June 2017) Rebecca Ward**
	* <i>Company Nominated</i> ** <i>Member Nominated</i>
Secretary to the Trustee:	Rachael Skuse
Scheme Address:	Leonardo Helicopters Pension Scheme Leonardo MW Ltd Box 205 Lysander Road Yeovil Somerset BA20 2YB
Principal Employer:	Leonardo MW Ltd (02426132) Sigma House Christopher Martin Road Basildon Essex SS14 3EL
Participating Employer:	Aviation Training International Limited (03490323)
Actuary:	Chris Vaughan-Williams Aon Hewitt Limited 25 Marsh Street Bristol BS1 4AQ
Auditor:	RSM UK Audit LLP 25 Farringdon Street London EC4A 4AB
Legal Advisers:	Burges Salmon LLP One Glass Wharf Bristol BS2 0ZX
Bankers:	Barclays Bank plc (From February 2018) Bank of Scotland plc (Until March 2018)
Covenant Adviser:	Ernst & Young LLP
Investment Managers:	River and Mercantile Investments Limited T/A River and Mercantile Solutions (formerly P-Solve Investments Limited)

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<i>Custodians:</i>	KAS Bank NV
<i>AVC Providers:</i>	Old Mutual Wealth Life Assurance Limited Prudential Assurance Company Limited The Equitable Life Assurance Society
<i>Consultants & Administrators:</i>	XPS Administration (formerly PS Administration Limited) Queen's Quay 33-35 Queen Square Bristol BS1 4LU (Appointed 1 February 2018)
	Aon Hewitt PO Box 196 Huddersfield HD8 1EG (Resigned 1 February 2018)
<i>Investment Adviser:</i>	River and Mercantile Investments Limited T/A River and Mercantile Solutions (formerly P-Solve Asset Solutions)

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TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2018

The Trustee presents to the members its annual report and financial statements for the year ended 5 April 2018.

Scheme Information

The Leonardo Helicopters Pension Scheme is governed by Scheme Rules and provides pensions and lump sum benefits on retirement and death for those employees who are members of the Scheme.

The Scheme provides defined benefit pensions. The Scheme closed to new entrants in October 2007.

The Trustee of the Scheme is Leonardo Helicopters Pension Scheme (Trustee) Limited.

The Trustee Board is made up of nine Trustee Directors consisting of five Trustee Directors nominated by the Principal Employer (one of which is the Chairman of the Trustee Board) and four nominated by the membership.

During the year, the Trustee Directors met frequently to deal with various matters relating to the management of the Scheme including monitoring funding and investing the Scheme assets. The Trustee Directors have the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents, and in the best interests of the members.

The investment sub-committee and administration sub-committee also met regularly during the year in advance of each full Trustee meeting.

In addition, there is a Joint DC Investment Committee, which is a joint committee for the Leonardo Helicopters Pension Scheme, Leonardo FuturePlanner and the Leonardo Electronics Pension Scheme. The purpose of the DC Committee is to review the AVC investment strategy of the Leonardo Helicopters Pension Scheme (together with the investment strategy of Leonardo FuturePlanner and the defined contribution elements of the Leonardo Electronics Pension Scheme).

In total there were 5 Trustee meetings and 13 sub-committee meetings during the year, with Trustee Director attendance at 97% for the year (2017: 88%).

The Trustee produces an annual business plan, and a long-term strategic plan which sets out the objectives of the Trustee. Progress against the business plans are monitored by the Trustee at each quarterly meeting.

Trustee knowledge

There is a requirement on the Trustee Directors to have knowledge and understanding of the law relating to pensions and the principles relating to the funding of the Scheme and the investment of the Scheme's assets. The Trustee Directors are also required to be conversant with the Scheme's documents. To fulfil these requirements the Trustee has adopted a training policy and attends regular training sessions.

Risk management

The Trustee Directors have put in place steps to monitor areas of potential risk to the Scheme. They regularly monitor, amongst other aspects of the Scheme, investments, the funding of the Scheme and the administration of the Scheme. The Scheme's risk register is reviewed on a quarterly basis by the Trustee and updated as necessary.

The Trustee has adopted an integrated risk management plan, which looks at the financial covenant, investment and funding risks faced by the Scheme on an integrated basis.

Employer's Covenant

The Principal Employer of the Scheme is Leonardo MW Ltd. Aviation Training International Limited is also a participating employer in the Scheme.

The Trustee Directors recognise that the ability of the participating employers to meet their ongoing contribution requirements is important to the funding of the Scheme and hence the security of members' benefits. As a way of increasing the security of the Scheme, the Trustee has entered into an agreement with the Leonardo Group's parent company, Leonardo SpA, in which Leonardo confirms it will provide support for the Scheme. Leonardo has agreed that it will be responsible for the liabilities of the participating employers and has undertaken to pay any outstanding Scheme contributions and pay any Scheme deficit if the Scheme were to wind up with insufficient assets.

The Trustee regularly monitors the financial status of the Principal Employer and participating employers and has engaged Ernst & Young LLP to carry out regular 6 monthly independent reviews of the financial strength of the employers, or more frequently if the Trustee considers this appropriate.

As part of the 5 April 2017 actuarial valuation, an additional detailed review of the employer covenant was commissioned, with Ernst & Young LLP reporting on a range of areas including cash resources, profitability and credit strength of the Principal Employer and its ultimate parent company. Overall, the employer covenant was rated as strong which assisted the Trustee in its discussions with the Company on the appropriate assumptions and contribution rates to set as part of the actuarial valuation. The actuarial valuation is discussed in further detail on pages 16 and 17 of this report.

Voluntary contributions

The Additional Voluntary Contribution (AVC) option provides members with an opportunity to make further provision for their retirement in addition to the benefits provided by the Scheme. Investment choices are available in the form of a "Lifestyle" arrangement and a "Pick & Mix" option. In addition, some members have AVCs with Prudential and Equitable Life but cannot contribute more to these funds.

