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Leonardo Helicopters Pension Scheme

October 2017

REPORT & ACCOUNTS

FOR THE PERIOD ENDED 5 APRIL 2017



HELICOPTERS PENSION SCHEME

REPORT AND FINANCIAL STATEMENTS

for the year ended 5 April 2017

LEONARDO HELICOPTERS PENSION SCHEME

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LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Chairman's Review



I am pleased to present the Report and Accounts for the Leonardo Helicopters Pension Scheme (the "Scheme") for the year ended 5 April 2017.

During this Scheme year, Leonardo SpA restructured its business which resulted in a new name for the Scheme and the Trustee company (now called Leonardo Helicopters Pension Scheme (Trustee) Limited). The Principal Employer also changed to Leonardo MW Ltd, which is a company that holds the merged UK businesses of Leonardo SpA. Leonardo MW Ltd now has formal responsibility for supporting the Scheme. Whilst it sounds like there has been a lot of change, the Scheme structure and benefits have not changed and the same committed Trustee Directors continue to manage the Scheme for your benefit.

The last valuation as at 5 April 2014, which was concluded in June 2015, showed the Scheme had a deficit of £123 million and the Scheme funding ratio was 88%. However, the annual funding update as at 5 April 2016 showed that the funding ratio fell to 77% and the deficit was estimated to have increased to £343 million. This worsening situation is largely due to falls in long term interest rates over the year, and affects many Schemes in the UK. The Trustee Board has continued to monitor the funding position of the Scheme on a quarterly basis and is working with the employer to manage the Scheme's liabilities and ensure the 2017 valuation gives an appropriate estimate of the deficit.

It has been a good year for the Scheme's return seeking investment portfolio which exceeded its objective and achieved a return of 14.8% over the year. The Scheme's total investment strategy (including return seeking assets and the liability hedge) produced a positive return of 28.7% over the year. These strong investment returns will have helped to improve the deficit position since April 2016.

Following on from the business restructuring, the employer asked the Scheme to accept a transfer in from a smaller pension scheme in the group which was connected with the DRS business. In July 2017 the assets and liabilities of the Hadland Photonics Pension Fund and Life Assurance Scheme merged into our Scheme and our Trustee board became responsible for administering these benefits. Before agreeing to this merger, our advisers confirmed that it did not have an adverse impact on the security of our existing members' benefits.

Throughout the year we have continued our retirement course and workshops for the membership which have continued to be very well received. The Scheme website is well used and we continue to develop its capabilities. The Trustee Board is also planning to change the Scheme's third party administrator in 2018.

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This year Richard Smith left the business and therefore ceased to be a Trustee Director, having served on the board for 11 years. We wish him well for the future. Nicola McKenzie has been appointed as our new Trustee Director.

It has been a busy year for our Trustee Board and this will continue throughout the next year due to the valuation, liability management projects and the change of administrator. I would like to thank the Trustee Board, our advisers and support staff for their continued commitment to supporting the Scheme in the interests of all members.

Martin Flavell
Chairman of the Trustee

LEONARDO HELICOPTERS PENSION SCHEME

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Trustee and Advisers

Scheme	Leonardo Helicopters Pension Scheme (formerly called "AgustaWestland UK Pension Scheme") (registered no: 10260073)	
Principal Employer	Leonardo MW Ltd (from 1 January 2017) (Formerly AgustaWestland Limited which ceased on 1 January 2017)	
Trustee	Leonardo Helicopters Pension Scheme (Trustee) Limited (formerly called AgustaWestland UK Pension Scheme (Trustee) Limited)	
Trustee Directors	Martin Flavell Caroline Beaumont Michael Bird Malcolm Gillam Steve Jenkins Simon Jones Simon P Jones Nicola McKenzie Richard Smith Rebecca Ward	(Chairman and employer nominee) (employer nominee) (member nominee) (member nominee) (member nominee) (employer nominee) (employer nominee) (employer nominee) (appointed 12 July 2017) (employer nominee) (retired 1 June 2017) (member nominee)
Secretary	Kate Webber	
Actuary	Chris Vaughan-Williams of Aon Hewitt Limited	
Investment Advisers	P-Solve Asset Solutions	
Covenant Advisers	Ernst & Young LLP	
Auditor	RSM UK Audit LLP	
Legal Advisers	Burgess Salmon LLP	
Bankers	Bank of Scotland PLC	

LEONARDO HELICOPTERS PENSION SCHEME

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Trustee and Advisers (continued)

AVC Providers	Old Mutual Wealth Life Assurance Limited Prudential Assurance Company Limited The Equitable Life Assurance Society
Custodian	KAS Bank NV
Investment Manager	P-Solve Investments Limited
Administration services	Leonardo Helicopters Pension Scheme Lysander Road Box 205 Yeovil BA20 2YB & Aon Hewitt PO Box 196 Huddersfield HD8 1EG
Administration address	Leonardo Helicopters Pension Scheme Lysander Road Box 205 Yeovil BA20 2YB Telephone: 01935 705353 Email: pensions@leonardocompany.com

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Introduction

This Report reviews the operations of the Scheme for the year ended 5 April 2017. The Scheme is a defined benefits arrangement which provides pension and life assurance benefits for employees of the Helicopters Division of Leonardo MW Ltd and Aviation Training International Limited.

The accounts have been prepared and audited in accordance with regulations made under section 41(1) and (6) of the Pensions Act 1995.

Governance

The Rules which govern the Scheme provide for there to be up to nine trustees or a sole corporate trustee. The Scheme has one corporate trustee, called Leonardo Helicopters Pension Scheme (Trustee) Limited. The directors of the trustee company are referred to throughout this report as Trustee Directors and the Trustee Board. 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.

For valid decisions to be taken a minimum of two employer nominees and two member nominees must be present at Trustee meetings. Decisions require the support of a majority of the Trustee Directors present with the Chairman having a casting vote.

During the year, the Trustee Board and its committees met a total of 21 times. Of these meetings, 7 were as a full body and, in addition, the investment committee met 6 times, the administration committee met 4 times, and the joint defined contribution investment committee met 4 times. Attendance averaged 88% at these meetings, with five Trustee Directors achieving 100% attendance.

The committees are responsible for matters delegated by the Trustee for detailed work or implementation and drawing up of recommendations. The current members of the Investment Committee are Martin Flavell (chair), Malcolm Gillam, Steve Jenkins, Simon P Jones and Nicola McKenzie. The current members of the Administration Committee are Martin Flavell (chair), Caroline Beaumont, Michael Bird, Simon Jones and Rebecca Ward.

The Joint DC Investment Committee 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). The committee consists of five trustees of Leonardo FuturePlanner, two Trustee Directors of the Leonardo Helicopters Pension Scheme and two Trustee Directors of the Leonardo Electronics Pension Scheme. The Scheme's representatives on this committee are Martin Flavell (chair) and Steve Jenkins.

All Trustee Directors are able to attend these committees even if they are not a member. The attendance measure above excludes meetings that a Trustee Director is not expected to attend under this governance practice.

The Trustee produces a business plan for each calendar year which sets out the objectives of the full Trustee and each of the committees. Achievement of the business plan is monitored by the Trustee and the plan for 2016 has been fully actioned.

The Trustee has appointed auditors and other external advisers to give advice on legal, actuarial, and investment issues. A list of the advisers can be found on pages 3 and 4 of this Report.

