Registration number: 02426132

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Annual report and financial statements

for the year ended 31 December 2020

Leonardo UK Ltd (formerly Leonardo MW Ltd)

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Leonardo UK Ltd (formerly Leonardo MW Ltd)

Company Information

Directors	N J Bone (Chairman)
	G P Cutillo
	A Parrella
	C Porter
	P Di Bartolomeo
	W Allen
	N C Whitney
Company secretary	K G Thomsit
Registered office	1 Eagle Place St James's London England SW1Y 6AF
Auditors	KPMG LLP Botanic House 100 Hills Road Cambridge CB2 1AR

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Strategic Report for the Year Ended 31 December 2020

The directors present their annual report and the audited financial statements of Leonardo UK Ltd (formerly Leonardo MW Ltd) (the "Company") registered number 2426132, for the year ended 31 December 2020.

Principal activities and business review

Leonardo Group ("Leonardo") is one of the world's major players in Aerospace, Defence and Security, a global solutions provider and a trusted long-term partner of choice for governments, institutions and business customers. Leonardo delivers cutting-edge and dual-use technologies, meeting both military and civil requirements. In partnership with our customers, we work to strengthen global security, protect people, territories, infrastructure, and cyber networks. Leonardo guarantees the safe management of air, sea and urban spaces, as well as large-scale events.

Today, Leonardo operates across the globe, with 4 domestic markets - Italy, the United Kingdom, Poland and the United States, as well as an industrial and commercial presence in about 40 countries worldwide.

As one of the UK's leading aerospace companies and one of biggest suppliers of defence and security equipment to the UK MoD, Leonardo has UK divisions in Defence Electronics, Cyber & Security and Helicopters. The Company makes a significant contribution to the UK economy with revenues of £2,010m (2019: £2,139m), around 42% (2019: 46%) of which are in export. The Company operates from 7 main sites across the UK employing over 7,500 highly skilled people.

Future outlook and business environment

The outlook of the Company remains positive with an order intake during the year of £2,319m (2019: £1,758m) and an order book as at 31 December 2020 of £5,322m (2019: £5,140m) which represents 265% of 2020 turnover (2019: 240%).

The Company is uniquely placed to offer a wide spectrum of capabilities across platforms, systems and sensors, providing integrated solutions and support services to its customers in the land, maritime, air, space, cyber and security domains.

In July 2018 at the Farnborough International Air Show, it was announced that Leonardo would be working with the RAF Rapid Capability Office, BAE Systems, Rolls Royce and MBDA as 'Team Tempest' to provide the technologies, knowledge, skills and expertise to develop a Next Generation Combat Air System capable of operating in the 2040+ environment. The contract forms part of the ongoing Future Combat Air System Technology Initiative (FCAS TI) programme and will see Leonardo developing the Sensor and Communications Systems technology for the next generation aircraft.

In addition and in support of the programme the UK, Sweden and Italy have commenced trilateral industry discussions to strengthen collaboration between the three nations, as they develop world-leading future combat air capability. This trilateral framework sees industry from the three nations bringing together their skills and expertise in the combat air sector to collaborate on the research and development of cutting-edge technologies.

The Company's integrated capability within the helicopter sector means it continues to be the only UK Company that has an end-to-end capability to produce helicopters.

Throughout 2020, the Company continued to develop its "One Company" operating model and the Leonardo brand. This gives the Company the opportunity to have one clear identity and to present "One Voice" to customers and stakeholders in a coherent and coordinated way. In conjunction with Leonardo corporate and divisional strategies, and in line with an established business strategic planning process, the Company continues to review its current activities and future options in relation to growth and diversification. This will enable it to support future opportunities within domestic and overseas markets by leveraging on the integrated competencies, products and services offered by the Company and the optimisation of cost structures.

The business environment continues to remain highly competitive with established companies and new entrants vying for market share. The economic scenario has and continues to be challenged by the global Covid 19 pandemic as countries, including Leonardo's domestic geographies, wrestle with how best to protect their people, economies and standing in the global society. The creation of a number of candidate vaccines is seen as a 'game changer' in potentially bringing the pandemic to an end.

Future outlook and business environment (continued)

Some political uncertainties remain. The UK's transition out of the EU is now complete following the implementation of the Trade & Cooperation Agreement. The UK will develop a new relationship with the EU, as well as further re-establishing itself globally as an independent trading nation while the EU will continue on its path to strengthen and deepen the integration of its member States. Also, the new US administration has indicated it will deliver a new policy agenda including a focus on climate change, response to the pandemic, as well as a revised foreign policy including a new approach to the Middle East, Russia and China. These political changes could present potential opportunity for Leonardo given its unique domestic market position in Europe, the UK and US.

Procurement spend in the domestic markets is increasing although challenges remain as customers' equipment and capability aspirations outstrip available budgets. However, the increase in spending announced by the UK government circa of £24bn is welcome (£16bn new and £8bn previously committed). The Company remains well placed in respect of its technology and capabilities, with the ability to maintain existing platforms in service for longer, update them for new defence requirements, or new build opportunities. In addition, the Company remains strongly positioned for new developments such as the 'Tempest' initiative and Rotary Unmanned Air Systems (RUAS) opportunities.

Leonardo published an economic impact report by the independent analysis group Oxford Economics in November 2020 highlighting the important role that British-generated intellectual property (IP) will play in the nation's economic recovery. The report goes on to highlight, that largely as a result of the IP generated by the company's highly-skilled engineers in the UK, which can then be traded globally, Leonardo employees are 80% more productive than the UK average.

The report assess the contribution that Leonardo made to the UK economy in 2018, quantifying the impact in terms of GDP and employment. This impact is derived from the company's own operations, as well as the impact of its supply chain spending and the contribution that workers make through their wage spending. As well as these headline economic impacts, the report highlights the wider socioeconomic contributions that Leonardo makes to the UK. These include the company's export performance and its investment in capital equipment, staff training and R and D—all important factors in securing the long-term economic success of the country. The report also discusses the ways in which Leonardo's innovations and productive capacity deliver strategic benefits for the Ministry of Defence, by allowing the UK to operate and maintain capabilities without being dependent on other nation states (known as "freedom of action"), as well as maintain an edge over potential adversaries (known as "operational advantage").

The Company's Helicopter Division continues to develop a Strategic Partnering Arrangement (SPA) with the UK MoD. The Arrangement is designed to ensure that Leonardo and UK MoD work together to enhance national prosperity through export success, and to ensure the right innovation and technologies are available in the UK to meet tomorrow's defence requirements.

The MOD and Leonardo UK Helicopters first agreed to an SPA a decade ago, in June 2006. In 2016 the original arrangement was reviewed and refreshed, resulting in a new Strategic Partnering Arrangement (SPA) that will endure for a further ten years. The new SPA is not a contract and does not have financial value, but represents shared commitments to transparency and joint work that should bring benefits to the Armed Forces, the UK taxpayer and the Company.

Strategy

The Company's main strategy remains one of collaborating further with key end user customers, primes and integrators.

Whilst the home markets within the Leonardo group remain a key priority for the Company, there is also a strong focus to target growth opportunities within both existing and new export markets. The Company has a strategic presence in some key overseas markets including the US, the Middle East, Canada and Norway.

Strategy (continued)

In conjunction with developing relationships, markets and opportunities, the Company continues to make significant investments in research and development in order to consolidate its technical and product offerings in its core technology areas within both Helicopters and Electronics. The Company is also investing in activities which will enable it to offer more integrated products within its key markets, which include increasing market offerings comprising of products and systems from various parts of the Group, for example Italy and the USA.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The principal risks and uncertainties to which the Company may be affected remain levels of procurement spend amongst the key defence agencies to which the Company supplies, supplier performance and project management. The Company seeks to mitigate government procurement risk by developing an increasingly broad customer base for its core products and in respect of its supplier performance and project management risks, by rigorously applying well developed life cycle management processes.

Covid 19 - Leonardo continues to follow its established "Pandemic Policy and Procedures" to ensure effective management and control whilst the Covid 19 pandemic remains. Initial business impact assessments undertaken in the first quarter of 2020 concluded that the Company remained strong. This has subsequently been borne out by the 2020 performance achieving a significantly better result than first assessed. With the pandemic still very much around and still heavily influencing the Company's operations and in part decision making, budgeting assumptions have reflected this uncertainty for 2021 and with the emergence of vaccines it is hoped that an end is now nearer and going forwards benefits around new working practices and use of technology could drive benefits in the future.

Exiting the EU - The Company set up a working group in 2017 to investigate the possible areas affected by Brexit, and identify the potential risks relating to the freedom of circulation of products, technologies, movement of workers and participation in joint intergovernmental programs. Post balance sheet date the transition period has now ended with a new trading relationship in place. Given this new relationship, the initial learning curve and the ongoing discussions around activities such as data protection, the Company will continue to monitor the situation closely throughout 2021 with its 'Business continuity planning' teams.

Other more general areas of risk, which may affect the Company are the impact of any regulatory action, changes in regulations, the actions of competitors, foreign currency risk and key employee retention.

Going concern

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis.

The Board of Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. Principal risks are detailed on page 4. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial statements. Note 25 to the financial statements addresses the management of the funding risks of the Company's employee benefit obligations.

Going concern (continued)

The Company has considerable financial resources together with long-standing relationships with a number of Governments, customers and suppliers across different geographic areas. The Company's forecasts and projections, taking account of potential and realistic changes in trading performance, indicate that the Company is able to operate within the level of facilities in place at 31 December 2020. As a consequence, the directors believe that the Company is well-placed to manage its business risks successfully, despite the uncertainties inherent in the current economic outlook linked to COVID-19. In reaching their conclusions, the directors have performed scenario analysis considering severe yet plausible downside scenarios driven by a slowdown in delivery and a potential reduction in new orders. In assessing these scenarios, the directors have considered:

- The receipt of notifications from key customers stating that the Company must continue to deliver on their contractual obligations, despite the current COVID-19 pandemic;
- How supplies may be impacted and considered various mitigation measures that could be taken on key contracts;
- The impact on employees and how they have ensured that safe working practices have been put in place to allow the workforce to continue their work during the pandemic; and
- Cash availability and counterparty risks on deposits.

A key assumption in these conclusions is access to cash and funds that have been pooled with Leonardo SpA, the ultimate parent company. The Company has significant reserves and the majority of the cash generated in the Company is pooled in a Group wide pooling arrangement. On the reassessment of the pooling documentation, which confirms that the Company has a legal right to access the pooled cash as required, and in consideration of the recent public press releases made by the ultimate parent company leading up to the signing of these financial statements including:

- Consideration of the results at 31 December 2020 of Leonardo SpA, that were released on 9th March 2020 and the Group's Board of Directors statements that they believe the Group's medium-long term prospects remain intact, with an order backlog of €36 billion ensuring a coverage in terms of equivalent production equal to about 2.6 years.
- Consideration of the 2021 market guidance issued by Leonardo SpA , Orders €14bn, EBITA € 1,075 - €1,125m, FOCF €100m
- Consideration of the outlook from credit agencies, which show no change and no comments subsequent to those issued in May 2020, following the onset of the COVID-19 pandemic, suggesting a stable outlook.

Consequently, based on these considerations and discussions with group management the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Financial risk management

The Company has exposure to movements in foreign currencies on transactions arising from sales or purchases in currencies other than sterling. It is the Company's policy to hedge all committed or highly probable currency exposures.

Simplified energy and carbon reporting ("SECR")

This SECR report includes information relating to greenhouse gas emissions (Scope 1 and 2), energy consumption data for fuels, electricity and transport and a CO2e intensity ratio (tCO2e (Tonnes) per £Million of turnover). The declaration identifies some of the energy saving measures implemented by the LMWL UK sites.

The Company generated 27,792 tonnes of CO2e and consumed 131,120,592 kWh of Energy within the 2020 financial year.

Simplified energy and carbon reporting ("SECR") (continued)
2020 saw reductions in energy consumption and greenhouse gas emissions that can be attributed to changes in business operations and new energy saving investments and initiatives coming online.

Greenhouse gas emissions
The table below identifies CO2 emissions for Leonardo MW Ltd for the period (1 January 2020 to 31 December 2020) and compares this to emissions data generated in 2019 over an equivalent period.

Description	Scope	2020 Current Year	2019 Previous Year
		tCO2	tCO2
All Direct Emissions from the activities undertaken within the control of Leonardo MW Ltd. Including fuel combustion such as gas boilers and fleet vehicles.	Scope 1	13,529	15,355
Indirect Emissions from the purchase of electricity, steam or cooling by Leonardo MW Ltd.	Scope 2	14,264	17,279
Total		**27,792**	**32,635**

Energy consumption
The table below identifies energy consumption (kWh) for Leonardo MW Ltd for the period (1 January 2020 to 31 December 2020 and compares this to energy data from 2019 over an equivalent period.

Utility	2020	2019
	(kWh)	(kWh)
Electricity	61,180,366	67,499,403
Gas	59,566,050	65,622,029
Transport	10,374,177	13,558,640
Total	**131,120,592**	**146,680,072**

CO2 Intensity ratio
The table below identifies CO2 emissions per £1,000K of turnover for Leonardo MW Limited for the 2020 financial year compared with the equivalent period in 2019.

