



Personal – addressee only
Sample letter

8 February 2018

Dear Member,

Leonardo Helicopters Pension Scheme
Actuarial valuation as at 5 April 2017 and future pension increases

I am writing to you as a member of the Leonardo Helicopters Pension Scheme (the "Scheme") to update you on the outcome of the latest actuarial valuation as at 5 April 2017 and invite you to contribute to a consultation process on a change to the Scheme.

Please note that at this stage Leonardo MW Ltd (the "Company") is making **proposals only** which will be discussed with the Pensions Council.

Actuarial valuation

I am pleased to let you know that there has been an improvement in the funding position, with the funding ratio increasing from 88% to 96% and the deficit reducing from £123m to £67m. Accordingly, the Company is able prospectively to continue its support for the Scheme for a further period.

Economic conditions have, in fact, been difficult since the last valuation, but the funding position stood up well for a number of reasons:

- Our risk-controlled investment strategy
- Additional deficit contributions that have been paid by the Company
- The Pension Increase Exchange (PIE) exercise which has been taken up by many pensioners
- Changes to the assumptions which the Company and the Trustee consider, based on actuarial advice, to be appropriate for the risk profile of the Scheme.

More challenging has been the negative impact of economic conditions on the cost of future pensions. The Actuary has calculated that it costs the Company, on average, 18.2% of pensionable pay to provide your pension in the future. This is double the rate at the previous valuation and represents a serious challenge for the sustainability of the Scheme.

However the Company recognises the importance of stability to members. The future service cost is at least partially offset by the improved past service position and the Company is prepared to increase its support for the Scheme in the form of additional deficit contributions over the recovery plan period.



Impact on members

I am pleased to confirm that there will be no change in the rate of employee contributions.

The benefits of the Scheme will also be unchanged with one exception. The Company wishes to change the index used for increases on the pension you earn from future accrual from the Retail Prices Index ("RPI") to the Consumer Prices Index ("CPI").

The change is associated with the successful PIE exercise referred to above. The exercise has allowed many pensioners to opt for a higher pension with a lower rate of future increase, on a basis that reduces the liabilities of the Scheme. This included opting for some elements of the pension to increase in line with CPI. The change recognises the fact that RPI is considered to have serious shortcomings as a measure of inflation and the Office of National Statistics does not recommend its use.

The Company intends to conclude the PIE exercise by extending the option to employees when they reach retirement to enable pension increases to be exchanged for a higher initial rate of pension. However, in support of this, the Company wishes to stop creating new liabilities linked to RPI. Without this change the cost of future service benefits would be even higher (19.6%).

The existing maximum rate of pension increase of 2.5% would remain and the change would be in place for the 2019/20 Scheme year at the latest.

Your feedback

You can submit your feedback and questions:

- by email to pensions@leonardocompany.com
- in writing to Pensions Department, Leonardo MW Ltd, Box 205, Yeovil, BA20 2YB.

The consultation begins on 12 February 2018 and ends on 13 April 2018. The feedback will be reviewed and considered by the Company and discussed with the Pensions Council. You can find more information about this proposal on the Scheme website (www.lhpensions.co.uk) including some Questions and Answers which tell you more about the PIE option. After the Company has considered your feedback, a formal announcement will be made of any changes to the Scheme.

The Company is pleased to be able to continue to support the Scheme with no change in employee contributions and one modest change to the benefits.

Yours sincerely

Geoff Munday
Managing Director
Leonardo Helicopters UK