LEONARDO HELICOPTERS PENSION SCHEME

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Knowledge and understanding

The Pensions Act 2004 requires the Trustee Directors to be conversant with key documents and to have knowledge and understanding of areas of importance in pensions. This requirement is being fulfilled through the Trustee Training Policy which provides for induction and ongoing training. Training has been held within meetings and some trustee directors have attended various external courses. The average amount of training per trustee director during the Scheme year was over 22 hours and 8 Trustee Directors met the Scheme's learning objective. Trustee directors are encouraged to obtain external certification of their knowledge and understanding at a level that is equivalent or better than that implied by the Pensions Regulator's Trustee Toolkit. The Trustee Directors have two years to work towards their external certification and four of our newer Trustee Directors are still working towards this certification. The other five Trustee Directors have obtained external certification.

Financial Development

The fund at 5 April 2017 was valued at £1.5 billion. This represents an increase of £331 million over the value at the start of the year.

Total benefit payments and expenses exceeded contributions to the Scheme by £1.6 million. The Employer paid deficit recovery contributions of £15 million and normal future service contributions of £8.8 million. The members paid ordinary contributions of £0.1 million and the Employer paid £9.5 million on behalf of the members through the salary sacrifice SMART option. AVC contributions of £2.3 million were paid through SMART during the year. Further details can be found on pages 29 to 31.

Benefits payable were higher than last year. The lump sum retirement benefits were £13.9 million (compared to £12.1 million previously). The increase in pensioners over the year resulted in the pensioner payroll increasing to £24.2 million (previously £22.5 million). Other benefit payments amounted to £0.9 million. Total benefit payments were £39 million.

The return on investments was £332.4 million (compared to a return of £33.1 million in the previous year). More information is provided on pages 13 to 17.

Report on actuarial liabilities

The latest formal actuarial valuation of the Scheme was completed as at 5 April 2014 pursuant to the Scheme Specific Funding requirements of the Pensions Act 2004. The Trustee has prepared a Statement of Funding Principles that sets out their policy to reach the Scheme's funding objective. Copies of the Statement are available to members from the Secretary to the Trustee and a copy of the Actuary's certificate that the Statement conforms to the requirements of the Pensions Act 2004 can be found on page 46.

The Trustee chose long-term assumptions, based on the advice of the Actuary, which were agreed with the Principal Employer. The actuarial method used in the calculation of the technical provisions is the "Projected Unit" method. See overleaf for more information about the significant actuarial assumptions used to calculate the technical provisions.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

The Actuary finalised his valuation as at 5 April 2014 in his report dated 29 June 2015. The net assets of the Scheme on 5 April 2014 were £915 million, the final funding deficit was £123 million and the funding ratio was 88%. The cost of the future service payable by the Employer was 11.9% of relevant salary until 5 April 2016 and then 9.05% of relevant salary from 6 April 2016. The Employer also pays, as agreed with the Trustee, contributions to make good the deficit as follows:

January 2015	£15.9M
January 2016	£13.2M
January 2017	£15.0M
January 2018	£11.5M
January 2019	£11.2M
January 2020	£11.1M
January 2021	£10.4M
January 2022	£6.8M
January 2023	£5.2M
January 2024	£3.6M

The Employer pays each calendar year's future service contributions in advance with an adjustment at the end of the period for any under or over payment based on the actual membership. The Employer will also pay £1.5 million each year for administrative expenses.

The significant actuarial assumptions used to calculate the technical provisions in the 5 April 2014 valuation were:

- Discount rate: Term dependent rates set by reference to the swap curve at the valuation date plus an addition of 1.8% per annum until 5 April 2019 tapering to 0.7% per annum by 5 April 2049.
- Future retail price inflation (RPI): Term dependent rates set by reference to the RPI swap curve at the valuation date.
- Future Consumer Price inflation: RPI assumption less an adjustment equal to 0.85% per annum at each term.
- Pension increases: Derived from the relevant price inflation assumptions allowing for the caps and floors on pension increases according to the provisions in the Scheme's Rules.
- Post-retirement mortality: Standard tables S1PM/FA with a scaling factor of 95% together with future improvements in line with the CMI 2013 Core Projections with a long-term improvement rate of 1.5% per annum.

The agreement between the Principal Employer and the Trustee is recorded in a Schedule of Contributions. There is also an agreed Recovery Plan for the deficit dated 29 June 2015 which, on the assumptions made, forecasts that the deficit will be recovered in January 2024, which is ten years after the beginning of the Recovery Plan. A copy of the Actuary's certification of the Schedule can be found on page 46. The Recovery Plan has been submitted to the Pensions Regulator and all payments due under the Recovery Plan to date have been received.

The next formal actuarial valuation of the Scheme is required as at 5 April 2017. This valuation should be completed by 5 July 2018.

During the scheme year, the Scheme Actuary carried out an Annual Funding Update as at 5 April 2016 which showed that the funding ratio had fallen to 77% and the deficit was estimated to be £343 million. He reported that, although the assets increased as a result of positive investment returns and deficit repair contributions, the liabilities increased by a greater amount mainly because of falls in the swap yields. As a result, the funding deficit increased.

LEONARDO HELICOPTERS PENSION SCHEME

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Employer's covenant

In considering the valuation position and investment strategy, the Trustee takes into account the financial strength of the Employer and its ability to meet the contribution rates required. Factors reviewed include the cash resources, profitability and current and anticipated future orders and contracts of the Principal Employer and the commitment to the UK business of the ultimate parent company. The Trustee works with Ernst & Young to provide them with independent advice and assistance in assessing the covenant. The Trustee regularly monitors the covenant to ensure the appropriate support is available for the Scheme.

The participating employers of the Scheme are now Leonardo MW Ltd (Principal Employer) and Aviation Training International Limited. AgustaWestland Limited and AgustaWestland Holdings Limited ceased to participate on 1 January 2017 and the section 75 debt attributable to these two employers was apportioned to Leonardo MW Limited.

As part of the negotiations in relation to the UK business restructuring and change to participating employers, Leonardo SpA (the ultimate Parent company of the group) has provided a parent company guarantee dated 1 January 2017, which covers all employer obligations to the Scheme (both under the Rules of the Scheme and in accordance with applicable legislation), is uncapped, continuing in nature and materially enhances the Scheme's downside recovery.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Scheme changes

Following the changes made by the Government to end the ability for pension schemes to contract out of the second state pension system, a deed of amendment dated 11 August 2016 was entered into to ensure the Rules reflected this change.

The Trustee entered into a Deed of Amendment on 20 December 2016 to amend the Rules of the Scheme as follows:

- Introduce an option to allow members, if invited by the employer, to request a Pension Increase Exchange (PIE); and
- Clarify the death benefits available to members who work past their Normal Retirement Date.

With effect from 1 January 2017 the Scheme made the following changes:

- changed its name to the Leonardo Helicopters Pension Scheme;
- changed the Principal Employer to Leonardo MW Ltd;
- changed the Trustee name to Leonardo Helicopters Pension Scheme (Trustee) Limited;
- removed AgustaWestland Limited and AgustaWestland Holdings Limited as participating employers; and
- entered into a Deed of Apportionment to stop the re-organisation of the Leonardo UK businesses triggering the statutory debts of AgustaWestland Limited and AgustaWestland Holdings Limited. The responsibility for these debts (when triggered in the future) has passed to Leonardo MW Ltd.

