

Summary of the Trustee Report and Accounts 2017

The annual Trustee Report and Accounts was signed on 12 October 2017. This short summary highlights the key information from the Scheme accounts for the year.

A full copy of the Trustee Report and Accounts can be downloaded from the Scheme website – www.lhpensions.co.uk - or requested from the Scheme Administrator.

Highlights

The Trustee would like to highlight:

- The Scheme continues to mature, with more benefits being earned by members and more pensions being paid. Income is higher because the employer is paying more in deficit contributions and also paid a one off contribution in relation to the recent transfer in of liabilities from the Hadland Pension Fund and Life Assurance Scheme. Outgoings are marginally higher because more people are drawing their pension.
- 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.
- 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. The strong investment returns this year will have helped to improve the deficit position since April 2016.

The year in figures

The table below summarises the Scheme accounts for the year to 5 April 2017

| | 5 April 2017 £m | 5 April 2016 £m |
|---|-----------------------|-----------------------|
| Value of Scheme at start of year | 1,163.8 | 1,140.2 |
| + Income | | |
| Company contributions | 30.3 | 21.5 |
| Smart contributions | 9.5 | 9.5 |
| Member contributions | 0.1 | 0.1 |
| AVCs | 2.3 | 2.1 |
| Other income | 0.4 | 0.6 |
| | +42.6 | +33.7 |
| - Outgoings | | |
| Pensions | 24.2 | 22.5 |
| Lump sums | 13.9 | 12.1 |
| Other benefits | 3.5 | 6.3 |
| Administration expenses | 1.7 | 1.4 |
| Death benefits | 0.8 | 0.8 |
| | -44.2 | -43.1 |
| + Net returns on investments | | |
| Investment income and change | 333.1 | 34.6 |
| Less investment expenses | -0.7 | -1.5 |
| | +332.4 | +33.1 |
| Value of Scheme at end of year | 1,494.6 | 1,163.8 |

Figures may not add up due to rounding

2014 valuation and funding updates

The last Scheme valuation was carried out with a reference date of 5 April 2014. The valuation showed that on 5 April 2014 the Scheme deficit was £123 million and the Scheme funding ratio was 88%.

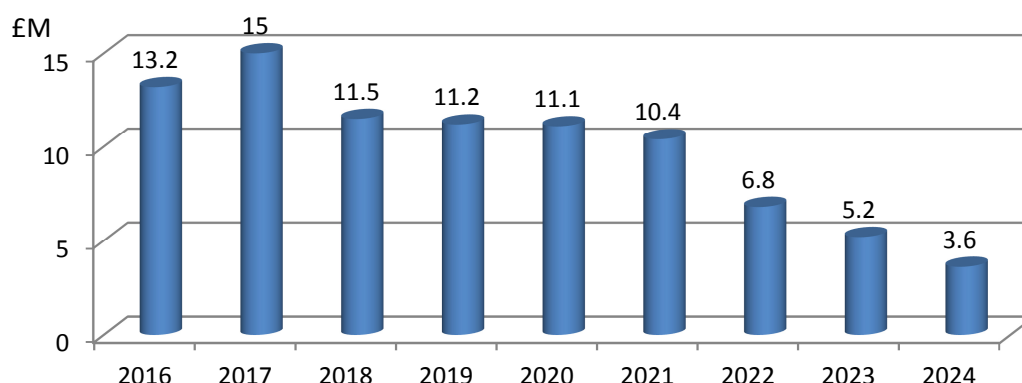
The 2016 annual funding update to showed a substantial deterioration in the funding position, largely due to falls in long term interest rates.

| 5 April 2014 | | 5 April 2016 |
|----------------------|--------------|----------------------|
| Deficit £123 million | increased to | Deficit £343 million |
| Funding ratio 88% | worsened to | Funding ratio 77% |

The strong investment returns this year will have helped to improve the deficit position since April 2016.

Paying the deficit

The Company has agreed to pay the following contributions to assist in making good the deficit



Communications during the year

The Trustee is committed to developing communications for the membership. The Scheme website continues to be well used and we have continued to develop modelling capabilities for active members.

In addition to the website, we have provided the following information:

- Intouch – Spring 2016, Winter 2016, Summer 2017
- Summary of Trustee Report and Accounts 2015 – October 2016
- Summary Funding Statement 2016 – November 2016
- Benefit statement – October 2016

Our pension workshops are run in line with demand. The employer also runs a two day retirement course 6-8 times per year.

Facts about your Trustee

The Trustee Board is made up of nine Trustee Directors.

Last year there were 21 trustee meetings, with a 88% attendance rate.

Your trustee directors completed on average 22 hours of pensions training (their guidance requires them to complete 14 hours).

Five of our trustee directors have completed formal training and been awarded external certification. Four of the newer trustee directors are still working towards their certification.

