Leonardo MW Ltd

Annual report and financial statements

Registered number 2426132

31 December 2018

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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 2018.

Principal activities and business review

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 £2,049m *(2017: £1,400m)* and an order book as at 31 December 2018 of £5,556m *(2017 restated: £5,351m)* which represents 270% of 2018 turnover *(2017 restated: 291%).*

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

The announcement of team 'Tempest' and the UK's intent to develop its next generation fighter aircraft was a significant milestone in 2018 for the Aerospace Industry. