

LEONARDO HELICOPTERS PENSION SCHEME

Report and Financial Statements for the year ended 5 April 2021

Scheme Registration No: 10260073



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

XPS Administration is a trading name of XPS Administration Limited
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB

Part of XPS Pensions Group

LEONARDO HELICOPTERS PENSION SCHEME

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CHAIR'S INTRODUCTION

YEAR ENDED 5 APRIL 2021

I am pleased to present the Report and Financial Statements for the Leonardo Helicopters Pension Scheme (the "Scheme") for the year ended 5 April 2021.

It has been an unprecedented year, and I have been very pleased with how the Trustee and Scheme advisers have adjusted to working 'virtually' to ensure the Scheme has continued to operate successfully throughout the periods of national lockdown.

Since our last report, the Trustee and Company have finalised and agreed the actuarial valuation report as at 5 April 2020. The COVID-19 pandemic created a difficult investment environment around the valuation date, and the Trustee worked with the Company and the Scheme advisers to reach an appropriate valuation outcome, which reflected the longer-term market expectations. The deficit at 5 April 2020 was £95m with a funding ratio of 94.4% (compared to £67m and 96% three years ago). There has been a further increase in the cost of providing future pension benefits for employees, which is being met through Company contributions.

While Scheme experience over the valuation period was largely positive, with strong investment returns through to early 2020 and additional contributions paid into the Scheme by the Company under the deficit recovery plan agreed in 2017, the key factor which contributed to the reduction in funding position was the COVID-19 pandemic. The financial conditions at the April 2020 valuation date, particularly the fall in global financial markets during March and April 2020 had a direct impact on the value of the Scheme's assets.

Since our last report, the investment environment has improved with strong returns through the second half of 2020 and into 2021 resulting in asset values having materially improved, although markets remain volatile. The total portfolio grew in value by 12.6% over the year. Within this, our on-risk assets grew by 24.0%, and the Trustee took the decision to de-risk 5% of the portfolio in March 2021, with a further 5% de-risk in June 2021, in order to reduce risk and protect some of the gains made. Our hedging portfolio continued to maintain a 100% hedge against interest rates and inflation. The market environment continues to be uncertain and the Trustee remains focused on developing its risk control measures.

Work continues on reconciling the delayed data received from HMRC concerning Guaranteed Minimum Pension (GMP) benefits as well as the complex requirements around equalising GMPs. A GMP project board has been established with regular communications between the Trustee and Company to progress the reconciliation and develop a solution to deliver equalisation.

The Trustee engaged Lane, Clark & Peacock (LCP) to provide an external review of the fiduciary management investment services. The Trustee is pleased to confirm it has re-appointed River and Mercantile as a result of this process and as part of the negotiation has achieved a significant improvement in the fee basis.

During the year, Nicola McKenzie resigned as a Trustee Director, with Clive Higgins being appointed in her place. I would like to thank Nicola for her valuable contribution and welcome Clive to the Board.

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

Signed: M Flavell

Martin Flavell

Chair

Leonardo Helicopters Pension Scheme (Trustee) Limited

Date: 16 September 2021



LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE AND ADVISERS

Trustee :	Leonardo Helicopters Pension Scheme (Trustee) Limited
Trustee Directors:	Martin Flavell * (Chair) Caroline Beaumont * Chris Burton ** Malcolm Gillam ** Clive Higgins * (Appointed 24 September 2020) Steve Jenkins ** Simon Jones * Nicola McKenzie * (Resigned 31 July 2020) Craig Porter * Rebecca Ward **
	* <i>Company Nominated</i> ** <i>Member Nominated</i>

Scheme Secretary : Rachael Skuse

Scheme Address: Leonardo Helicopters Pension Scheme
Box 205
Leonardo UK Ltd
Lysander Road
Yeovil
Somerset BA20 2YB

Principal Employer: Leonardo UK Ltd (02426132)
One Eagle Place
London
SW1Y 6AF

Actuary : Chris Vaughan-Williams
Aon Solutions UK Limited
1 Redcliff Street
Bristol BS1 6NP

Auditor : RSM UK Audit LLP
25 Farringdon Street
London EC4A 4AB

Legal Adviser : Burges Salmon LLP
One Glass Wharf
Bristol BS2 0ZX

Bankers : Barclays Bank plc
1 Churchill Place
London E14 5HP

Covenant Adviser: Lincoln Pensions Limited (from 1 January 2021)
Ernst & Young LLP (until 31 December 2020)

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE AND ADVISERS (continued)

<i>Investment Managers:</i>	River and Mercantile Investments Limited T/A River and Mercantile Solutions
<i>Custodian :</i>	CACEIS
<i>AVC Providers:</i>	Mobius Life Ltd Prudential Assurance Company Ltd Utmost Life and Pensions (Until December 2020)
<i>Administrator :</i>	XPS Administration Limited Queen's Quay 33-35 Queen Square Bristol BS1 4LU
<i>Investment Adviser:</i>	River and Mercantile Investments Limited T/A River and Mercantile Solutions

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021

The Trustee presents to the members its annual report and financial statements for the year ended 5 April 2021.

Scheme Information

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

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

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

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

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

The investment sub-committee and administration sub-committee also met regularly during the year in advance of each full Trustee meeting. A Joint DB Investment Committee was formed during the year made up of the investment sub-committees of the Leonardo Helicopters Pension Scheme and the Leonardo Electronics Pension Scheme. The Joint DB Investment Committee reviews common DB investment information and proposals and receives training from River & Mercantile.

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

In total there were 7 Trustee meetings and 19 sub-committee meetings during the year, with Trustee Director attendance at 100% for the year (2020: 96%). All meetings were held through online video conferencing in line with the COVID-19 remote working requirements.

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

Trustee knowledge

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

Risk management

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

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

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021(continued)

Employer's Covenant

The Principal Employer of the Scheme is Leonardo UK Ltd (formerly named Leonardo MW Ltd, having changed name with effect from 31 March 2021).

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

The Trustee regularly monitors the financial status of the Principal Employer and has engaged Lincoln Pensions Limited (following the requirement for Ernst & Young LLP to stand down as Trustee advisers in light of a Leonardo group audit appointment) to carry out regular 6 monthly independent reviews of the financial strength of the employers, or more frequently if the Trustee considers this appropriate.

As part of the 5 April 2020 actuarial valuation, and in light of the COVID-19 pandemic, additional detailed reviews of the employer covenant were commissioned, with Ernst & Young LLP reporting on a range of areas including cash resources, profitability and credit strength of the Principal Employer and its ultimate parent company. Overall, the employer covenant has been robust and continues to be rated as strong. The actuarial valuation is discussed in further detail on page 17 of this report.

Voluntary contributions

The Additional Voluntary Contribution (AVC) option provides members with an opportunity to make further provision for their retirement in addition to the benefits provided by the Scheme. Investment choices are available in the form of a "Lifestyle" arrangement and a "Pick & Mix" option. A Mobius Life microsite was launched in June 2021 providing additional investment fund information to members. In addition, some members have AVCs with Prudential but cannot contribute more to these funds. The remaining funds held with Utmost Life were transferred to Mobius Life in December 2020.

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

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021(continued)

Membership

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

Active members at 6 April 2020		1,506
Death in Service	(2)	
Retirement	(105)	
Deferred	(42)	
		<hr/>
Active members at 5 April 2021		1,357
Deferred pensioners at 6 April 2020		1,168
From Active	42	
Transfer Out	(14)	
Retirement	(33)	
Death	(3)	
		<hr/>
Deferred pensioners at 5 April 2021		1,160
Pensioners at 6 April 2020		2,323
Adjustments	(2)	
Retirement	138	
New dependants / spouses	16	
Death	(17)	
		<hr/>
Pensioners at 5 April 2021		2,458
		<hr/>
Total members at 5 April 2021		4,975

Part of the benefits for 134 pensioners is covered by an external annuity policy (2020: 139).

Pension increases

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

All pensions in payment were increased on 1 April 2021 in accordance with the Rules of the Scheme. The increase applied on 1 April 2021 was generally 1.1% which is the level of RPI in September 2020, with benefits accrued after 5 April 2019 having increases of 0.5%, which is the level of CPI at the same date. Relevant deductions or additions were made for statutory obligations to provide increases in relation to Guaranteed Minimum Pension (GMP).

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

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

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

Transfer Values

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

LEONARDO HELICOPTERS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021(continued)

Scheme Changes

There have been no changes to the Scheme Rules over the year, or as part of the 2020 actuarial valuation process.

On 1 January 2020, Equitable Life withdrew from the AVC market, and the Scheme's legacy AVC funds held with Equitable Life were transferred to Utmost Life and Pensions, with members being given an uplifted amount in exchange for a removal of the remaining guarantees associated with the with profits funds. There was a subsequent bulk transfer of these AVC funds from Utmost Life to the Scheme's current AVC arrangement with Mobius Life in March 2020. Property fund holdings in respect of three members were subsequently transferred to Mobius Life in December 2020 following the lifting of restrictions on those funds.

Financial Development of the Scheme

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

	£'000s
Net assets at 5 April 2020	1,600,164
Net withdrawals from dealings with members	(40,760)
Net returns on investments	<u>197,064</u>
Net assets at 5 April 2021	<u><u>1,756,468</u></u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Communication

"InTouch", a newsletter for Scheme members is issued by the Trustee on a regular basis. Benefit statements are issued on an annual basis to active members setting out the amount of pension built up so far, and forecasts at normal retirement date. In addition members can access information from the Scheme website, www.lhpensions.co.uk. XPS Administration Limited also offers MyPension.com, an online tool for members enabling them to view their pension records and undertake various activities online. All communications have moved to predominantly electronic distribution during the year, other than where members have opted into continuing with paper copies.

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, although this has not been possible through 2020/21. Face to face services have been impacted by the nationwide lockdown during the COVID-19 pandemic, with services being provided online where possible.

COVID-19

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation. This has resulted in worldwide restrictions on travel, government fiscal stimulus and extreme financial market volatility.

The Trustee has worked with its advisers and service providers throughout the pandemic to ensure that the Scheme could continue to pay members' benefits as they fell due, and to monitor the impact on the position of the Scheme in terms of the employer's business and its ability to continue providing the funding the Scheme requires, the value of the Scheme's investments, and the funding position. The Trustee is satisfied that all the appropriate steps have been taken to ensure that operations can continue and to mitigate any risks as far as possible.

Contributions to the Scheme have been maintained at the agreed level and the Employer and Trustee are in regular contact regarding the financial position and future plans of the Employer. The expectation is that contributions will continue to be paid in line with the payment schedule. The investment strategy being followed protected the asset value well during the downturn in markets as the pandemic took hold early in 2020 and has benefited from the subsequent recovery. The day-to-day administration of the Scheme has continued as usual and all payments to members have been made when due.

Taxation Status

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

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021(continued)

Enquiries

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee:

c/o XPS Administration Limited
Queen's Quay
33-35 Queen Square
Bristol BS1 4LU

Email: lhps@xpsgroup.com

MoneyHelper

MoneyHelper provides pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MoneyHelper can be contacted at:

MoneyHelper
Holborn Centre
120 Holborn
London EC1N 2TD

Tel: 0800 011 3797

Email: contact@maps.org.uk

Website: www.moneyhelper.org.uk

Pensions Ombudsman

Early Resolution Service

The early resolution service is available to assist with any difficulty that has not been resolved or to assist with a potential complaint.

Tel: 0800 917 4487

Email: helpline@pensions-ombudsman.org.uk

Complaints

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

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021(continued)

The Pensions Regulator (tPR)

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

Napier House
Trafalgar Place
Brighton BN1 4DW

Tel: 0345 600 0707

Email: customersupport@tpr.gov.uk

Website: www.thepensionsregulator.gov.uk

The Pension Scheme Registry

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

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

Tel: 0800 731 0193

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

INVESTMENT REPORT

Background

At the Scheme year end, 5 April 2021, the net investments of the Scheme were valued at £1.75bn, compared with £1.60bn at the start of the Scheme year.

The assets of the Scheme continue to be invested by the fiduciary manager, River and Mercantile Investments Limited. This includes 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 2021.

Investment Principles

The Trustee has produced a Statement of Investment Principles (SIP) showing how it invests the assets of the Scheme. The SIP is reviewed regularly by the Trustee and was last updated in September 2020.

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

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

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

The Trustee has also produced a defined contribution SIP which was last updated in September 2020.

Copies of the SIPs are available to members from the Scheme Administrator, XPS Administration, using the contact details on page 4. The SIPs are also available from the Scheme website at www.lhpensions.co.uk/compliance.

Investment Manager

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

The Investment Manager has been appointed in two capacities:

- Implement a liability hedging strategy and
- Actively manage Growth Assets which covers a wide range of asset classes and investment managers, Cashflow Matching Credit, ASE, Liability Hedging and Collateral Fund.

Market Commentary

Over the year to 31 March 2021 return-seeking asset classes performed extremely positively as they bounced back strongly from the falls experienced at the start of the pandemic in March 2020. Unprecedented levels of fiscal and monetary stimulus injected by central banks and governments around the world, news of effective vaccines and the pace of the vaccination rollout programs had a positive effect on equity markets resulting in four consecutive quarters of strong equity performance.

The significant rise in bond yields over Q1 2020 led to a rise in gilts yields over the year. Credit spreads tightened over the year as the perceived riskiness of corporates reduced following unprecedented global stimulus.

LEONARDO HELICOPTERS PENSION SCHEME

INVESTMENT REPORT (continued)

Asset Allocation

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

The Trustee has allocated 55% of assets to Growth Assets, 20% of assets to Liability Hedging Assets, 15% of assets to Active Structured Equity and 10% of assets to Cash Flow Matching Credit Assets.

The Trustee continues to monitor the strategy through regular reviews, and following an improvement in funding position took action to de-risk the portfolio by reducing the allocation to Growth Assets by 5% in March 2021, and a further 5% in June 2021. The Trustee will continue to review on an on-going basis the extent to which risk and volatility can be reduced further as the funding position of the Scheme improves over time.

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

	5 April 2021		5 April 2020	
	Market Value	% of funds	Market Value	% of funds
	£'000	(ex AVCs)	£'000	(ex AVCs)
Equity	574,015	32.7	412,940	25.9
Private Equity	10,509	0.6	19,608	1.2
Alternatives	170,264	9.7	220,817	13.8
Return Seeking Credit	123,420	7.0	124,465	7.8
Property	50,506	2.9	52,387	3.3
Cash & Sovereign Bonds	41,510	2.4	265,702	16.7
Currency Hedge	4,581	0.2	(12,686)	(0.8)
Total Growth Assets portfolio	974,805	55.5	1,083,233	67.9
Liability Hedging Assets	326,500	18.6	512,304	32.1
Active Structured Equity	277,121	15.8		
Cash Flow Matching Credit Assets	176,946	10.1	-	-
Total assets (excluding AVCs)	1,755,372	100.0	1,595,537	100.0
AVCs	12,163		10,820	
Cash in transit	80		1	
Total investments	1,767,615		1,606,358	

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. In particular, River and Mercantile Derivatives manages a liability hedge.

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

LEONARDO HELICOPTERS PENSION SCHEME

INVESTMENT REPORT (continued)

The mark to market valuation of the swaps represented an unrealised gain/loss, as at 5 April, for the following years:

	2021	2020	2019	2018	2017	2016
	£000	£000	£000	£000	£000	£000
Interest rate swaps	34,813	149,439	32,049	13,162	50,907	61,937
Inflation swaps	(23,872)	(44,532)	(18,385)	(27,334)	(22,253)	(54,872)
Swaptions	-	-	-	-	(13,502)	-
Gilt total return swaps	(18,406)	26,248	28,814	19,977	34,794	29,074
Total Gain/(Loss)	(7,466)	131,155	42,478	5,805	49,946	36,139

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

During the Scheme year, until 31 January 2021 the Trustee maintained a strategic hedging level of 100% of the interest rate risk and 100% of the inflation risk of the Technical Provisions. From 1 February 2021 the same strategic level, 100%, was applied to the Technical Provisions as at 5 April 2020 and the liabilities expected to be accrued between 6 April 2020 and 5 April 2023. At the year end the portfolio was hedging 100% of the interest rate risk and 103% of the inflation risk.

Collateral

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

Return Seeking Portfolio

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

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

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

LEONARDO HELICOPTERS PENSION SCHEME

INVESTMENT REPORT (continued)

The investment objective for GA is a return of SONIA + 3.125% per annum, after the deduction of fees, over rolling three year periods. Performance of the GA assets against objective is as follows:

GA	1 Year	3 Years p.a.	5 Years p.a.
Investment return	24.0%	5.5%	6.8%
Objective	3.2%	3.6%	3.5%
Investment return relative to target	20.8%	1.9%	3.3%

Performance is shown to 5 April 2021 after the deduction of fees (to the extent that fees are paid from assets). The objective is shown to 5 April 2021.

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

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

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

Total Investment Performance

The performance of the Scheme's return-seeking portfolio and the total performance (including the performance of the swaps) was positive over the year ended 5 April 2021.

Performance against objective over different time periods is as follows:

Total performance	1 Year	3 Years p.a.	5 Years p.a.
Investment return	12.6%	8.1%	9.9%
Objective	1.2%	5.7%	6.8%
Investment return relative to target	11.4%	2.4%	3.1%

The objective for three years covers the period 1 April 2018 to 5 April 2021, and for five years it covers 1 April 2016 to 5 April 2021.

Investment Expenses

Investment management fees and expenses amounted to £1.7m during the period (previously £7.6m – including R&M performance fees). 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.

Custody of Assets

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

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

INVESTMENT REPORT (continued)

Environmental, Social and Governance Factors

Financially material investment considerations can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as “ESG”) where relevant. The Trustee delegates consideration of financially material factors to the Investment Manager, who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

Corporate Governance and Stewardship

The Trustee and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager’s activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee has appointed the Investment Manager to implement the Scheme’s investment strategy. The Investment Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the underlying managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically reviews the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Investment Manager’s remuneration is based on the Scheme’s asset size, and the Investment Manager is therefore incentivised to maximise the Scheme’s asset size over the long term. The Trustee is satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee’s investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with issuers to improve this medium- to long-term performance.

The success of such engagement will contribute to the Scheme’s performance, which is measured relative to the Trustee’s long-term performance objectives.

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

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

INVESTMENT REPORT (continued)

Financial Material Considerations

These considerations, which include the below "Risks", can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates consideration of financially material factors to the Investment Manager, who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

Non-financial matters

The Trustee does not directly take into account non-financial matters (such as members' ethical or future impact priorities) given the difficulty of establishing consensus views on such matters. The Trustee maintains a dialogue with members through the Pensions Council and may seek views directly from time to time. The DCISC consults members from time to time in the context of self-select investment options for DC assets.

Turnover costs

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

Conflicts of interest

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here: https://riverandmercantile.com/wp-content/uploads/2020/11/RandM_Conflicts_of_interest_policy_20200922.pdf.

Employer Related Investments

There were no employer related investments during the year.

REPORT ON ACTUARIAL LIABILITIES

Section 222 of the Pensions Act 2004 stipulates that all pension schemes must have a "Statutory Funding Objective", which should be to have "sufficient and appropriate assets" to cover its "technical provisions" (i.e. meet members' benefit obligations). The valuation allows for all benefits accrued to members but yet to be paid at the valuation date. It uses assumptions about various factors that will influence the Scheme in the future, such as the levels of investment return and inflation, when members will retire and how long members will live. These assumptions are agreed between the Trustee and Employers and are set out in the Statement of Funding Principles, which is available to members on request.

The latest Actuarial Valuation of the Scheme was completed as at 5 April 2020 and the respective Schedule of Contributions was certified on 8 December 2020. This valuation disclosed technical provisions of £1,684.1 million compared to assets of £1,589.3 million, resulting in a deficit of £94.8 million.

There was an estimated shortfall of £886.1 million relative to the solvency position (i.e. the estimated level of assets needed to buy insurance policies for benefits earned to the valuation date).

Significant Assumptions

Set out below is a summary of the key actuarial assumptions used for the 5 April 2020 valuation, which used the Projected Unit Method to place a value on the technical provisions.

Discount rate: term dependent rates set by reference to 65%/35% of the gilt and SONIA swap yield curves at the valuation date plus adjustments of 2.85% per annum pre-retirement and 0.85% per annum post-retirement.

Rate of RPI price inflation: term dependent rates set by reference to 65%/35% of the break-even gilt and swap RPI yield curves at the valuation date.

Rate of CPI price inflation: The rate of RPI inflation less 0.7% per annum at each term.

Increases to pensions in service and payment: Derived from the appropriate price inflation assumption allowing for the maximum and minimum annual increases, and for price inflation to vary from year to year, with an adjustment to allow for the timing of increases and seasonal trends.

Pay increases: The rate of CPI inflation plus 1% per annum at each term.

Post retirement mortality: Standard tables S3PMA for males and S3PFA_M for females, with scaling factors of 100%.

Future improvements in mortality: An allowance for future improvements was made from 2013 in line with the CMI 2019 core projections with a smoothing parameter of 7.0, initial addition to improvement rates of 0.5% and long-term improvement rate of 1.50% per annum.

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

Cash commutation: 90% of members were assumed to commute 30% of their pension on retirement (before any allowance for at-retirement options) which includes an allowance for commutation factors expected following the 2020 valuation.

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

Supplement purchase on retirement: An allowance was made for 40% of members to exchange 5% of their pension at retirement to buy supplementary pension, based on terms which are consistent with the assumed commutation factors.

GMP equalisation: An allowance was made of 0.15% of past service liabilities.

The next formal valuation of the Scheme will become due with an effective date of 5 April 2023 and is expected to be finalised no later than 5 July 2024.

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Certification of schedule of contributions

Leonardo Helicopters Pension Scheme

Adequacy of rates of contributions

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

The statutory funding objective could have been expected on 5 April 2020 to be met by the end of the period specified in the recovery plan dated 8 December 2020.

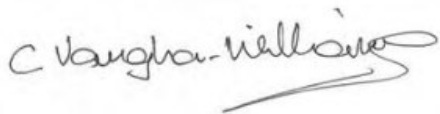
Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 8 December 2020.

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

Signature

Date



8 December 2020

Name

Qualification

Chris Vaughan-Williams

Fellow of the Institute and Faculty of Actuaries

Address

Name of employer

1 Redcliff Street
Bristol
BS1 6NP

Aon Solutions UK Limited

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require 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 its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

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

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

The Trustee 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 towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for 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 Acts 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 it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee's Report, which includes the Investment Report, the Report on Actuarial Liabilities and the Statement of Trustee's Responsibilities was approved by the Trustee.

Signed: M Flavell

Name: Martin Flavell

Date: 16 September 2021

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Signed: R Ward

Name: Rebecca Ward

Date: 16 September 2021

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

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

Opinion

We have audited the financial statements of the Leonardo Helicopters Pension Scheme for the year ended 5 April 2021 which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2021, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Conclusions relating to going concern

In auditing the financial documents, we have concluded that the Scheme Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Schemes ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Schemes Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Schemes Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

Responsibilities of the Trustee

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

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

Auditor's responsibilities for the audit of the financial statements

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Scheme operates in and how the Scheme is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

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

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates.

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

Use of our Report

This report is made solely to the Schemes Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Schemes Trustee 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 Schemes Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Signed: RSM UK Audit LLP

RSM UK Audit LLP

Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 16 September 2021

LEONARDO HELICOPTERS PENSION SCHEME

FUND ACCOUNT

For the year ended 5 April 2021

	Note	2021 £'000s	2020 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions	4	23,847	29,552
Employee contributions	4	<u>27</u>	<u>32</u>
Total contributions	4	<u>23,874</u>	<u>29,584</u>
Benefits paid or payable	5	52,562	51,902
Payments to and on account of leavers	6	9,942	11,785
Other payments	7	299	307
Administrative expenses	8	<u>1,831</u>	<u>1,879</u>
		<u>64,634</u>	<u>65,873</u>
NET WITHDRAWALS FROM DEALINGS WITH MEMBERS		<u>(40,760)</u>	<u>(36,289)</u>
RETURNS ON INVESTMENTS			
Investment income	9	20,365	19,741
Change in market value of investments	11	179,009	45,871
Investment management expenses	10	<u>(2,310)</u>	<u>(3,587)</u>
NET RETURNS ON INVESTMENTS		<u>197,064</u>	<u>62,025</u>
NET INCREASE IN THE FUND FOR THE YEAR		156,304	25,736
OPENING NET ASSETS		<u>1,600,164</u>	<u>1,574,428</u>
CLOSING NET ASSETS		<u><u>1,756,468</u></u>	<u><u>1,600,164</u></u>

The notes on pages 25 to 38 form part of these financial statements.

LEONARDO HELICOPTERS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2021

	Note	2021 £'000s	2020 £'000s
INVESTMENT ASSETS	11		
Bonds		505,122	650,681
Pooled investment vehicles	12	1,126,913	786,648
Derivatives	13	108,128	221,230
AVC investments	14	12,163	10,820
Cash deposits		79,770	42,298
Other investment balances	15	29,855	2,838
		<u>1,861,951</u>	<u>1,714,515</u>
INVESTMENT LIABILITIES			
Derivatives	13	<u>(94,336)</u>	<u>(108,157)</u>
TOTAL NET INVESTMENTS		1,767,615	1,606,358
CURRENT ASSETS	19	2,203	1,075
CURRENT LIABILITIES	20	<u>(13,350)</u>	<u>(7,269)</u>
CLOSING NET ASSETS		<u><u>1,756,468</u></u>	<u><u>1,600,164</u></u>

The notes on pages 25 to 38 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section, is dealt with in the Report on Actuarial Liabilities on page 17 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on 16 September 2021.

Signed: M Flavell

Name: Martin Flavell

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Signed: R Ward

Name: Rebecca Ward

Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2021

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The Scheme is a registered hybrid 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.