At the Principal Employer's request, the Trustee Board 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 requested by Leonardo MW Ltd as part of the restructuring of the business and will facilitate economies of scale. The merger was agreed in principle at a meeting on 16 March 2017 and was completed on 31 July 2017. A £5m cash injection was paid by the employer to the Scheme. The Trustee Board carried out thorough due diligence to ensure the proposal would not materially prejudice the members' interests.

A "Hadland Section" has been set up to provide the same benefits to the 90 Hadland members which transferred to the Scheme. The Hadland Scheme closed to new accrual in 2008 so there are no active members accruing benefits in the Hadland Section.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Scheme Membership

Total membership at 5 April 2016		4,993
Active members at 5 April 2016	2,192	
Add:		
Adjustment for late notification	1	1
Less:		
Retirements	(128)	
Members becoming deferred members	(68)	
Death in service	(2)	
Transfer out	-	(198)
Active members at 5 April 2017	1,995	
Pensioners at 5 April 2016	1,704	
Plus:		
New Retirees	148	
New pensions to widows/dependants	20	168
Less:		
Deaths	(22)	
Trivial Commutations	(1)	(23)
Pensioners at 5 April 2017	1,849	
Deferred members at 5 April 2016	1,097	
Less:		
Adjustment for late notification	(1)	(1)
Plus:		
Early leavers with deferred pension	68	68
Less:		
Retirements	(20)	
Deaths	(3)	
Transfers out	(10)	(33)
Deferred members at 5 April 2017	1,131	
Total membership at 5 April 2017	4,975	

Part of the benefits of 140 pensioners are covered by an annuity policy (2016: 145).

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Administration

Responsibility for certain functions in relation to governance is delegated to Leonardo Helicopters Division which retains an in house team to support the Trustee and the Employers in relation to pension matters, and to provide a point of contact for members. The Trustee has also appointed a third party, Aon Hewitt Limited, to look after member administration, including record keeping and benefit calculations. The performance of the third party administrator is reviewed regularly by the Trustee. Over the year the performance compared to service standard of Aon Hewitt Limited was 97.5%. Aon advised its administration only clients that it was withdrawing from the market. As a consequence the Trustee Board plans to move the outsourced service from Aon Hewitt to a new provider in 2018.

Administrative expenses during the period were £1.7 million. Management fees of £0.5 million were payable to the administrators, Aon Hewitt Limited and Leonardo Helicopters Division (formerly known as AgustaWestland (in relation to the pensions department at Yeovil)). Actuarial, legal and professional fees associated with the administration of the Scheme amounted to £0.5 million. In addition the Scheme's levy for the Pension Protection Fund was £0.6 million (previously £0.5 million). Insuring the lump sum death in service benefit to Aviva cost £0.4 million (previously £0.4 million). A detailed breakdown of administration costs is shown on page 31.

Communication

"intouch", a newsletter for Scheme members, is normally issued by the Trustee twice a year. This year we issued intouch in Spring 2016, Winter 2016 and Summer 2017. Benefits Statements are issued each year to active members setting out the amount of pension built up so far and forecasts at normal retirement age.

The Trustee maintains a Scheme website which gives access to information about the Scheme and allows members access to their records and to model their benefits. The web address is www.lhpensions.co.uk.

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.

Transfers

Transfer values paid during the year in respect of transfers to other pension schemes have been calculated and verified in accordance with the Pensions Schemes Act 1993.

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. Members can pay AVCs through the salary sacrifice smart option.

The current AVC provider is Old Mutual Wealth Life Assurance Limited. Investment choices are available in the form of a "Lifestyle" arrangement and a "Pick & Mix" option. The Lifestyle product switches the member's AVC fund automatically between blend funds over a period of thirty years before retirement, resulting in it being invested at retirement in 25% capital preserving assets, 37.5% in assets expected to move broadly in line with annuity prices and 37.5% in a diversified mixture of assets expected to provide some growth with low volatility. The Pick & Mix option allows members to make their own allocations between three blend funds which are actively managed, and five passive funds (equity, bonds, annuity protection, inflation linked annuity protection and cash funds). In addition, some members have AVCs with Prudential & Equitable Life but cannot contribute more to these funds.

In addition to AVCs, members of the Main Section have an option to "buy up" to an accrual rate of 70ths or 65ths rather than the standard rate of 75ths (from 6 April each year) for each year of pensionable service. The cost of the buy up option is set by the Trustee each year.

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In April 2017, there were 670 members using the "buy up" option (32.2% of all members who are eligible to participate) and 342 members paying AVCs (16.4% of all members who are eligible to participate).

Risk management

There is a requirement for the Trustee Board to put in place adequate arrangements and procedures to administer the Scheme and to monitor those procedures to ensure the safe custody and security of the assets of the Scheme.

The Trustee Board has 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 risk register is reviewed on a quarterly basis by the administration committee and updated as necessary.

Further information

Further information about the Scheme can be obtained by writing to the Leonardo Helicopters Pension Scheme, Box 205, Lysander Road, Yeovil, Somerset BA20 2YB or emailing pensions@leonardocompany.com

Martin Flavell
Chairman
Leonardo Helicopters Pension Scheme (Trustee) Limited
on behalf of the Leonardo Helicopters Pension Scheme

Date: 12/10/17

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Investment Report

Background

At the Scheme year end, 5 April 2017, the net investments of the Scheme were valued at almost £1.5bn, compared to £1.2bn at the start of the Scheme year.

The majority of the Scheme's return seeking assets continue to be invested in the Total Investment Governance Solution (TIGS) which is managed by P Solve Investments Limited ("P-Solve"). 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 2017.

Investment Principles

The Trustee has produced a Statement of Investment Principles showing how it invests the assets of the Scheme. The defined benefit Statement of Investment Principles is reviewed regularly by the Trustee and was last updated in March 2017. The defined contribution Statement of Investment Principles was also updated in March 2017. The defined contribution Statement of Investment Principles is for AVC investments only.

The primary objective of the Scheme is to provide, on a defined benefit basis, pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants.

The Trustee aims to fund the Scheme in such a manner that there are always sufficient assets of the Scheme (at their realisable value) to meet the benefit payments promised as they fall due. The Trustee has translated its objectives into a benchmark for the Scheme. The benchmark is 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 sets general investment policy but all day-to-day investment duties have been delegated to P-Solve.

Copies of the Statement of Investment Principles are available to members from the Secretary to the Trustee.

Investment Advisers

The Trustee has delegated responsibility for the day-to-day management of the assets to the Scheme's investment manager, P-Solve. An Investment Management Agreement between the Trustee and P-Solve governs this relationship.

The Investment Manager has been appointed in two capacities:

- To implement the liability hedging strategy; and
- To actively manage assets through its Total Investment Governance Solution (TIGS) investment product that covers a wide range of asset classes and investment managers.

LEONARDO HELICOPTERS PENSION SCHEME

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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 P-Solve.

The Trustee has allocated 75% of assets to return seeking assets and 25% of assets for liability hedging.

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.

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. P-Solve manage the liability hedge which is in place via a number of counterparty banks.

During the Scheme year, the Trustee has decided to hedge 87.5% of the interest rate risk and 90% of the inflation risk of the liabilities. 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.

The Trustee also has a derivatives programme to manage the exposure of the assets to currency movement which is managed by P-Solve.

Investment Expenses

Investment management expenses amounted to £0.7m during the period (previously £1.5 million). 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.