In addition to AVCs, members of the Main Section are able to contribute under the Buy Up option which provides for a higher career salary accrual rate, in return for an additional member contribution. The cost of the Buy Up option is set by the Trustee each year.

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Membership

The number of members as at the year-end was:

Active members at 6 April 2017		1,995
Adjustments*	(17)	
Retirement	(85)	
Deferred	(39)	
Deferred - Opt out	(4)	
Death	(3)	
Active members at 5 April 2018		<u>1,847</u>
Deferred pensioners at 6 April 2017		1,131
Adjustments	14	
Transfer in from Hadland Scheme	27	
From Active	43	
Transfer Out**	(12)	
Retirement	(27)	
Deferred pensioners at 5 April 2018		<u>1,176</u>
Pensioners at 6 April 2017		1,849
Adjustments*	28	
Transfer in from Hadland Scheme	44	
Retirement	112	
New dependants / spouses	10	
Death	(5)	
Death with dependants	(10)	
Death of dependant	(2)	
Transfer out – Pension Sharing Order	(1)	
Pensioners at 5 April 2018		<u>2,025</u>
Total members at 5 April 2018		<u>5,048</u>

71 members transferred in to the Scheme from the Hadland Photonics Pension Fund & Life Assurance Scheme on 31 July 2017. Further details can be found on page 8.

Part of the benefits of 157 pensioners is covered by an external annuity policy (2017: 140 Helicopters members and 18 Hadland Scheme members).

*Adjustments to the opening balances are due to updates to records following the change in administrator.

**Included in the Transfer Out figure above is one transfer out that is in progress but has not yet been paid out of the Scheme.

Pension increases

Different rates of increase, and caps on the level of increase, apply for different sections and tranches of benefit within the Scheme.

All pensions in payment were increased on 1 April 2018 in accordance with the Rules of the Scheme. The increase applied on 1 April 2018 was generally 3.9% which is the level of RPI in September 2017, with benefits accrued after 5 April 2005 having increases capped at 2.5%. Relevant deductions or additions were made for statutory obligations to provide increases in relation to Guaranteed Minimum Pension (GMP).

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Some pensioners have elected to exchange the increases provided in the Rules of the Scheme for the statutory minimum increases required by legislation.

Deferred pensions in excess of the GMP are increased annually in line with the statutory measure of inflation for pension purposes, up to a maximum of 5% for benefits accrued before 6 April 2009 and 2.5% for benefits accrued after.

All increases to pensions in payment and deferred pensions were made in accordance with the Rules of the Scheme. There were no discretionary increases made during the year.

Transfer Values

Cash equivalents (transfer values to other approved pension arrangements) payable are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

Scheme Changes

Following on from the Leonardo Group business restructuring in 2017, at the Principal Employer's request, the Scheme accepted the transfer of the assets and liabilities of the Hadland Photonics Pension Fund and Life Assurance Scheme (the "Hadland Scheme") into the Scheme. The merger was completed on 31 July 2017 and a £5m cash injection was paid into the Scheme by the employer. The Trustee Board carried out thorough due diligence to ensure the proposal would not materially prejudice the members' interests.

A "Hadland Section" was set up to provide the same benefits to the 71 Hadland members who transferred into the Scheme. The Hadland Scheme closed to new accrual in 2008 so there are no active members accruing benefits in the Hadland Section.

The 2017 actuarial valuation was signed on 14 June 2018. As part of the valuation process, there has been a small change to active member benefits. The change relates to the inflation index used to increase members pensions after retirement, which has changed from the Retail Prices Index ("RPI") capped at 2.5% p.a. to the statutory measure of inflation for pension purposes, which is currently the Consumer Prices Index ("CPI"), capped at 2.5% p.a. This change only affects pension earned after 5 April 2019. A Deed of Amendment was entered into on 14 June 2018 to effect this change to pension increases, and to incorporate into the Scheme Rules the overriding legal requirements for equal treatment of civil partners and same sex spouses.

There has also been a decision to offer a pension increase exchange option (PIE) to all members as a retirement option. This is expected to be implemented during 2019.

There have been two changes to advisers during the year. The Trustee appointed XPS Administration as the Scheme Administrator on 1 February 2018. The change resulted from the notice given in May by the previous administrator, Aon Hewitt Ltd, of its intention to withdraw from the market and terminate its appointment. This change also necessitated a change in the Scheme's banker, which has changed to Barclays Bank.

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Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£'000s
Net assets at 5 April 2017	1,494,634
Net withdrawals from dealings with members	(1,568)
Net returns on investments	<u>(24,470)</u>
Net assets at 5 April 2018	<u>1,468,596</u>

Communication

"InTouch", a newsletter for Scheme members is issued by the Trustee on a regular basis. Benefit statements are issued on an annual basis to active members setting out the amount of pension built up so far, and forecasts at normal retirement date. In addition members can access information from the Scheme website, www.lhpsensions.co.uk. XPS Administration have also launched mypension.com, an online tool for members enabling them to view their pension records and undertake various activities online. The tool is under development to add additional features, including a pension modeller for active members.

A series of pensions workshops are offered to members in line with demand. A two day retirement course is also available to members nearing retirement.

Taxation Status

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

Enquiries

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee c/o XPS Administration, Queen's Quay, 33-35 Queen Square, Bristol BS1 4LU.

E-mail: lhps@xpsgroup.co.uk.

The Pensions Advisory Service (TPAS)

If you have general requests for information or guidance concerning your pension arrangements contact:

The Pensions Advisory Service
11 Belgrave Road
London SW1V 1RB

Tel: 0800 011 3797

Website: www.pensionsadvisoryservice.org.uk

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Pensions Ombudsman

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by poor administration, either by the Trustees or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

The Pensions Regulator (tPR)

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House
Trafalgar Place
Brighton BN1 4DW

Tel: 0345 600 0707

Email: customersupport@tpr.gov.uk

Website: www.thepensionsregulator.gov.uk

The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10260073. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: www.gov.uk/find-lost-pension

INVESTMENT REPORT

The Trustee determines its investment strategy after taking advice from the adviser. It has delegated the management of the investments to the investment managers listed on page 3.