Description	2020	2019
tCO2e (Tonnes) per £ Millions of Turnover	13.17	15.54

Simplified energy and carbon reporting ("SECR") (continued)

Energy efficiency measures
The table below identifies the Energy Efficiency Measures that were implemented within the 2020 financial year.

Site	Description	Energy Savings (kWh)
Yeovil	Replacement of centralised steam heating network with local heating systems	3,700,000
Yeovil	Hydraulic ring main cooling upgrade (Replacement of Cooling Tower with Air Blast Coolers)	174,222
Yeovil	Building 162 Lighting Replacement (Replacement of Sodium Lighting with new LED Lighting)	120,684
Yeovil	Building 185 Lighting Replacement (Replacement of end of life first generation LED Lighting with latest generation LED Lighting)	83,069
Basildon (Sigma House)	LED Office Lighting	15,492
Luton (Buildings A & B Offices)	LED Office Lighting	23,238
Lincoln (Unit 3)	LED Office Lighting	3,873
Edinburgh (Chiller Farm Production)	Chiller replacement	254,040
Total		4,374,618

Methodology
The methodology for the reporting of SECR was taken from the Department of Business Energy and Industrial Strategy (BEIS) with specific instruction from 'Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019)'.

CO2 conversion factors and calorific convertors were generated via 'UK Government GHG Conversion Factors for Company Reporting 2020 and 2019'. All utility information (electricity and natural gas) was generated from utility invoices.

The transportation consumption was taken from information generated from utility invoices, internal metering and the accounting systems operating at Leonardo MW Ltd.

Key performance indicators ("KPIs")
The Company is a wholly owned subsidiary of Leonardo SpA. The directors of Leonardo SpA manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the defence electronics and helicopter sectors is discussed in the Group annual report of Leonardo SpA which does not form part of this report.

Section 172 Companies Act 2006

The Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") provides a framework for the Company to not only demonstrate how the Board makes decisions for the long term success of the Company and its stakeholders (see principle 6 Stakeholders, on pages 16 to 18), but also having regard to how the Board operates in compliance with the requirements of Section 172 of the Companies Act 2006 to promote the success of the Company. Our reporting against the Wates Principles has been included on pages 12 to 19.

Throughout 2021, the Board will continue to review and challenge how the Company can improve engagement with its employees and stakeholders to deliver its long-term growth and sustainability.

Results

The Company's profit for the financial year is £151,853k (2019: £223,842k).

Approved by the Board on 21 May 2021 and signed on its behalf by:

N J Bone (Chairman)
Director

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Directors' Report for the Year Ended 31 December 2020

The directors present their report on the affairs of Leonardo UK Ltd (formerly Leonardo MW Ltd) (the 'Company'), together with the financial statements and auditors report for the year ended 31 December 2020.

Change of company name
The Company's name changed from Leonardo MW Ltd to Leonardo UK Ltd on the 31 March 2021.

Research and development
The Company continues to invest in a wide range of development programmes across the breadth of its increased portfolio in order to retain and enhance its market position in those areas. Expenditure on research and development in 2020 was £224,390k (2019: £197,701k).

Proposed dividend
The directors do not recommend the payment of a final dividend in relation to the 2020 financial statements (2019: £nil).

During 2020, the Company paid no dividends (2019: £nil).

Directors of the Company
The directors, who held office during the year, and up to the date of signing of the financial statements except as noted, were as follows:

N J Bone (Chairman)

G P Cutillo

A Parrella

C Porter

N C Whitney (appointed 22 April 2020)

G F Munday (resigned 30 April 2020)

S Iarlori (resigned 24 February 2021)

The following directors were appointed after the year end:

P Di Bartolomeo (appointed 24 February 2021)

W Allen (appointed 24 February 2021)

Events after the reporting date
There were no events after the reporting date.

Future outlook and business environment
Details of future outlook and business environment can be found in the Strategic Report on pages 2 to 8.

Employees
The Company has a programme in place to assist employees to achieve their full potential and to develop the skills necessary to meet the current and future expectations of our customers. The programme focuses on both personal and technological development.

All employment policies include a commitment to equal opportunities regardless of sex, race, colour, nationality, ethnic origin, religion, age or disability, subject to considerations of national security. The Company's policy is to provide, wherever possible, employment opportunities for disabled people and to ensure that disabled people joining the Company and employees who become disabled whilst in our employment benefit from training and career development opportunities.

Employees (continued)
The Company has put into place a number of ways of providing employees and, where appropriate, their representatives with information on the performance of the Company and other matters which affect them. The effectiveness of the communication process is assessed regularly with the aim of ensuring continual improvement so as to provide employees with the information they want by the most effective means.

Political contributions
No political donations were made in the year (2019: £nil).

Statement of disclosure of information to auditor
For each director in office at the date the Directors' report is approved, the following is confirmed:

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

(b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' indemnities
The Company maintains liability insurance for its directors and officers. Following shareholder approval in July 2005, the Company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Independent auditor
KPMG LLP will resign as auditor of the company with effect from the date of approval of the 2020 financial statements. Ernst & Young will be appointed as auditor of the company for the year ending 31 December 2021.

Approved by the Board on 21 May 2021 and signed on its behalf by:

N Bone

.....
N J Bone (Chairman)
Director

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Statement of Directors' Responsibilities in respect of the annual report and the financial statements

The directors acknowledge their are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they haveelected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Corporate Governance Report

The Wates Corporate Governance Principles for Large Private Companies, (published by the Financial Reporting Council in December 2018) ("the Wates Principles" or the "Principles"), were adopted by the Company in 2019 to enhance the governance systems, promote best practice and ensure that all appropriate corporate reporting disclosures are made.

The Principles provide a framework for the Company to not only demonstrate how the Board complied with its obligations as a large private company under The Companies Act 2006 and The Companies (Miscellaneous Reporting) Regulations 2018; but specifically, how the Board make decisions for the long term success of the Company, having regard to its stakeholders. The Company's approach to its stakeholders is outlined in more detail within this Corporate Governance report, as required by 172, Companies Act 2006 (see Principle 6 - Stakeholders). The Board are cognate of their responsibilities under s172 in discharging their duties and making decisions on behalf of the Company.

In 2020, the Company sought to further embed the Wates Principles by reviewing, challenging and developing the effectiveness of the new governance structures it put in place during 2019. During 2021, the Board will continue to focus on developing the Company's systems of governance, its mechanisms for risk management, assurance and control, as well as seeking to better engage with its stakeholders. Below, we, the Board of Directors, set out how the Wates Principles have been applied for the Company's financial year ending 31 December 2020.

Principle 1 – purpose and leadership

The Company is the principle UK operating legal entity of the Leonardo Group, a global aerospace, defence and technology business, of which the ultimate parent is Leonardo S.p.a., an Italian registered company listed on the Milan Stock Exchange.

Our purpose is to "Contribute to the world's progress and safety by delivering meaningful and innovative technological solutions".

Our mission statement solidifies this purpose, which is "To be the international Aerospace, Defence and Security company that best enables its customers' success, by thinking creatively and working with passion".

The Company is therefore primarily engaged in the electronics defence systems and helicopters business domains, as well as providing high integrity surveillance networks to provide information for security and mission essential services. It has a commitment to create value for all its stakeholders through a path of long-term sustainable growth, investing in the continuous improvement of its key competencies, products, technologies and workforce.

In 2020, the Company was faced with the challenge of the global pandemic of the COVID-19 virus. In response to the coronavirus outbreak, the Company took early action to mitigate the impact its employees and business. The Company procured thousands of remote working devices and invested in network infrastructure to quickly enable around 70% of its 7,000 UK-based employees to work from home. This operated as an extension of the Company's existing flexible working policies and the integrated working environment already in place between its multiple UK sites.

A number of the Company's activities were defined by the UK Ministry of Defence as critical, and were continued during 2020 in order to maintain the readiness of the UK's and its allies' Armed Forces and the defence of the nation. Some of the workforce involved in these critical activities, in roles such as manufacturing, were unable to perform their roles remotely and were designated by the Government as key workers. The Company took every measure to enable these key workers to operate safely in the workplace and in transit. For example, varying working patterns to avoid rush hours, provision of PPE, maintenance of a two-metre distance to comply with government safety guidelines.

These actions enabled the Company to continue to work hard on delivering to our customers whilst safeguarding employees.

Corporate Governance Report (continued)

Principle 1 - purpose and leadership (continued)
In pursuit of its mission, throughout 2020 the Company continued to build on the Leonardo Group's guiding framework of "One Company, One Voice". Our 'Charter of Values' defines Leonardo's way of doing business, setting out the principles that guide the Company's strategy and daily activities of all those who work and collaborate with the Company and the Leonardo Group as a whole. These are:

- Ethics & respect
- Expertise & merit
- Innovation & excellence
- Internationality & multiculturalism
- Rights & sustainability

A copy of our 'Charter of Values' is available on our website (https://www.leonardocompany.com/documents/20142/115137/Carta_dei_Valori+ENG.pdf?t=1551772599336).

The Company's business is substantially executed through its two primary divisions, Electronics and Helicopters, which are both led by a Company Board member. Other Board members are drawn from the Company's and its sole shareholder's corporate functions of finance, legal and compliance, and human resources, each of whom are required to show leadership and provide strategy to the Company.

Principle 2 – Board composition
Details of The Board are shown in the Directors' Report, this can be found on page 9.

During 2020, one director retired from the Board and, aligned with a change in divisional leadership, he was replaced on the Board by his successor. The Board's size and its composition is currently considered appropriate for the scale and complexity of the business and has the right balance of skills, knowledge and experience to govern the Company effectively. This is reviewed annually, as per the Board's terms of reference.

All Board directors are employed by either the Company or its parent, Leonardo SpA. The Company benefits from the presence of independent, non-executive directors on its parent's board of directors.

The directors have equal voting rights when making decisions. The Chairman has the casting vote where the number of votes for and against a proposal at a meeting is equal. All directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Company's expense.

The duties of the Board are executed partially through formally appointed committees (as noted below on this page).

The Board members update their skills, knowledge and familiarity with the Company through the committee structure, receiving periodic reports and assurances on matters mandated to each of the committees. Each executive director has specialist knowledge within their division or function, kept updated alongside their individual continuous professional development. Additionally, each executive director keeps the Board informed of their respective divisional activities.

Principle 3 – Directors' responsibilities

Accountability

Good governance supports open and fair business, ensures that the Company has the right safeguards in place and makes certain that every decision it takes is underpinned by being fully informed. Whilst Board oversight is always maintained, where appropriate, some key areas are delegated to committees and to individuals in roles with the most appropriate knowledge and industry experience, for detailed oversight and management, reporting back to the Board on their work. Each Board member has a clear understanding of their accountability and responsibilities. The Board has a programme of five scheduled meetings every year with standing items, plus additional meetings as required to attend to all matters reserved to the Board pursuant to group governance systems.

Committees

In 2019 the Board formally constituted four separate Committees (listed below) to assist with executing their responsibilities for the operation of good governance and efficacy in the Company. Each Committee's Terms of Reference was approved to undertake the following delegated matters:

Management committee:

To provide oversight of the business's overall performance and delivery. During 2020, the Management Committee formed an Inclusion and Diversity Sub-Committee to promote the recruitment and retention of the workforce and development of an inclusive culture and approach to engagement, to support diversity, inclusion and equality, as well as monitoring the Company's responsibilities in compliance with equality legislation and regulations.

Assurance and internal controls committee:

To fulfil the Board's risk management responsibilities, primarily through the review and evaluation of the adequacy of the Company's internal control structure for compliance with applicable legislation, regulations and group governance, together with the internal audit programme.

Ethics and social responsibility committee:

To reaffirm and define its commitment to operating ethically in all the territories within which it does business and operates. During 2020, the committee formed a Sponsorship and Donations Sub-Committee to support them to fulfil its responsibilities to ensure all sponsorships and donations by the Company are compatible with its values and ethical policies.

Data and information management committee:

To maintain and create a suitable operational framework for the lawful and commercially appropriate creation, management, protection, retention, archiving and destruction of documents, data and information (including oversight of data privacy matters delegated to its sub-committee the Data Protection Management Team).

The Committees are each chaired by a senior managers and are attended by at least one statutory officer of the Company to ensure commitment, engagement and sponsorship at the top level of management. The Committee structure and membership are designed to encourage constructive problem-solving that benefits the long-term sustainability of the Company.

Each Committee can use its delegated authority as appropriate to fulfil its terms of reference, which may include the creation of sub-committees, steering groups or working groups reporting to it. Each Committee is accountable to the Board for the work done by these secondary tier governance bodies.

Principle 3 – Directors' responsibilities (continued)

Integrity of information

The Board receive reports from the Company on a range of matters at each meeting, with a number of standing items alongside commercial matters as they arise.

Each Committee Chairperson formally reports to the Board on the proceedings of its Committee meetings on a half-yearly basis. Each Committee Chairperson is a member of the Management Committee (which includes divisional and functional executive board members representation). The Management Committee meetings are held each month, providing regular and timely information to members of the Board on all key aspects of the business including risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability.

