

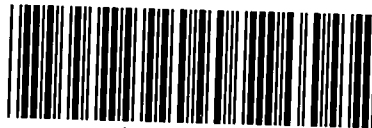
Leonardo MW Ltd

Annual report and financial statements

Registered number 2426132

31 December 2017

THURSDAY



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02/08/2018
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Contents

| | |
|--|----|
| Strategic report | 3 |
| Directors' report | 6 |
| Statement of directors' responsibilities in respect of the strategic report, the directors report and the financial statements | 8 |
| Independent auditor's report to the members of Leonardo MW Ltd | 9 |
| Profit and Loss Account and Other Comprehensive Income | 11 |
| Balance Sheet | 12 |
| Statement of Changes in Equity | 13 |
| Cash Flow Statement | 15 |
| Notes | 16 |

Strategic report

The directors present their annual report and the audited financial statements of Leonardo MW Ltd (the “Company”), registered number 2426132, for the year ended 31 December 2017.

Principal activities and business review

On 1 January 2017 and in line with Leonardo SpA’s strategy (described below), the Company acquired two group companies, AgustaWestland Limited and DRS Technologies UK Limited. Given its relative financial size, position in the market and product offering, AgustaWestland Limited has a significant impact on the Company approximately doubling annual revenues.

The Company is engaged in the electronics defence systems and helicopters business domains. Working with its subsidiaries and sister companies it provides solutions through design, development, manufacture and support for the defence and aerospace markets as well as providing high integrity surveillance networks to provide management information for security and mission essential services. The main subsidiaries and sister companies are located in Italy, USA and Poland.

Future outlook and business environment

The outlook of the Company remains positive with an order intake during the year of £1,400m (2016: £1,736m) and an order book as at 31 December 2017 of £5,367m (2016: £2,643m) which represents 295% of 2017 turnover (2016: 266%).

Throughout 2017, the parent company Leonardo SpA continued to build its “One Company” operating model in line with the industrial plan it announced at the end of 2014, the aim of which is to strengthen its core business to improve industrial, economic and financial performance. The “One Company” model has now been extended to the UK within the structure of the Company. As part of this the Company has acquired three UK group companies, two of which occurred on the 1 January 2017 as previously mentioned;

On 1 January 2017 the Company purchased the entire ordinary share capital of AgustaWestland Limited and DRS Technologies UK Limited for consideration of £1,050.0m and £8.0m respectively from other group companies. In addition, on 1 January 2017 the Company purchased the trade and majority of assets of AgustaWestland Limited for a consideration of £123.1m and the trade and assets of DRS Technologies UK Limited for a consideration of £7.2m. These acquisitions were funded by a combination of additional equity, loan and cash. The Company allotted a further 44.5m shares at par value of £1 each, with a share premium of £845.5m (totalling £890.0m) to Leonardo SpA to partly finance the acquisition of AgustaWestland Limited. A loan of £160.0m from Leonardo SpA was made available to the Company to finance the balance of the AgustaWestland Limited transaction.

The business now operates under one brand, Leonardo. This gives the Company the opportunity to have one clear identity and to present “One Voice” to customers and stakeholders in a more coherent and coordinated way.

The Company is now uniquely placed to offer a wide spectrum of capability across platforms, systems and sensors, providing integrated solutions and support services to the customers in the air, land, maritime and cyber domains, with a significantly increased capability within the helicopter domain.

Working within the new Leonardo model and using the well-established business planning process the business will continue to review its current activities and future options. 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 remains highly competitive and whilst there continues to be some positive world economic trends, political uncertainties remain, not least in respect of Brexit, US trade policy, up and the Italian election results and the conflicts and destabilisation in the Middle East.

Strategic report *(continued)*

With procurement spend in the main European Defence agencies, and most particularly for the Company with the UK Ministry of Defence (MoD), remaining flat or increasing at a modest rate in the short term, there is no doubt that the procurement environment in the near future will continue to be challenging. However, the prospect of the MoD intending to maintain existing platforms in service for longer, or re-role them for new defence requirements and the confirmation of defence spending by the new government, will give the Company opportunities in the future.

In addition, a 10 year Strategic Partnering Agreement was signed in 2016 between the UK MoD and the Company with the aim of strengthening the relationship for the mutual benefit of both parties in the helicopter sector. This is a positive development for the helicopter business both in terms of meeting the UK MoDs needs and supporting export opportunities.

Strategy

The strategy of the business continues to be primarily one of developing ever closer links with current key end user customers and prime contracting agencies.

Whilst the home markets of Leonardo group remain a key priority for the Company, there is also a strong focus to target growth opportunities within existing and new export markets. The Company has a presence in some key overseas markets including the US, and most notably Saudi Arabia, Australia, Canada and Kuwait.

In conjunction with this, the Company continues to make significant investments in research and development to consolidate its technical and product offerings in its core technology areas within Helicopters and Electronics in order to develop opportunities with new customers. 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.

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.

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.

Strategic report *(continued)*

Key performance indicators ("KPIs")

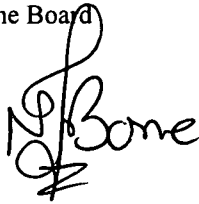
The Company is a wholly owned subsidiary of Leonardo SpA. The directors of Leonardo SpA manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding 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.

Results

The Company's profit for the financial year is £121,983k (2016: profit of £81,042k).

By order of the Board

N.J.Bone
Director



22 March 2018

Sigma House,
Christopher Martin Road,
Basildon,
Essex.
SS14 3EL.

Directors' report

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 2017 was £150,806k (2016: £112,525k).

Proposed dividend

The directors do not recommend the payment of a final dividend in relation to the 2017 financial statements (2016: £80,000k). The final dividend paid in relation to the 2016 financial statements was not approved until after the 2016 balance sheet date, and was recognised in the 2017 financial year.

During 2017 the Company paid an interim dividend of £60,000k, therefore total dividends paid in 2017 were £140,000k.

Directors

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

| | |
|-----------------------|--|
| Mr. N. J. Bone | (Chairman and Managing Director) |
| Mr. G. F. Munday | |
| Mr. F. Giulianini | (resigned 1 June 2017) |
| Mr. A. J. Cowdery | (appointed 1 January 2017) |
| Mr. A. Parrella | (appointed 1 January 2017) |
| Mr. J. M. M. Ponsonby | (appointed 1 January 2017, resigned 10 January 2018) |
| Mr. D. Romiti | (appointed 1 January 2017, resigned 23 October 2017) |
| Mr. G. P. Cutillo | (appointed 20 July 2017) |
| Mrs. S. Iarlori | (appointed 24 October 2017) |
| Mr. C. Porter | (appointed 20 February 2018) |

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.

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 (2016: £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' report *(continued)*

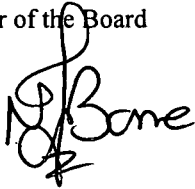
Directors' indemnities

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

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

A handwritten signature in black ink, appearing to read 'N.J. Bone', with a stylized flourish at the end.

N.J. Bone
Director

Sigma House,
Christopher Martin Road,
Basildon,
Essex.
SS14 3EL.

22 March 2018

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the strategic report, the directors' 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 have elected 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 then 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 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

Independent auditor's report to the members of Leonardo MW Ltd

Opinion

We have audited the financial statements of Leonardo MW Ltd ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 strategic report and the directors' report;
- in our opinion the information given in those reports 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.

Independent auditor's report to the members of Leonardo MW Ltd (continued)

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 8, 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.