Market Commentary

The financial markets were subject to high levels of uncertainty over the 12 months to 31 March 2017, buffeted by geopolitical and macroeconomic events, but there were steady signs of a generally improving global economy, and the value of most return-seeking assets increased substantially over the year.

The market recovery staged from the beginning of March 2016 slowed on the approach to the UK referendum on continued membership of the European Union. The referendum result, announced on Friday 24 June, surprised the financial markets. Sterling weakened against all major currencies, gilt yields dropped, and all major equity markets fell heavily. Meanwhile economic reports showed more improvement, albeit modest. Notably the oil price staged a significant recovery, largely because producers were disciplined in cutting production but also because of increased demand.

The strongest and most consistent signs of economic growth were in the US, but here the equity markets were held back over the autumn by uncertainty around the US presidential election. When the result was the victory of Donald Trump, with his plans to cut taxes, raise infrastructure spending and loosen financial regulation, US and other equity markets rallied strongly. The rally continued through to March, but paused with Trump's failure to push through the repeal of Obamacare, which was judged at the time to make it less likely that other changes would be pushed through.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Total investments

The overall return on the Scheme's investments for the year ended 5 April 2017 was 28.7%.

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.

The liability matching portfolio, which consists of interest rate and inflation swaps, gilts and total return swaps, has been managed by P-Solve since 18 May 2012.

As at 5 April 2017, the valuation of the swap contracts resulted in an unrealised gain/loss as follows:

	£000
Interest rate swaps	50,907
Inflation swaps	(22,253)
Swaptions	(13,502)
Gilts total return swaps (incl. internal TRS)	<u>34,794</u>
Total	<u>49,946</u>

At the year end the liability hedge was hedging 94% of the interest rate risk and 98% of the inflation risk.

Return Seeking Portfolio

From May 2012, the majority of the return seeking assets are held under an investment service called TIGS. TIGS is a fully delegated service designed to deliver performance in excess of a client specific target through exposure to diversified investment arrangements. P-Solve invest and manage the Scheme's assets on behalf of the Trustee.

The service reduces the risks and costs of decision delay and provides access to a broad range of asset classes and increased investment specialisation. As well as the delegated responsibility for dynamic asset allocation, P-Solve are also responsible for selecting, combining and replacing fund managers. The core strength of the TIGS 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 and/or bonds when the risk/return attributes of other asset classes seem poor.

The return on the return seeking portfolio for the year ended 5 April 2017 was 14.8%.

LEONARDO HELICOPTERS PENSION SCHEME

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Investment Performance

The split of assets between the return seeking assets and the liability matching portfolio at the current and prior year ends is as follows:

	5 April 2017		5 April 2016	
	Market value £000	% of fund (ex AVCs)	Market value £000	% of fund (ex AVCs)
Return seeking portfolio (Investment Fund)	1,014,633	68.3	882,984	76.0
Liability Matching portfolio	471,219	31.7	278,857	24.0
Total investments (excluding AVCs)	1,485,852	100.0	1,161,841	100.0
AVCs	10,571	-	9,154	-
Total Investments	1,496,423	100.0	1,170,995	100.0

Total Portfolio Investment Performance

The Scheme's total investment strategy, as at 5 April 2017, has returned:

Total Portfolio	1 Year (%)	3 years (% p.a.)	5 years (% p.a.)
Investment return	28.7	17.9	13.3

Asset Allocation

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

Asset Class	5 April 2017		5 April 2016	
	Market value £000	% of fund (ex AVCs)	Market value £000	% of fund (ex AVCs)
Equity	378,165	25.5	397,230	34.2
Private Equity	57,790	3.9	57,021	4.9
Alternatives	211,598	14.2	151,702	13.0
Bonds	284,414	19.1	246,698	21.2
Commodities	-	-	-	-
Cash and accrued income	40,905	2.8	29,801	2.6
Currency Hedge	(4,469)	(0.3)	(10,891)	(0.9)
Property	46,230	3.1	11,423	1.0
Liability Matching	471,219	31.7	278,857	24.0
Total assets (excluding AVCs)	1,485,852	100.0	1,161,841	100.0

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

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Custody of Assets

The assets managed through TIGS are held by KAS Bank N.V. through bankruptcy remote nominee companies. In addition, KAS Bank act as custodian in relation to the assets not held within TIGS and the collateral for the liability hedging contracts.

Social Responsibility

The Trustee is seeking to maximise overall investment returns subject to an acceptable level of risk. The Trustee recognises that social, environmental and ethical considerations are among the factors which investment managers could take into account, where relevant, when selecting investments for purchase, retention or sale. Where appropriate, the managers have produced, or will be requested to produce, statements setting out their policy in this regard.

Corporate Governance (including voting rights)

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 are 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 and has implemented comply or explain documents in respect of both of these Corporate Governance tools.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Compliance Statement

Constitution of the Scheme

The Leonardo Helicopters Pension Scheme is a defined benefits scheme, constituted and administered in accordance with the Rules. Copies of the Rules which govern the Scheme are available to members for inspection on request to the Secretary to the Trustee, Leonardo Helicopters Pension Scheme, Aon Hewitt, PO Box 196, Huddersfield, HD8 1EG.

Taxation

The Scheme is registered with HM Revenue & Customs under the Finance Act 2004.

Contracting Out

On 5 April 2016, members of the Scheme were in contracted out employment for the purposes of earnings-related pension provision under Pension Schemes Act 1993. From 6 April 2016, the option to contract out was ended by the Government.

Pension Increases

On 1 April 2017 the pensions of pensioners and dependant pensioners were increased by the percentage amounts required by the Rules of the Scheme. This year the increases were generally 2%, which is the level of RPI in September 2016. However, in one section of the Scheme, part of the benefits were increased by 3%. Relevant deductions or additions were made for statutory obligations to provide increases in relation to Guaranteed Minimum Pension.

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

Transfer Values

The Trustee makes no allowance in the calculation of transfer values for discretionary benefits.

Employer-related investments

Employer-related investments held by the Scheme at any time during the year are negligible. The Trustee is satisfied that the level of employer-related investments will continue to be negligible due to P-Solve's investment process which is highly diversified.

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

Queries relating to Scheme benefits and administration

Enquiries about the Scheme generally, about individual entitlement to benefits or requests for Scheme documentation should be directed to:

Leonardo Helicopters Pension Scheme
Aon Hewitt Limited
PO Box 196
Huddersfield
HD8 1EG Telephone: 0845 600 8796 / Email: leonardohelicopters@aonhewitt.com

The Trustee has adopted a dispute resolution procedure in line with the requirements of the Pensions Act 1995. Details of this procedure are available from the Pension Administrator at the above address.

If a member has a complaint against the Scheme which has not been resolved to their satisfaction through the Scheme's internal dispute resolution procedure, the Pensions Advisory Service (TPAS), an independent voluntary organisation, may be able to offer advice.

TPAS Email: enquiries@pensionsadvisoryservice.org.uk
11 Belgrave Road Telephone: 0300 123 1047
London SW1V 1RB Website: www.pensionsadvisoryservice.org.uk

For problems that cannot be settled through TPAS, the Pensions Ombudsman (based at the same address) has power to investigate and determine complaints or disputes of fact or law in relation to occupational pension schemes. The Pensions Ombudsman will only investigate cases where the internal dispute resolution procedure has been exhausted and TPAS has been unable to resolve the complaint. The Pensions Ombudsman can be contacted at 11 Belgrave Road, London, SW1V 1RB.