As stated in the Statement of Trustee's Responsibilities on page 19, the Trustee is responsible for preparing the Financial Statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis. The Trustee has undertaken an assessment in relation to going concern and has considered such matters as the potential impact on the Scheme's investment strategy, the Employer's business and its ability to pay contributions to the Scheme, taking into account the Scheme's strong funding level, well diversified investment strategy, strength of the Employer covenant and the guarantee from Leonardo SpA. The Trustee Board has determined that whilst there is some uncertainty over the impact on the Employer's financial performance and resources, this is anticipated to be modest and there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and the Trustee therefore believes it remains appropriate to prepare the Financial Statements on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is c/o XPS Administration Limited, Queen's Quay, 33-35 Queen Square, Bristol BS1 4LU.

Email lhps@xpsgroup.com.

3. ACCOUNTING POLICIES

(a) Accounting convention

The financial statements are prepared on an accruals basis.

(b) Contributions

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

3. ACCOUNTING POLICIES (continued)

(c) **Payments to Members**

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

Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

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

(d) **Expenses**

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

(e) **Investment Income**

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

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

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

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

(f) **Investments**

Investments are included at fair value as follows:

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

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

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

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

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

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

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

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

3. ACCOUNTING POLICIES (continued)

(f) Investments (continued)

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

(g) Foreign Currency Translation

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

(h) Currency

The Scheme's functional and presentational currency is Pound Sterling (GBP). Monetary amounts in these financial statements are rounded to the nearest £'000.

4. CONTRIBUTIONS

	2021 £'000s	2020 £'000s
Employer contributions		
Normal	7,436	6,981
SMART	7,958	7,979
Additional voluntary	2,753	2,081
Deficit funding	3,700	10,000
Additional	-	511
Expenses	<u>2,000</u>	<u>2,000</u>
	23,847	29,552
Employee contributions		
Normal	<u>27</u>	<u>32</u>
	<u>23,874</u>	<u>29,584</u>

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

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

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

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

Additional contributions of £511,000 were received in 2020, due to the increase in ill health retirements.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

5. BENEFITS PAID OR PAYABLE	2021	2020
	£'000s	£'000s
Pensions	36,017	33,373
Commutation of pensions and lump sum retirement benefits	16,107	18,196
Purchase of annuities	-	22
Lump sum death benefits	292	47
Refunds of contributions on death	18	-
Taxation where lifetime or annual allowance exceeded	128	264
	<u>52,562</u>	<u>51,902</u>
6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2021	2020
	£'000s	£'000s
State Scheme Premiums	-	2
Individual transfers out to other schemes	9,942	11,783
	<u>9,942</u>	<u>11,785</u>
7. OTHER PAYMENTS	2021	2020
	£'000s	£'000s
Premiums on term insurance policies	299	307
	<u>299</u>	<u>307</u>
8. ADMINISTRATIVE EXPENSES	2021	2020
	£'000s	£'000s
Administration	603	624
Actuarial fees	393	253
Legal fees	20	31
Other professional fees	26	16
Investment advice	-	13
Audit fees	25	45
PPF levy	750	882
Other fees	14	15
	<u>1,831</u>	<u>1,879</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

9. INVESTMENT INCOME	2021 £'000s	2020 £'000s
Income from bonds	5,623	2,425
Income from pooled investment vehicles	9,021	10,799
Interest on cash deposits	(4)	71
Gains/(losses) on foreign exchange	(798)	615
Income from derivatives / swaps	6,462	5,771
Annuity income	61	60
	<u>20,365</u>	<u>19,741</u>

10. INVESTMENT MANAGEMENT EXPENSES	2021 £'000s	2020 £'000s
Administration, management & custody	2,758	3,923
Investment fee rebate	(743)	(595)
Investment custodian fees	295	259
	<u>2,310</u>	<u>3,587</u>

11. RECONCILIATION OF INVESTMENTS

	Value at 5.4.2020 £'000s	Purchases at cost & derivative payments £'000s	Sales proceeds & derivative receipts £'000s	Change in market value £'000s	Value at 5.4.2021 £'000s
Defined Benefit Section					
Bonds	650,681	671,884	(811,633)	(5,810)	505,122
Pooled investment vehicles	786,648	898,483	(762,111)	203,893	1,126,913
Derivatives	113,073	42,294	(120,617)	(20,958)	13,792
AVC investments	10,820	4,267	(4,808)	1,884	12,163
	<u>1,561,222</u>	<u>1,616,928</u>	<u>(1,699,169)</u>	179,009	1,657,990
Cash deposits	42,297			-	79,690
Cash in transit	1			-	80
Other investment balances	2,838			-	29,855
	<u>1,606,358</u>			<u>179,009</u>	<u>1,767,615</u>

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. Transaction costs analysed by main asset class and type of cost are as follows:

	Fees £'000	Commission £'000	Stamp duty and taxes £'000	2021 Total £'000	2020 Total £'000
Other	<u>1</u>	<u>18</u>	<u>-</u>	<u>19</u>	<u>15</u>
2020	<u>1</u>	<u>14</u>	<u>-</u>	<u>-</u>	<u>15</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.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

12. POOLED INVESTMENT VEHICLES

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

Defined Benefit Section	2021 £'000s	2020 £'000s
Equity	557,603	394,226
Bonds	288,700	111,818
Property	50,506	52,387
Cash	39,087	37,231
Alternative	191,017	176,587
Private Equity	-	14,399
	<u>1,126,913</u>	<u>786,648</u>

13. DERIVATIVES

Objectives and policies

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

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

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

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

At the year end the Scheme held the following derivatives:

	2021 Asset £'000	2021 Liability £'000	2020 Asset £'000	2020 Liability £'000
Swaps	53,158	(60,623)	198,758	(67,471)
Options	49,571	(32,894)	4,274	(9,802)
Forward foreign exchange contracts	5,399	(819)	18,198	(30,884)
	<u>108,128</u>	<u>(94,336)</u>	<u>221,230</u>	<u>(108,157)</u>
	<u>13,792</u>		<u>113,073</u>	

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

13. DERIVATIVES (continued)

Swaps	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Nature				
Interest Rate Swaps	2024-2069	563,411	44,116	(9,302)
Inflation Swaps	2021-2031	1,141,645	3,994	(27,866)
Total Return Swaps	2021	399,176	5,048	(23,455)
			<u>53,158</u>	<u>(60,623)</u>

Included in bonds is collateral of £27.4m (2020: £12.9m) which has been pledged to the counterparty. At the year end the Scheme held £28.6m (2020: £133.1m) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