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

23 March 2018

Profit and Loss Account and Other Comprehensive Income for year ended 31 December 2017

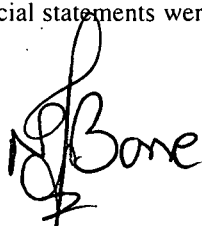
| | Note | 2017 £000 | 2016 £000 |
|---|----------|------------------|--------------|
| Turnover | 3 | 1,822,492 | 990,218 |
| Changes in inventories of finished goods and work in progress | | (9,435) | (3,544) |
| Impairment of investments | 13 | (3,638) | (66,167) |
| Raw material and consumables | | (633,545) | (440,709) |
| Staff costs | 5 | (415,553) | (262,102) |
| Depreciation and other amounts written off tangible and intangible fixed assets | 10,11,12 | (46,855) | (32,760) |
| Other operating expenses | | (561,276) | (161,571) |
| Operating profit | 4 | 152,190 | 23,365 |
| Income from shares in group undertakings | | 4,138 | 67,015 |
| Other interest receivable and similar income | 7 | 13,863 | 11,840 |
| Interest payable and similar expenses | 8 | (24,863) | (3,041) |
| Profit before taxation | | 145,328 | 99,179 |
| Taxation | 9 | (23,345) | (18,137) |
| Profit for the financial year | | 121,983 | 81,042 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Remeasurements of defined benefit liability/asset | 22 | 65,486 | 51,711 |
| Deferred tax (charge) on items that will not be reclassified to profit or loss | 20 | (11,132) | (6,402) |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> | | | |
| Effective portion of changes in fair value of cash flow hedges | | 12,687 | (5,308) |
| Net change in fair value of cash flow hedges reclassified to profit or loss | | 20,963 | (746) |
| Deferred tax (charge) / credit on (gain) / loss on cash flow hedge | 20 | (5,826) | 1,045 |
| Other comprehensive income for the year, net of income tax | | 82,178 | 40,300 |
| Total comprehensive income for the year | | 204,161 | 121,342 |

Balance Sheet
at 31 December 2017

| | Note | 2017 £000 | 2017 £000 | 2016 £000 | 2016 £000 |
|---|------|--------------------|------------------|------------------|-----------------|
| Fixed assets | | | | | |
| <i>Intangible assets</i> | | | | | |
| Goodwill | 10 | 1,165,526 | | 285,679 | |
| Other intangibles | 10 | 140,826 | | 46,541 | |
| Tangible fixed assets | 11 | 162,998 | | 79,732 | |
| Investment property | 12 | 3,316 | | - | |
| Fixed asset investments | 13 | 314,340 | | 139,550 | |
| Retirement benefit asset | 22 | 291,681 | | 309,195 | |
| Deferred tax asset | 20 | 11,417 | | 2,380 | |
| | | | <u>2,090,104</u> | | <u>863,077</u> |
| Current assets | | | | | |
| Stocks | 14 | 274,738 | | 70,539 | |
| Construction contracts | 15 | 138,389 | | 82,395 | |
| Debtors (including £9,880k (2016: £989k) due after more than one year) | 16 | 1,292,997 | | 276,525 | |
| Cash at bank and in hand | | 15,566 | | 25,833 | |
| | | <u>1,721,690</u> | | <u>455,292</u> | |
| Creditors: amounts falling due within one year | 19 | <u>(1,835,161)</u> | | <u>(537,949)</u> | |
| Net current liabilities | | | <u>(113,471)</u> | | <u>(82,657)</u> |
| Total assets less current liabilities | | | <u>1,976,633</u> | | <u>780,420</u> |
| Non current liabilities | | | | | |
| Deferred tax liability | 20 | (66,293) | | (63,085) | |
| Retirement benefit liability | 22 | (66,616) | | - | |
| Provisions for liabilities falling due after one year | 21 | (10,108) | | - | |
| Financial liabilities | 18 | <u>(163,541)</u> | | <u>-</u> | |
| | | | <u>(306,558)</u> | | <u>(63,085)</u> |
| Net assets | | | <u>1,670,075</u> | | <u>717,335</u> |
| Capital and reserves | | | | | |
| Called up share capital | 23 | 314,500 | | 270,000 | |
| Share premium account | 23 | 845,500 | | - | |
| Other reserves | 23 | 15,324 | | (8,658) | |
| Profit and loss account | | 494,751 | | 455,993 | |
| Shareholders' funds | | | <u>1,670,075</u> | | <u>717,335</u> |

These financial statements were approved by the board of directors on 22 March 2018 and were signed on its behalf by:

N.J. Bone
Director



Company registered number: 2426132

Statement of Changes in Equity

| | <i>Note</i> | Called up Share capital £000 | Share premium account £000 | Cash flow hedging reserve £000 | Profit and loss account £000 | Total equity £000 |
|--|-------------|---|---|---|---|----------------------------------|
| Balance at 1 January 2017 | | 270,000 | - | (8,658) | 455,993 | 717,335 |
| Total comprehensive income for the period | | | | | | |
| Profit or loss | | - | - | - | 121,983 | 121,983 |
| Actuarial gain on post-employment benefits: | | | | | | |
| Gain in the year | | - | - | - | 65,486 | 65,486 |
| Deferred tax on gain in the year | | - | - | - | (11,132) | (11,132) |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>(11,132)</u> | <u>(11,132)</u> |
| Items that will not be reclassified to profit and loss | | - | - | - | 54,354 | 54,354 |
| | | <u>-</u> | <u>-</u> | <u>-</u> | <u>54,354</u> | <u>54,354</u> |
| Cash flow hedges: | | | | | | |
| Effective portion on changes in fair value of cash flow hedges | | - | - | 12,687 | - | 12,687 |
| Net change in fair value of cash flow hedge reclassified to profit or loss | | - | - | 20,963 | - | 20,963 |
| Deferred tax on cash flow hedge | 20 | - | - | (5,826) | - | (5,826) |
| | | <u>-</u> | <u>-</u> | <u>27,824</u> | <u>-</u> | <u>27,824</u> |
| Items that are or may be subsequently reclassified to profit or loss | | - | - | 27,824 | - | 27,824 |
| | | <u>-</u> | <u>-</u> | <u>27,824</u> | <u>54,354</u> | <u>82,178</u> |
| Other comprehensive income | | - | - | 27,824 | 54,354 | 82,178 |
| Total comprehensive income for the year | | <u>-</u> | <u>-</u> | <u>27,824</u> | <u>176,337</u> | <u>204,161</u> |
| Transactions with owners: | | | | | | |
| Share capital issued | 23 | 44,500 | 845,500 | - | - | 890,000 |
| Dividends paid in the year | 23 | - | - | - | (140,000) | (140,000) |
| Acquired as part of business combination | 2 | - | - | (3,842) | 1,541 | (2,301) |
| Share based payment expense | 24 | - | - | - | 880 | 880 |
| | | <u>44,500</u> | <u>845,500</u> | <u>(3,842)</u> | <u>(137,579)</u> | <u>748,579</u> |
| Total transactions with owners | | <u>44,500</u> | <u>845,500</u> | <u>(3,842)</u> | <u>(137,579)</u> | <u>748,579</u> |
| Balance at 31 December 2017 | | <u><u>314,500</u></u> | <u><u>845,500</u></u> | <u><u>15,324</u></u> | <u><u>494,751</u></u> | <u><u>1,670,075</u></u> |

Statement of Changes in Equity

| | <i>Note</i> | Called up Share capital £000 | Cash flow hedging reserve £000 | Profit and loss account £000 | Total equity £000 |
|--|-------------|---------------------------------------|---|------------------------------------|-------------------------|
| Balance at 1 January 2016 | | 270,000 | (3,649) | 521,371 | 787,722 |
| Total comprehensive income for the period | | | | | |
| Profit or loss | | - | - | 81,042 | 81,042 |
| Actuarial gain on post-employment benefits: | | | | | |
| Gain in the year | | - | - | 51,711 | 51,711 |
| Deferred tax on gain in the year | | - | - | (6,402) | (6,402) |
| | | - | - | - | - |
| Items that will not be reclassified to profit and loss | | - | - | 45,309 | 45,309 |
| Cash flow hedges: | | | | | |
| Effective portion on changes in fair value of cash flow hedges | | - | (5,308) | - | (5,308) |
| Net change in fair value of cash flow hedge reclassified to profit or loss | | - | (746) | - | (746) |
| Deferred tax on cash flow hedge | 20 | - | 1,045 | - | 1,045 |
| Items that are or may be subsequently reclassified to profit or loss | | - | (5,009) | - | (5,009) |
| Other comprehensive income | | - | (5,009) | 45,309 | 40,300 |
| Total comprehensive income for the year | | - | (5,009) | 126,351 | 121,342 |
| Transactions with owners: | | | | | |
| Dividends paid in the year | 23 | - | - | (192,000) | (192,000) |
| Share based payment expense | 24 | - | - | 271 | 271 |
| Total transactions with owners | | - | - | (191,729) | (191,729) |
| Balance at 31 December 2016 | | 270,000 | (8,658) | 455,993 | 717,335 |