The Pensions Regulator can intervene if it considers that a Scheme's trustee, 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. Full details about the Pensions Regulator's role are available on its website: www.thepensionsregulator.gov.uk.

Pensions Tracing

A pensions tracing service is carried out by the Department for Work and Pensions. This service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton Telephone: 0345 6002 537
WV98 1LU Website: www.gov.uk/find-lost-pension

- (i) The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an Occupational Pension scheme. Any such complaints should be addressed in the first instance to the Scheme Adjudicator. Enquiries should be addressed to:

The Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT YEAR ENDED 5 APRIL 2017

- (ii) TPAS, The Pensions Advisory Service, exists to assist members and beneficiaries of schemes in connection with difficulties which they have failed to resolve with the Trustee or Administrators of the scheme. TPAS may be contacted at:

TPAS The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

- (iii) The Pensions Regulator (TPR) is the UK regulator of work-based pension schemes.

The Pensions Act 2004 gives the Pensions Regulator a set of specific objectives:

- to protect the benefits of members of work-based pension schemes;
- to promote good administration of work-based pension schemes; and
- to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund.

TPR can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

- (iv) The Pensions Compensation Scheme was introduced to protect members' interests in certain circumstances, i.e. to provide compensation where an employer has become insolvent and the scheme assets have been reduced due to fraud, theft, or misappropriation. It does not cover losses resulting from adverse investment returns.
- (v) The Rules, the scheme details, and a copy of the schedule of contributions and Statement of Investment Principles are available for inspection free of charge by contacting the Trustee at the address shown for enquiries in this report.

Any information relating to the members' own pension position, including estimates of transfer values, should also be requested from the administrators of the scheme, Aon Hewitt Limited at the address detailed in this report.

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF TRUSTEE'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The audited financial statements, which are prepared in accordance with the UK Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension Scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- contain the information specified in the Schedule to 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 Statement of Recommended Practice, "Financial Reports of Pension Schemes" (SORP) (Revised November 2014).

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable to 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 monitoring 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 Act 1995 and 2004 to consider making reports to the Pensions Regulator and the Members.

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 them 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 also responsible for making available certain other information about the Scheme in the form of an Annual Report.

Martin Flavell
Chairman, on behalf of the Trustee of the Leonardo Helicopters Pension Scheme

Date: 12/10/17

LEONARDO HELICOPTERS PENSION SCHEME

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

Opinion on financial statements

We have audited the financial statements of the Leonardo Helicopters Pension Scheme for the year ended 5 April 2017 on pages 23 to 43 which comprise the fund account, the statement of net assets (available for benefits) and the related notes. 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 2017, 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 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustees' Responsibilities, the scheme's trustees' are responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

This report is made solely to the Scheme's trustees 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 trustees those matters we are required to state to them 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 trustees 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: 12/10/17

LEONARDO HELICOPTERS PENSION SCHEME

FUND ACCOUNT FOR THE YEAR ENDED 5 APRIL 2017

	Note	For the year ended 5 April 2017 £000	For the year ended 5 April 2016 £000
Contributions and Benefits			
Employees Contributions	3	49	43
Employers Contributions	4	42,157	33,123
		<u>42,206</u>	<u>33,166</u>
Transfers in	5	-	126
Other income	6	367	453
		<u>42,573</u>	<u>33,745</u>
Benefits paid or payable	8	(39,015)	(35,576)
Payments to and on account of leavers	9	(3,092)	(5,728)
Other payments	10	(438)	(430)
Administrative expenses	11	(1,662)	(1,377)
		<u>(44,207)</u>	<u>(43,111)</u>
Net withdrawals from dealings with members		<u>(1,634)</u>	<u>(9,366)</u>
Returns on investments			
Change in market value of investments	12	313,762	19,286
Investment income	20	19,355	15,269
Investment management expenses	21	(730)	(1,482)
		<u>332,387</u>	<u>33,073</u>
Net returns on investments		<u>332,387</u>	<u>33,073</u>
Net increase in the fund during the year		<u>330,753</u>	<u>23,707</u>
Net assets of the Scheme			
At 6 April 2016		<u>1,163,881</u>	<u>1,140,174</u>
Net assets of the Scheme		<u>1,494,634</u>	<u>1,163,881</u>
At 5 April 2017		<u><u>1,494,634</u></u>	<u><u>1,163,881</u></u>

The notes on pages 25 to 43 form an integral part of these financial statements.

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AS AT 5 APRIL 2017

	Note	5 April 2017 £000	5 April 2016 £000
Investment assets			
Bonds	12	619,735	376,120
Pooled investment vehicles	12,17	799,054	736,236
Derivatives	14	146,045	106,341
AVC investments	12,16	10,571	9,154
Cash deposits	12,15	22,203	22,376
Dividends and withholding tax	12	1,319	1,174
Cash in transit	12	84	12
Unsettled items	12	3,399	7,663
Total investments		1,602,410	1,259,076
Investment liabilities			
Derivatives	14	(105,904)	(88,070)
Total net investments		1,496,506	1,171,006
Current assets	22	6,807	2,493
Current liabilities	22	(8,679)	(9,618)
Net Assets available for benefits		1,494,634	1,163,881

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 does take account of such obligations, is dealt with in the report on actuarial liabilities on pages 6 to 7 of the annual report and these financial statements should be read in conjunction with it.

The notes on pages 25 to 43 form an integral part of these financial statements.

Trustee Director:

Trustee Director:

Date: 12/04/17

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) - The Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council, and with the guidelines set out in the Statement of Recommended Practice (SORP)(2015) - Financial Reports of Pension Schemes.

The Trustee has elected to adopt early the amendments to FRS 102 fair value hierarchy disclosures issued in March 2016.

The Scheme is a registered defined benefits pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the employer and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment. The Scheme is administered by the Trustee in accordance with the Trust Deed and Rules, solely for the benefit of its members and other beneficiaries.

2. ACCOUNTING POLICIES

The following principal accounting policies have been adopted in the preparation of the financial statements.

2.1 Accruals concept

The financial statements have been prepared on an accruals basis.

2.2 Contributions and benefits

Employers' contributions, members' contributions, including those paid under the SMART option, and employer deficit funding are accounted for on an accruals basis in accordance with the schedule of contributions.

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

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. Pensions are accounted for in the period to which they relate. For members with whom contact has been lost, benefits are accounted for on the later of the date that contact is re-established and the date that the relevant benefit payable has been identified.

Individual transfers in and out are accounted for when the transfer has been agreed by both parties and the receiving scheme has accepted liability for the transfer, which is normally when the transfer amount is paid or received.

2.3 Administration expenses and investment management expenses

Administration and investment management expenses are accounted for on an accruals basis.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

2. ACCOUNTING POLICIES (continued)

2.4 Investment Income

- i) Income from cash and short term deposits is accounted for on an accruals basis.
- ii) Dividends and interest on securities are accounted for to the extent that they are declared and payable.
- iii) Income arising from the underlying investments of the pooled investment vehicles, that is reinvested within the pooled investment vehicles, is reflected in the unit price. Such income is reported within the change in market value.
- iv) Income earned on a distributing unit trust is accounted for in the period in which it falls due.
- v) Income from derivative contracts is dealt with on an accruals basis.
- vi) Income arising from annuity policies held by the Trustee and received by the Scheme is included within investment income on an accruals basis.
- vii) Income from foreign currency holdings is translated into sterling at the rate applicable on the date of the transaction.
- viii) Return of capital on private equity holdings are reflected as sales and are reflected in the change in market value in the year they are paid.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

2. ACCOUNTING POLICIES (continued)

2.5 Valuation of Investments

Investment assets and liabilities are included at market value at the end of the Scheme year as follows:

(i) Investments in pooled investment vehicles (unit trusts/managed funds) are valued at the bid price ruling at the year end. Where no bid price is available they are valued using the available single price. Certain funds for which a year end price is not available have been valued using the latest available price.