Key financial information is maintained within, and collated from, the Company's accounting systems. The Company's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited on an annual basis. Areas of financial risk are also independently audited on an ad hoc basis. Financial controls are reviewed by the Company's internal audit function and the adequacy of controls is reported to the Assurance & Internal Controls Committee annually through an operational assurance statement.

Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, is reviewed on a cyclical basis by the Company's internal audit function with quarterly updates and reporting provided to the appropriate Committees.

Principle 4 – opportunity and risk

The Board seeks out opportunity whilst mitigating risk.

Opportunity

Long term strategic opportunities are reviewed by the Board as a part of the Integrated Business Plans. The Board seeks out opportunities drawn from its business divisions and the Committees to which it delegates. The Board reviews and takes responsibility for approving all major bids and strategic opportunities, executing these through its business divisions as appropriate.

Short term opportunities to improve performance, resilience and liquidity are collated through the business's divisional review process, overseen by the Management Committee, with representations from each division.

Details of the Company's opportunities are outlined in the Strategic Report (on pages 2 to 8).

Risk

Risk is managed using the Company's standard risk management process, which requires all Divisions to identify and manage their risks at a divisional and project level, described in a formal syntax of cause(s), risk events, and consequence(s). These risks are then subjected to statistical analysis, both pre- and post-mitigation to assess the potential impact. A central risk tool supports the process and generates a comprehensive analysis across the whole Company.

The Assurance and Internal Controls Committee ("AICC") assist the Board in ensuring that inherent and emerging risks are identified, managed appropriately and in a timely manner. In 2020, the Committee initiated an operational assurance process designed to identify company-wide legal and regulatory compliance risks. This facilitates risk identification, classification and mitigation, as well as reporting to and oversight of the Board. During 2021, the oversight and reporting of risk will be refined further, with particular focus on corporate risk and its relationship with the internal audit programme.

Details of the Company's key operational risks and mitigations are outlined in the Strategic Report (on pages 2 to 8).

Principle 4 – opportunity and risk (continued)

Responsibility

The Company has central and divisional Operating Frameworks, which identify the governance, organisation and operational structure of the Company. These frameworks function in harmony with the Company's operating policies, processes and procedures which are fundamental to the efficacy of the Company's internal control framework, which includes its ISO certifications.

The Board has approved a delegation protocol and governance framework which prescribe that any contract above a certain value, risk level or which may be considered strategic (determined by group governance), or any other transactional matter specifically reserved to the Board, must be approved by them; pursuant to group governance. This ensures that an appropriate level of diligence has been performed in understanding the obligations, risks and terms of contract or relevant matter. Thus protecting the integrity and long-term sustainability of the Company, meeting strategic objectives and creating value for its parent company, customers and suppliers.

Principle 5 – remuneration

The Remuneration policy set by the Board aims to ensure that the operating business in the UK retains and attracts high calibre talent to deliver on our commitments to our customers.

The total remuneration of Leonardo UK employees includes fixed and variable pay, classic insured and lifestyle benefits provision that recognises short and long term career choices, together with the contribution the employee gives the business. External markets are regularly reviewed to benchmark our offer and ensure that the Company's employment proposition remains relevant and competitive within the industrial sector. Flexibility and choice on how employees engage with pay and benefits is a major part of the remuneration philosophy.

The Company administers all remuneration policies and programmes consistently, fairly and equitably. Communications with employees are regular and informative, providing reasons as to why particular treatments on pay and benefits are adopted.

The Company applies equal pay principles in line with the Equality Act 2010.

Principle 6 – stakeholders

The Board recognises the importance of having a close working relationship and engaging with all of its stakeholders, including its group of companies, customers, employees, suppliers and the local communities in which it works across the UK and abroad. Effective communication and good governance is key to ensure the Company's strategic direction remains aligned with the Leonardo Group's long-term goals for sustainability, growth, diversification and investment in the aerospace, defence and technology industry. The Board is constituted of a blend of Leonardo UK and Leonardo SpA employees, ensuring that the parent company is represented and that communication between the Board and its sole shareholder is maintained. During 2020 three of the six Board members were Leonardo SpA employees.

External stakeholders and impacts

The Board is committed to the Company doing business in a sustainable manner, with a continued commitment to economic and social development and the protection of human health and the environment. The Charter of Values underpins this ethos for establishing and maintaining trusting relationships with all its stakeholders.

Principle 6 – stakeholders (continued)

External stakeholders and impacts (continued)

The Company, alongside the other Leonardo group companies , is focused on contributing to the achievement of four of the seventeen Sustainable Development Goals (SDGs) promoted by the UN2030 Agenda. It also supports the "Ten Principles" of the UN Global Compact, the largest global initiative for sustainable business. It promotes the adoption of behaviours that contribute to the success of the Company and to the well-being of the community through the creation of work opportunities in the UK and other countries where it operates, in its associated supply chains, technological collaborations and the continuous improvement of products and services designed for the protection of nations, their citizens, and the environment.

Innovation and technical excellence is critical to the Company's sustainability strategy. It allows the Company to respond to customer needs effectively. It also allows investment in SMEs, working with research centres, cooperating with educational institutions, providing positive engagement with external stakeholders, including building trusted relationships with governments and other public bodies.

The Company, through its Divisions, collects gas emissions data that is submitted annually to its parent company via the Enablon SHE questionnaire which automatically calculates the Company's Scope 1, 2 and 3 emissions for the six main greenhouse gases covered by the Kyoto Protocol, namely: carbon dioxide, methane, nitrox oxide, perfluorocarbons, hydrofluorocarbons and sulphur hexafluoride.

The Company has been successful in 2020, in its drive to reduce greenhouse emissions through energy reduction and business travel reduction. Although aided by global travel restrictions, the benefits of the Company's initiatives can be seen in its Simplified Energy and Carbon Reporting, outlined in the Strategic Report (on pages 2 to 8). The Company continues to develop and implement its "Sustainability Road Map" that lays down the plans to achieve Carbon Neutral status by 2030. Following the success of remote working throughout 2020, the Company intends to adopt a higher necessity threshold for business travel once restrictions are eased. In addition, the introduction of custom working will embed the reduced energy usage and greenhouse emissions realised in 2020.

We encourage all of our suppliers to share and comply with ethical, social and environmental standards, through acknowledging and accepting the Company's "Code of Ethics" and "Supplier Code of Conduct" as well as the guidance provided in the organisational and control models. This is established through the Company's supplier approval process and monitored throughout the period of the supply relationship. A Procurement web portal facilitates transparency and traceability of information.

The Company is mindful of its responsibility to pay its suppliers in a fair and timely manner; continues to review its processes and, through the sharing of best practice, aims to continually improve its supplier engagement and payment performance. In line with, The Reporting on Payment Practices and Performance legislation the Company bi-annually publishes its results on GOV.UK webpages - https://check-payment-practices.service.gov.uk/report/39621.

Employees

2020 was a year of huge change and uncertainty for the Company's employees and their wellbeing has been at the centre of the Company's focus during the year. The Company has been innovative in responding to these challenges and has taken significant steps to safeguard its employees' physical and mental wellbeing.

The primary change for employees was the shift to remote working, with the majority of employees working from home full time. Following broad engagement with employees, responses to surveys and other feedback mechanisms, the Company came to understand not only the benefit of working from home to employees, but that the Company's business could be effectively conducted with a substantially remote workforce.

Principle 6 – stakeholders (continued)

Employees (continued)
To ensure the future of the Company as a competitive, forward-looking business, it was decided to move towards a model where its employees are empowered to decide where and how they work through the implementation of an initiative called "Custom Working".

Custom working will transform the Company into an organisation where teams are empowered, to:

1. Focus on the needs of customers (outcomes) rather than hours spent in the office (presence);
2. Choose the working environments which best support collaboration and innovation;
3. Find a work-life balance, which works for each individual's diverse needs; and
4. Improve the long-term sustainability of Leonardo.

Custom Working further promotes the Company's drive to do business in a sustainable manner. This supplements the Company's Gold level accreditation for both Investors in People and Investors in Young People, demonstrating the Company's commitment to supporting the training and development of its employees through opportunities offered by technology, succession planning and flexible working, and tackling challenges such as ineffectual decision-making, absenteeism and employee disengagement.

Employees have access to different communication means that best encourages a culture of listening and dialogue. This is done through face-to-face focus groups, online surveys, on site activities, working with people managers on a 1-2-1 private setting or in working groups supported by the Human Resources, Occupational Health and/or Diversity & Inclusion teams.

The Company upholds and promotes human rights in every context in which it operates, by creating equal opportunities for its people and fair treatment for all - regardless of race, nationality, political creed, religion, gender, age, diverse ability, sexual orientation, personal or social condition - and always respecting the dignity of each individual and each employee; amongst other things the Company promotes the inclusion of minorities, ensures freedom of assembly and abides by the absolute prohibition of illegal labour as set out in our Modern Slavery Statement. If any employee wishes to raise concerns or highlight any potential breaches to the Code of Ethics, they can contact an independent whistleblowing services provider with anonymity and a formal investigation follows, reporting to the Ethics & Social Responsibility Committee.

The Board is committed to designing policies and developing a working environment that promotes the benefits and wellbeing of all its employees. For detailed information on our Company benefits, visit our website. (www.uk.leonardocompany.com/en/people-careers/life-at-leonardo/company-benefits).

As part of our People & Inclusion Strategy, we have maximised engagement with our UK workforce across a range of channels including intranet and social media content, poster/banner campaigns, face to face with stands at sites as well as providing briefings throughout the year for divisional meetings and activities. In 2020, the Company saw the creation of the Inclusion and Diversity Sub-Committee to support the Management Committee in fulfilling its responsibilities in compliance with equality legislation and regulations primarily through the recruitment and retention of the workforce and development of an inclusive culture and approach to engagement to support diversity, inclusion and equality.

Additionally, steps were taken towards: an increase in female new starters; an increase in our female workforce promoted into more senior roles within the Company; attracting key female talent into the engineering sector through STEM activities in the local communities; introducing mandatory training in Diversity and Inclusion for all employees; actively improving our work-life balance solutions through Custom Working to encourage; and promoting changes in behaviour and culture within the Company.

The workforce across its UK sites, undertake a variety of fundraising initiatives and have raised tens of thousands of pounds for several charities in recent years and continued to do so despite the challenges presented by 2020.

Corporate Governance Report – committee information
Management Committee

The Management Committee is responsible for the day-to-day management of the Company's business affairs under the chairmanship of the Managing Director, Norman Bone.

The Committee has clearly defined terms of reference, which are available from the Company Secretary. These outline the Committee's objectives and responsibilities relating to reviewing the Company's operational and financial performance; providing executive leadership, management and direction; assessing and managing risk in conjunction with the Assurance & Internal Controls Committee; driving compliance, best practice and learning across the divisions; and defining and nurturing the Company's culture, as a just, ethical diverse and inclusive employer.

In 2020, the Committee comprised of the Company's Managing Director as Chair; two other Statutory Directors; and eight other members in senior management from across the business. The Board is satisfied that the Committee's members during 2020 followed the principles of good governance in relation to their skills, knowledge and experience.

Assurance & internal controls committee
The Company operates an Assurance & Internal Controls Committee to assist the Board fulfil its risk management responsibilities primarily through the review and evaluation of the adequacy of the Company's compliance with applicable legislation, regulations and group governance.

In 2020, the Committee was chaired with a membership of eight functional leaders from across the business, including a Statutory Director.

Data & Information Management Committee
The Data & Information Management Committee's primary objective is to maintain and create a suitable operational framework for the lawful and commercially appropriate creation, management, protection, retention, archiving and destruction of documents, data and information, including compliance with all relevant laws and regulations; having oversight of its Sub-Committee, the Data Protection Management Team ('DPMT'), which provides support to the Committee on Data Protection: being the prevention of an adverse impact on the rights of "Data Subjects" (as defined in the Data Protection Act 2018 and the General Data Protection Regulation (EU) 2016/679) with whom the Company interacts with or has an impact on; and to minimise the risk to the Company of regulatory intervention or sanction by implementing robust policies and procedures for the management of personal data.

In 2020, the committee was chaired with a membership of seven functional leaders from across the business, including the Company's Data Protection Officer.

Ethics & Social Responsibility Committee
The Ethics & Social Responsibility Committee's purpose is to assist the Board in re-affirming and defining its commitment to operating ethically in all the territories within which it operates.

It has overall responsibility for showing leadership to the Company in: promoting the values of the Company, ethical behaviours and standards as well as challenging negative behaviours or activities; the implementation of and conformance with an ethical compliance programme, including an anti-bribery and corruption management system; promoting a culture which fosters effective stakeholder relationship aligned to the Company's purposes; considering the impact of the Company's operation on its primary stakeholder groups, such as staff and; scoping the Company's approach to stakeholder engagement annually, as well as annually reviewing its activity and reporting to the Board.

In 2020, the Committee was chaired with a membership of seven functional leaders from across the business, including a Statutory Director.

Independent Auditor's Report to the members of Leonardo UK Ltd (formerly Leonardo MW Ltd)

Opinion

We have audited the financial statements of Leonardo UK Ltd (formerly Leonardo MW Ltd) (the 'Company') for the year ended 31 December 2020, which comprise the Profit and Loss Account and other Comprehensive income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006. .

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The impact of COVID-19 on the Company in the timing of securing new contracts and delivering existing contracts, and any potential impact on associated working capital requirements; and
- The ability of the Company to access its cash resources, which have been pooled with the ultimate parent company, Leonardo SpA, as required.

We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively. Our procedures also included:

- Critically assessing assumptions in the Directors' base case and downside scenarios relevant to liquidity, in particular in relation to profitability and working capital assumptions by comparing to historical trends, the potential timing of contract renewals and our knowledge of the entity and the sector in which it operates;
- We compared past budgets to actual results to assess the Director's track record of budgeting accurately;
- We inspected the cash pooling agreement with the ultimate parent company, Leonardo SpA, to confirm the terms of the agreement and the ability of the Company to access its cash resources, as required;

Independent Auditor's Report to the members of Leonardo UK Ltd (formerly Leonardo MW Ltd) (continued)

Going concern (continued)

- Since the Company is reliant on being able to access its cash resources under the cash pooling agreement, we assessed the risk that these cash resources would not be available by assessing the ability of the parent company, Leonardo SpA, to provide access to these cash resources as required;

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified contractual risks and the dependency on access to cash that has been pooled with the ultimate parent company, Leonardo SpA.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and in-house legal counsel and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management/directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that revenue recognised at a point in time is recorded in the wrong period;
- the risk that revenue recognised over time is recorded inappropriately based on the provision for risks and estimated final costs to complete on long-term contracts;
- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk of bias in accounting estimates and judgements such as the provision for risks and estimated final costs to complete on long-term contracts, provision for impairment and pension assumptions.

We also identified a fraud risk related to the industries in which the group operates. The award of significant contracts and the pricing and profitability thereon is often determined at a governmental level. Bidding for contracts at this level often necessitates the use of local advisors which increases the risk of fraud.

Independent Auditor's Report to the members of Leonardo UK Ltd (formerly Leonardo MW Ltd) (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to fraud (continued)
In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Obtaining a sample of invoices and related delivery documentation around the year end to assess whether revenue has been recorded in the appropriate period with respect to revenue recognized at a point in time.
- Examining the contracts signed with customers, analysing the forecasting process as part of a retrospective review compared to previous periods, assessing the assumptions underlying the estimated final contract costs, agreeing costs incurred during the year and their allocation to supporting documentation and assessing the accuracy of the calculation of percentage of completion and the related recognition of contract revenue and expected losses, if any, with respect to revenue recognized over time.
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias.
- Obtaining a sample of contract related payments and ensuring that these are have been authorised appropriately and that they are in line with related contracts and invoices.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: anti-bribery and corruption, recognizing the Governmental nature of many of the Company's customers. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

Independent Auditor's Report to the members of Leonardo UK Ltd (formerly Leonardo MW Ltd) (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Context of the ability of the audit to detect fraud or breaches of law or regulation (continued)
In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information
The directors are responsible for the other information, which comprises the strategic report, the directors' report and the corporate governance statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the members of Leonardo UK Ltd (formerly Leonardo MW Ltd) (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members 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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

.....

Andrew Campbell-Orde (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR

Date:..21 May 2021.....

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Profit and Loss Account and other Comprehensive Income for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Turnover	4	2,010,319	2,139,436
Changes in inventories of finished goods and work in progress		13,398	11,167
Raw materials and consumables		(791,637)	(862,439)
Administrative expenses		(1,051,249)	(1,006,930)
Operating profit	5	180,831	281,234
(Loss)/profit on the sale of equity investment	16	(251)	18
Interest receivable and similar income	9	8,210	15,777
Interest payable and similar expenses	10	(17,661)	(29,350)
		(9,702)	(13,555)
Profit before tax		171,129	267,679
Tax on profit	11	(19,276)	(43,837)
Profit for the year		151,853	223,842
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit liability and asset		84,823	(47,378)
Deferred tax (charge)/credit on items that will not be reclassified to profit or loss		(18,268)	8,054
		66,555	(39,324)
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedges		7,640	6,301
Net change in fair value of cash flow hedges reclassified to profit or loss		(6,134)	6,014
Deferred tax charge on (gain)/loss on cash flow hedge		(536)	(2,098)
		970	10,217
Other comprehensive income/(expenditure) for the year, net of income tax		67,525	(29,107)
Total comprehensive income for the year		219,378	194,735

The above results were derived from continuing operations.

Leonardo UK Ltd (formerly Leonardo MW Ltd)

(Registration number: 02426132)
Balance Sheet as at 31 December 2020

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Fixed assets			
Intangible assets	12	1,309,491	1,304,766
Tangible fixed assets	13	162,179	161,006
Right of use assets	14	121,789	124,870
Investment property	15	3,121	3,186
Investments	16	304,880	305,231
Retirement benefit asset	25	266,800	244,900
Deferred tax assets	23	14,133	23,209
		2,182,393	2,167,168
Current assets			
Stock	17	461,891	441,308
Contract assets	18	247,352	204,458
Debtors	19	1,042,822	1,130,318
Cash at bank and in hand		37,755	22,293
		1,789,820	1,798,377
Creditors: Amounts falling due within one year	22	(1,570,159)	(1,697,923)
Net current assets		219,661	100,454
Total assets less current liabilities		2,402,054	2,267,622
Non current liabilities			
Deferred tax liabilities	23	(80,981)	(69,678)
Retirement benefit liability	25	(1,639)	(48,039)
Provisions	24	(95,729)	(84,684)
Other creditors	22	(5,777)	(7,964)
Financial liabilities	21	(121,615)	(181,021)
		(305,741)	(391,386)
Net assets		2,096,313	1,876,236
Capital and reserves			
Called-up share capital	26	314,500	314,500
Share premium reserve	26	845,500	845,500
Other reserves	26	11,342	10,372
Profit and loss account		924,971	705,864
Shareholders' funds		2,096,313	1,876,236

Leonardo UK Ltd (formerly Leonardo MW Ltd)

(Registration number: 02426132)
Balance Sheet as at 31 December 2020 (continued)

These financial statements of Leonardo UK Ltd (formerly Leonardo MW Ltd), (registration number: 02426132) were approved by the Board of Directors and authorised for issue on 21 May 2021 and signed on its behalf by:

.....
N J Bone (Chairman)
Director

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Statement of Changes in Equity for the Year Ended 31 December 2020

	Called-up share capital £ 000	Share premium reserve £ 000	Cash flow hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Balance at 1 January 2019	314,500	845,500	155	520,629	1,680,784
Profit for the year	-	-	-	223,842	223,842
Other comprehensive income/(loss)	-	-	10,217	(39,324)	(29,107)
Total comprehensive income	-	-	10,217	184,518	194,735
Share based payment transactions	-	-	-	717	717
Balance at 31 December 2019	314,500	845,500	10,372	705,864	1,876,236

	Called-up share capital £ 000	Share premium reserve £ 000	Cash flow hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Balance at 1 January 2020	314,500	845,500	10,372	705,864	1,876,236
Profit for the year	-	-	-	151,853	151,853
Other comprehensive income	-	-	970	66,555	67,525
Total comprehensive income	-	-	970	218,408	219,378
Share based payment transactions	-	-	-	699	699
Balance at 31 December 2020	314,500	845,500	11,342	924,971	2,096,313

The notes on pages 31 to 76 form an integral part of these financial statements.

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Statement of Cash Flows for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Cash flows from operating activities			
Profit for the year		151,853	223,842
Adjustments to cash flows from non-cash items			
Depreciation, amortisation and impairment	5	52,892	51,922
Foreign exchange gain		(2,870)	(2,534)
Loss/(profit) from sales of investments	5	251	(18)
Pension costs, defined benefit scheme	25	62,400	27,800
Finance income	9	(8,210)	(15,777)
Finance costs	10	17,661	29,350
Loss on sale of tangible fixed assets		11	234
Provisions	24	(24,893)	(21,313)
Share based payment transactions	27	699	717
Income tax expense	11	19,276	43,837
		269,070	338,060
Working capital adjustments			
Decrease in trade and other debtors	19	19,250	126,793
Increase in stock	17	(63,477)	(130,355)
(Decrease)/increase in trade and other creditors	22	(136,952)	4,732
Increase in provisions	24	50,680	53,046
Interest paid		(2,695)	(6,887)
Defined benefit pension scheme contributions	25	(41,377)	(42,800)
Cash generated from operations		94,499	342,589
Income taxes paid	11	(50,588)	(39,335)
Net cash flow from operating activities		43,911	303,254
Cash flows from investing activities			
Proceeds from sale of tangible assets	13	146	-
Proceeds from sale of investments	16	-	700
Interest received	9	3,210	7,677
Acquisitions of tangible assets	13	(29,012)	(30,226)
Capitalised development expenditure	12	(13,571)	(6,104)
Acquisition of other intangible assets	12	(1,076)	(1,559)
Net cash flows from investing activities		(40,303)	(29,512)

The notes on pages 31 to 76 form an integral part of these financial statements.

Leonardo UK Ltd (formerly Leonardo MW Ltd)

Statement of Cash Flows for the Year Ended 31 December 2020 (continued)

	2020 £ 000	2019 £ 000
Cash flows from financing activities		
Repayment of loans	(60,000)	(40,000)
Net change in financial debts and receivables	88,883	(226,902)
Lease repayments	(16,552)	(13,982)
Net cash flows from financing activities	12,331	(280,884)
Net increase/(decrease) in cash and cash equivalents	15,939	(7,142)
Cash and cash equivalents at 1 January	22,293	32,829
Effect of exchange rate fluctuations on cash held	(477)	(3,394)
Cash and cash equivalents at 31 December	37,755	22,293

1 General information

Leonardo UK Ltd (formerly Leonardo MW Ltd) (the "Company") is a private Company limited by share capital incorporated, domiciled and registered in England in the UK. The registered number is 2426132 and the registered address is 1 Eagle Place, St James's, London, England, SW1Y 6AF.

These financial statements were authorised for issue by the Board on 21 May 2021.

2 Significant accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Certain disclosures regarding revenue;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Leonardo SpA include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and

2 Significant accounting policies (continued)

Basis of preparation (continued)

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Impact on initial application of other amendments to International Financial Reporting Standards ('IFRS')

In September 2019, the IASB issued Interest Rate Benchmark Reform, (Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7) Financial Instruments: Disclosures. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are not relevant to the Company given that it doesn't apply hedge accounting to its benchmark interest rate exposures.

Going concern

Accounting standards require that Directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare Financial Statements on a going concern basis.

The Board of Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. Principal risks are detailed on page 4. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial statements. Note 25 to the financial statements addresses the management of the funding risks of the Company's employee benefit obligations.

The Company has considerable financial resources together with long-standing relationships with a number of Governments, customers and suppliers across different geographic areas. The Company's forecasts and projections, taking account of potential and realistic changes in trading performance, indicate that the Company is able to operate within the level of facilities in place at 31 December 2020. As a consequence, the directors believe that the Company is well-placed to manage its business risks successfully, despite the uncertainties inherent in the current economic outlook linked to COVID-19. In reaching their conclusions, the Directors have performed scenario analysis considering severe yet plausible downside scenarios driven by a slowdown in delivery and a potential reduction in new orders. In assessing these scenarios, the Directors have considered:

- The receipt of notifications from key customers stating that the Company must to continue to deliver on their contractual obligations, despite the current COVID-19 pandemic;

2 Significant accounting policies (continued)

Going concern (continued)

- How supplies may be impacted and considered various mitigation measures that could be taken on key contracts;
- The impact on employees and how they have ensured that safe working practices have been put in place to allow the workforce to continue their work during the pandemic; and
- Cash availability and counterparty risks on deposits.

A key assumption in these conclusions is access to cash and funds that have been pooled with Leonardo SpA, the ultimate parent company. The Company has significant reserves and the majority of the cash generated in the Company is pooled in a Group wide pooling arrangement. On the reassessment of the pooling documentation, which confirms that the Company has a legal right to access the pooled cash as required, and in consideration of the recent public press releases made by the ultimate parent company leading up to the signing of these financial statements including:

- Consideration of the results at 31 December 2020 of Leonardo SpA, that were released on 9th March 2020 and the Group's Board of Directors statements that they believe the Group's medium-long term prospects remain intact, with an order backlog of €36 billion ensuring a coverage in terms of equivalent production equal to about 2.6 years.
- Consideration of the 2021 market guidance issued by Leonardo SpA , Orders €14bn, EBITA € 1,075 - €1,125m, FOCF €100m
- Consideration of the outlook from credit agencies, which show no change and no comments subsequent to those issued in May 2020, following the onset of the COVID-19 pandemic, suggesting a stable outlook.

Consequently, based on these considerations and discussions with group management the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Currency translation

Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss within interest receivable and similar income and interest payable and similar expenses.