Cash Flow Statement

for year ended 31 December 2017

| | Note | 2017 £000 | 2016 £000 |
|--|----------|--------------------|-----------------|
| Cash flows from operating activities | | | |
| Profit for the year | | 121,983 | 81,042 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | 10,11,12 | 46,855 | 32,760 |
| Foreign exchange losses | | 6,283 | 1,482 |
| Impairment of Investments | 13 | (3,638) | (66,167) |
| Charge relating to defined benefit pension scheme | 22 | 45,424 | 24,661 |
| Interest receivable and similar income | 7 | (13,863) | (11,840) |
| Interest payable and similar expenses | 8 | 24,863 | 3,041 |
| Loss / (Gain) on sale of tangible fixed assets | | 229 | (66) |
| Provisions | 21 | (22,437) | (5,522) |
| Equity settled share-based payment expenses | 24 | 880 | 271 |
| Taxation | 9 | 23,345 | 18,137 |
| Decrease/(increase) in trade and other debtors | | 33,536 | (25,724) |
| Increase in stocks | | (20,827) | (6,397) |
| Decrease in trade and other creditors | | (47,882) | (12,176) |
| Increase in provisions | | 34,702 | 12,508 |
| Interest paid | | (9,796) | (1,090) |
| Tax paid | | (25,323) | (10,648) |
| Defined benefit pension scheme contributions | 22 | (54,652) | (17,325) |
| Net cash from operating activities | | 139,682 | 16,947 |
| Cash flows from investing activities | | | |
| Proceeds from sale of tangible fixed assets | | 153 | 131 |
| Interest received | 7 | 4,148 | 539 |
| Dividends received | | 4,138 | 67,015 |
| Acquisition relating to a business combination | 2 | (178,153) | - |
| Acquisition of a subsidiary (net of cash received) | 2 | (1,047,914) | (3,638) |
| Acquisition of tangible fixed assets | 11 | (31,015) | (15,990) |
| Acquisition of other intangible assets | 10 | (435) | (3,625) |
| Capitalised development expenditure | 10 | (18,032) | (9,957) |
| Net cash (used in)/from investing activities | | (1,267,110) | 34,475 |
| Cash flows from financing activities | | | |
| Proceeds from the issue of share capital | 23 | 890,000 | - |
| Proceeds from new loan | 18 | 160,000 | - |
| Net change in financial debts & receivables | | 215,529 | 151,525 |
| Dividends paid | 23 | (140,000) | (192,000) |
| Net cash from/(used in) financing activities | | 1,125,529 | (40,475) |
| Net (decrease)/increase in cash and cash equivalents | | (1,899) | 10,947 |
| Cash and cash equivalents at beginning of the year | | 25,833 | 16,294 |
| Effect of exchange rate fluctuations on cash held | | (8,368) | (1,408) |
| Cash and cash equivalents at end of the year | | 15,566 | 25,833 |

Notes

(forming part of the financial statements)

1 Accounting policies

Leonardo MW Ltd (the “Company”) is a private Company incorporated, domiciled and registered in England in the UK. The registered number is 2426132 and the registered address is Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL

The Company is exempt by virtue of s400 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.

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 as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101 from Adopted IFRS, the Company has made no measurement and recognition adjustments.

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

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

Notes (continued)

1 Accounting policies (continued)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 January 2017 for the purposes of the transition to FRS 101.

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 28.

1.1 Going concern

The financial statements have been prepared on the going concern basis under the historical cost convention. On the basis of the current forward projections and forecasts the directors consider the Company has adequate resources available to continue in operational existence for the foreseeable future. For this reason the directors consider it appropriate to apply the going concern basis of accounting in preparing these financial statements.

1.2 Currency translation

1.2.1 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.

1.2.2 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 other interest receivable and similar income and interest payable and similar expenses.

1.3 Intangible assets

Intangible assets are non-monetary items without physical form, but which can be clearly identified and generate future 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.

1.3.1 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 relating to the entity sold.

1.3.2 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.

1.3.3 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 number of production units delivered.

Notes (continued)

1 Accounting policies (continued)

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

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

1.4 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.

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:

| | |
|---------------------------------------|---|
| Freehold Buildings and infrastructure | to 33 years |
| Leasehold land and buildings | to 50 years, or the lease term if shorter |
| Plant and equipment | 3 to 15 years |

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 groups of assets are calculated by comparing the sales price with the related net book value.

1.5 Investment Property

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

1.6 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 income statement.

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 income statement. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

1.7 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.

Notes (continued)

1 Accounting policies (continued)

1.8 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
- Finished goods

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

1.9 Contract work in progress

Contract work in progress is 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 work in progress is 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 'advances from customers' within current liabilities. Amounts due from customers are recorded within current assets.

1.10 Financial receivables

The Company classifies its financial assets in the following categories; at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

1.10.1 Financial assets at fair value through profit and loss

This category includes financial assets acquired for the purpose of short-term trading transactions, or designated for this use by management, as well as derivatives, which are discussed in the next section. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques (principal discount cashflow). Changes in the fair value of instruments in this category are recognised immediately in the statement of profit or loss.

The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

1.10.2 Loans and receivables: trade receivables, construction contract receivables and financial assets

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of profit or loss. If the reasons for the write-down should cease to exist, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised. Loans and receivables are posted under current assets except for the portion falling due beyond 12 months, which is carried under non-current assets.

Notes (continued)

1 Accounting policies (continued)

1.11 Derivative financial instruments and hedging activities

Derivatives are initially measured at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed on the face of the balance sheet within current assets and current liabilities. Movements on the hedging reserve in shareholders' equity are shown in the statement of changes in equity.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss within other interest receivable and similar income and other interest payable and similar expenses.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the statement of profit or loss within "revenue". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, customer advances, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in revenue in the case of customer advances, cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

1.12 Derivative financial instruments and hedging activities

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

1.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of four months or less, and bank overdrafts. Bank overdrafts are shown in current liabilities on the balance sheet. Cash and cash equivalents are recognised at their fair value.

1.14 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.

1.15 Financial liabilities

Trade payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes (continued)

1 Accounting policies (continued)

1.16 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.

1.17 Employee benefit costs

Defined benefit plans

The Company participates in the Leonardo Electronics Pension Scheme and 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.

1.18 Employee benefit costs

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.

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.

Notes (continued)

1 Accounting policies (continued)

1.19 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 reorganisation 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.

1.20 Leasing

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the statement of profit or loss on a straight line basis over the duration of the contract.

1.21 Revenue recognition

Revenue is recognised at the fair value of the amounts received and receivable to the extent it is probable the economic benefits will flow to the Company and the following criteria are met:

1.21.1 Construction contracts

See contract work in progress section 1.9 (above)

1.21.2 Sale of spares and other goods

Revenue is recognised when all of the significant risks and rewards of ownership of the goods have transferred to the buyer and when it can be reliably measured. In many cases this will coincide with the transfer of title or possession to the buyer.

1.21.3 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 achievement of contractual milestones.

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

1.22 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.

1.23 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.

1.24 Related party transactions

Related party transactions are made at arm's length.

Notes (continued)

2 Acquisitions of businesses

Acquisitions in the current period

On 1 January 2017, as part of the extension of Leonardo SpA's "One Company" initiative the Company purchased 100% of the ordinary share capital of AgustaWestland Limited and DRS Technologies UK Limited from Leonardo SpA and DRS Technologies Inc. On the same day, the Company purchased the majority of the trade and net assets of AgustaWestland Limited and all the trade and net assets of DRS Technologies UK Limited.

The net assets of the companies acquired are held at book value which is not materially different to fair value.

Consideration transferred

The consideration for the share capital of each business was in the form of cash.

| | |
|-----------------------------|-----------|
| | £000 |
| AgustaWestland Limited | 1,050,000 |
| DRS Technologies UK Limited | 8,000 |

The consideration for the trade and net assets of each business was in the form of an intercompany loan.

| | |
|--|---------|
| | £000 |
| InterCompany loan with AgustaWestland Limited | 123,145 |
| InterCompany loan with DRS Technologies UK Limited | 7,214 |

Effect of acquisition of AgustaWestland Limited

Identifiable assets acquired and liabilities assumed from AgustaWestland Limited.

| | Recognised values on acquisition £000 |
|---|--|
| Acquiree's net assets at the acquisition date: | |
| Tangible fixed assets | 85,772 |
| Investment property | 3,381 |
| Intangible assets | 89,617 |
| Investments | 275 |
| Deferred tax assets | 27,987 |
| Stocks | 238,344 |
| Trade and other debtors | 295,103 |
| Derivative financial instruments (assets) | 7,509 |
| Financial assets | 828,677 |
| Cash & Cash equivalents | 1,050 |
| Stock option grant | 200 |
| Trade and other creditors | (544,834) |
| Advances from customers | (653,015) |
| Retirement benefit liability | (163,635) |
| Derivative financial instruments | (8,907) |
| Current tax liabilities | (3,728) |
| Deferred tax liabilities | (2,952) |
| Provisions for liabilities and charges | (26,063) |
| Cash flow hedge reserve | (3,842) |
| Net identifiable assets and liabilities | 170,939 |
| Total consideration | 1,050,000 |

Notes (continued)

2. Acquisition of businesses (continued)

Goodwill was recognised as a result of the acquisition as follows:

| | £000 |
|--|-------------|
| Total consideration transferred for the share capital of Agusta Westland Limited | 1,050,000 |
| Fair value of identifiable net assets (see above) | 170,939 |
| | <hr/> |
| Goodwill (note 10) | 879,061 |
| | <hr/> <hr/> |

On 1 January 2017, the majority of the trade and net assets of AgustaWestland Limited were acquired for £123,145k.