(ii) Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

(iii) Additional voluntary contribution investments are taken as the surrender values of the accounts and policies of assurance at the year end, as advised by the AVC providers.

(iv) Quoted securities are valued at closing prices on the recognised stock exchange as at the year end, which are either the last quoted trade price or bid price depending on the market on which they are quoted.

(v) Bonds are valued on a clean basis which excludes the value of the interest accruing from the previous interest payment date and the valuation date.

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

(vii) Derivatives

Derivatives are investment assets and investment liabilities that derive their value from the price or rate of some underlying item. They are included in the net assets statement at the appropriate fair value. Investment assets are valued at bid prices, whilst investment liabilities are valued at offer prices. Derivatives with a purchase price are reported as purchases. Those that do not have an initial purchase price but required a deposit, such as an initial margin to be placed with the broker, are recorded at nil cost. The deposit is recorded as a balance due from the broker, and as such is reported within cash balances. Amounts payable or receivable from brokers and counterparties, such as margins and interest on margins, are included within cash deposits within investment assets and investment liabilities.

Forward Foreign Exchange Contracts

Forward foreign exchange contracts outstanding at the year end are stated at fair value, which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract at that date. Changes in the fair value of the forward contract are reported within the accounts as a change in market value.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

2. ACCOUNTING POLICIES (continued)

Options

Traded options are valued at the fair value as determined by the exchange price for closing out the option as at the year end. Options which are over the counter contracts are valued at fair value using a pricing model such as Black-Scholes, where inputs are based on market data at the year end date.

Changes in the value of the option are reported within the accounts as a change in market value.

Swaps

Interest rate and inflation swaps are over the counter derivative contracts whereby two parties (in this case the Trustee of the Leonardo Helicopters Pension Scheme and a bank with whom the Trustee has ISDA documentation in place) agree to exchange future cashflow(s). The cashflows exchanged are either fixed or floating in nature. A floating cashflow changes in line with some pre-agreed index. For sterling interest rate swaps the swap floating leg payments are calculated with reference to the London Interbank Offered Rate (LIBOR) with rolling 3 month and 6 month maturities respectively. For inflation swaps the swap floating leg payments are calculated with reference to changes in the UK Retail Price Index. Swaps are valued on a market consistent basis that allows for the time value of money by calculating the current value of the future expected net cash flows arising from each swap contract. Aggregating the value of all of the swap positions provides the overall marked-to-market position of the Scheme's swap contracts. The cashflow amounts payable under a swap contract are calculated with reference to an underlying notional amount. For accounting purposes, net receipts or payments on swap contracts are reported within the accounts as a change in market value. Realised gains and losses on closed contracts and unrealised gains and losses on open contracts are included within the accounts as a change in market value. Fair value for swaps is calculated by discounting the expected cash flows using year end market data from recognised sources.

Foreign currencies

Amounts denominated in foreign currencies at the year end are translated at rates prevailing at the year end. Investment income denominated in foreign currencies is recorded at the rate of exchange on the date of receipt.

2.6 Annuities

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 within the Fund Account under 'Benefits'.

The Trustee has reviewed the Scheme's annuity policies and have concluded that these are not significant to the Scheme's assets and fund account movement, and therefore not valued these policies on the grounds of materiality.

2.7 Currency

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

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

3. EMPLOYEES CONTRIBUTIONS

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Normal	49	<i>43</i>
	49	<i>43</i>

4. EMPLOYERS CONTRIBUTIONS

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Normal future service	8,811	<i>6,805</i>
Contributions in respect of SMART option	9,522	<i>9,506</i>
Additional voluntary contributions	2,324	<i>2,112</i>
Deficit funding	15,000	<i>13,200</i>
Contributions in respect of fees	1,500	<i>1,500</i>
Additional	5,000	<i>-</i>
	42,157	<i>33,123</i>

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 current recovery plan. The deficit payments continue to be paid to the end of the recovery plan in 2024. A breakdown of the annual contributions is shown on page 7.

During the year an additional £5m of contributions were received from the employer. Details on this contribution are on page 9 of the Trustee's report.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

5. TRANSFERS IN

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Prudential AVC policy	-	126
	-	126

The transfers in amount of £126,000 above is the 5 April 2016 value of a Prudential AVC policy which was not reported in the 2014/15 financial statements for the Scheme.

6. OTHER INCOME

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Claims on term insurance policies	353	453
Other income	14	-
	367	453

7. 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.

8. BENEFITS PAID OR PAYABLE

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Pensions	24,226	22,527
Commutations and lump sum retirement benefits	13,899	12,110
Purchase of annuities	46	123
Death benefits	837	816
Taxation	7	-
	39,015	35,576

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

9. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Transfers out - individual	<u>3,092</u>	<u>5,728</u>

10. OTHER PAYMENTS

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Premiums on term insurance policies	<u>438</u>	<u>430</u>

Term insurance policies are secured by a policy underwritten by Aviva.

11. ADMINISTRATIVE EXPENSES

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Administration and processing	527	458
Actuarial fees	277	228
Audit fee	24	32
Legal fees	200	39
Regulator levies	557	545
Communication fees	13	36
Bank charges	4	4
Covenant fees	55	21
Trustee liability insurance	(4)	8
Sundry expenses	9	6
	<u>1,662</u>	<u>1,377</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

12. INVESTMENTS

MOVEMENTS IN INVESTMENTS

	Value at 06/04/2016	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 05/04/2017
	£000	£000	£000	£000	£000
Bonds	376,120	424,781	(281,451)	100,285	619,735
Pooled investment vehicles	736,236	635,780	(727,151)	154,189	799,054
Derivative contracts	18,271	75,579	(111,708)	57,999	40,141
AVC investments	9,154	2,557	(2,429)	1,289	10,571
	<u>1,139,781</u>	<u>1,138,697</u>	<u>(1,122,739)</u>	<u>313,762</u>	<u>1,469,501</u>
Cash deposits	22,376				22,203
Dividends and withholding tax	1,174				1,319
Cash in transit	12				84
Unsettled items	7,663				3,399
	<u>1,171,006</u>				<u>1,496,506</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Bond securities includes an In Specie transfer of £59,722,494.

Some of the investments are long term in nature (e.g. private equity), therefore there are significant restrictions affecting the ability of the Scheme to realise investments at the accounting date. The value of these long term investments, which are included in the financial statements, is £21,443,968.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

13. TRANSACTION COSTS

	Fees	Commissions	2017 Taxes and Duties	Levies	Total	2016 Total
Pooled Investment Vehicles	2,922	3,381	-	-	6,303	2,346
	<u>2,922</u>	<u>3,381</u>	<u>-</u>	<u>-</u>	<u>6,303</u>	<u>2,346</u>
2016	<u>2,346</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.

14. DERIVATIVES OBJECTIVES AND POLICIES

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Defined Benefits Section				
Swaps & Swaptions	109,297	(70,730)	82,668	(56,130)
Options	35,855	(29,812)	22,538	(19,914)
Forward Foreign Exchange	893	(5,362)	1,135	(12,026)
	<u>146,045</u>	<u>(105,904)</u>	<u>106,341</u>	<u>(88,070)</u>

A summary of the Scheme's outstanding derivative contracts at the year end aggregated by key characteristics is set out over the page:

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

Swaps & Swaptions	Notional amounts £000	Expires	Asset value £000	Liability value £000
Interest rate swaps	132,335	2017-2021	6,343	-
Interest rate swaps	141,485	2022-2026	11,840	(1,502)
Interest rate swaps	249,232	2027-2031	17,863	(3,438)
Interest rate swaps	91,834	2032-2036	10,652	(2,223)
Interest rate swaps	75,725	2037-2041	4,289	(797)
Interest rate swaps	5,270	2042-2046	244	-
Interest rate swaps	90,820	2047-2051	321	(5,496)
Interest rate swaps	42,658	2052-2056	6,298	(187)
Interest rate swaps	32,000	2057-2061	710	(1,741)
Interest rate swaps	74,929	2062-2066	10,387	(2,657)
	-		-	-
Inflation rate swaps	309,524	2017-2021	-	(10,004)
Inflation rate swaps	114,023	2022-2026	2,794	(5,257)
Inflation rate swaps	109,364	2027-2031	3,083	(5,504)
Inflation rate swaps	37,604	2032-2036	532	(3,778)
Inflation rate swaps	26,725	2037-2041	521	(2,655)
Inflation rate swaps	16,711	2042-2046	661	(1,980)
Inflation rate swaps	22,570	2047-2051	3,103	(1,949)
Inflation rate swaps	5,203	2052-2056	1,600	-
Inflation rate swaps	7,500	2057-2061	897	-
Inflation rate swaps	18,614	2062-2066	1,288	(5,603)
	-		-	-
Total return swaps	227,373	2017-2021	25,871	(2,457)
Swaptions	300,000	2017-2021	-	(13,502)
Total 2017			<u>109,297</u>	<u>(70,730)</u>
Total 2016			<u>82,668</u>	<u>(56,130)</u>
Options	Notional amounts £000	Expires	Asset value £000	Liability value £000
Short Put	55,000	20/07/2018	-	(561)
Lower Long Call	55,000	20/07/2018	35,371	-
Lower Short Call	55,000	20/07/2018	-	(26,813)
Upper Short Call	55,000	20/07/2018	-	(2,438)
Upper Long Call	55,000	20/07/2018	484	-
Total 2017			<u>35,855</u>	<u>(29,812)</u>
Total 2016			<u>22,538</u>	<u>(19,914)</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

Forward Foreign Exchange	Currency bought	Currency sold	Asset value £000	Liability value £000
Japanese Yen (expiring within 4 months)	3,321,990,000Y	£23,994,843	-	(54)
Japanese Yen (expiring within 3 months)	1,166,300,000Y	£7,209,931	-	-
US Dollar (expiring within 4 months)	£12,919,625	\$15,969,600	111	-
US Dollar (expiring within 4 months)	£258,680,824	\$325,797,400	-	(2,626)
US Dollar (expiring within 3 months)	£292,575,354	\$364,199,000	468	-
US Dollar (expiring within 3 months)	£7,040,703	\$8,692,100	69	-
US Dollar (expiring within 3 months)	\$55,377,400	£44,246,064	169	-
Japanese Yen (expiring within 4 months)	£2,471,621	345,560,000Y	-	(19)
Japanese Yen (expiring within 4 months)	£51,980,573	7,323,730,000Y	-	(798)
Japanese Yen (expiring within 3 months)	£5,167,807	732,330,000Y	-	(110)
Japanese Yen (expiring within 3 months)	£45,347,027	6,494,370,000Y	-	(1,455)
Euro (expiring within 4 months)	£1,743,886	E2,028,600	12	-
Euro (expiring within 4 months)	£35,590,806	E42,032,000	-	(300)
Euro (expiring within 3 months)	£37,422,302	E43,750,200	64	-
Total 2017			893	(5,362)
Total 2016			1,135	(12,026)

The liability hedging strategy is implemented via interest rate and inflation swaps (contracts between the Scheme and a counterparty bank) and aims to reduce the Scheme's sensitivity to changes in long-dated interest rates and expectations of inflation and hence reduce the impact of movements in these on the Scheme's funding level. The collateral for the liability hedge comprised of index-linked gilts, as well as an amount of cash held in the Collateral Fund.

Equity Derivative Overlay Strategy (EDOS 3) – formed of a portfolio of equity options (on a global equity index) and gilts, designed as a diversifying asset that will protect capital in down markets and give the greatest return when other equity based assets are stationary.

At 5 April 2017 the net collateral position was £37.2 million made up of £54.2 million posted by the counterparties, Barclays (£17.6 million), Goldman Sachs (£6.7 million), Morgan Stanley (£3.7 million) and UBS (£26.2 million) which was held by the custodian on behalf of the Scheme and £17 million posted by the Scheme to counterparties Credit Suisse (£6.5 million), RBS (£3.5 million), JP Morgan (£1.8 million) and Lloyds (£5.2 million).

The counterparties for the Options contracts are Credit Suisse and Barclays.

The counterparty for Forward foreign exchange contracts is Credit Suisse.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

15 CASH DEPOSITS

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Sterling cash deposits	20,053	19,795
Foreign currency cash deposits	2,150	2,581
	22,203	22,376
	22,203	22,376

16. AVC INVESTMENTS

The Trustee holds assets which are separately invested from the main defined benefits section fund to secure additional benefits on a money purchase basis for those defined benefits section members electing to pay additional voluntary contributions.

Members participating in this arrangement each receive an annual statement made up to 5 April 2017 confirming the amounts held to their account and movements during the year.

The total amount of AVC investments at the year end is shown below.

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Equitable Life	619	710
Prudential	916	1,113
Old Mutual Wealth	9,036	7,331
	10,571	9,154
	10,571	9,154

CONCENTRATION OF INVESTMENTS

The following investments, excluding UK Government securities, account for more than 5% of the Scheme's net assets as at 5 April 2017.

	5 April 2017 Market value £000	%	<i>5 April 2016 Market value £000</i>	<i>%</i>
Vanguard S&P 500 - ETF (USD)	107,926	7.22 %	150,312	12.91 %
	107,926	7.22 %	150,312	12.91 %

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

17. POOLED INVESTMENT VEHICLES

	5 April 2017 £000	<i>5 April 2016 £000</i>
Equity	378,164	351,962
Bonds	144,753	218,012
Property	46,230	11,423
Cash	18,960	3
Alternative	153,157	97,816
Private Equity	57,790	57,020
	<hr/> 799,054 <hr/>	<hr/> 736,236 <hr/>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

18. FAIR VALUE

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 an identical asset or liability 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.

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

	As at 5 April 2016			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Bonds	-	376,120	-	376,120
Pooled investment vehicles	259,600	408,193	68,443	736,236
Derivative contracts	-	18,271	-	18,271
AVC investments	-	7,331	1,823	9,154
Cash deposits	22,376	-	-	22,376
Accrued investment income	1,174	-	-	1,174
Cash in transit	12	-	-	12
Unsettled items	7,663	-	-	7,663
	290,825	809,915	70,266	1,171,006

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

19. INVESTMENT RISK

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 of 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 their 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 Trustees by regular reviews of the investment portfolio. AVCs are excluded from the risk disclosures as they are immaterial to the Scheme's investment strategy as a whole.