Background

At the Scheme year end, 5 April 2018, the net investments of the Scheme were valued at £1.47bn, compared to £1.50bn at the start of the Scheme year.

The majority of the assets of the Scheme continue to be invested in the Fiduciary Management Portfolio (FM) provided by River and Mercantile Investments Limited.

The Trustee also has a liability hedging portfolio through which the impact of movements in long-term interest rate and inflation expectations are managed.

This report gives information about the assets as at 5 April 2018.

Statement of Investment Principles

The Trustee has produced a Statement of Investment Principles (SIP) showing how it invests the assets of the Scheme. The SIP is reviewed regularly by the Trustee and was last updated in March 2017.

The overall objective of the Scheme is to meet the benefit payments promised as they fall due. This is broken down into the following qualitative objectives:

- Acquire suitable assets which, having due regard to risk, will generate income and capital growth to pay, together with the Employer and member contributions, the benefits as they fall due.
- Limit the risk of the assets failing to meet the liabilities over the long term.
- Achieve a return on investment which is expected at least to meet the Actuary's assumptions over the long term.

The Trustee has translated its objectives into benchmarks for the Scheme. The benchmarks are consistent with the Trustee's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk measured relative to liabilities.

The Trustee has also produced a defined contribution SIP which was last updated in October 2017.

Copies of the SIPs are available to members from the Scheme Administrator, XPS Administration, using the contact details on page 4.

Investment Manager

The Trustee has delegated responsibility for the day-to-day management of the assets to the Scheme's Investment Manager, River and Mercantile Investments Limited ("River and Mercantile Solutions"). An Investment Management Agreement between the Trustee and River and Mercantile Investments Limited governs this relationship.

The Investment Manager has been appointed in two capacities:

- Implement a liability hedging strategy and
- Actively manage assets through its Fiduciary Management Portfolio ('FM') which covers a wide range of asset classes and investment managers.

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Market Commentary

Most return-seeking assets rose strongly over the year as economic fundamentals increasingly asserted themselves, with synchronised economic growth and rising corporate profits across all of the main regions, although elections and policymakers made waves from time to time. Emerging market equity and debt benefited from a weakening US dollar and generated outstanding returns for the year ended March 2018, with US and Japanese equities also performing particularly well. February and March 2018 saw heavy falls across the board in equities, return-seeking bonds and property, temporarily wiping out several months'-worth of gains, but return-seeking asset prices were still up over the year as a whole.

Gilt yields chopped up and down, with a Brexit-fuelled falling trend occasionally interrupted by the Bank of England, first talking yields up then actually raising the base rate, in November, for the first time in more than a decade. In January 2018 yields rose strongly, following the passing of an important Brexit milestone the previous month, but then fell again.

Over the course of the whole 12-month period gilt and swap yields rose across the board. This will have reduced the value of liabilities and liability hedges.

Asset Allocation

The Trustee reviews the strategic asset allocation of the Scheme on a regular basis. However, investment decisions within this framework are delegated to River and Mercantile Solutions.

The Trustee has allocated 75% of assets to return seeking assets and 25% of assets off-risk for liability matching.

The Trustee continues to monitor the strategy through regular reviews. In addition, the Trustee will review on an on-going basis the extent to which risk and volatility can be reduced further as the deficit for the Scheme is recovered over time.

The table below shows the asset allocation at the current and prior year ends:

	5 April 2018		5 April 2017	
	Market Value £'000	% of funds (ex AVCs)	Market Value £'000	% of funds (ex AVCs)
Equity	435,341	29.8	378,164	25.5
Private Equity	34,337	2.3	57,790	3.9
Alternatives	298,903	20.4	211,598	14.2
Bonds	190,284	13.0	284,414	19.1
Property	34,739	2.4	46,230	3.1
Cash	118,816	8.1	40,905	2.8
Currency Hedge	(1,588)	(0.1)	(4,469)	(0.3)
Total return seeking portfolio	<u>1,110,832</u>	<u>75.9</u>	<u>1,014,632</u>	<u>68.3</u>
Liability matching portfolio	352,762	24.1	471,219	31.7
Total assets (excluding AVCs)	<u>1,463,594</u>	<u>100.0</u>	<u>1,485,851</u>	<u>100.0</u>
AVCs	11,252		10,571	
Cash in transit	-		84	
Total investments	1,474,846		1,496,506	

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Liability Risk

The Trustee has put a programme in place to reduce some of the unrewarded risks that the Scheme faces in relation to the value of the liabilities. River and Mercantile Derivatives manage the liability hedge which is in place via a number of counterparty banks.

During the Scheme year, the Trustee has decided to hedge 100% of the interest rate risk and 100% of the inflation risk of the liabilities, including the liabilities due to be accrued to the date of the next scheduled actuarial valuation (as at 5 April 2020).

The Trustee also has a derivatives programme to manage the exposure of the assets to currency movement which is managed by River and Mercantile Solutions.

The Trustee will continue to consider further opportunities to reduce unrewarded risks where this can be done cost effectively. There are appropriate arrangements in place to provide collateral for the derivatives programmes.

Liability Matching Portfolio

The liability hedge is designed to protect the Scheme from adverse movements in long-term interest rates and inflation which directly impact the value of the liabilities. The value of the gilts that are part of the liability hedge portfolio tends to move in line with the Scheme's liabilities when long-term interest rates and inflation change. Similarly, the swaps in the liability hedge portfolio are such that, if interest rates fall significantly (and so the liabilities rise in value) the swap counterparty pays the Scheme to cover the rise in the value of the liabilities. Conversely, if the value of the liabilities falls due to interest rate and inflation changes, the Scheme pays the counterparty under the swap contracts an amount that is in line with this fall in the liabilities. Importantly, the purpose of the liability hedge is to offset (or hedge) the changes in the value of the liabilities whether there is a rise or fall.

	2018	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000	£000
Interest rate swaps	13,162	50,907	61,937	107,970	45,826	80,180
Inflation swaps	(27,334)	(22,253)	(54,872)	(37,698)	(6,083)	(609)
Swaptions	-	(13,502)	-	-	-	-
Gilt total return swaps	<u>19,977</u>	<u>34,794</u>	<u>29,074</u>	<u>26,053</u>	<u>(4,678)</u>	<u>15,960</u>
Total Gain/(Loss)	<u>5,805</u>	<u>49,946</u>	<u>36,139</u>	<u>96,325</u>	<u>35,065</u>	<u>95,531</u>

A positive mark-to-market value of the swaps represents a rise in the value of the swaps from the Scheme's perspective and vice versa. However, this rise will have been necessary to offset the rise in the value of the Scheme's liabilities and so the impact of the rate changes on the Scheme's finances will (as intended) have been broadly neutral.

At the year end the portfolio was hedging 100% of the interest rate risk and 98% of the inflation risk.

Collateral

The gilts can be used to meet collateral calls from the Scheme's counterparties: Barclays Bank plc, Credit Suisse International, Goldman Sachs plc, JP Morgan plc, HSBC plc, Lloyds plc, Royal Bank of Scotland plc, Morgan Stanley & Co. International plc and UBS plc. The Scheme would be obliged to post collateral to the counterparties as and when the swap mark-to-market is negative to the Scheme (i.e. in the counterparties' favour). Once the collateral is transferred to the respective counterparty it is held by the counterparty but in the name of the Trustee.

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Return Seeking Portfolio

The Investment Fund (IF) is designed to deliver performance in excess of a Scheme specific target through exposure to diversified investment arrangements. River and Mercantile Solutions invests and manages the Scheme's assets on behalf of the Trustee.

River and Mercantile Solutions' fiduciary management service reduces the risks and costs of decision delay and provides access to a broad range of asset allocation and increased investment specialisation, such as commodities, high yield bonds, leveraged loans and other alternative asset classes as well as currency hedging. As well as the delegated responsibility for dynamic asset allocation, River and Mercantile Solutions are also responsible for selecting, combining and replacing fund managers.

The core strength of the fiduciary management portfolio proposition lies in the delegation to the manager of the flexibility to dynamically allocate across all asset classes in accordance with medium to long term views on global markets, and to 'defend' by increasing the allocation to cash when the risk/return attributes of multiple asset classes are poor. This is demonstrated in the Asset Allocation table on page 12, showing the variation at the current and prior year end.

The investment objective for IF is a return of LIBOR + 3% per annum, after the deduction of fees, over rolling three year periods. Performance of the IF assets against objectives is as follows:

IF including EDOS	1 Year	3 Years p.a.	5 Years p.a.
Investment return	2.9%	5.1%	5.8%
Objective	3.4%	3.5%	3.5%
Investment return relative to target	-0.5%	1.6%	2.3%

Performance is shown to 5 April 2018 after the deduction of fees (to the extent that fees are paid from assets). The objective is shown to 31 March 2018, the nearest month end to the Scheme's year end.

The Trustee monitors the performance of IF on a quarterly basis and is provided with a valuation of all of the Scheme's assets on a monthly basis.

Total Investment Performance

While the performance of the Scheme's return-seeking portfolio was positive over the year ended 5 April 2018, the total performance (including the performance of the swaps) was negative. Performance against objective over different time periods is as follows:

Total performance	1 Year	3 Years p.a.	5 Years p.a.
Investment return	-1.7%	9.2%	9.2%
Objective	-2.2%	8.9%	10.7%
Investment return relative to target	0.5%	0.3%	-1.5%

The objective for three years covers the period 1 April 2015 to 5 April 2018, and for five years it covers 1 April 2013 to 5 April 2018.

Investment Expenses

Investment management expenses amounted to £1.9m during the period (previously £0.7m). It should be noted that, in addition to these direct expenses, the majority of underlying managers' fees are reflected in unit prices and these are not separately disclosed. Discounts on investment management fees are negotiated where possible.

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Custody of Assets

The swap contracts entered into with Barclays Bank plc, Credit Suisse International, Goldman Sachs plc, JP Morgan plc, HSBC plc, Lloyds plc, Royal Bank of Scotland plc, Morgan Stanley & CO. International plc and UBS plc are held directly in the Trustee's name. These direct principal to principal contracts do not themselves require safe custody. However, the collateral provided to the counterparties to secure their value when their mark-to-market is positive is held by KAS Bank N.V., as custodian for the Scheme, in the name of its nominee company, KAS Nominees Limited.

The pooled fund units and shares comprising the assets managed through the fiduciary management portfolio are held by KAS Bank N.V. in the name of its nominee company, KAS Nominees Limited.

Social Responsibility

The Trustee is seeking to maximise overall investment returns subject to an acceptable level of risk. Social, environmental or ethical considerations are not directly taken into account by the Trustee in the selection, retention and realisation of investments but the Investment Manager may take account of such factors with a view to positive effects on the expected financial return on investment.

Corporate Governance

The majority of the Scheme's investments are made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or social, ethical or environmental factors, is delegated to the manager of the pooled investment fund. The extent to which these factors are taken into account in the selection, retention and realisation of investments is considered by the Investment Manager as part of the process of selecting organisations with which to invest.

The Trustee supports the Myners Principles and the UK Stewardship Code. It has conducted a 'comply or explain' review in respect of both of the Myners Principles and Investment Guidance from the Pensions Regulator.

Employer Related Investments

There were no employer related investments during the year.

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Date: 11 October 2018

Name:

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Ltd

Date: 11 October 2018

Name:

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Ltd

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 5 April 2017. This showed that on that date:

The value of the technical provisions was £1,551.1 million

The value of the assets was £1,484.1 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to 50/50 of the swap and gilt yield curves at the valuation date plus risk premiums of 2.0% pa until 5 April 2027 tapering down to 0.5% pa at 5 April 2037 and remaining constant thereafter.