Options

Type	Expiration	Underlying Investment	No of outstanding contracts	Asset £'000s	Liability £'000s
Put	2021	SPX Index	1	77	-
Put	2021	SPX Index	1	61	-
Call	2021	SPX Index	2	15,952	(10,039)
Put	2021	SPX Index	1	-	(142)
Call	2021	SPX Index	2	4,936	(3,279)
Call	2021	SX5E Index	2	4,614	(2,951)
Call	2021	NKY Index	2	2,191	(1,524)
Put	2021	SPX Index	1	-	(313)
Put	2021	SX5E Index	1	-	(253)
Put	2021	NKY Index	1	-	(142)
Call	2022	SPX Index	2	6,294	(3,103)
Call	2022	UKX Index	2	2,354	(765)
Put	2022	SPX Index	1	-	(740)
Put	2022	UKX Index	1	-	(504)
Call	2022	SX5E Index	2	3,585	(1,940)
Call	2022	SPX Index	2	2,909	(1,424)
Put	2022	SSX5E Index	1	-	(482)
Put	2022	SPX Index	1	-	(650)
Call	2022	SPX Index	2	3,837	(1,571)
Call	2022	SX5E Index	2	2,761	(1,133)
Put	2022	SPX Index	1	-	(1,281)
Put	2022	SX5E Index	1	-	(658)
				<u>49,571</u>	<u>(32,894)</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

13. DERIVATIVES (continued)

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	Under 1 month	\$7,279,400	£5,275,830	-	(40)
Forward OTC	Under 1 month	£9,858,749	\$13,710,700	-	(4)
Forward OTC	Under 1 month	£2,231,246	¥336,910,000	30	-
Forward OTC	Under 1 month	£1,795,550	€2,074,500	32	-
Forward OTC	Under 1 month	£10,183,878	\$14,210,400	-	(38)
Forward OTC	Under 1 month	£1,438,538	¥214,110,000	40	-
Forward OTC	Under 1 month	\$25,825,400	£18,269,513	307	-
Forward OTC	Under 1 month	€1,585,000	£1,372,336	-	(25)
Forward OTC	Under 1 month	€2,789,800	£2,412,722	-	(42)
Forward OTC	Under 1 month	£3,792,298	¥559,750,000	135	-
Forward OTC	Under 1 month	\$25,569,700	£18,194,801	198	-
Forward OTC	Under 1 month	€2,012,600	£1,750,008	-	(39)
Forward OTC	Under 1 month	\$15,398,800	£11,112,017	-	(35)
Forward OTC	Under 1 month	\$6,567,100	£4,740,829	-	(17)
Forward OTC	Under 1 month	\$21,682,500	£15,657,066	-	(61)
Forward OTC	Under 1 month	\$27,090,100	£19,706,864	-	(220)
Forward OTC	Under 1 month	¥395,450,000	£2,751,876	-	(168)
Forward OTC	Under 1 month	€3,600,400	£3,189,854	-	(130)
Forward OTC	Under 1 month	£14,372,083	\$19,744,900	169	-
Forward OTC	Under 1 month	£10,049,089	\$13,777,100	139	-
Forward OTC	Under 1 month	£21,313,001	€24,039,000	882	-
Forward OTC	Under 1 month	£179,098,323	\$245,961,100	2,174	-
Forward OTC	Under 1 month	£18,051,849	¥2,565,060,000	1,293	-
				<u>5,399</u>	<u>(819)</u>

14. AVC INVESTMENTS

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

	2021 £'000s	2020 £'000s
Utmost Life and Pensions	-	2
Prudential	514	619
Mobius Life	11,649	10,199
	<u>12,163</u>	<u>10,820</u>

15. OTHER INVESTMENT BALANCES

	2021 £'000s	2020 £'000s
Amounts due from broker	28,287	1,414
Dividends and interest receivable	1,568	1,424
	<u>29,855</u>	<u>2,838</u>

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

16. FAIR VALUE DETERMINATION

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

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

Defined Benefit Section	At 5 April 2021			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	505,122	-	-	505,122
Pooled investment vehicles	71,711	848,970	206,232	1,126,913
Derivatives	-	13,792	-	13,792
AVC investments	-	11,649	514	12,163
Cash	79,770	-	-	79,770
Accrued investment income	1,568	-	-	1,568
Unsettled items	28,287	-	-	28,287
	<u>686,458</u>	<u>874,411</u>	<u>206,746</u>	<u>1,767,615</u>

Defined Benefit Section	At 5 April 2020			
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Bonds	650,681	-	-	650,681
Pooled investment vehicles	52,098	535,118	199,432	786,648
Derivatives	-	113,073	-	113,073
AVC investments	-	10,201	619	10,820
Cash	42,298	-	-	42,298
Accrued investment income	1,424	-	-	1,424
Unsettled items	1,414	-	-	1,414
	<u>747,915</u>	<u>658,392</u>	<u>200,051</u>	<u>1,606,358</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

17. INVESTMENT RISK DISCLOSURES

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 its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

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 £505.1m in directly held bonds (2020: £650.7m), £13.8m in OTC derivatives (2020: £113.1m) and £108.1m in directly held cash balances (2020: £43.7m). The Scheme also holds £327.8m bonds and cash through underlying pooled fund investments (2020: £149.0m).

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

Credit risk arising on bonds held directly is mitigated by River and Mercantile Solutions choosing to only invest in government bonds, where the credit risk is minimal.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

17. INVESTMENT RISK DISCLOSURES (continued)

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

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

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

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

Currency risk

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

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

Net of currency hedging, 13.0% of the Scheme's holdings were exposed to overseas currencies as at year-end (2020: 11.3%).

Interest rate risk

Some of the Scheme's Growth Assets will be subject to interest rate risk. The Scheme's Liability Hedging Assets will be affected by changes in interest rate in a way that largely offsets the impact of changing interest rates on the Scheme's liabilities, and therefore act as a liability hedge. 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:

	2021	2020
	£'000s	£'000s
Direct		
Bonds	505,122	650,681
Swaps	(7,466)	131,155
Indirect		
Bond PIVs	288,700	111,818
Cash PIVs	39,087	37,231

Please note clean values have been used where applicable.