Intangible assets

Intangible assets are non-monetary items without physical form, but which can be clearly identified and generate economic benefits for the Company. They are carried at purchase and/or production cost, including directly related expenses allocated to them when preparing the asset for operations and net of accumulated amortisation (with the exception of intangibles with an indefinite useful life) and any impairments of value. Amortisation begins when the asset is available for use and is recognised systematically over its remaining useful life. In the period in which the intangible asset is recognised for the first time, the amortisation rate applied takes into account the period of actual use of the asset.

2 Significant accounting policies (continued)

Intangible assets (continued)

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Separately recognised goodwill is tested internally on an annual basis for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill to the entity sold.

Computer Software
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives (two to five years), commencing when they are brought into use.

Development costs
This includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. Development costs are considered to have a finite useful life and are amortised accordingly over the period in which future economic benefits are generated, normally over the expected number of production units to be delivered. The expected deliveries are periodically reviewed and adjusted.

Any public capital grants related to development costs are recognised as a direct deduction from the assets to which they refer.

Research costs, on the other hand, are expensed in the period in which they are incurred.

Property, plant and equipment
Property, plant and equipment is measured at purchase or production cost net of accumulated depreciation and any impairment losses. The cost includes all direct costs incurred to prepare the assets for use, as well as any charges for dismantlement and disposal that will be incurred to return the site to its original condition.

Charges incurred for routine and/or cyclical maintenance and repairs are expensed in full in the period in which they are incurred. Costs related to the expansion, modernisation or improvement of owned or leased structural assets are only capitalised to the extent that such costs meet the requirements for being classified separately as an asset or part of an asset. Any public capital grants related to property, plant and equipment are recognised as a direct deduction from the asset to which they refer.

Depreciation
The value of an asset is adjusted by depreciation calculated on a straight line basis over the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the period of actual use of the asset. The estimated useful lives adopted by the Company for the various asset classes are as follows:

Asset class	Depreciation rate
Freehold land and buildings	to 33 years
Leasehold land and buildings	to 50 years, or the lease term if shorter
Plant and equipment	3 to 15 years

2 Significant accounting policies (continued)

Depreciation (continued)
No depreciation is provided on freehold land or assets in the course of construction.

Impairment reviews are undertaken internally if there are indications that the carrying values may not be recoverable.

The gains and losses from the sale of assets or group of assets are calculated by comparing the sales price with the related net book value.

Investment property
Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated over 50 years.

Impairment of intangible assets and property, plant and equipment
Assets with indefinite lives are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value.

For assets that are depreciated or amortised, an assessment is made to determine whether there is any indication of a loss in value. If so, the recoverable value of the asset is estimated, with any excess or shortfall being recognised in the profit and loss account.

In conducting an impairment test, goodwill is allocated to the individual cash generating units, that is, the smallest financially independent business units through which the Company operates.

If the reasons for such write-downs should cease to occur, the asset's book value is restored within the limits of its net book value; the write-back is also taken to the profit and loss account. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

Equity investments
The Company's investments in shares in group companies are stated at cost less provision for impairment in value.

When events or circumstances are identified that would suggest that the carrying value of the investment is no longer recoverable an impairment review is undertaken to assess the recoverable amount. Where the review does not support the carrying value any shortfall is recognised in the statement of profit or loss.

Inventories
Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value.

The Company uses the weighted average cost method. The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale. Any write-downs are eliminated in future periods if the reason for the write-down should cease to occur.

The Company classifies inventories as follows:

- Raw material
- Work in progress and semi-finished goods

Work in progress is recognised at production cost using the weighted average cost, excluding financial charges and general overheads.

2 Significant accounting policies (continued)

Contract assets and liabilities

Contract assets and liabilities are recognised on the basis of progress (or percentage of completion), whereby costs, revenues and margins are recognised based on the progress of production. The stage of completion is the ratio between costs incurred at the measurement date and the total expected costs for the programme or by reference to pre-defined build stages. The valuations reflect the best estimate prepared at the reporting date. The assumptions upon which the valuations are made are periodically updated. Any impact on profit or loss is recognised in the period in which the updates are made.

In the event the completion of a contract is expected to result in a loss at the gross margin level, the loss is recognised in its entirety in the period in which it becomes reasonably foreseeable.

Contract assets and liabilities are recorded net of any write-downs and customer progress billings and payments related to the contract being performed.

Progress payments in excess of costs incurred are recorded as a liability under contract liabilities within current liabilities. Amounts due from customers are recorded as contract assets within current assets.

Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value to Profit and Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value to Other Comprehensive Income ("FVOCI") - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

(a) Classification (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(iii) Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

2 Significant accounting policies (continued)

Financial instruments (continued)

(iii) Derivative financial instruments and hedging (continued)

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied - see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

Fair value hedges
Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

(iv) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. Trade receivables and contract assets with significant financing component are measured using the general model described above.

2 Significant accounting policies (continued)

Financial instruments (continued)

(iv) Impairment (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

Share capital and share premium

Share capital consists of the capital subscribed and paid up by the Company. Costs directly associated with the issue of shares are recognised as a decrease in share capital, less deferred taxes, if any, when they are directly attributable to capital operations.

Where the fair value of consideration received for the shares issued exceeds their nominal value the excess is treated as share premium.

2 Significant accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Employee benefit costs

Defined benefit plans

The Company participates in the Leonardo Electronics Pension Scheme and the Leonardo Helicopters Pension Scheme, these are defined benefit schemes which cover both benefits in retirement and death benefits to members. This requires contributions to be made to a separately administered fund.

Full actuarial valuations of the Company's defined benefit schemes are carried out every three years with interim reviews in the intervening years; these valuations are updated to 31 December each year by qualified independent actuaries. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. The post-retirement benefit surplus or deficit is included on the Company's balance sheet. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes.

The current service cost and any past service costs are included in the statement of profit or loss within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised in the statement of other comprehensive income.

Defined contribution plans

The Company also has defined contribution plans which are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit and loss in the periods during which services are rendered by employees.

2 Significant accounting policies (continued)

Share-based payment transactions

Leonardo SpA operates an equity settled share based payments scheme for certain employees of the Company. Share based payments are measured at fair value at the date of the award and this value is subsequently updated at each balance sheet date for management's best estimate of the effect of non-market based vesting conditions on the number of equity instruments that will ultimately vest. The cost is recognised as an expense over the vesting period by calculating the cumulative expense and recognising the movement in the cumulative expense in the income statement on profit or loss. A corresponding entry is made to equity. Amounts recharged by the parent Company in relation to settled equity share based payments are debited to equity with a corresponding credit to inter Company creditors.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. These provisions mainly comprise the cost of maintenance under guarantees and other work in respect of products delivered, losses on contract work in progress, and provisions for reorganisations and rationalisation.

Risks for which the emergence of a liability is a remote possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

Leasing

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly. If the supplier has a substantive substitution right then the asset is not identified;
- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used.

(i) As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-to-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

2 Significant accounting policies (continued)

Leasing (continued)

(ii) As a lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-to-use asset, or is recorded in profit or loss if the carrying amount of the right-to-use asset has been reduced to zero.

The Company presents right-to-use assets that do not meet the definition of investment property separately within fixed assets and lease liabilities within financial liabilities.

Short term leases and leases of low-value assets.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a financial lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

2 Significant accounting policies (continued)

Leasing (continued)

(iii) As a lessor (continued)

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Revenue recognition

Revenue is measured based on the consideration specified in the contract with the customer and recognised as the Company performs its contracts and transfers control of the goods or services to the customer.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the contract the Company considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer (if any).

Revenue may be recognised at a point in time or over time within performance obligations identified within each contract at commencement of the contract. Where components are generic and required for a contract, revenue is only recognised when control is transferred to the customer and the components identified to specific customer customised contract.

Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the cumulative revenue recognised will not occur.

Significant financing component

The Company receives advances from its customers. The Company using both quantitative and qualitative information considers whether if at contract inception a contract contains a significant financing component. Where this is the case the transaction price would be adjusted to take into consideration the significant financing component.

Warranties

Warranties that provide customers with a service in addition to assurance that the product complies with agreed specification are accounted for as separate performance obligations. Assurance warranties are accounted for as part of the main supply.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional. Only the passage of time is required before payment of the consideration is due.

2 Significant accounting policies (continued)

Revenue recognition (continued)

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due. Contract liabilities are recognised as revenue when the Company performs under the contract.

Sale of production and other goods
Revenue is recognised when the Company transfers control over a product to the customer. The majority of contracts will be recognised over time as they will be a series of goods or they will be specific customised products. Revenues on these contracts is recognised on percentage of completion method based on the cost to cost methodology.

Revenue on standardised products is recognised with the transfer of title or possession to the customer.

Sale of services
The assessment of the stage of completion is dependent on the nature of the contract, but can be based on the cost to cost basis, the actual service provided as a proportion of the total services to be provided on the contract.

Revenues from services are recognised on a percentage-of-completion method when it can be reliably measured.

Interest receivable and payable
Interest is recognised on an accruals basis using the effective interest rate method, i.e. the interest rate that results in the financial equivalence of all inflows and outflows (including any premiums, discounts, commissions etc.) that make up a given operation.

Dividends
Dividends are recognised as soon as shareholders obtain the right to receive payment. For interim dividends this is when the Board of Directors approve the payment of the interim dividend. For final dividends this is when the shareholders' meeting approves the distribution of dividends.

Dividends distributed to the Company's shareholders are recognised as liabilities for the period in which their distribution is approved by the shareholders' meeting.

Related party transactions
Related party transactions are made at arm's length.

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Retirement Benefits valuation

The costs, assets and liabilities of the defined benefit pension schemes operating within the Company are determined using methods relaying on actuarial estimates and other assumptions. Details of the key assumptions are set out in note 25.

The Company takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Company's Financial Statements. As an indication of the sensitivity of the results to key assumption see note 25.

Recent economic circumstances and volatility in financial markets has caused the valuation of pension assets to become subject to a greater degree of uncertainty. In particular there is a much less active market in certain asset classes (such as corporate bonds, property and unquoted private equity investments). The fair value of the pension assets is determined based on valuations obtained from third parties and employ a variety of methods. Where available this will typically be the market price at the balance sheet date. However, for certain asset types other valuation methods are used including net asset valuation which involves a higher degree of estimation and subjectivity.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provisions for risks and estimates of final costs of long-term contracts and warranties

The Company operates in sectors and with contractual arrangements that are especially complex. Margins recognised in profit and loss are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, recognition of contract assets and liabilities and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to support this activity, the Company uses contract management and risk analysis processes to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the Financial Statements represent management's best estimate at the reporting date using these procedures.

Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Development costs

Intangible assets include non-recurring development costs incurred for design activities and prototype development for potential customers when generation of future economic benefits can be demonstrated and where costs can be reliably measured. Management is required to make valuations and estimates in relation to the capability of the relevant projects to generate future economic benefits as part of impairment testing of the carrying value of development assets. These assessments are made by reference to the cash-flow forecasts and business plans for each relevant project and are subject to on-going reassessment.

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2020 £ 000	2019 £ 000
Sale of goods	798,728	1,376,755
Rendering of services	941,148	707,154
Change in contract assets and liabilities	270,443	55,527
	2,010,319	2,139,436

The analysis of the Company's turnover for the year is as follows:

By geographical market:	2020 £ 000	2019 £ 000
United Kingdom	1,170,114	1,160,258
Rest of Europe	452,615	555,942
USA and Canada	208,322	205,678
Rest of World	179,268	217,558
	2,010,319	2,139,436

By Division	2020 £ 000	2019 £ 000
Electronics	1,060,237	1,149,958
Helicopters	950,082	989,478
	2,010,319	2,139,436

All revenue originates in the UK.

The Company is predominantly engaged in the design, development, manufacture and support of electronic information solutions for defence and aerospace markets and high integrity surveillance networks to provide management information for security and mission essential services. The Company also provides design, development, manufacture and support to the Helicopter domain.

Turnover from contracts with customers

Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers.

	Note	2020 £ 000	2019 £ 000
Contract assets	18	247,352	204,458
Contract liabilities	22	(559,491)	(763,528)
Receivables	19	264,205	313,011

4 Turnover (continued)

The contract assets primarily relate to the Company's right to consideration for work completed but not billed at the reporting date on contracts being recognised over time where control has transferred to the customer. The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from customers on long term contracts for work to be completed.

The amount of revenue recognised in current period that was included in the contract liability balance at the beginning of the period was £505,823k (2019: £559,845k).

5 Operating profit

Arrived at after charging/(crediting):

	2020 £ 000	2019 £ 000
Depreciation expense	27,704	29,437
Depreciation on right of use assets - Machinery	14,469	16,230
Amortisation expense	9,150	4,728
Amortisation of investment property	65	65
Impairment on intangible assets	772	1,462
Impairment on right of use assets	732	-
Research and development cost	209,130	190,080
Onerous construction contracts – provisions created	36,095	49,497
Research and development tax credits	19,640	27,100
Pension service cost	62,400	27,800
(Loss)/profit on sale of investment	(251)	18

Impairment of investments

During the year, the Company did not recognise any impairment charge on investments £nil (2019: £nil).

