LEONARDO

HELICOPTERS PENSION SCHEME

Actuarial valuation as at 5 April 2017

Additional commentary from the Company

A consultation is taking place on a proposed change to the Scheme associated with the actuarial valuation as at 5 April 2017. The Company would like to take this opportunity to thank those who have contributed so far and also remind colleagues that the consultation process is ongoing until 13 April 2018 so there is still time to ask questions and provide feedback. In response to the feedback provided by members to date the following information may be helpful in understanding the background to the valuation process and the basis of the Company proposal.

While the Company is committed to providing a good quality pension benefits and recognises the high value placed on the Scheme by the members, the Company must achieve a sustainable valuation outcome if the Scheme is to remain open to future accrual. For this valuation cycle, the Company has also aimed to ensure the sustainable outcome is delivered without any further increases in employee contributions or reduction of benefits during employment.

The Valuation Process:

The Company and the Trustee must undertake a valuation of the Scheme's assets and liabilities every three years to determine whether the Scheme has a funding deficit, and to put in place a plan to address any deficit.

Financial conditions have been very difficult since the last valuation in 2014. The table below shows the progress of the funding position at each 5 April:

2014 valuation basis	Deficit	Company future service cost
5 April 2014 (valuation year):	£123m	9.05%
5 April 2015:	£224m	17.25%
5 April 2016:	£343m	29.4%
5 April 2017 (valuation year):	£227m	23.9%

In seeking to maintain a sustainable position, the Company and the Trustee have reviewed all options in detail, building on the previous measures adopted to address the deficit. The actions being taken, which represent a commitment by all stakeholders, include assumption changes, additional investment risk and the Pension Increase Exchange exercise for pensioners. The Company is also increasing its contributions to the Scheme over the recovery plan period.

The Proposal:

The Company is proposing one change that would affect members, once they have retired. This specific change is to help control the future service cost.

The proposed change is only on the increases that apply to your pension <u>once it is in payment</u>, and in respect of pension which is earned <u>after 5 April 2019</u>. The inflation index used for increasing this element of the pension in payment would move to the Government's preferred 'CPI' measure.

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Impact of Proposal on Valuation:

In combination these actions have resulted in a basis for agreement on the valuation as at 5 April 2017 as follows:

2017 valuation basis	**Deficit**	**Company future service cost**
5 April 2017 (on existing 2014 basis):	£227m	23.9%
5 April 2017 (on proposed 2017 basis):	**£67m**	**9.3%**

Summary:

The consultation process is ongoing until 13 April 2018.

The proposal represents the opportunity to achieve the Company aims defined at the outset:

1. Keep the Scheme open for a further period of future accrual,
2. Ensure no increase to employee contributions,
3. Ensure no reduction of benefits during employment

Implementing the above proposals provides assurance on the Scheme sustainability for the coming period until the next valuation cycle, due as at 5 April 2020.

Pensions Management
5 April 2018