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 £619.7m in directly held bonds (2016: £376.1m), £40.1m in OTC derivatives (2016: £18.3m) and £25.7m in directly held cash balances (2016: £30.1). The Scheme also holds £163.7m bonds and cash through underlying pooled fund investments (2016: £218m).

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 P-Solve 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 P-Solve 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.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

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 P-Solve that the underlying investment in sub-investment grade debt may not exceed 30% of the Investment Fund.

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 P-Solve 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 P-Solve on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

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 P-Solve. P-Solve 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, 11.5% of the Scheme's holdings were exposed to overseas currencies as at year-end (2016: 13.6%).

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:

	2017	2016
	£000	£000
Direct		
Bonds	619,735	376,120
Swaps	52,068	26,538
Swaptions	(13,502)	-
Indirect		
Bond PIVs	144,753	218,012
Cash PIVs	18,960	3

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

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.

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

	2017	2016
	£000	£000
Direct		
Equity Options	6,043	2,624
Indirect		
Bond PIVs	144,753	218,012
Cash PIVs	18,960	3
Equity PIVs	378,164	351,963
Property PIVs	46,230	11,423
Alternatives PIVs	153,157	97,816
Private Equity PIVs	57,790	57,021

20. INVESTMENT INCOME

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Income from bonds	4,719	6,049
Derivative income	7,770	2,743
Income from pooled investment vehicles	6,817	6,405
Income from annuities	60	63
Interest on cash deposits	(11)	9
	<u>19,355</u>	<u>15,269</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

21. INVESTMENT MANAGEMENT EXPENSES

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Administration, management & custody	2,013	1,757
Investment fee rebate	(1,482)	(435)
Investment Custodian fees	199	160
	730	1,482
	730	1,482

Within the investment portfolio there are certain managers who charge a flat fee which is deducted from the overall unit price and is included in the change in market value of the asset. Some of these managers then pay rebates depending on the value of the holdings with that manager.

22. CURRENT ASSETS AND LIABILITIES

	For the year ended 5 April 2017 £000	<i>For the year ended 5 April 2016 £000</i>
Current assets		
Prepayments	219	215
Cash balances	6,588	2,076
Lump sums due from insurer	-	202
	6,807	2,493
Current liabilities		
Unpaid benefits	1,352	1,539
Accrued expenses	882	561
Employer contributions paid in advance	6,158	7,257
HM Revenue & Customs	287	261
	8,679	9,618
	8,679	9,618

23. EMPLOYER RELATED INVESTMENTS

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

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 5 APRIL 2017

24. CONTINGENT LIABILITIES

There were no contingent liabilities as at 5 April 2017 (2016: nil).

25. CAPITAL COMMITMENTS

The Scheme has made capital commitments to its private equity and infrastructure managers which are drawn down by the relevant managers over time as the investments are made. The outstanding commitments are set out in the table below:

	US Dollar denominated		Euro denominated	
	Commitment	Outstanding	Commitment	Outstanding
	\$000	\$000	€000	€000
Private Equity				
Cerberus	10,000	4,035	-	-
Harbour Vest	20,000	920	12,000	565
Matlin Patterson	25,000	1,085	-	-
Pantheon	30,000	1,567	8,000	504
	85,000	7,607	20,000	1,069
Infrastructure				
Alinda	22,000	2,448	-	-
	22,000	2,448	-	-

26. RELATED PARTY TRANSACTIONS

The following related party transactions occurred during the year:

- (i) The cost of operating the Leonardo Pensions Department (including salaries and employment related expenses, consultants' fees, computer services costs, accommodation charges and other operating expenses) was met by Leonardo MW Ltd. Leonardo agreed with the Trustee a management fee for payment by the Scheme in reimbursement of these costs. The management fee charged is £48,000 per quarter.
- (ii) Seven of the nine current Trustee Directors were contributing members of the Scheme during the Scheme year. Their contributions are in accordance with the Scheme Trust Deed and Rules.
- (iii) The Trustees are not aware of any material related party transactions that require disclosure in the financial statements, other than those already disclosed.

LEONARDO HELICOPTERS PENSION SCHEME

SUMMARY OF CONTRIBUTIONS FOR THE YEAR ENDED 5 APRIL 2017

Summary of contributions payable during the Scheme year ended 5 April 2017

Contributions payable to the Scheme under the Schedule of Contributions in respect of the year ended 5 April 2017 were as follows:

	Employers £'000	Members £'000	Total £'000
Required by the Schedule of Contributions			
Employer:			
Normal future service	8,811	-	8,811
Contributions in respect of SMART option	9,522	-	9,522
Deficit funding	15,000	-	15,000
Expenses	1,500	-	1,500
Member:			
Normal	-	49	49
Total contributions required by the Schedule of Contributions	34,833	49	34,882
Other contributions payable:			
Additional voluntary contributions	2,324	-	2,324
Additional	5,000	-	5,000
Total contributions per note 3 & 4	42,157	49	42,206

The Schedule of Contributions in place during the year was applicable from 29 June 2015.

The Employer contributions in relation to SMART is the amount of salary sacrificed by members of the Scheme during the year.

During the year there were no reportable incidents of late payment of contributions. As recommended by the Pensions Regulator's code of practice 01 "Reporting breaches of the law", a log of any potential breaches of regulatory requirements is maintained by the Secretary to the Trustee. All incidents are reported to the Trustee and discussed with the Actuary as appropriate.

Martin Flavell

Chairman on behalf of the Trustee of the Leonardo Helicopters Pension Scheme

Date:

12/10/17

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT ABOUT CONTRIBUTIONS FOR THE YEAR ENDED 5 APRIL 2017

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 Trustees 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 in respect of the scheme year ended 5 April 2017.

In our opinion the contributions for the scheme year ended 5 April 2017 as reported in the attached summary of contributions 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 pages 44 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 Auditor

As explained more fully in the Statement of Trustees' Responsibilities, the scheme's trustees' are 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 trustees are 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.

This statement is made solely to the scheme's trustees 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 trustees those matters we are required to state to them 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 trustees 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: 12/10/17

LEONARDO HELICOPTERS PENSION SCHEME

ACTUARIAL STATEMENTS

Actuarial Certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Actuary's Certificate of the Calculation of Technical Provisions

AgustaWestland UK Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 5 April 2014 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 29 June 2015.

Signature: Chris Vaughan-Williams

Date: 29 June 2015

Chris Vaughan-Williams
Fellow of the Institute and Faculty of Actuaries
Aon Hewitt Limited
25 Marsh Street
Bristol
BS1 4AQ

LEONARDO HELICOPTERS PENSION SCHEME

ACTUARIAL STATEMENTS

Actuary's certification of schedule of contributions

Name of scheme: AgustaWestland UK 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 be expected on 5 April 2014 to continue to be met for the period specified in the recovery plan dated 29 June 2015.

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 29 June 2015.

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: Chris Vaughan-William

Date: 29 June 2015

Chris Vaughan-Williams
Fellow of the Institute and Faculty of Actuaries
Scheme Actuary
Aon Hewitt Limited
25 Marsh Street
Bristol
BS1 4AQ