The goodwill recognises the competencies, products and services offered by the subsidiary acquired in the year which integrated with the existing business, enhances business opportunities.

Identifiable assets acquired and liabilities assumed from DRS Technologies UK Limited.

| | Recognised values on acquisition £000 |
|---|--|
| Acquiree's net assets at the acquisition date: | |
| Tangible fixed assets | 305 |
| Deferred tax assets | 154 |
| Stocks | 1,022 |
| Trade and other debtors | 9,589 |
| Cash & cash equivalents | 9,036 |
| Trade and other creditors | (2,539) |
| Advances from customers | (8,078) |
| Retirement benefit liability | (1,809) |
| Current tax liabilities | (431) |
| Provisions for liabilities and charges | (35) |
| | <hr/> |
| Net identifiable assets and liabilities | 7,214 |
| | <hr/> <hr/> |
| Total consideration | 8,000 |
| | <hr/> <hr/> |

Goodwill was recognised as a result of the acquisition as follows:

| | £000 |
|--|-------------|
| Total consideration transferred for the share capital of DRS Technologies UK Limited | 8,000 |
| Fair value of identifiable net assets (see above) | 7,214 |
| | <hr/> |
| Goodwill (note 10) | 786 |
| | <hr/> <hr/> |

On 1 January 2017 the trade and net assets of DRS Technologies UK Limited were acquired for £7,214k.

Notes (continued)

3 Turnover

| | 2017 £000 | 2016 £000 |
|--------------------------------|--------------|--------------|
| Sale of goods | 1,171,032 | 836,740 |
| Rendering of services | 607,855 | 238,741 |
| Change in work in progress | 43,605 | (85,263) |
| | <hr/> | <hr/> |
| Total turnover | 1,822,492 | 990,218 |
| | <hr/> | <hr/> |
| | 2017 £000 | 2016 £000 |
| <i>By geographical market:</i> | | |
| United Kingdom | 1,036,868 | 593,027 |
| Rest of Europe | 384,751 | 150,002 |
| USA and Canada | 181,777 | 112,407 |
| Rest of World | 219,096 | 134,782 |
| | <hr/> | <hr/> |
| | 1,822,492 | 990,218 |
| | <hr/> | <hr/> |

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.

4 Expenses and auditor's remuneration

Included in profit are the following:

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Depreciation of tangible assets | 27,339 | 21,154 |
| Amortisation of intangible assets | 6,572 | 11,221 |
| Amortisation of investment property | 65 | - |
| Impairment loss tangible assets | 5,372 | 385 |
| Impairment loss intangible assets | 7,507 | - |
| Impairment of Investments | 3,638 | 66,167 |
| Foreign exchange losses on operating items | 11,141 | 1,482 |
| Research and development expensed as incurred | 150,806 | 112,525 |
| Onerous construction contracts – charged direct to profit and loss | 3,788 | - |
| Onerous construction contracts – provisions created | 2,634 | 1,929 |
| Research and development tax credits | 8,900 | 11,590 |
| Pension service cost | 45,424 | 24,661 |
| | <hr/> | <hr/> |

Impairment of investments

During the year, the Company has recognised an impairment charge on investments £3,638k (2016: £66,167k) in relation to the subsidiary Finmeccanica UK Ltd who completed a capital reduction exercise and paid a dividend to the Company of £3,638k (shown in dividends from subsidiaries) (2016: £66,167k) after completion of the capital reduction.

Notes (continued)

4 Expenses and auditor's remuneration (continued)

Pension service cost

With the purchase of the AgustaWestland business the Company acquired the Leonardo Helicopter Pension Scheme. The service cost for the Leonardo Electronics Pension scheme during the year was £30,800k and the service cost for the Leonardo Helicopters Pension Scheme was £15,300k (net of credit). There was a credit in relation to past service costs of £12,900k in the Leonardo Helicopters Pension Scheme as a result of the first tranche of a pension increase exchange program.

Auditor's remuneration:

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Audit of these financial statements, including half year review | 607 | 333 |
| Amounts receivable by the Company's auditor and its associates in respect of: | | |
| Audit of financial statements of subsidiaries of the Company | 33 | 41 |
| Audit -related assurance services | 72 | 5 |
| Tax advisory services | 13 | 34 |
| | <hr/> 725 | <hr/> 413 |
| | <hr/> <hr/> | <hr/> <hr/> |

5 Staff numbers and costs

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

| | Number of employees 2017 | 2016 |
|-------------------|-----------------------------|-------------|
| Management | 986 | 732 |
| Technical / admin | 4,857 | 3,245 |
| Production | 1,013 | 279 |
| | <hr/> 6,856 | <hr/> 4,256 |
| | <hr/> <hr/> | <hr/> <hr/> |

The aggregate payroll costs of these persons were as follows:

| | 2017 £000 | 2016 £000 |
|---|---------------|---------------|
| Wages and salaries | 324,666 | 210,106 |
| Social security costs | 33,731 | 21,000 |
| Contributions to defined contribution plans | 11,032 | 6,335 |
| Expenses related to defined benefit plans | 46,124 | 24,661 |
| | <hr/> 415,553 | <hr/> 262,102 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes (continued)

6 Directors' remuneration

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Directors' remuneration | 1,623 | 1,482 |
| Amounts receivable under long term incentive schemes – shares | 370 | 237 |
| Amounts receivable under long term incentive schemes - cash | 34 | 23 |
| | <u>2,027</u> | <u>1,742</u> |

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,071k (2016: £1,287k).

Six of the directors serving during the year were employees of another Leonardo Group Company (2016: one). They did not receive any direct remuneration for their service as a director of the Company for the period (2016: none) and any allocation to this Company could be considered to be £nil (2016: nil).

No directors were members of the Company defined benefit pension schemes (2016: none).

7 Other interest receivable and similar income

| | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Total interest expense on short term loans | 3,476 | 366 |
| Net foreign exchange gain | 843 | 738 |
| Net interest on net defined benefit plan assets (see note 22) | 8,872 | 10,563 |
| Other similar income | 672 | 173 |
| | <u>13,863</u> | <u>11,840</u> |

Interest receivable and similar income includes income from group undertakings of £3,476k (2016: £366k).

8 Interest payable and similar expenses

| | 2017 £000 | 2016 £000 |
|--|---------------|--------------|
| Total interest expense on short term loans | 517 | 514 |
| Total interest expense on long term loans | 6,382 | - |
| Total interest expense on overdrafts and bank loans | 134 | 7 |
| Ineffective portion of changes in fair value of cash flow hedges | 9,516 | 123 |
| Net foreign exchange loss | 2,151 | 1,828 |
| Net interest on net defined benefit plan assets (see note 22) | 3,400 | - |
| Other similar expenses | 2,763 | 569 |
| | <u>24,863</u> | <u>3,041</u> |

Interest payable and similar expenses includes interest payable to group undertakings of £8,927k (2016 :£514k).