Future Retail Price inflation: term dependent rates set by reference to the break-even swap RPI yield curve at the valuation date.

Future Consumer Price inflation: The rate of RPI inflation less 1.0% per annum at each term.

Pension increases: Derived from the appropriate price inflation assumption allowing for the maximum and minimum annual increases, and for price inflation to vary from year to year, with adjustment to allow for the timing of increases.

Pay increases: The rate of RPI inflation at each term.

Post retirement mortality: Standard tables S2Px_A, with scaling factors of 95%.

Future improvements in mortality: An allowance for future improvements was made from 2007 in line with the CMI 2016 core projections with a long-term rate of improvement in mortality rates of 1.5% per annum and a smoothing parameter of 8.

Retirement age: An allowance for early retirements was made for each section of the Scheme.

Cash commutation: 90% of members were assumed to commute 25% of their pension on retirement which includes an allowance for commutation factors expected following the 2017 valuation.

LEONARDO HELICOPTERS PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES (continued)

Pension increase exchange on retirement: An allowance was made for 30% take-up for those members not yet offered the option, based on terms which are 60% of the value of the non-statutory increases on the technical provisions basis.

Contribution reserve: An allowance has been included in the technical provisions for the present value of the difference between the future benefit accrual contributions and the expected cost of that benefit accrual (including an estimate for the premiums paid to insure the lump sum death benefits) for the period of the Recovery Plan, on the technical provisions basis and allowing for prevailing market conditions.

The next formal valuation of the Scheme will become due with an effective date of 5 April 2020.

LEONARDO HELICOPTERS PENSION SCHEME

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Certification of schedule of contributions

Leonardo Helicopters Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that—

the statutory funding objective could have been expected on 5 April 2017 to be met by the end of the period specified in the recovery plan dated 14 June 2018.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 14 June 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature

Date

14 June 2018

Name

Qualification

Chris Vaughan-Williams

Fellow of the Institute and Faculty of Actuaries

Address

Name of employer

25 Marsh Street
Bristol
BS1 4AQ

Aon Hewitt Limited

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year 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 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension Schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising 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 in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

LEONARDO HELICOPTERS PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LEONARDO HELICOPTERS PENSION SCHEME

Opinion

We have audited the financial statements of the Leonardo Helicopters Pension Scheme for the year ended 5 April 2018 which comprise the Fund Account, the Statement of Net Assets (Available for benefits) and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2018, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identifiable material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. The Scheme's Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

LEONARDO HELICOPTERS PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LEONARDO HELICOPTERS PENSION SCHEME (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustees

As explained more fully in the Trustee's responsibilities statement set out on page 19, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our Auditor's report.

Use of our Report

This report is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit 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 Auditor's 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 and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 11 October 2018

LEONARDO HELICOPTERS PENSION SCHEME

FUND ACCOUNT

For the year ended 5 April 2018

	Note	2018 £'000s	2017 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions		31,623	42,157
Employee contributions		50	49
Total contributions	3	31,673	42,206
Transfers in	4	10,270	-
Other income	5	720	367
		<u>42,663</u>	<u>42,573</u>
Benefits payable	6	37,969	39,015
Payments to and on account of leavers	7	4,017	3,092
Other payments	8	438	438
Administrative expenses	9	1,807	1,662
		<u>44,231</u>	<u>44,207</u>
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(1,568)</u>	<u>(1,634)</u>
RETURNS ON INVESTMENTS			
Investment income	10	21,994	19,355
Change in market value of investments	12	(44,577)	313,762
Investment management expenses	11	(1,887)	(730)
NET RETURNS ON INVESTMENTS		<u>(24,470)</u>	<u>332,387</u>
NET (DECREASE) / INCREASE IN THE FUND FOR THE YEAR		(26,038)	330,753
NET ASSETS AT 5 APRIL 2017		<u>1,494,634</u>	<u>1,163,881</u>
NET ASSETS AT 5 APRIL 2018		<u>1,468,596</u>	<u>1,494,634</u>

The notes on pages 24 to 35 form an integral part of these financial statements.

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2018

	Note	2018 £'000s	2017 £'000s
INVESTMENT ASSETS	12		
Bonds		562,768	619,735
Pooled investment vehicles	13	830,947	799,054
Derivatives	14	110,887	146,045
AVC investments	15	11,252	10,571
Cash deposits	12	69,744	22,287
Other investment balances	16	4,784	7,729
		<u>1,590,382</u>	<u>1,605,421</u>
INVESTMENT LIABILITIES			
Derivatives	14	(93,622)	(105,904)
Other investment balances	16	(21,914)	(3,011)
		<u>(115,536)</u>	<u>(108,915)</u>
TOTAL NET INVESTMENTS		1,474,846	1,496,506
CURRENT ASSETS	20	2,358	6,807
CURRENT LIABILITIES	21	(8,608)	(8,679)
NET ASSETS AT 5 APRIL 2018		<u>1,468,596</u>	<u>1,494,634</u>

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 takes into account such obligations is dealt with in the Report on Actuarial Liabilities on pages 16 and 17 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 24 to 35 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 11 October 2018.

Name:

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Ltd

Name:

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Ltd

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2018

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised November 2014).

2. ACCOUNTING POLICIES

(a) *Accounting Convention*

The financial statements are prepared on an accruals basis.

(b) *Contributions*

Employers' contributions, members' contributions, including those paid under the SMART option, are accounted for on an accruals basis in accordance with the Schedule of Contributions.

AVC's are accounted for on an accruals basis, and the resulting investments are included within the net assets statement on the basis values provided by the AVC investment managers.

Augmentation contributions are accounted for in accordance with the agreement under which they are payable, or, in the absence of an agreement, on a receipt basis.

Employer deficit funding contributions are recognised on the due dates in accordance with the Schedule of Contributions or in the absence of a formal agreement on a receipts basis.

(c) *Payments to Members*

Pensions in payment are accounted for in the period to which they relate.

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.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

(d) *Expenses*

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration.

(e) *Investment Income*

Dividends from equities are accounted for on the ex-dividend date.

Income from bonds, other interest receivable and annuity income is taken into account on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

(f) *Investments*

Investments are included at fair value as follows:

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Unquoted securities are included at fair value estimated by the Trustee using appropriate valuation techniques.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

2. ACCOUNTING POLICIES (continued)

(f) Investments (continued)

Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Private equity holdings are valued at the latest available price as provided by the managers.

Exchange traded futures are included at fair value, determined using market quoted prices.

Swaps are valued based on the present value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Options are valued at fair value using pricing models and relevant market data at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Annuities purchased by the Trustee, which fully provide the benefits for certain members, are included in the financial statements at nil value. The cost of purchasing immediate annuities in respect of pensioners is reported with the Fund Account under 'Benefits'. The Trustee has reviewed the Scheme's annuity policies and has concluded that these are not significant to the Scheme's assets and the fund account movement, and therefore not valued these policies on the grounds of materiality.

(g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the year end.

(h) Currency

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

3. CONTRIBUTIONS	2018 £'000s	2017 £'000s
Employer contributions		
Normal	7,746	8,811
Additional voluntary	2,028	2,324
Deficit funding	11,500	15,000
Additional SMART	-	5,000
Expenses	1,500	1,500
	<u>31,623</u>	<u>42,157</u>
Employee contributions		
Normal	50	49
	<u>31,673</u>	<u>42,206</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

3. CONTRIBUTIONS (continued)

SMART contributions are in respect of salary sacrifice arrangements made available to certain members by the employer.

Employee AVC contributions are disclosed as employer contributions as they are paid via SMART.

Contributions received from members and participating employers were in accordance with the Schedule of Contributions.

The deficit funding is payable under the recovery plan. The deficit payments will continue to be paid to the end of the recovery plan in 2024.

4. TRANSFERS IN	2018 £'000s	2017 £'000s
Group transfers-in from other schemes	<u>10,270</u>	<u>-</u>
<p>The group transfer-in relates to a transfer of funds in the form of a reassignment of assets held on behalf of Hadland Photonics Pension & Life Assurance Scheme on 31 July 2017 to the Leonardo Helicopters Pension Scheme, in line with the Transfer Deed.</p>		
5. OTHER INCOME	2018 £'000s	2017 £'000s
Other income	6	14
Claims on term insurance policies	<u>714</u>	<u>353</u>
	<u>720</u>	<u>367</u>
6. BENEFITS PAYABLE	2018 £'000s	2017 £'000s
Pensions	26,979	24,226
Commutation of pensions and lump sum retirement benefits	10,174	13,899
Purchase of annuities	12	46
Lump sum death benefits	785	737
Refunds of contributions on death	19	100
Taxation	<u>-</u>	<u>7</u>
	<u>37,969</u>	<u>39,015</u>
7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2018 £'000s	2017 £'000s
Refunds of contributions	2	-
Individual transfers out to other schemes	<u>4,015</u>	<u>3,092</u>
	<u>4,017</u>	<u>3,092</u>
8. OTHER PAYMENTS	2018 £'000s	2017 £'000s
Premiums on term insurance policies	<u>438</u>	<u>438</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

9. ADMINISTRATIVE EXPENSES		2018	2017		
		£'000s	£'000s		
Administration		607	527		
Actuarial fees		385	277		
Legal fees		149	200		
Other professional fees		25	55		
Audit fees		15	24		
PPF levy		606	557		
Other fees		17	13		
Trustee liability insurance		-	(4)		
Bank charges		3	4		
Miscellaneous expenses		-	9		
		<u>1,807</u>	<u>1,662</u>		
10. INVESTMENT INCOME		2018	2017		
		£'000s	£'000s		
Income from bonds		5,103	4,719		
Income from pooled investment vehicles		11,059	6,817		
Interest on cash deposits		23	(11)		
Income from derivatives / swaps		5,750	7,770		
Annuity income		59	60		
		<u>21,994</u>	<u>19,355</u>		
11. INVESTMENT MANAGEMENT EXPENSES		2018	2017		
		£'000s	£'000s		
Administration, management & custody		1,847	2,013		
Investment fee rebate		(183)	(1,482)		
Investment Custodian fees		223	(199)		
		<u>1,887</u>	<u>730</u>		
12. RECONCILIATION OF INVESTMENTS					
	Value at	Purchases	Sales	Change in	Value at
	5.4.2017	at cost &	proceeds &	market value	5.4.2018
Defined Benefit Section		derivative	derivative		
	£'000s	payments	receipts	£'000s	£'000s
Bonds	619,735	346,128	(382,576)	(20,519)	562,768
Pooled investment vehicles	799,054	548,995	(504,584)	(12,518)	830,947
Derivatives	40,141	36,822	(47,798)	(11,900)	17,265
AVC investments	10,571	3,247	(2,791)	225	11,252
	<u>1,469,501</u>	<u>935,192</u>	<u>(937,749)</u>	(44,712)	1,422,232
Cash deposits	22,203			151	69,744
Cash in transit	84			-	-
Other investment balances	<u>4,718</u>			(16)	(17,130)
	<u>1,496,506</u>			<u>(44,577)</u>	<u>1,474,846</u>

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

12. RECONCILIATION OF INVESTMENTS (continued)

Transaction costs analysed by main asset class and type of cost are as follows:

	Fees	Commission	Stamp duty and taxes	2018 Total	2017 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
PIV	<u>3</u>	<u>58</u>	<u>-</u>	<u>61</u>	<u>6</u>

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

13. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year end comprised:

	2018 £'000s	2017 £'000s
Equity	375,180	378,164
Bonds	109,082	144,753
Property	34,739	46,230
Cash	39,544	18,960
Alternative	245,422	153,157
Private Equity	<u>26,980</u>	<u>57,790</u>
	<u>830,947</u>	<u>799,054</u>

14. DERIVATIVES

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme as follows.