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

17. INVESTMENT RISK DISCLOSURES (continued)

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:

	2021	2020
	£'000s	£'000s
Direct		
Equity Options	14,541	338
S&P Options	2,136	(5,866)
Indirect		
Bond PIVs	288,700	111,818
Cash PIVs	39,087	37,231
Equity PIVs	557,603	394,226
Property PIVs	50,506	52,387
Alternatives PIVs	180,509	171,378
Private Equity PIVs	10,509	19,608

18. CONCENTRATION OF INVESTMENTS

The following investments represented over 5% of the net assets of the Scheme in the current or previous year:

	2021		2020	
	£'000s	%	£'000s	%
BNY Mellon Global Equity Fund	468,311	26.6	245,778	15.4
Insight	175,663	10.0	n/a	n/a
River & Mercantile Interest Rate Swaps	-	-	117,390	7.3

19. CURRENT ASSETS

	2021	2020
	£'000s	£'000s
Bank balance	1,891	1,019
VAT recoverable by the Employer	67	56
Life assurance paid in advance	245	-
	<u>2,203</u>	<u>1,075</u>

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

LEONARDO HELICOPTERS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

20. CURRENT LIABILITIES	2021	2020
	£'000s	£'000s
Accrued expenses	1,341	652
Unpaid benefits	862	378
Tax payable	425	385
Contributions prepaid	10,722	5,854
	<u>13,350</u>	<u>7,269</u>

Employer contributions are received annually in advance in January each year. Contributions have been prepaid in line with the Schedule of Contributions currently in force.

21. EMPLOYER RELATED INVESTMENTS

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

22. CONTINGENT LIABILITIES

There were no contingent liabilities as at 5 April 2021 (2020: Nil).

23. RELATED PARTIES

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

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

Management and governance services are provided by an in-house Pensions Management team based at Leonardo UK Ltd which is the Principal Employer. Costs of the governance service are agreed with Leonardo UK Ltd and are met by the Scheme. For 2020/21, these costs amounted to £160,000 (2019/20: £160,000).

Trustee Directors who are pensioner members of a Leonardo Group Pension Scheme receive remuneration from Leonardo UK Ltd for governance services. Trustee remuneration for the 2020/21 Scheme Year totalled £30,194 (2019/20: £25,150).

£19,344 (2019/20: £56,205) was due to the Scheme from the Employer at the year end in respect of VAT reclaimed by the Employer on Scheme Administration expenses.

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

25. CAPITAL COMMITMENTS

There were no outstanding capital commitments as at 5 April 2021 (2020: Nil).

26. TAXATION

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

27. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustees of the Scheme are aware that the issue will affect the Scheme and have been working with the Company and Scheme advisers to develop a proposed method of equalisation and timescales for the project.. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustees do not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

On 20 November 2020, the High Court handed down a second judgment involving the Lloyds Banking Group's defined benefit pension schemes. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The Trustees will consider next steps as the Scheme has experienced historical transfers out which will be subject to adjustment as a result of this second ruling. Any adjustments necessary will be recognised in the year they are determined. It is not possible to estimate the value of any such adjustments at this time.

LEONARDO HELICOPTERS PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE LEONARDO HELICOPTERS PENSION SCHEME

Statement about contributions payable under the Schedules of Contributions

We have examined the summary of contributions payable to the Leonardo Helicopters Pension Scheme on page 39, in respect of the Scheme year ended 5 April 2021, to which this statement is attached.

In our opinion the contributions for the Scheme year ended 5 April 2021 as reported in the attached summary of contributions on page 40 and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary on 14 June 2018 and 8 December 2020.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 40 in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules 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 Schedules of Contributions.

Respective responsibilities of the Trustee and the Auditor

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

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

Use of our Statement

This statement is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an Auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

Signed: RSM UK Audit LLP

RSM UK Audit LLP

Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 16 September 2021

LEONARDO HELICOPTERS PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

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

	£'000s
Employer normal contributions	7,436
Employer SMART contributions	7,958
Employer deficit funding contributions	3,700
Employer expense contributions	2,000
Employee normal contributions	<u>27</u>
Total contributions paid	<u>21,121</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedules of Contributions	21,121
Members' Additional Voluntary Contributions	<u>2,753</u>
Contributions receivable per the financial statements	<u><u>23,874</u></u>

This summary was approved by the Trustee on 16 September 2021.

Signed: M Flavell

Name: Martin Flavell
Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Signed: R Ward

Name: Rebecca Ward
Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

LEONARDO HELICOPTERS PENSION SCHEME IMPLEMENTATION STATEMENT

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the Leonardo Helicopters Pension Scheme (the "Scheme") in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was amended once during the year ending 5 April 2021, and the changes made were predominantly for regulatory changes relating to ESG factors, corporate governance and voting, as well as reflecting the updated investment strategy with regard to investments into Cash Flow Matching Credit Assets and Active Structured Equity. This SIP came into force from 22 September 2020.

A copy of the current SIP signed and dated 22 September 2020 can be found here www.lhpensions.co.uk/compliance

This first Implementation Statement covers the Scheme year from 6 April 2020 to 5 April 2021 (the "Scheme Year"), although the information on engagement and voting statistics relates to the period from 1 April 2020 to 31 March 2021. It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A copy of this Implementation Statement is available on the following website: www.lhpensions.co.uk/compliance

2. How the Trustee's policies on exercising voting rights and engagements have been followed over the Scheme Year

The Scheme's SIP sets out the Trustee's policies in relation to stewardship, corporate governance and Environmental, Social and Governance (ESG) factors.

The Trustee is ultimately responsible for the investment of the Scheme assets. Where it is required to make an investment decision, the Trustee always receives advice from the relevant advisers first and they believe that this ensures that they are appropriately familiar with the issues concerned. The Trustee also sets the investment strategy and general investment policy but has delegated the day-to-day investment of the Scheme's assets, within pre-defined constraints to professional investment managers.

The Trustee has appointed River and Mercantile Investments Limited ("R&M") as its Investment Manager using its Fiduciary Management service (and is referred to as the "Fiduciary Manager" in the Implementation Statement). R&M can appoint other investment managers in respect of underlying investments (referred to as "Underlying Investment Managers").

The Scheme invests in assets with voting rights attached. However, these investments are generally made via pooled investment funds with the Underlying Investment Managers where the Scheme's investments are pooled with other investors. Therefore, direct control of the process of engaging with the companies that issue the underlying securities, whether for corporate governance purposes or other financially material considerations, is delegated to those Underlying Investment Managers. The Fiduciary Manager appoints those Underlying Investment Managers. A copy of the SIP has been provided to the Fiduciary Manager and the Fiduciary Manager is expected to adopt that approach to corporate governance and to other financially material considerations when providing Fiduciary Management services and/or in selecting Underlying Investment Managers.

The Trustee requires that the Fiduciary Manager considers stewardship activity including voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change when choosing new or monitoring existing Underlying Managers. The Trustee believes it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement. The Trustee has therefore not sought to influence voting behaviours and does not intend to change its position at this time.

Over the Scheme Year, the Fiduciary Manager provided the Trustee with monitoring of the ESG characteristics of the portfolio and stewardship activity carried out by the Fiduciary Manager on a quarterly basis. The Trustee is satisfied with the Fiduciary Manager's activity in this area.