Notes (continued)

9 Taxation

Recognised in the profit and loss account

| | 2017 £000 | 2017 £000 | 2016 £000 | 2016 £000 |
|---|--------------|--------------|--------------|--------------|
| <i>UK corporation tax</i> | | | | |
| Current tax on income for the period | 24,262 | | 19,064 | |
| Adjustments in respect of prior periods | (3,352) | | 73 | |
| | | 20,910 | | 19,137 |
| <i>Foreign tax</i> | | | | |
| Current tax on income for the period | 43 | | 142 | |
| Adjustments in respect of prior periods | (10) | | - | |
| | | 33 | | 142 |
| Total current tax | | 20,943 | | 19,279 |
| <i>Deferred tax (see note 20)</i> | | | | |
| Origination and reversal of temporary differences | 2,431 | | (1,174) | |
| Adjustments in respect of prior periods | 383 | | 937 | |
| Reduction in tax rate | (412) | | (905) | |
| Total deferred tax | | 2,402 | | (1,142) |
| Tax charge for the year (see below) | | 23,345 | | 18,137 |

Reconciliation of effective tax rate

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Profit for the financial year | 121,983 | 81,042 |
| Total tax expense | 23,345 | 18,137 |
| Profit excluding taxation | 145,328 | 99,179 |
| Tax using the UK corporation tax rate of 19.25% (2016: 20%) | 27,976 | 19,836 |
| Effect of tax rates in foreign jurisdictions | 40 | 133 |
| Reduction in tax rate on deferred tax balances | (412) | (905) |
| Non-deductible expenses | 550 | 321 |
| Patent box | (1,925) | (2,000) |
| Adjustments in respect of prior periods | (2,979) | 1,010 |
| Other | 95 | (258) |
| Total tax charge for the year (see above) | 23,345 | 18,137 |

Notes (continued)

10 Intangible assets

| | Goodwill £000 | Capitalised development costs £000 | Software and other intangibles £000 | Total £000 |
|---|------------------|---|--|------------------|
| Cost | | | | |
| Balance at 1 January 2017 | 358,017 | 85,573 | 19,260 | 462,850 |
| Acquisitions | - | 18,032 | 435 | 18,467 |
| Acquired as part of business combination (note 2) | 879,847 | 88,392 | 1,225 | 969,464 |
| Reclassification | - | - | 466 | 466 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2017 | 1,237,864 | 191,997 | 21,386 | 1,451,247 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Amortisation and impairment | | | | |
| Balance at 1 January 2017 | 72,338 | 41,328 | 16,964 | 130,630 |
| Amortisation for the year | - | 4,242 | 2,330 | 6,572 |
| Impairment for the year | - | 7,507 | - | 7,507 |
| Reclassification | - | - | 186 | 186 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 December 2017 | 72,338 | 53,077 | 19,480 | 144,895 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 31 December 2016 and 1 January 2017 | 285,679 | 44,245 | 2,296 | 332,220 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2017 | 1,165,526 | 138,920 | 1,906 | 1,306,352 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

In addition to the capitalised development costs, there has been £33,978k (2016: £26,459k) expensed through the income statement in relation to research and development in the year and spend on development contracts of £107,333k (2016: £85,568k).

Impairment loss and subsequent reversal

Development costs £7,507k (2016: £nil) were impaired during year.

Impairment testing

Goodwill increased significantly in the year due to the acquisition of AgustaWestland Limited.

Goodwill has been allocated to cash generating units as follows:

| | Goodwill 2017 £000 | Goodwill 2016 £000 |
|-------------|--------------------------|--------------------------|
| Electronics | 286,465 | 285,679 |
| Helicopters | 879,061 | - |

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

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.

Notes (continued)

10 Intangible assets (continued)

The key assumptions of this calculation are shown below:

| | 2017 | 2016 |
|---|---------|---------|
| 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 | 7.9% | 10.5% |
| Discount Rate – Helicopters | 8.5% | - |

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

11 Tangible fixed assets

| | Freehold land and buildings £000 | Leasehold land and buildings £000 | Plant and equipment £000 | Total £000 |
|---|---|--|--------------------------------|---------------|
| Cost | | | | |
| Balance at 1 January 2017 | - | 8,235 | 371,436 | 379,671 |
| Additions | 11 | - | 31,004 | 31,015 |
| Disposals | (19) | - | (8,619) | (8,638) |
| Acquired as part of business combination (note 2) | 57,875 | - | 28,202 | 86,077 |
| Reclassification | - | - | 2,064 | 2,064 |
| Balance at 31 December 2017 | 57,867 | 8,235 | 424,087 | 490,189 |
| Depreciation and impairment | | | | |
| Balance at 1 January 2017 | - | 1,833 | 298,106 | 299,939 |
| Charge for the year | 2,214 | 347 | 24,778 | 27,339 |
| Impairment for the year | - | - | 5,372 | 5,372 |
| Disposals | - | - | (8,256) | (8,256) |
| Reclassification | - | - | 2,797 | 2,797 |
| Balance at 31 December 2017 | 2,214 | 2,180 | 322,797 | 327,191 |
| Net book value | | | | |
| At 31 December 2016 and 1 January 2017 | - | 6,402 | 73,330 | 79,732 |
| At 31 December 2017 | 55,653 | 6,055 | 101,290 | 162,998 |

Non-depreciating assets (assets in course of construction) of £26,801k (2016: £21,908k) are included within leasehold land and buildings and plant and equipment above and are not being depreciated.

Net book value of finance leased assets at £6,115k (2016: £4,706k) is included within plant and equipment above. The depreciation charge on finance leased assets in the year was £5,018k (2016: £2,366k).

Impairment loss and subsequent reversal

Plant and equipment assets £5,372k (2016: £385k) were impaired during year.

Notes (continued)

12 Investment property

| | Land & Buildings £000 |
|---|--------------------------|
| Cost | |
| Balance at 1 January 2017 | - |
| Acquired as part of business combination (note 2) | 3,381 |
| | <hr/> |
| Balance at 31 December 2017 | 3,381 |
| | <hr/> |
| Amortisation and impairment | |
| Balance at 1 January 2017 | - |
| Amortisation for the year | 65 |
| | <hr/> |
| Balance at 31 December 2017 | 65 |
| | <hr/> |
| Net book value | |
| At 1 January 2017 | - |
| | <hr/> |
| At 31 December 2017 | 3,316 |
| | <hr/> |

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

13 Fixed asset investments

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Balance at 1 January | 139,550 | 202,079 |
| Additions | 1,058,000 | 3,638 |
| Less amount transferred to goodwill (note 2) | (879,847) | - |
| Acquired as part of business combination (note 2) | 275 | - |
| Capital impairment | (3,638) | (66,167) |
| | <hr/> | <hr/> |
| Balance at 31 December | 314,340 | 139,550 |
| | <hr/> | <hr/> |

Selex ES InfraRed Ltd was dissolved on 26 January 2016.

Selex ES Electro Optics (Overseas) Ltd was dissolved on 11 October 2016.

Selex ES Electro Optics (Overseas) Ltd, VEGA Consulting Services Limited and SELEX ES Ltd (formerly SELEX Systems Integration Limited) completed capital reduction exercises during the 2016 year and paid dividends to The Company resulting in an impairment of the investments respectively of £525k, £14,072k and £51,570k.

On 1 November 2016, the Company purchased 100% of the share capital of Finmeccanica UK Limited from Leonardo SpA for consideration of £3,638k.

On 1 January 2017, the Company acquired 50% of the share capital of Aviation Training International Limited from AgustaWestland Limited as part of the business combination (note 2)

Notes (continued)

13 Fixed asset investments (continued)

On 1 January 2017, the Company purchased 100% of the share capital of AgustaWestland Limited for £1,050,000k and DRS Technologies UK Limited for £8,000k from Leonardo SpA. The purchase price included goodwill of £879,847k. (see note 2).

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 ES Saudi Arabia of SAR 1.5m (£296k) for long term funds, the facility was not in use at the year end.

The Company has provided a loan facility to Selex Galileo Inc of USD 15m (£11,097k) for short term funds, of which USD 2.5m (£2,031k) was utilised at the year end.

As at 31 December 2017, ordinary shares in group companies held by the Company were:

| Entity | Registered office address | Class of shares held | Ownership | |
|---|--|----------------------|-----------|------|
| | | | 2017 | 2016 |
| Selex Galileo Inc | Suite 704, 201 12th Street South, Arlington, Virginia 22202 | Ordinary | 100% | 100% |
| Lasertel Inc. (indirect subsidiary) | 7775 North Casa Grande Highway, Tucson, Arizona 85743 | 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% |
| Selex ES India Private Ltd | 502 Eros Corporate Tower, Nehru Place, New Delhi 110019 | Ordinary | 100% | 100% |
| Selex ES for Trading of Machinery and Devices Ltd | Office 5112, IO Centers, Floor 2, Dar al-Awadhi Mall, Ahmed Al-Jabber Street, Sharq, Kuwait | Ordinary | 100% | 100% |
| SC Elettra Communications SA | Soseaua Ploiesti – Târgoviște Km. 8 Loc. Ploiesti, Jud. Prahova - Romania | Ordinary | 100% | 100% |
| Finmeccanica UK Limited | Lysander Road, Yeovil, Somerset, BA20 2YB | Ordinary | 100% | 100% |
| 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 (formerly SELEX Systems Integration Limited) | 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 2YB | Ordinary | 100% | 100% |
| VEGA Consulting Services Limited | Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL | Ordinary | 100% | 100% |
| Aviation Training International Limited | Coldharbour Business Park, Sherborne, Dorset, DT6 4JW | Ordinary | 50% | - |
| Agusta Westland Limited | Lysander Road, Yeovil, Somerset, BA20 2YB | Ordinary | 100% | - |
| DRS Technologies UK Limited | Silvertree Coxbridge Business Park, Alton Road, Farnham, Surrey, GU10 5EH | Ordinary | 100% | - |
| PCA Electronic Test Limited | Silvertree Coxbridge Business Park, Alton Road, Farnham, Surrey, GU10 5EH | Ordinary | 100% | - |

Notes (continued)

14 Stocks

| | 2017 £000 | 2016 £000 |
|-------------------------------|----------------|---------------|
| Raw materials and consumables | 168,471 | 12,154 |
| Work in progress | 106,267 | 58,093 |
| Finished goods | - | 292 |
| | <u>274,738</u> | <u>70,539</u> |

15 Construction contracts

| | 2017 £000 | 2016 £000 |
|--|------------------|-----------------|
| Contracts in progress at balance sheet date: | | |
| Amounts due from contract customers shown as construction contracts | 138,389 | 82,395 |
| Amounts due to contract customer shown as advances from customers (note 19) | (768,201) | (167,130) |
| Total construction contracts | <u>(629,812)</u> | <u>(84,735)</u> |
| Contract costs incurred plus recognised profits less recognised losses to date | 355,126 | 273,997 |
| Progress billings | (984,938) | (358,732) |
| Total construction contracts | <u>(629,812)</u> | <u>(84,735)</u> |

Construction contract receivables have been categorised as loans and receivables. The amounts are held at cost and this is approximate to fair value.

16 Debtors

| | 2017 £000 | 2016 £000 |
|--|------------------|----------------|
| Trade debtors | 246,181 | 112,797 |
| Amounts owed by group undertakings (see note 27) | 198,041 | 57,759 |
| Other debtors | 27,945 | 33,298 |
| Derivative financial instruments | 22,406 | 9,565 |
| Financial assets (see note 17) | 790,824 | 58,349 |
| Prepayments and accrued income | 7,600 | 4,757 |
| Total debtors | <u>1,292,997</u> | <u>276,525</u> |

Notes (continued)

17 Financial assets

| | 2017 £000 | 2016 £000 |
|---|----------------|---------------|
| Amounts falling due within one year: | | |
| Short term loans to Leonardo SpA (note 27) | 788,401 | 56,319 |
| Loans to other group companies (note 27) | 2,423 | 2,030 |
| Total financial assets | 790,824 | 58,349 |

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 0.39% (2016: 0.89%) on Sterling denominated loans.

18 Financial liabilities

| | 2017 £000 | 2016 £000 |
|--|----------------|----------------|
| Amounts falling due within one year: | | |
| Short term loans from Leonardo SpA (note 27) | 38,229 | - |
| Loans from other group companies (note 27) | 241,524 | 114,712 |
| Other | 2,049 | - |
| Total amounts falling due within one year (note 19) | 281,802 | 114,712 |
| Amounts falling due after one year: | | |
| Long term loans from Leonardo SpA (note 27) | 160,000 | - |
| Other | 3,541 | - |
| Total amounts falling due after one year | 163,541 | - |
| Total financial liabilities | 445,343 | 114,712 |

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. The Long term loan is repayable over a 5 year term.

Notes (continued)

19 Creditors: amounts falling due within one year

| | 2017 £000 | 2016 £000 |
|---|------------------|----------------|
| Advances from customers | 768,201 | 167,130 |
| Trade creditors | 247,908 | 99,681 |
| Amounts owed to group undertakings (see note 27) | 231,556 | 41,919 |
| Corporate taxation | 6,186 | 9,307 |
| Provisions for liabilities and charges (see note 21) | 30,641 | 30,624 |
| Accruals and deferred income | 230,460 | 38,470 |
| Other taxation and social security | 31,086 | 16,231 |
| Derivative financial liabilities | 7,321 | 19,875 |
| Other financial liabilities (see note 18) | 281,802 | 114,712 |
| | <hr/> | <hr/> |
| Total creditors: amounts falling due within one year | 1,835,161 | 537,949 |
| | <hr/> <hr/> | <hr/> <hr/> |

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.

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 19% and 17% (2016: 19% and 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 | |
|-----------------------------------|-----------------|----------------|---------------|---------------|---------------|---------------|
| | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 |
| Tangible fixed assets | - | - | 5,751 | 3,773 | 5,751 | 3,773 |
| Intangible assets | - | - | 8,241 | 6,748 | 8,241 | 6,748 |
| Financial assets / liabilities | - | (1,901) | 3,757 | - | 3,757 | (1,901) |
| Employee benefits | (11,417) | - | 49,586 | 52,564 | 38,169 | 52,564 |
| Share-based payments | (150) | (59) | - | - | (150) | (59) |
| Provisions | (445) | - | - | - | (445) | - |
| Tax value of loss carry-forwards | (447) | (420) | - | - | (447) | (420) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Tax (assets) / liabilities | (12,459) | (2,380) | 67,335 | 63,085 | 54,876 | 60,705 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Net of tax (assets) | - | - | - | - | (11,417) | (2,380) |
| Net of tax liabilities | - | - | - | - | 66,293 | 63,085 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

There is no unrecognised deferred tax.

Notes (continued)

20 Deferred tax (continued)

Movement in deferred tax during the current year

| | 1 January 2017 £000 | Recognised in income £000 | Recognised in equity £000 | Acquired in business combination £000 | 31 December 2017 £000 |
|--|---------------------------|---------------------------------|---------------------------------|--|-----------------------------|
| Tangible fixed assets | 3,773 | (610) | - | 2,588 | 5,751 |
| Intangible assets | 6,748 | 1,493 | - | - | 8,241 |
| Financial assets | (1,901) | (375) | 5,826 | 207 | 3,757 |
| Employee benefits | 52,564 | 2,321 | 11,132 | (27,848) | 38,169 |
| Share-based payments | (59) | (91) | - | - | (150) |
| Provisions | - | (309) | - | (136) | (445) |
| Tax value of loss carry-forwards utilised | (420) | (27) | - | - | (447) |
| Tax (assets) / liabilities | 60,705 | 2,402 | 16,958 | (25,189) | 54,876 |

Movement in deferred tax during the prior year

| | 1 January 2016 £000 | Recognised in income £000 | Recognised in equity £000 | Acquired in business combination £000 | 31 December 2016 £000 |
|--|---------------------------|---------------------------------|---------------------------------|--|-----------------------------|
| Tangible fixed assets | 4,537 | (764) | - | - | 3,773 |
| Intangible assets | 7,447 | (699) | - | - | 6,748 |
| Financial assets | (856) | - | (1,045) | - | (1,901) |
| Employee benefits | 45,828 | 334 | 6,402 | - | 52,564 |
| Share-based payments | (25) | (34) | - | - | (59) |
| Provisions | - | - | - | - | - |
| Tax value of loss carry-forwards utilised | (396) | 21 | - | (45) | (420) |
| Tax (assets) / liabilities | 56,535 | (1,142) | 5,357 | (45) | 60,705 |

Notes (continued)

21 Provisions

| | Restructuring £000 | Contract £000 | Warranty £000 | Other £000 | Total £000 |
|---|-----------------------|------------------|------------------|---------------|---------------|
| Balance at 1 January 2017 | 7,541 | 9,620 | 11,463 | 2,000 | 30,624 |
| Provisions made during the year | 3,604 | 2,634 | 5,621 | - | 11,859 |
| Provisions used during the year | (5,493) | (8,951) | (7,993) | - | (22,437) |
| Provisions reversed during the year | - | (669) | (4,726) | - | (5,395) |
| Acquired as part of business combinations | - | - | 26,098 | - | 26,098 |
| Balance at 31 December 2017 | 5,652 | 2,634 | 30,463 | 2,000 | 40,749 |
| Amounts falling due within one year | 5,652 | 2,634 | 20,355 | 2,000 | 30,641 |
| Amounts falling after one year | - | - | 10,108 | - | 10,108 |
| | Restructuring £000 | Contract £000 | Warranty £000 | Other £000 | Total £000 |
| Balance at 1 January 2016 | 1,772 | 10,927 | 8,721 | 2,218 | 23,638 |
| Provisions made during the year | 6,762 | 1,929 | 8,993 | - | 17,684 |
| Provisions used during the year | (936) | (1,436) | (3,150) | - | (5,522) |
| Provisions reversed during the year | (275) | (1,800) | (3,101) | - | (5,176) |
| Reclassification | 218 | - | - | (218) | - |
| Balance at 31 December 2016 | 7,541 | 9,620 | 11,463 | 2,000 | 30,624 |
| Amounts falling due within one year | 7,541 | 9,620 | 11,463 | 2,000 | 30,624 |
| Amounts falling after one year | - | - | - | - | - |

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 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 year 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.

Notes (continued)

22 Retirement benefit obligations

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.

| | 2017 £000 | 2016 £000 |
|--|-----------------|----------------|
| Retirement benefit asset – Leonardo Electronics Pension Scheme | 291,681 | 309,195 |
| Total retirement benefit asset | 291,681 | 309,195 |
| Retirement benefit liability – Leonardo Helicopters Pension Scheme | (64,100) | - |
| Retirement medical benefit liability – Leonardo Helicopters Pension Scheme | (2,516) | - |
| Total retirement benefit liability | (66,616) | - |

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 2018 are expected to be £15.9 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 £9.0 million over the year, excluding any contributions to the SBS accounts, based on average member contribution rates of 8.1% of pensionable salaries.

A full actuarial valuation of the scheme was carried out as at 31 December 2017 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

| | 2017 | 2016 |
|--------------------------------|-------|-------|
| Discount rate | 2.60% | 2.80% |
| Inflation assumption (RPI) | 3.55% | 3.60% |
| Inflation assumption (CPI) | 2.55% | 2.60% |
| Career Salary revaluation | 3.50% | 3.55% |
| RPI max 5% pension increases | 3.40% | 3.45% |
| RPI max 2.5% pension increases | 2.30% | 2.30% |

Assumed life expectancies at age 65 are (years):

| | 2017 | 2016 |
|-------------------------------------|------|------|
| Retiring today - Males | 22.1 | 22.1 |
| Retiring today - Females | 24.0 | 24.2 |
| Retiring in 20 years time - Males | 23.2 | 23.4 |
| Retiring in 20 years time - Females | 25.3 | 25.7 |

Notes (continued)

22 Retirement benefit obligations (continued)

| | 2017 £000 | 2016 £000 |
|-------------------------------------|----------------|----------------|
| Present value of funded obligations | (675,021) | (595,714) |
| Fair value of scheme assets | 966,702 | 904,909 |
| | <hr/> | <hr/> |
| Surplus in funded scheme | 291,681 | 309,195 |
| | <hr/> | <hr/> |

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

| | 2017 £000 | 2016 £000 |
|---|----------------|----------------|
| Fair value of scheme assets at beginning of year | 904,909 | 669,356 |
| Interest income on scheme assets | 25,395 | 27,437 |
| Return on assets, excluding interest income | 32,212 | 191,743 |
| Contributions by employers | 16,252 | 17,325 |
| Contributions by scheme participants | 9,095 | 9,746 |
| Benefits paid | (19,556) | (8,405) |
| Scheme administrative cost | (1,605) | (2,293) |
| | <hr/> | <hr/> |
| Fair value of scheme assets at end of the year | 966,702 | 904,909 |
| | <hr/> | <hr/> |

The assets in the scheme were:

| | 2017 £000 | 2016 £000 |
|---|----------------|----------------|
| Cash and Cash equivalents | 5,617 | 12,314 |
| Derivatives | 11,501 | 29,496 |
| Investment Funds – Securities: | | |
| Alternative securities | 154,851 | 101,002 |
| Equity | 321,169 | 272,936 |
| Bonds | 425,272 | 452,352 |
| Cash | 18,284 | 24,898 |
| Other | 30,008 | 11,911 |
| | <hr/> | <hr/> |
| Fair value of scheme assets at end of the year | 966,702 | 904,909 |
| | <hr/> | <hr/> |
| The actual return on assets over the period was: | 57,607 | 219,180 |
| | <hr/> | <hr/> |

Notes (continued)

22 Retirement benefit obligations (continued)

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

| | 2017 £000 | 2016 £000 |
|--|----------------|----------------|
| Benefit obligation at beginning of year | 595,714 | 415,100 |
| Service cost | 30,059 | 22,368 |
| Interest cost | 16,523 | 16,874 |
| Contributions by scheme participants | 9,095 | 9,746 |
| Net re-measurement losses - financial | 25,191 | 161,262 |
| Net re-measurement (gains) - demographic | (6,548) | (16,631) |
| Net re-measurement losses/(gains) - experience | 25,383 | (4,600) |
| Benefits paid | (19,556) | (8,405) |
| Settlements | (840) | - |
| Benefit obligation at end of the year | 675,021 | 595,714 |

The amounts recognised in profit and loss are:

| | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Service cost - including current service cost, past service cost and settlements | 29,219 | 22,368 |
| Service cost - administrative cost | 1,605 | 2,293 |
| Net interest on the net defined benefit liability | (8,872) | (10,563) |
| Total expense recognised in profit and loss | 21,952 | 14,098 |

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

| | 2017 £000 | 2016 £000 |
|--|---------------|-----------------|
| Net re-measurement - financial | 25,191 | 161,262 |
| Net re-measurement - demographic | (6,548) | (16,631) |
| Net re-measurement - experience | 25,383 | (4,600) |
| Return on assets, excluding interest income | (32,212) | (191,743) |
| Total re-measurement of net defined benefit assets shown in OCI | 11,814 | (51,712) |

Notes (continued)

22 Retirement benefit obligations (continued)

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 as at 5 April 2017 and revealed a surplus of £192 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

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 rate.
- 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.

Notes (continued)

22 Retirement benefit obligations (continued)

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.

c) Information about any amendments, curtailments and settlements

A redundancy exercise was carried out during the year. In respect of this exercise, a settlement gain of £840k has been recognised in the service cost for 2017.

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

| | 2017 | 2016 |
|--|---------|---------|
| Discount rate | 640,100 | 563,600 |
| Inflation * | 692,200 | 614,000 |
| Mortality (increase life expectancy by one year) | 696,300 | 611,300 |

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

Expected future cash flows to and from the Scheme

In accordance with the schedule of contributions dated 18 December 2017, the Company is expected to pay contributions of £15.9 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 £110.7 million. These contributions include an allowance for 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 22 years.

Notes (continued)

22 Retirement benefit obligations (continued)

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 AgustaWestland Limited (see note 2), therefore 2016 comparative figures are shown for information only, as they were not part of this company during 2016.

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 48% of the liabilities are attributable to current employees, 13% to former employees not yet in receipt of a pension and 39% 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 around 20 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 2017 and showed a deficit of £71.4m. 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 2024. The next funding valuation due as at 5 April 2020 at which progress towards full-funding will be reviewed. A deficit contribution of £11.5m is expected to be paid by the Company during the year ending on 31 December 2018.

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

| | 2017 | 2016 |
|---|-------|-------|
| Discount rate | 2.50% | 2.70% |
| Inflation assumption (RPI) | 3.25% | 3.30% |
| Inflation assumption (CPI) | 2.15% | 2.20% |
| Rate of general long-term increase in salaries | 3.25% | 4.30% |
| In-service career salary revaluation | 2.15% | 2.20% |
| Rate of increase to pensions in payment (post April 2005) | 2.20% | 2.20% |
| Rate of increase to pensions in payment (pre April 2005) | 3.10% | 3.15% |

Assumed life expectancies at age 65 are (years):

| | 2017 | 2016 |
|-------------------------------------|------|------|
| Retiring today – Males | 23.0 | 22.9 |
| Retiring today – Females | 24.8 | 25.2 |
| Retiring in 20 years time – Males | 24.7 | 25.1 |
| Retiring in 20 years time – Females | 26.6 | 27.5 |

Notes (continued)

22 Retirement benefit obligations (continued)

| | 2017 £000 | 2016 £000 |
|-------------------------------------|-----------------|------------------|
| Present value of funded obligations | (1,573,700) | (1,564,400) |
| Fair value of scheme assets | 1,509,600 | 1,403,300 |
| | <hr/> | <hr/> |
| Deficit in funded scheme | (64,100) | (161,100) |
| | <hr/> | <hr/> |

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

| | 2017 £000 | 2016 £000 |
|---|------------------|------------------|
| Fair value of scheme assets at beginning of year | 1,403,300 | 1,062,000 |
| Expected return on scheme assets | 38,300 | 39,500 |
| Administration expenses | (1,900) | (1,500) |
| Re-measurement gains on scheme assets | 61,500 | 310,800 |
| Contributions by the employer | 38,400 | 33,300 |
| Net benefits paid out | (40,300) | (40,800) |
| Net increase in assets from disposals/acquisitions | 10,300 | - |
| | <hr/> | <hr/> |
| Fair value of scheme assets at end of the year | 1,509,600 | 1,403,300 |
| | <hr/> | <hr/> |