Options – the Trustee wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year the Scheme held a number of equity option contracts that protect it from falls in value in the main markets in which the Scheme invests.

Swaps – the Trustee's aim is to match as far as possible the fixed income portfolio and the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

14. DERIVATIVES (continued)

At the year end the Scheme held the following derivatives:

	2018 Asset £'000s	2018 Liability £'000s	2017 Asset £'000s	2017 Liability £'000s
Swaps & Swaptions	57,408	(61,794)	109,297	(70,730)
Options	53,202	(29,963)	35,855	(29,812)
Forward foreign exchange contracts	<u>277</u>	<u>(1,865)</u>	<u>893</u>	<u>(5,362)</u>
	<u>110,887</u>	<u>(93,622)</u>	<u>146,045</u>	<u>(105,904)</u>

Options

Type	Expiration	Underlying Investment	No of outstanding contracts	Asset £'000s	Liability £'000s
Put	15/03/2019	SPX Index	1	3,946	-
Put	20/07/2018	FTSE 100	1	-	(39)
Call	20/07/2018	FTSE 100	3	36,622	(27,907)
Put	29/03/2021	Global Basket	1	-	(2,017)
Call	29/03/2021	Global Basket	1	<u>12,634</u>	-
				<u>53,202</u>	<u>(29,963)</u>

Swaps

Nature	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Interest rate swaps (OTC)	2019-2066	699,619	38,826	(25,664)
Inflation swaps (OTC)	2019-2046	651,576	3,758	(31,092)
Total return swaps	2018-2022	334,836	<u>14,824</u>	<u>(5,038)</u>
			<u>57,408</u>	<u>(61,794)</u>

Included in bonds is collateral of £23.5m (2017: £54.2m) which has been pledged to the counterparty.

At the year end the Scheme held £43.0m (2017: £17m) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	Under 1 month	£307,057,086	\$430,309,800	-	(571)
Forward OTC	Under 1 month	£47,697,553	€54,235,600	251	-
Forward OTC	Under 1 month	£27,294,011	¥4,215,530,000	-	(760)
Forward OTC	Under 1 month	£17,629,031	\$25,178,100	-	(371)
Forward OTC	Under 1 month	¥979,220,000	£6,579,055	-	(62)
Forward OTC	Under 1 month	€7,755,900	£6,849,452	-	(64)
Forward OTC	Under 1 month	£1,620,859	\$2,249,600	13	-
Forward OTC	Under 1 month	£3,827,610	\$5,396,050	-	(30)
Forward OTC	Under 1 month	€11,883,800	£10,382,852	13	-
Forward OTC	Under 1 month	¥615,490,000	£4,103,228	-	(7)
				<u>277</u>	<u>(1,865)</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

15. AVC INVESTMENTS

The Trustee holds assets invested separately from the main fund securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to the year end confirming contributions paid and the value of their fund. The aggregate amounts of AVC investments are as follows:

	2018 £'000s	2017 £'000s
Equitable Life	573	619
Prudential	909	916
Old Mutual Wealth	<u>9,770</u>	<u>9,036</u>
	<u>11,252</u>	<u>10,571</u>

16. OTHER INVESTMENT BALANCES

	2018 £'000s	2017 £'000s
Amounts due from broker	2,943	6,410
Dividends and interest receivable	<u>1,841</u>	<u>1,319</u>
	4,784	7,729
Amounts due to broker	<u>(21,914)</u>	<u>(3,011)</u>
	<u>(17,130)</u>	<u>4,718</u>

17. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 5 April 2018			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	-	562,768	-	562,768
Pooled investment vehicles	227,646	510,063	93,238	830,947
Derivatives	-	17,265	-	17,265
AVC investments	-	10,007	1,245	11,252
Cash	69,744	-	-	69,744
Accrued investment income	1,842	-	-	1,842
Unsettled items	<u>(18,972)</u>	<u>-</u>	<u>-</u>	<u>(18,972)</u>
	<u>280,260</u>	<u>1,100,103</u>	<u>94,483</u>	<u>1,474,846</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

17. FAIR VALUE DETERMINATION (continued)

	At 5 April 2017			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	-	619,735	-	619,735
Pooled investment vehicles	304,686	416,021	78,347	799,054
Derivatives	-	40,141	-	40,141
AVC investments	-	9,036	1,535	10,571
Cash	22,203	-	-	22,203
Accrued investment income	1,319	-	-	1,319
Unsettled items	3,399	-	-	3,399
Cash in transit	84	-	-	84
	<u>331,691</u>	<u>1,084,933</u>	<u>79,882</u>	<u>1,496,506</u>

18. INVESTMENT RISK DISCLOSURES

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

18. INVESTMENT RISK DISCLOSURES (continued)

Credit Risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, OTC derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore indirectly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Trustee's policy for managing credit risk is detailed in the Statement of Investment Principles.

The Scheme holds £562.8m in directly held bonds (2017: £619.7m), £17.3m in OTC derivatives (2017: £40.1m) and £50.8m in directly held cash balances (2017: £25.7m). The Scheme also holds £148.6m bonds and cash through underlying pooled fund investments (2017: £163.7m).

Credit risk arising on derivatives held directly depends on whether the derivative is exchange traded or over the counter (OTC). The Scheme holds OTC derivative contracts which are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. Credit risk for OTC derivative contracts is mitigated by placing restrictions on River and Mercantile Solutions which ensure that new contracts are only entered into with counterparties that are investment grade. The credit risk in respect of OTC swaps is further reduced by collateral arrangements.

Credit risk arising on bonds held directly is mitigated by River and Mercantile Solutions choosing to only invest in government bonds, where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

Directly held cash balances are at financial institutions which are at least investment grade credit rated. This is the position at the year-end.

In all above instances, "investment grade" is defined as being rated at least BBB- by Standard & Poor's or Baa3 by Moody's.