Pension service cost

The service cost for the Leonardo Electronics Pension Scheme during the year was £35,401k (2019: £29,000k) and the service cost for the Leonardo Helicopters Pension Scheme was £25,200k (2019: £1,200k Credit). In 2019 there was a credit in relation to past service costs of £24,700k in the Leonardo Helicopters Pension Scheme as a result of the retirement pension increase exchange programme.

6 Auditor's remuneration

	2020 £ 000	2019 £ 000
Audit of the financial statements	707	626
Other fees to auditors		
The auditing of accounts of any associate of the Company	41	41
Audit-related assurance services	5	5
	46	46

7 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	2020 No.	2019 No.
Management	1,024	996
Production	1,121	1,033
Technical/admin	5,254	5,064
	7,399	7,093

The aggregate payroll costs (including directors' remuneration) were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	369,080	351,215
Share based payments (note: 27)	816	919
Social security costs	38,651	37,659
Contributions to Directors' pension costs, defined contribution scheme	18,884	15,550
Pension costs, defined benefit scheme	62,400	27,800
	489,831	433,143

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020 £ 000	2019 £ 000
Directors' remuneration	3,016	1,928
Amounts receivable under long term incentive schemes – shares	556	445
Amounts receivable under long term incentive schemes – cash	94	2
	3,666	2,375

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,730k (2019: £1,584k).

Three of the directors serving during the year were employees of another Leonardo Group Company (2019: three). They did not receive any direct remuneration for their service as a director of the Company for the period (2019: £nil) and any allocation to this Company could be considered to be £nil (2019: £nil).

One director was a member of the Company defined benefit pension schemes (2019: one), and the contributions on their behalf were £23k (2019: £22k).

9 Interest receivable and similar income

	2020 £ 000	2019 £ 000
Total interest income on short term loans	1,323	3,665
Net foreign exchange gain	1,662	3,982
Net interest on net defined benefit plan assets (note: 25)	5,000	8,100
Other similar income	225	30
	8,210	15,777

Interest receivable and similar income includes income from group undertakings of £995k (2019: £3,522k).

10 Interest payable and similar expenses

	2020 £ 000	2019 £ 000
Total interest expense on short term loans	2,532	2,174
Total interest expense on long term loans	-	4,079
Total interest expense on overdrafts and bank loans	153	634
Ineffective portion of changes in fair value cash flow hedges	6,860	7,878
Net foreign exchange loss	2,560	8,927
Net interest on net defined benefit plan assets (note: 25)	500	700
Interest on leases (note: 28)	5,056	4,958
	17,661	29,350

Interest payable and similar expenses includes interest payable to group undertakings of £3,598k (2019: £7,413k).

11 Tax on profit

Tax charged in the profit and loss account

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	29,022	48,063
UK corporation tax adjustment to prior periods	(11,891)	(6,271)
	17,131	41,792
Foreign tax	363	55
Foreign tax adjustment to prior periods	207	8
	570	63
Total current income tax	17,701	41,855
Deferred taxation		
Arising from origination and reversal of temporary differences	(2,320)	1,651
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	808	331
Arising from changes in tax rates and laws	3,087	-
Total deferred taxation	1,575	1,982
Tax expense in the profit and loss account	19,276	43,837

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2019: the same as the standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit before tax	171,129	267,679
Corporation tax at standard UK tax rate of 19% (2019: 19%)	32,515	50,858
Effect of tax rates in foreign jurisdictions	363	56
Reduction in tax rate on deferred tax balances	3,087	-
Non-deductible expenses	643	1,568
Patent box	(5,489)	(1,900)
Adjustments in respect of prior periods	(10,876)	(5,932)
Other	(967)	(813)
Total tax charge	19,276	43,837

12 Intangible assets

	Goodwill £ 000	Capitalised development costs £ 000	Software and other intangibles £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	1,238,033	206,542	22,331	1,466,906
Additions	-	13,571	1,076	14,647
Disposals	-	(3,999)	-	(3,999)
At 31 December 2020	1,238,033	216,114	23,407	1,477,554
Amortisation				
At 1 January 2020	72,338	69,501	20,301	162,140
Amortisation charge	-	7,981	1,169	9,150
Amortisation eliminated on disposals	-	(3,999)	-	(3,999)
Impairment	-	772	-	772
At 31 December 2020	72,338	74,255	21,470	168,063
Carrying amount				
At 31 December 2020	1,165,695	141,859	1,937	1,309,491
At 31 December 2019	1,165,695	137,041	2,030	1,304,766

In addition to the capitalised development costs, there has been £43,864k (2019: £42,901k) expensed through the profit and loss account in relation to research and development in the year and spend on development contracts of £136,483k (2019: £147,179k).

Impairment loss and subsequent reversal
Development costs of £772k (2019: £1,462k) were impaired during year.

Impairment testing
Goodwill has been allocated to cash generating units ("CGU") as follows:

	2020 £ 000	2019 £ 000
Electronics	286,634	286,634
Helicopters	879,061	879,061
	1,165,695	1,165,695

The recoverable amount of the cash generating unit has been calculated with reference to its value in use.

12 Intangible assets (continued)

Value in use was determined by discounting the future cash flows generated by the cash generating unit using a pre-tax discount rate. Cash flows are projected using the companies approved business plan. Cash flows after the 5 year business plan period were extrapolated using a perpetual growth rate in order to calculate the terminal recoverable amount. A specifically calculated weighted average cost of capital (discount rate) is used for each cash generating unit. The assumptions are supplied by the parent Company using third party sources.

The key assumptions of this calculation are shown below:

	2020	2019
	£	£
Period on which management approved forecasts are based	5 Years	5 Years
Growth rate applied beyond approved forecast period	2.0%	2.0%
Discount Rate – Electronics	5.5%	5.4%
Discount Rate – Helicopters	6.5%	6.9%

Management consider sensitivity analysis over the cash generating units by varying the key assumption in determining if any impairment is required.

Increasing the Helicopters discount rate by 4.5% (2019: 3.1%) would result in an impairment.

Reducing the later year cash flow used in the Helicopter terminal value calculation by 54% would result in an impairment. No sensitivities are disclosed for Electronics CGU as no reasonably possible change in the assumptions could lead to an impairment.

13 Tangible assets

	Freehold land and buildings £ 000	Leasehold land and buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost or valuation				
At 1 January 2020	58,843	10,899	453,314	523,056
Additions	1,043	-	27,969	29,012
Disposals	(439)	-	(12,454)	(12,893)
Transfers	4,447	7	(4,454)	-
At 31 December 2020	63,894	10,906	464,375	539,175
Depreciation				
At 1 January 2020	6,704	2,937	352,409	362,050
Charge for the year	2,426	449	24,829	27,704
Eliminated on disposal	(439)	-	(12,319)	(12,758)
Transfers	-	(2)	2	-
At 31 December 2020	8,691	3,384	364,921	376,996
Carrying amount				
At 31 December 2020	55,203	7,522	99,454	162,179
At 31 December 2019	52,139	7,962	100,905	161,006

13 Tangible assets (continued)

Non-depreciating assets (assets in the course of construction) of £20,842k (2019: £24,336k) are included within leasehold land and buildings and plant and equipment above and are not being depreciated.

Impairment loss and subsequent reversal
Plant and equipment assets of £nil (2019: £nil) were impaired during year.

14 Right of use assets

	Leasehold and buildings £ 000	Property and equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2020	135,256	8,885	144,141
Additions	11,122	1,040	12,162
Disposals	(288)	-	(288)
At 31 December 2020	146,090	9,925	156,015
Depreciation			
At 1 January 2020	12,791	6,480	19,271
Charge for the year	13,382	1,087	14,469
Eliminated on disposal	(246)	-	(246)
Impairment	732	-	732
At 31 December 2020	26,659	7,567	34,226
Carrying amount			
At 31 December 2020	119,431	2,358	121,789
At 31 December 2019	122,465	2,405	124,870

The Company mainly leases land and buildings and plant and equipment as detailed above.

15 Investment property

	2020 £ 000	2019 £ 000
Cost		
At 1 January	3,381	3,381
At 31 December	3,381	3,381
Amortisation		
At 1 January	195	130
Amortisation charge	65	65
At 31 December	260	195
Carrying amount		
At 31 December	3,121	3,186

The carrying value of the Investment Property and the fair value are not considered to be materially different.

16 Investments

Subsidiaries	2020 £ 000
Cost or valuation	
At 1 January 2020	305,231
Disposals	(351)
At 31 December 2020	304,880
Provision	
At 1 January 2020	-
At 31 December 2020	-
Carrying amount	
At 31 December 2020	304,880
At 31 December 2019	305,231

On 1 January 2020, Selex Galileo Inc and Lasertel Inc merged to form Leonardo Electronics US Inc.

Selex ES India Private Ltd was liquidated during the year resulting in a £ 251k loss on disposal.

Selex ES Ltd , VEGA Consulting Services Ltd and Leonardo International limited were dissolved on 16 March 2021.

Cardprize Two Limited changed its name to Leonardo MW Ltd on 31 March 2021.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

The Company has provided a loan facility to Selex Galileo Inc of USD 15m (£10,990k) for short term funds, of which USD 6.5m (£4,762k) was utilised at the year end.

16 Investments (continued)

As at 31 December 2020, ordinary shares in group companies held by the Company were:

Entity	Registered office address	Class of Shares held	Ownership 2020	Ownership 2019
Leonardo Electronics US Inc (formerly Selex Galileo Inc)	Suite 704, 201 12th Street South, Arlington, Virginia 22202	Ordinary	100%	100%
Tactical Technologies Inc	STE 200, 2685 Queensview Drive, Ottawa, Ontario K2B 8K2	Ordinary	100%	100%
Selex ES Saudi Arabia	PO Box 9743, Riyadh 11423	Ordinary	100%	100%
Leonardo Limited	Lysander Road, Yeovil, Somerset BA20 2YB	Ordinary	100%	100%
Leonardo MW Ltd (formerly Cardprize Two Limited)	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
SELEX Elsag Limited	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
Selex ES (Projects) Ltd	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
SELEX ES Ltd (Dissolved 16 March 2021)	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
Leonardo Electronics Pension Scheme (Trustee) Ltd	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
Leonardo Helicopters Pension Scheme (Trustee) Ltd	Lysander Road, Yeovil, Somerset, BA20 2XB	Ordinary	100%	100%
VEGA Consulting Services Limited (Dissolved 16 March 2021)	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
AgustaWestland Limited	Lysander Road, Yeovil, Somerset, BA20 2YB	Ordinary	100%	100%
DRS Technologies	Silvertree Coxbridge Business Park, Alton Road, Farnham, Surrey, GU10 5EH	Ordinary	100%	100%
Leonardo International Limited (Dissolved 16 March 2021)	Silvertree Coxbridge Business Park, Alton Road, Farnham, Surrey, GU10 5EH	Ordinary	100%	100%

17 Stock

	2020 £ 000	2019 £ 000
Raw materials and consumables	259,273	237,259
Work in progress	202,618	204,049
	461,891	441,308

18 Contract assets and liabilities

	2020 £ 000	2019 £ 000
Contracts in progress at balance sheet date:		
Amounts due from contract customers show as contract assets	247,352	204,458
Amounts due to contract customer shown as contract liabilities (note: 22)	(559,491)	(763,528)
Net contract liabilities	(312,139)	(559,070)
Contract costs incurred plus recognised profits less recognised losses to date	850,785	624,546
Progress billings	(1,162,924)	(1,183,616)
Net contract liabilities	(312,139)	(559,070)

Contract costs are amortised when the related revenues are recognised. In current period, the amount of amortisation was £1,457,405k (2019: £1,763,274k).

The amounts are held at cost and this is approximate to fair value.

19 Trade and other debtors

	2020 £ 000	2019 £ 000
Trade debtors	115,640	173,661
Amounts owed by group undertakings (note: 30)	148,565	139,350
Financial assets (note: 20)	689,882	758,128
Prepayments	4,910	4,440
Other debtors	65,498	35,987
Derivative financial instruments	18,327	18,752
	1,042,822	1,130,318

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

20 Financial assets

	2020 £ 000	2019 £ 000
Amounts falling due within one year:		
Short term loans to Leonardo SpA (note: 30)	683,991	755,064
Loans to other group companies (note: 30)	5,891	3,064
Total financial assets	689,882	758,128

These financial assets have been categorised as loans and receivables and are repayable within 4 months from the balance sheet date. The fair value of the loans is not materially different to the book value.

Interest on the short term loans to Leonardo SpA are at variable rates based on Libor. The average rate for the year was 0.29% (2019: 0.85%) on Sterling denominated loans.

21 Financial liabilities

	2020 £ 000	2019 £ 000
Amounts falling due within one year:		
Short term loans from Leonardo SpA (note: 30)	60,000	40,000
Loans from other group companies (note: 30)	233,679	234,013
Lease liabilities - group (notes: 28 and 30)	3,001	2,894
Lease liabilities – third party (note:28)	9,876	9,012
Total amounts falling due within one year (note: 22)	306,556	285,919
Amounts falling due after one year:		
Long term loans from Leonardo SpA (note: 30)	-	60,000
Lease liabilities - group (notes: 28 and 30)	24,634	27,635
Lease liabilities – third party (note: 28)	96,981	93,386
Total amounts falling due after one year	121,615	181,021
Total financial liabilities	428,171	466,940

All financial instruments are held at fair value. The fair value is not materially different to the book value. The balance is denominated in Sterling. The short term loans are repayable on demand and interest free.