On behalf of the Trustee, monitoring of voting and engagement policy by Underlying Investment Managers in relation to the Scheme's investments was carried out by the Fiduciary Manager through regular investment and operational due diligence meetings with the Underlying Investment Managers. In addition, the Trustee, with the help of the Fiduciary Manager, monitors the performance of the Underlying Investment Managers against the agreed performance objectives at quarterly ISC meetings held during the Scheme Year.

Following activity during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the Statement of Investment Principles over the Scheme Year.

3. Voting and Engagement Summary

The exercise of voting rights is delegated to the Fiduciary Manager and the Fiduciary Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. The Trustee made no changes to the voting and engagement policies contained in the SIP this Scheme Year but this will be kept under review in future years.

River and Mercantile Group, of which the Fiduciary Manager is a division, are a PRI signatory and were rated A+ by PRI in 2019 for their Strategy and Governance.

References to "ISS" relate to Institutional Shareholder Services, a proxy voting company used by the Underlying Investment Manager, BNYM.

The Trustee has considered the voting behaviour (provided in the Appendix) along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio, the active structured equity portfolio, and the liability hedging portfolio and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting activity, challenges to management and active engagement on a range of relevant topics.

Specifically, the Trustee noted that:

- Each relevant manager demonstrated very high levels of voting rights being acted on.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- The general themes of engagement activity were in relation to environmental issues, climate strategy in particular. Executive pay, board diversity and improving social outcomes were the other main themes identified.
- Within the BNYM Global Equity Fund, which makes up the majority of the Scheme's investments in return-seeking assets, the Trustee noted that BNYM prioritised engagement with each of their underlying holdings on the following areas: governance practices, executive compensation, sustainability including climate change, human capital management, and Diversity and Inclusion. An example would be their engagement with an S&P500 Real Estate Company. BNYM discussed the company's diversity and inclusion efforts, as well as its ongoing compensation policy enhancements. In addition, they outlined the areas where they would like to see improvements going forward.
- For the largest mandate within the return-seeking credit assets, engagement on improving social outcomes was noted as a significant example. The manager engaged with a leading manufacturer and distributor of blood testing equipment. They worked with senior management to encourage the company to develop social targets in addition to its existing environmental focus and to increase product distribution to at risk/at-need populations globally through donations of refurbished equipment. The manager also worked with the company to understand the impact the COVID-19 crisis would have on its long-term business strategy. They viewed the company's ability to deliver these solutions and products globally as a positive for society that would also boost the company's credit profile.

LEONARDO HELICOPTERS PENSION SCHEME

- In relation to the liability hedging and active structured equity mandates, the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by a number of factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustee is satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers are in line with the Trustee's policies contained in the SIP and that no changes are required to these policies at this time. The Trustee will keep the position under review.

Signed: M Flavell

Name: Martin Flavell
Trustee Director, Leonardo Helicopters Pension Scheme (Trustee) Limited

Appendix – Voting statistics

1. Voting in relation to underlying pooled funds, on behalf of the Trustee

Most of the rights and voting relating to the Scheme’s investments relate to underlying securities investment in through pooled funds managed by underlying investment managers – this is covered in part 2 below. However, the pooled funds themselves often confer certain rights around voting or policies. These rights are exercised by the Fiduciary Manager on behalf of the Trustee and we cover these here.

Over the year to 31 March 2021, The Fiduciary Manager voted on 206 resolutions across 52 meetings. The Fiduciary Manager voted against management on 10 resolutions which was 5% of total resolutions and abstained on 8 resolutions (4% of the total resolutions).

The RAMIL Investment Research team engaged with investment managers regarding their clients’ pooled fund investment on approximately 800 occasions during the 12 months period. The engagement topics covered a range of areas including executive board composition, investment management processes, auditor tenure and fund costs.

2. Underlying Managers’ voting on securities, on behalf of the Trustee

There are c. 30 Underlying Managers used by the Investment Manager. Set out below is the voting statistics for the most material equity holdings during the period that held voting rights, namely BNY Mellon Global Equity. Within other asset classes there are no voting rights. However, engagement activity is very important and so examples of engagement activity for the managers that represent 2.5% or more of the portfolio have also been reviewed by the Trustee.

Summary of voting activity – BNYM Global Equity Fund

	BNYM (River and Mercantile) Global Equity Fund
Total meetings eligible to vote	1,124
Total resolutions eligible to vote	14,052
% of resolutions did you vote on for which you were eligible?	98%
% did vote with management?	89%
% vote against management?	9%
% abstained	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	2%

- BNYM uses Institutional Shareholder Services, “ISS”, for proxy voting services.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.

Most significant votes carried out by the Underlying Managers

BNYM Global Equity Fund

WALMART, INC.

BNYM voted for a shareholder proposal requesting that Walmart publish a report on the impact of single-use plastic bags. In terms of phasing out plastic bags, in BNYM's view Walmart does not lag its peers in the retail industry but lags its peers in the grocery sector. BNYM hold companies to a high environmental standard and believe this proposal will result in Walmart acknowledging the positive impact it can have through the elimination or reduction of single-use plastic bags.

THE PROCTER & GAMBLE COMPANY

BNYM believe that Procter & Gamble lags its peers in terms of deforestation commitments and policies that monitor supplier actions. The company has been accused of contributing to the destruction of forests that have high wildlife and climate change value. The lack of information presents potential competitive and reputational risks to the company. As a result, BNYM voted for a shareholder proposal requesting the company report on efforts to eliminate deforestation. BNYM will continue to engage with the company to ensure that the lack of reporting is adequately addressed.

RIO TINTO LIMITED

In May 2020, BNYM voted for a proposal approving emission targets for Rio Tinto. BNYM believe this resolution will provide shareholders with increased transparency, allowing them to understand how the company is addressing climate change and mitigating these risks.

KELLOGG COMPANY

In an effort to promote accountability, BNYM voted for a shareholder proposal in April 2020 to declassify Kellogg's board of directors. BNYM believe it is beneficial for directors to be elected each year. BNYM maintain that a board that is refreshed annually is often best equipped with fresh viewpoints and counsel.

VISA, INC.

BNYM voted against the election of a director to Visa's board as the individual was serving on five boards. Generally, if an individual serves on more than five boards, BNYM vote against electing them to an additional board. BNYM expect the board members they elect to focus on their current board memberships, which BNYM believe is difficult to accomplish beyond our threshold of five boards.

ORACLE CORPORATION

BNYM withheld their vote for a director because the nominee owns a large stake in the company and pledged what BNYM believe is a disproportionate number of shares against that stake. Stock pledging can have a negative impact on the company. Should market conditions deteriorate, sudden forced selling could create an inordinate amount of technical pressure on a company's stock.