Indirect credit risk arises in relation to underlying investments held in bond and cash pooled investment vehicles. This risk is mitigated by the Trustee mandating River and Mercantile Solutions that the underlying investment in sub-investment grade debt may not exceed 30% of the IF.

Both direct and indirect credit risk is mitigated by holding a diversified portfolio to minimise the impact of default by any one issuer. The Trustee monitors the investment strategy adopted by River and Mercantile Solutions to ensure that the arrangement remains diversified.

Direct credit risk arises in respect of pooled investment vehicles. The Scheme's Investment Fund is invested across a large number of different pooled funds which have various legal structures in various domiciles (e.g. open-ended investment companies, unit trusts, limited partnerships etc.).

The direct credit risk associated with these managers is also mitigated by:

- the regulatory environments in which those managers operate;
- diversification amongst a large number of pooled arrangements; and
- due diligence checks by River and Mercantile Solutions on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

18. INVESTMENT RISK DISCLOSURES (continued)

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee's policy for managing this risk is detailed in the Statement of Investment Principles.

Currency risk is mitigated by delegating management of currency exposures at total portfolio level to River and Mercantile Solutions. River and Mercantile Solutions implement currency hedging through the use of hedged shared classes of pooled funds (where available) and the use of Foreign Exchange (FX) forward contracts.

Net of currency hedging, 13.1% of the Scheme's holdings were exposed to overseas currencies as at year-end (2017: 11.5%).

Interest rate risk

The Scheme's assets are subject to interest rate risk because some of the Scheme's investments are held in bonds, interest/inflation rate swaps for the purpose of liability hedging. Under this strategy if interest rates fall the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise these investments will fall in value as will actuarial liabilities because of an increase in the discount rate. At the year-end, the assets held for liability hedging purposes comprised of:

	2018 £'000s	2017 £'000s
Direct		
Bonds	562,768	619,735
Swaps	(4,387)	52,068
Swaptions	-	(13,502)
Indirect		
Bond PIVs	109,082	144,753
Cash PIVs	39,544	18,960

Please note clean values have been used where applicable.

Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, other alternatives and property. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

18. INVESTMENT RISK DISCLOSURES (continued)

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2018 £'000s	2017 £'000s
Direct		
Equity Options	17,276	6,043
Put Equity Options	3,946	-
Indirect		
Bond PIVs	109,082	144,753
Cash PIVs	39,544	18,960
Equity PIVs	375,180	378,165
Property PIVs	34,739	46,230
Alternative PIVs	238,064	153,158
Private Equity PIVs	26,980	57,790

19. CONCENTRATION OF INVESTMENTS

The following investments, excluding UK Government securities, represented over 5% of the net assets of the Scheme:

	2018		2017	
	£'000s	%	£'000s	%
Vanguard S&P 500 – ETF (USD)	86,228	5.9	107,926	7.2

20. CURRENT ASSETS

	2018 £'000s	2017 £'000s
Bank balance	2,029	6,588
Tax recoverable by the Employer	111	-
Life assurance paid in advance	218	219
	<u>2,358</u>	<u>6,807</u>

The tax recoverable by the Employer is VAT on administrative expenses which the Employer reclaims and reimburses to the Scheme.

21. CURRENT LIABILITIES

	2018 £'000s	2017 £'000s
Accrued expenses	1,321	882
Unpaid benefits	904	1,352
Employer contributions paid in advance	6,096	6,158
Tax payable	287	287
	<u>8,608</u>	<u>8,679</u>

22. EMPLOYER RELATED INVESTMENTS

There were no employer related investments within the meaning of Section 40(2) of the Pensions Act 1995.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2018

23. CONTINGENT LIABILITIES

There were no contingent liabilities as at 5 April 2018 (2017: Nil).

24. RELATED PARTIES

Seven of the nine current Trustee Directors were contributing members of the Scheme during the Scheme Year. Their contributions were calculated and paid to the Scheme in accordance with the Scheme Rules.

One of the Trustee Directors is a pensioner member of the Scheme, who receives pension benefits in line with the Scheme Rules.

Management and governance services are provided by an in-house Pensions Management team based at Leonardo MW Ltd which is the Principal Employer. Costs of the governance service are agreed with Leonardo MW Ltd and are met by the Scheme. For 2017/18, these costs amounted to £160,000 (2016/17: £160,000).

Trustee Directors who are pensioner members of a Leonardo Group Pension Scheme receive remuneration from Leonardo MW Ltd for governance services. Trustee remuneration for the 2017/18 Scheme Year totalled £17,295 (2016/17: £19,200).

£111,000 was due to the Scheme from the Employer at the year end in respect of VAT reclaimed by the Employer on Scheme Administration expenses.

The Trustee Directors are not aware of any material related party transactions that require disclosure in the financial statements, other than those already disclosed.

25. CAPITAL COMMITMENTS

There were no outstanding capital commitments as at 5 April 2018 (2017: Commitment \$107,000,000 and €20,000,000, Outstanding \$10,055,000 and €1,069,000).

26. TAXATION

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

LEONARDO HELICOPTERS PENSION 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 LEONARDO HELICOPTERS PENSION SCHEME

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the Leonardo Helicopters Pension Scheme on page 37, in respect of the Scheme year ended 5 April 2018, to which this statement is attached.

In our opinion the contributions for the Scheme year ended 5 April 2018 as reported in the attached summary of contributions on page 37 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 29 June 2015.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 37 in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustees and the Auditor

As explained more fully on page 19 in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit 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 Auditor's statement 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 and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 11 October 2018

LEONARDO HELICOPTERS PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions were as follows:

	£'000s
Employer normal contributions	7,746
Employer SMART contributions	8,849
Employer deficit funding contributions	11,500
Employer expense contributions	1,500
Employee normal contributions	<u>50</u>
Total contributions paid	<u>29,645</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedule of Contributions	29,645
Members' Additional Voluntary Contributions	<u>2,028</u>
Contributions receivable per the financial statements	<u>31,673</u>

This summary was approved by the Trustee on 11 October 2018.

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Name:
Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Ltd