22 Trade and other creditors

	2020 £ 000	2019 £ 000
Creditors: amounts falling due within one year		
Trade creditors	256,391	273,099
Accrued expenses	58,260	86,674
Amounts owed to group undertakings (note: 30)	310,483	213,907
Social security and other taxes	25,773	18,127
Derivative financial liabilities	6,161	6,585
Corporation tax	-	17,782
Other financial liabilities (note: 21)	306,556	285,919
Contracts liabilities (note: 18)	559,491	763,528
Provisions for liabilities and charges (note: 24)	47,044	32,302
	1,570,159	1,697,923
Creditors: amounts falling due after one year		
Other creditors	3,600	3,843
Derivative financial liabilities	2,177	4,121
	5,777	7,964

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

All financial instruments are held at fair value. The fair value is not materially different to the book value. The balance is denominated in Sterling. This loan is repayable on demand.

23 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 19% (2019: 17%).

The movement on the deferred tax account is as shown below:

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	2020	2019	2020	2019
	£000	£000	£000	£000	£000	£000
Tangible fixed assets	-	-	2,319	3,599	2,319	3,599
Intangible assets	-	-	12,243	9,258	12,243	9,258
Financial assets/liabilities	(72)	630	2,739	1,543	2,667	2,173
Employee benefits	(14,329)	(22,464)	64,714	55,935	50,385	33,471
Share-based payments	(233)	(242)	-	-	(233)	(242)
Provisions	(533)	(1,790)	-	-	(533)	(1,790)
Tax (assets)/liabilities	(15,167)	(23,866)	82,015	70,335	66,848	46,469
Net of tax (assets)	-	-	-	-	(14,133)	(23,209)
Net of tax liabilities	-	-	-	-	80,981	69,678

There is no unrecognised deferred tax.

Movement in deferred tax during the current year

	1 January 2020	Recognised in income	Recognised in equity	31 January 2020
	£000	£000	£000	£000
Tangible fixed assets	3,599	(1,280)	-	2,319
Intangible assets	9,258	2,985	-	12,243
Financial assets	2,173	(42)	536	2,667
Employee benefits	33,471	(1,354)	18,268	50,385
Share-based payments	(242)	9	-	(233)
Provisions	(1,790)	1,257	-	(533)
Tax (assets)/liabilities	46,469	1,575	18,804	66,848

23 Deferred tax (continued)

Movement in deferred tax during the prior year

	1 January 2019	Recognised in income	Recognised in equity	31 January 2019
	£000	£000	£000	£000
Tangible fixed assets	4,266	(667)	-	3,599
Intangible assets	9,540	(282)	-	9,258
Financial assets	790	(715)	2,098	2,173
Employee benefits	37,717	3,808	(8,054)	33,471
Share-based payments	(192)	(50)	-	(242)
Provisions	(1,678)	(112)	-	(1,790)
Tax (assets)/liabilities	50,443	1,982	(5,956)	46,469

In the 11 March 2020 budget it was announced that the UK tax rate would remain at 19% and not reduce to 17% from 1 April 2020. This had a consequential effect on the company's UK tax charge and the deferred tax.

In the 3 March 2021 budget it was announced that the UK tax rate would increase to 25% from 1 April 2023. This will increase the company's future tax charge accordingly.

24 Provisions

	Restructuring £ 000	Contracts £ 000	Warranty £ 000	Other £ 000	Total £ 000
Balance at 1 January 2020	1,651	88,646	20,117	6,572	116,986
Provisions used during the year	(5,171)	(14,625)	(5,096)	(1)	(24,893)
Provisions made during the year	8,295	36,095	5,744	10,758	60,892
Provisions reversed during the year	(2,220)	(2,327)	(4,584)	(1,081)	(10,212)
Balance at 31 December 2020	2,555	107,789	16,181	16,248	142,773
Amounts falling due within one year	2,555	22,205	6,036	16,248	47,044
Amounts falling due after one year	-	85,584	10,145	-	95,729

24 Provisions (continued)

	Restructuring	Contracts	Warranty	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2019	3,303	3,777	52,705	2,655	62,440
Provisions made during the year	404	49,497	6,424	4,004	60,329
Provisions used during the year	(2,056)	(12,428)	(6,829)	-	(21,313)
Provisions reversed during the year	-	(1,454)	(5,742)	(87)	(7,283)
Provisions reclassified	-	49,254	(26,441)	-	22,813
Balance at 31 December 2019	1,651	88,646	20,117	6,572	116,986
Amounts falling due within one year	1,651	16,698	7,381	6,572	32,302
Amounts falling after one year	-	71,948	12,736	-	84,684

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. The costs associated with the reorganisation programmes include staff costs, dilapidations and property expenses and are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for. Reorganisation costs are generally incurred within one to two years. There is limited volatility around the timing and amount of the ultimate outflows related to these provisions.

Contract provisions are made to cover risks and charges identified and are expected to be utilised within 1-5 years. The timing and amount of the outflows could differ significantly from the amount provided.

Warranty provisions mainly comprise expected cost of maintenance under guarantees, and the other anticipated work in respect of products delivered. The warranty provision represents management's best estimate of the Company's liability under warranties based on past experience.

The associated cash outflows are generally expected to occur over the life of the products and contracts which are long-term in nature, varying between 1 and 5 years. Whilst actual events could result in potentially significant differences to the quantum but not the timing of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

Other provisions include liabilities for obligations on contracts. Management has reflected current knowledge in assessing the provision levels.

25 Retirement benefit liability

The Company operates two defined benefit schemes (Leonardo Electronics Pension Scheme and Leonardo Helicopters Pension Scheme) in the UK which provides both pensions in retirement and death benefits to members. Pension benefits are related to the members' earnings over their career and their length of service.

	2020 £ 000	2019 £ 000
Retirement benefit asset – Leonardo Electronics Pension Scheme	247,000	244,900
Retirement benefit asset – Leonardo Helicopters Pension Scheme	19,800	-
Total retirement benefit liability	266,800	244,900
Retirement benefit liability – Leonardo Helicopters Pension Scheme	-	(46,400)
Retirement medical benefit liability – Leonardo Helicopters Pension Scheme	(1,639)	(1,639)
Total retirement benefit liability	(1,639)	(48,039)

Leonardo Electronics Pension Scheme

Since 27 April 2009, the scheme has been closed to new members. Contributions to the scheme for the year ending 31 December 2021 are expected to be £13.7 million based on current employer contribution rates which average 14.4% of pensionable salaries, as set out in the Schedule of Contributions. Employee contributions are expected to be £7.1 million over the year, excluding any voluntary contributions (to SBS, AVC's or Buy Up accounts), based on average member contribution rates of 7.5% of pensionable salaries.

A full actuarial valuation of the scheme was carried out as at 31 December 2020 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	2020	2019
Discount rate	1.45%	2.00%
Inflation assumption (RPI)	2.80%	3.00%
Inflation assumption (CPI)	2.10%	2.00%
Career salary revaluation	3.10%	3.00%
RPI max 5% pension increases	2.75%	2.90%
RPI max 2.5% pension increases	2.00%	2.15%

On the advice of the Company's actuaries the following methodology changes have been made at 31 December 2020:

Discount rate methodology change

The discount rate as at 31 December 2019 was based on the Aon GBP Select AA curve which uses a data set of bonds with an average AA rating from the main rating agencies. However, as at 31 December 2020 , this assumptions is now based on the Aon GBP Single Agency AA Curve which expands the dataset to include all bonds rated AA by at least one of the main rating agencies.

The impact of this change in methodology is estimated to reduce the defined benefit obligation by £12m at 31 December 2020.

25 Retirement benefit liability (continued)

RPI Inflation methodology change

The Company uses RPI inflation estimates set in line with market break even expectations less an inflation risk premium (IRP). The inflation risk premium has been set at 0.3% at 31 December 2020, compared with 0.2% in the prior year. The impact of the change in the IRP applied when setting the RPI assumption is estimated to be a £23m reduction in the defined benefit obligation.

CIP Inflation methodology change

The Company has reduced the long term gap between RPI and CPI at 31 December 2020 by 30 basis points (from 1% to 0.7%) compared with the prior year methodology to reflect increased clarity on the future of the RPI index.

The impact of the change in the best estimate RPI-CPI wedge applied when setting the CPI assumption is estimated to be a £23m increase in the defined benefit obligation.

Assumed life expectancies at age 65 are (years):

	2020	2019
Retiring today – Males	22.6	22.1
Retiring today – Females	24.9	24.1
Retiring in 20 years time – Males	23.9	23.8
Retiring in 20 years time – Females	26.3	26.0

	2020 £ 000	2019 £ 000
Present value of funded obligations	(976,800)	(835,100)
Fair value of scheme assets	1,223,800	1,080,000
Surplus in funded scheme	247,000	244,900

Reconciliation of opening and closing balances of the fair value of scheme assets

	2020 £ 000	2019 £ 000
Fair value of scheme assets at beginning of year	1,080,000	939,900
Interest income on scheme assets	21,700	27,400
Return on assets, excluding interest income	115,900	106,000
Contributions by employers	14,777	15,300
Contributions by scheme participants	8,400	8,400
Benefits paid	(14,277)	(15,500)
Scheme administrative cost	(2,700)	(1,500)
Fair value of scheme assets at end of the year	1,223,800	1,080,000

25 Retirement benefit liability (continued)

The assets in the scheme were:

	2020 £ 000	2019 £ 000
Cash and cash equivalents	201,300	71,600
Derivatives	28,100	12,000
UK equities	800	8,700
Overseas equity	314,000	392,000
Private equities	78,200	-
Hedge funds	-	99,300
Fixed interest gilts	198,900	192,800
Index linked gilts	259,900	240,300
Corporate bonds	129,800	63,300
Commodities	12,800	-
Fair value of scheme assets at end of the year	1,223,800	1,080,000
The actual return on assets over the period was:	137,600	133,400

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2020 £ 000	2019 £ 000
Benefit obligation at beginning of year	835,100	669,900
Service cost	32,700	27,500
Interest cost	16,700	19,300
Contributions by scheme participants	8,400	8,400
Net re-measurement losses – financial	95,877	132,300
Net re-measurement losses/(gains) - demographic	2,000	(7,500)
Net re-measurement losses - experience	300	700
Benefits paid	(14,277)	(15,500)
Benefit obligation at end of the year	976,800	835,100

The amounts recognised in profit and loss are:

	2020 £ 000	2019 £ 000
Service cost – including current service cost, past service cost and settlements	32,700	27,500
Service cost – administrative cost	2,700	1,500
Net interest on the net defined benefit liability	(5,000)	(8,100)
Total expense recognised in profit and loss	30,400	20,900

25 Retirement benefit liability (continued)

Re-measurements of the net defined benefit assets to be shown in OCI:

	2020 £ 000	2019 £ 000
Net re-measurement – financial	95,877	132,300
Net re-measurement – demographic	2,000	(7,500)
Net re-measurement – experience	300	700
Return on assets, excluding interest income	(115,900)	(106,000)
Total re-measurement of net defined benefit assets shown in OCI	(17,723)	19,500

Characteristics of the Scheme and the risks associated with the Scheme

(a) Information about the characteristics of the Scheme

i. The Scheme provides pensions in retirement and death benefits to members. Up until 5 April 2016, pension benefits were linked to a member's final salary at retirement and their length of service. Benefits accrued from 6 April 2016 are based on a member's salary over their working lifetime and their length of service.

ii. The Scheme is a registered scheme under UK legislation and its Main Section was contracted out of the State Second Pension prior to the abolition of contracting out in 2016.

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was at 5 April 2020 and revealed a surplus of £125 million.

Under Clause 24.6 of the Scheme's trust deed and rules dated 24 March 2005, the Company has an unconditional right to a refund of any surplus in the Scheme if the Scheme winds up. Therefore there is no additional liability recognised on the balance sheet.

iii. The Scheme was established from 24 March 2005 under trust and is governed by the Scheme's trust deed and rules dated 31 March 2016. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Company.

(b) Information about the risks of the Scheme to the Company

The ultimate cost of the Scheme to the Company will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed.

In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed. This may also impact the Company's ability to grant discretionary benefits or other enhancements to members.

25 Retirement benefit liability (continued)

Characteristics of the Scheme and the risks associated with the Scheme (continued)

(b) Information about the risks of the Scheme to the Company (continued)

More specifically, the assumptions not being borne out in practice could include:

i. The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Company contribution.

ii. Falls in asset values not being matched by similar falls in the value of liabilities.

iii. Unanticipated future changes in mortality patterns leading to an increase in the Scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest Scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.

iv. The potential exercise (by members or others) of options against the Scheme for example taking early retirement or exchanging a portion of pension for a cash lump sum.