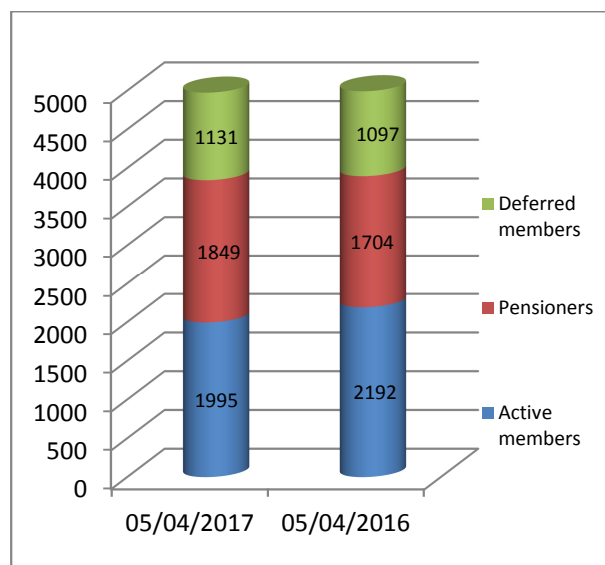
Voluntary saving

Our members have total AVC savings of £10.6 million. Currently 16.4% of active members are paying AVCs to the Scheme to increase their retirement benefits.

Members of the Main Section are able to "buy up" to a better accrual rate. Currently 32.2 % of eligible members are choosing to buy up.

Membership

The Scheme currently has 4,975 members. The number of active members is falling because the Scheme is closed to new members. The number of pensioner and deferred members is increasing.



Key changes to the Scheme

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 on 31 July 2017. A £5m cash injection was paid by the employer to the Scheme.

Investment Report

One of the most important things the Trustee has to do is invest the assets of the Scheme. The Trustee board seeks to achieve the best investment returns it can without taking unnecessary risks with the assets of the Scheme.

The investment strategy balances the wish to maximise the long-term return on investments whilst minimising short-term volatility and risk measured relative to liabilities.

The return seeking assets are held under an investment service called Total Investment Governance Solution (TIGS). TIGS is a fully delegated service. P-Solve invests and manages 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.

The Trustee has put a hedging programme in place to reduce some of the unrewarded risks that the Scheme faces in relation to the value of the liabilities. The Trustee has decided to hedge 87.5% of the interest rate risk and 90% of the inflation risk of the liabilities.

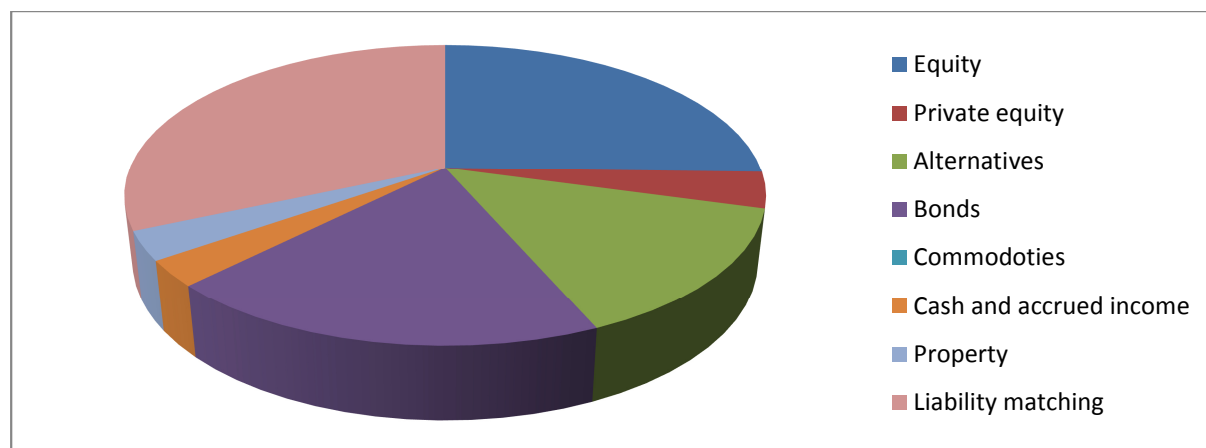
The Trustee has a Statement of Investment Principles which sets out how it has decided to invest the assets of the Scheme.

How have the assets of the Scheme performed?

The Scheme's investment performance during this period was positive with assets increasing by 28.7% over the year. The return seeking assets in the portfolio produced a 14.8% return.

Asset allocation

At 5 April 2016 the assets were allocated like this:



Getting in touch

If you have questions about your benefits you can speak to our third party administrators, Aon Hewitt, direct on 0345 600 8796 or you can email them at leonardohelicopters@aonhewitt.com.

Alternatively for questions to the Trustee you can contact the Pensions Department on 01935 705353 or by email: pensions@leonardocompany.com.

The Scheme address is:

Leonardo Helicopters Pension Scheme, Lysander Road, Box 205, Yeovil, BA20 2YB