The assets in the scheme were:

| | 2017 £000 | 2016 £000 |
|---------------------------|--------------|--------------|
| Cash and Cash equivalents | 109,800 | 90,500 |
| Derivatives | 11,700 | 18,200 |
| Infrastructure | 12,200 | 20,200 |
| Overseas equity | 526,800 | 327,600 |
| Private equities | 28,700 | 39,500 |
| Hedge funds | 141,400 | 99,400 |
| Fixed interest gilts | 190,400 | 249,600 |
| Index linked gilts | 393,800 | 430,600 |
| Corporate bonds | 94,800 | 127,700 |
| | <hr/> | <hr/> |

| | | |
|---|------------------|------------------|
| Fair value of scheme assets at end of the year | 1,509,600 | 1,403,300 |
| | <hr/> | <hr/> |

| | | |
|---------------------------------------|--------|---------|
| Interest income on scheme assets | 38,300 | 39,500 |
| Re-measurement gains on scheme assets | 61,500 | 310,800 |
| | <hr/> | <hr/> |

| | | |
|---|---------------|----------------|
| The actual return on assets over the period was: | 99,800 | 350,300 |
| | <hr/> | <hr/> |

Notes (continued)

22 Retirement benefit obligations (continued)

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

| | 2017 £000 | 2016 £000 |
|--|------------------|------------------|
| Benefit obligation at beginning of year | 1,564,400 | 1,224,900 |
| Current service cost | 26,300 | 22,200 |
| Past service cost | (12,900) | - |
| Interest cost | 41,700 | 44,600 |
| Net re-measurement losses - financial | 53,800 | 326,500 |
| Net re-measurement (gains) - demographic | (32,600) | 12,100 |
| Net re-measurement losses/(gains) - experience | (39,400) | (25,100) |
| Benefits paid | (40,300) | (40,800) |
| Net increase from disposals/acquisitions | 12,700 | - |
| | <hr/> | <hr/> |
| Benefit obligation at end of the year | 1,573,700 | 1,564,400 |
| | <hr/> | <hr/> |

The amount recognised in profit and loss are:

| | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Service cost - including current service cost, past service cost and settlements | 13,400 | 22,200 |
| Service cost - administrative cost | 1,900 | 1,500 |
| Net interest on the net defined benefit liability | 3,400 | 5,100 |
| Costs charged in the financial statements of other member companies (equals their cash contribution to the scheme) | (700) | (800) |
| | <hr/> | <hr/> |
| Total expense recognised in profit and loss | 18,000 | 28,000 |
| | <hr/> | <hr/> |

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

| | 2017 £000 | 2016 £000 |
|--|-----------------|--------------|
| Net re-measurement - financial | 53,800 | 326,500 |
| Net re-measurement - demographic | (32,600) | 12,100 |
| Net re-measurement - experience | (39,400) | (25,100) |
| Net re-measurement - business combinations | 2,400 | - |
| Return on assets, excluding interest income | (61,500) | (310,800) |
| | <hr/> | <hr/> |
| Total re-measurement of net defined benefit assets shown in OCI | (77,300) | 2,700 |
| | <hr/> | <hr/> |

Notes (continued)

22 Retirement benefit obligations (continued)

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:

| | 2018 service cost* | 2018 net interest | 2018 P&L charge | Plan assets | DBO | Deficit |
|-------------------------------------|--------------------------|----------------------|-----------------------|----------------|-------------|-----------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Current figures | 27,300 | 1,000 | 28,300 | 1,509,600 | (1,573,700) | (64.1) |
| 0.25% decrease in the discount rate | 28,800 | 2,700 | 31,500 | 1,509,600 | (1,654,200) | (144,600) |
| 0.25% increase in the RPI inflation | 28,400 | 2,600 | 31,000 | 1,509,006 | (1,635,000) | (125,400) |

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 would 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 FuturePlanner. Contributions by the Company to the defined contribution scheme were £3,968,000 (2016: £3,834,000).

Other post-retirement benefits

Certain employees are entitled to post-retirement benefits other than pensions. At 31 December 2014, 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 8.0% per annum in 2015 reducing by 1.0% per annum for four years and remain at 4.55% thereafter.

Employee benefits provisions include £2,516k (2016: £nil) being the present value of post-retirement medical benefit liabilities. The charge to comprehensive income for the year amounted to £nil (2016: £nil).

Notes (continued)

23 Capital and reserves

Share capital

| | 2017 £000 | 2016 £000 |
|--|----------------|----------------|
| Allotted, called up and fully paid | | |
| 314,500,100 ordinary shares (2016: 270,000,100) of £1 each | 314,500 | 270,000 |
| | <u>314,500</u> | <u>270,000</u> |
| Authorised | | |
| 314,500,100 ordinary shares (2016: 300,000,100) of £1 each | 314,500 | 300,000 |
| | <u>314,500</u> | <u>300,000</u> |

During the year the Company issued 44,500,000 £1 ordinary shares for a consideration of £890,000k settled in cash, resulting in share premium of £845,500k.

Cash flow hedging reserve

The hedging reserve surplus of £15,324k (2016: £8,658k deficit) 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 ended 31 December 2017. (2016: £80,000k, 29.6296 pence per share).

24 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 plans have a rolling structure of three year cycles commencing in 2015, 2016 and 2017 with shares being issued after the end of each 3 year period. The plans commencing in 2015, 2016 and 2017 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:

€3.88 and €14.12 per share for the shares on the long term investment plan

€11.42 per share for the shares on the co-investment plan

The charge to the income statement in the year was £880k (2017: £271k)

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | 2017 £000 | 2016 £000 |
|----------------------------|----------------|----------------|
| Less than one year | 13,700 | 13,227 |
| Between one and five years | 53,832 | 51,778 |
| More than five years | 67,885 | 79,817 |
| | <u>135,417</u> | <u>144,822</u> |

The main operating leases held by the Company comprise the leases for the buildings occupied by the Company.

Notes (continued)

26 Commitments

Capital commitments and other financial commitments

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Contracts placed for future capital expenditure not provided in the financial statements: | | |
| Property, plant and equipment | 5,357 | 2,974 |
| | <u>5,357</u> | <u>2,974</u> |

27 Related parties

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:

| | 2017 £000 | 2016 £000 |
|-------------------------------------|--------------|--------------|
| With subsidiaries: | | |
| Purchases of goods and services | 44,928 | 43,750 |
| Sales of goods and services | 958 | 12,592 |
| Net interest receivable | 15 | 33 |
| With Leonardo SpA: | | |
| Purchases of goods and services | 231,009 | 72,122 |
| Sales of goods and services | 135,071 | 28,375 |
| Net interest (payable) / receivable | (5,466) | (260) |
| With other group companies: | | |
| Purchases of goods and services | 31,446 | 14,670 |
| Sales of goods and services | 69,849 | 92,465 |

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

| | 2017 £000 | 2016 £000 |
|--|----------------|---------------|
| Included within trade and other receivables (note 16) | | |
| Leonardo SpA | 169,680 | 22,688 |
| Subsidiaries | 266 | 1,516 |
| Other group companies | 28,095 | 33,555 |
| | <u>198,041</u> | <u>57,759</u> |
| Included within financial assets (note 17) | | |
| Leonardo SpA | 788,401 | 56,319 |
| Subsidiaries | 1,849 | 2,030 |
| Other group companies | 574 | - |
| | <u>790,824</u> | <u>58,349</u> |

Notes (continued)

27 Related parties (continued)

| | 2017 £000 | 2016 £000 |
|--|---------------|---------------|
| Included within trade and other creditors (note 19) | | |
| Leonardo SpA | 206,596 | 32,468 |
| Subsidiaries | 5,793 | 4,595 |
| Other group companies | 19,167 | 4,856 |
| | <hr/> 231,556 | <hr/> 41,919 |
| | <hr/> | <hr/> |
| Included within financial liabilities (note 18) | | |
| Leonardo SpA | 198,229 | - |
| Subsidiaries | 111,165 | 114,712 |
| Other group companies | 130,359 | - |
| | <hr/> 439,753 | <hr/> 114,712 |
| | <hr/> | <hr/> |

28 Accounting estimates and judgements

In applying its accounting policies the Company has made estimates and assumptions concerning the future, which may differ from the actual outcomes. Those estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities 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 work in progress 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 and 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.

Notes (continued)

28 Accounting estimates and judgements (continued)

Retirement Benefits valuation

The costs, assets and liabilities of the defined benefit pension schemes operating within the Company are determined using methods relying on actuarial estimates and other assumptions. Details of the key assumptions are set out in Note 22.

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 22.

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.

29 Ultimate parent Company and parent Company of larger group

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.