The Company may also wish to consider the risk that the assumptions underlying the disclosures are not borne out in practice and the cost to the Company is lower than expected. This could lead to a surplus in the Scheme which is not recoverable by the Company in full.

The Scheme's investment strategy

The Scheme's investment strategy is to invest broadly 80% in return seeking assets and 20% in matching assets (mainly government bonds and swaps). This strategy reflects the Scheme's liability profile and the Trustees' and Company's attitude to risk.

The Scheme's investments include interest rate and inflation hedging.

Sensitivity analysis

Please note that the results in the disclosures are inherently volatile, particularly the figures shown on the balance sheet. The results disclosures are dependent on the assumptions chosen by the directors. We have performed the following sensitivity analysis to highlight the volatility of the balance sheet position to changes in the actuarial assumptions used:

Present value of Scheme liabilities when increasing the following assumptions by 0.25% per annum

	2020 £ 000	2019 £ 000
Discount rate	927,600	783,300
Inflation *	1,009,100	870,400

* with corresponding adjustments to the salary escalation and pension increase assumptions where applicable.

25 Retirement benefit liability (continued)

Expected future cash flows to and from the Scheme

In accordance with the schedule of contributions dated 8 December 2020, the Company is expected to pay contributions of £13.7 million over the next accounting period. The required contribution towards future defined benefit accrual, expressed as a percentage of Pensionable Salaries (as defined in the rules of each section) varies from 11.2% to 21.7%. The average contribution is 14.4%, payable on projected Pensionable Salaries of £95 million. These contributions include an allowance the cost of administrative expenses and insurance premiums for the Scheme.

The liabilities of the Scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 60 years or more. The average duration of the liabilities is approximately 24 years (2019: 24 years)

The Company is not materially impacted by the GMP pension equalisation court judgements delivered in October 2018 and December 2020.

Leonardo Helicopters Pension Scheme

The Leonardo Helicopters Pension Scheme was acquired on 1 January 2017 as part of the purchase of trade and assets of Agusta Westland Limited.

The Company sponsors a funded defined benefit pension plan for qualifying employees. The plan is administered by a separate board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees, plus an independent trustee. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets, plus the day to day administration of the benefits.

Under the Scheme, employees are entitled to annual pensions on retirement based on career average salary and length of service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 40% of the liabilities are attributable to current employees, 14% to former employees not yet in receipt of a pension and 46% to current pensioners. The scheme duration is an indicator of the weighted average time until benefit payments are made. For the Scheme as a whole, the duration is approximately 20 years (2019: 22 years).

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the scheme was carried out by a qualified actuary as at 5 April 2020 and showed a deficit of £94.8m. The Company is paying deficit contributions which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 January 2027. The next funding valuation due as at 5 April 2023 at which progress towards full-funding will be reviewed. A deficit contribution of £3.7m is expected to be paid by the Company during the year ending on 31 December 2021.

25 Retirement benefit liability (continued)

The main assumptions used by the actuaries to calculate the liabilities under IAS 19 are set out below:

	2020	2019
Discount rate	1.45%	2.00%
Inflation assumption (RPI)	2.80%	3.00%
Inflation assumption (CPI)	2.10%	2.00%
Rate of general long-term increase in salaries	2.80%	3.00%
In-service career salary revaluation	2.10%	2.00%
Rate of increase to pensions in payment (post April 2005)	2.00%	2.15%
Rate of increase to pensions in payment (pre April 2005)	2.75%	2.90%

Assumed life expectancies at age 65 are (years):

	2020	2019
Retiring today – Males	22.4	22.3
Retiring today – Females	24.1	24.2
Retiring in 20 years time – Males	23.7	24.0
Retiring in 20 years time – Females	25.6	26.0

	2020 £ 000	2019 £ 000
Present value of funded obligations	(1,818,400)	(1,673,800)
Fair value of scheme assets	1,838,200	1,627,400
Surplus/(deficit) in funded scheme	19,800	(46,400)

Reconciliation of opening and closing balances of the fair value of scheme assets

	2020 £ 000	2019 £ 000
Fair value of scheme assets at beginning of year	1,627,400	1,445,800
Expected return on scheme assets	32,400	41,700
Administration expenses	(2,900)	(2,800)
Re-measurement gains on scheme assets	213,600	175,700
Contributions by the employer	26,600	27,500
Net benefits paid out	(58,900)	(60,500)
Fair value of scheme assets at end of the year	1,838,200	1,627,400

25 Retirement benefit liability (continued)

The assets in the scheme were:

	2020 £ 000	2019 £ 000
Cash and cash equivalents	113,300	100,200
Derivatives	103,200	83,200
Infrastructure	4,500	5,400
UK equities	1,600	15,800
Overseas equity	689,400	665,900
Private equities	6,400	15,700
Hedge funds	156,300	173,000
Fixed interest gilts	153,700	79,500
Index linked gilts	349,400	373,100
Corporate bonds	231,900	115,600
Commodities	28,500	-
Fair value of scheme assets at end of the year	1,838,200	1,627,400
Interest income on scheme assets	32,400	41,700
Re-measurement gains on scheme assets	213,600	175,700
The actual return on assets over the period	246,000	217,400

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	2020 £ 000	2019 £ 000
Benefit obligation at beginning of year	1,673,800	1,491,400
Current service cost	22,300	20,700
Past service cost	1,800	(24,700)
Interest cost	32,900	42,400
Net re-measurement losses – financial	184,900	247,000
Net re-measurement (gains) – demographic	(24,700)	(46,100)
Net re-measurement (gains)/losses – experience	(13,700)	3,600
Benefits paid	(58,900)	(60,500)
Benefit obligation at end of the year	1,818,400	1,673,800

The amounts recognised in profit and loss are:

	2020 £ 000	2019 £ 000
Service cost – including current service cost, past service cost and settlements	24,100	(4,000)
Service cost – administrative cost	2,900	2,800
Net interest on the net defined benefit liability	500	700
Total expense recognised in profit and loss	27,500	(500)

25 Retirement benefit liability (continued)

Re-measurements of the net defined benefit liability/(asset) to be shown in OCI:

	2020 £ 000	2019 £ 000
Net re-measurement – financial	184,900	247,000
Net re-measurement – demographic	(24,700)	(46,100)
Net re-measurement – experience	(13,700)	3,600
Return on assets, excluding interest income	(213,600)	(175,700)
Total re-measurement of net defined benefit assets show in OCI	(67,100)	28,800

The risks associated with the Scheme

The Scheme exposes the Company to a number of risks, the most significant of which are:

Asset Volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, diversified growth funds and global absolute return fund) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.
Inflation risk	The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Sensitivity to key assumptions

The key assumptions used for IAS 19 are: discount rate, inflation and mortality. If different assumptions were used this could have a material effect on the results disclosed. The sensitivity of the results to these assumptions is as follows:

	2021 service cost	2021 net interest	2021 P&L charge	Plan assets	DBO	Deficit
	£000	£000	£000	£000	£000	£000
Current figures	27,600	(600)	27,000	1,838,200	1,818,400	19,800
0.25% decrease in the discount rate	29,100	600	29,700	1,838,200	1,910,700	(72,500)
0.25% increase in the RPI inflation	28,700	400	29,100	1,838,200	1,885,100	(46,900)

25 Retirement benefit liability (continued)

Sensitivity to key assumptions (continued)

The sensitivity information shown above has been prepared using the same method as adopted when adjusting the results of the latest funding valuation to the balance sheet date. This is the same approach as has been adopted in previous periods.

Note that we have assumed there were be no change to the value of the Scheme's assets, although this is unlikely to be the case in reality.

Defined contribution scheme

The Company participates in a group defined contribution scheme called Leonardo Future Planner. Contributions by the Company to the defined contribution scheme were £18,884k (2019: £15,550k).

Other post-retirement benefits

Certain employees are entitled to post-retirement benefits other than pensions. At 31 December 2020, the liabilities for post-retirement medical benefits were assessed at the year-end date by qualified independent actuaries using the projected unit method.

The main financial assumptions were that medical costs would increase by 6.5% per annum in 2020 reducing by 1.0% per annum for two years and remain at 4.45% thereafter.

Employee benefits provisions include £1,639k (2019: £1,639k) being the present value of post-retirement medical benefit liabilities. The charge to comprehensive income for the year amounted to £nil (2019: £870k).

26 Called-up share capital

Allotted, called-up and fully paid shares

	2020		2019	
	No. 000	£ 000	No. 000	£ 000
314,500,100 ordinary shares of £1 each	314,500	314,500	314,500	314,500

Authorised

	2020		2019	
	No. 000	£ 000	No. 000	£ 000
314,500,100 ordinary shares of £1 each	314,500	314,500	314,500	314,500

26 Called-up share capital (continued)

Share premium account
The Company has a share premium account of £845,500k (2019: £845,500k).

Cash flow hedging reserve
The hedging reserve surplus of £11,342k (2019: surplus of £10,372k) comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends
The directors have not proposed a final dividend for the year (2019: £nil). During the year, the Company paid a dividend of £nil (2019: £nil).

27 Share-based payments

Leonardo SpA (parent Company) introduced long term investment and co-investment performance share plans as part of its compensation for senior management within Leonardo and its subsidiaries in May 2015. The second long term incentive plan was approved in May 2018. The plans have a rolling structure of three year cycles commencing in 2015, 2016, 2017 (first plan) and commencing in 2018, 2019 and 2020 (second plan) with shares being issued after the end of each 3 year period. The plans commencing in 2016, 2017, 2018, 2019 and 2020 are accounted within the Financial Statements.

The long term investment plan has both market and performance based vesting conditions and is equity settled. The co-investment plan envisages the award of free ordinary shares in Leonardo SpA subject to the attainment of internally defined performance goals. The attainment for both plans is measured on a cumulative basis.

The fair value of the shares when they were conditionally awarded, based on the market value of the Leonardo SpA shares at the date of the grant, were between:

- €1.73 and €14.76 per share for the shares on the long term investment plan
- €12.37 per share for the shares on the co-investment plan

The charge to the income statement in the year was £816k (2019: £919k).

Shares allotted during the year were £117k (2019:£202k).

28 Leases

Non-cancellable lease rentals are payable as follows:

	2020	2019
	£000	£000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	16,809	16,305
Two to five years	63,845	58,986
More than five years	77,466	88,110
Total undiscounted lease liabilities at 31 December	158,120	163,401

	2020	2019
	£000	£000
Lease liabilities included in the statement of financial position at 31 December	134,492	132,927
Current	12,877	11,906
Non current	121,615	121,021
Amounts recognised in profit and loss		
Interest on lease liabilities	5,056	4,958
Expenses relating to short term leases of low value assets, excluding short term leases of low value assets	2,114	3,841
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	16,552	13,982

These figures include payments related to short term leases of low value items.

29 Commitments

Capital commitments and other financial commitments

	2020	2019
	£ 000	£ 000
Contracts placed for future capital expenditure not provided in the financial statements:		
Property, plant and equipment	1,941	6,394

30 Related party transactions

During the year, the Company entered into transactions with the ultimate parent undertaking, Leonardo SpA, as well as subsidiaries of the ultimate parent undertaking. These transactions were in the normal course of business on an arm's length basis. Such transactions in the year included goods and services provided to MBDA and Leonardo DRS Inc and purchases from Selex Galileo Inc, Leonardo DRS Inc, and Lasertel Inc. The aggregate value of these transactions in the year was as follows:

	2020 £ 000	2019 £ 000
With subsidiaries:		
Purchases of goods and services	40,253	42,975
Sales of goods and services	2,818	4,784
Net interest (payable)/receivable	(994)	74
	42,077	47,833
With Leonardo SpA:		
Purchases of goods and services	245,957	134,111
Sales of goods and services	182,395	263,863
Net interest (payable)/receivable	(1,609)	2,805
	426,743	400,779
With other group companies:		
Purchases of goods and services	37,528	150,379
Sales of goods and services	39,322	44,818
	76,850	195,197

The aggregate amounts due from /to Leonardo SpA and its subsidiaries were:

	2020 £ 000	2019 £ 000
Included within trade and other receivables		
Leonardo SpA	132,314	120,975
Subsidiaries	1,769	3,867
Other group companies	14,482	14,508
	148,565	139,350
Included within financial assets		
Leonardo SpA	683,991	755,064
Subsidiaries	4,762	3,064
Other group companies	1,129	-
	689,882	758,128

30 Related party transactions (continued)

	2020 £ 000	2019 £ 000
Included within trade and other creditors		
Leonardo SpA	295,217	193,777
Subsidiaries	3,796	7,907
Other group companies	11,470	12,223
	310,483	213,907
Included within financial liabilities		
Leonardo SpA	60,000	100,000
Subsidiaries	261,314	264,542
	321,314	364,542

31 Post balance sheet events

There were no events after the reporting date.

32 Parent and ultimate parent undertaking

The Company is a subsidiary undertaking of Leonardo SpA which is the ultimate parent Company incorporated in Italy.

The largest group in which the results of the Company are consolidated is that headed by Leonardo SpA, which is incorporated in Italy, and is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of their financial statements may be obtained from Piazza Montegrappa 4, 00195 Rome, Italy.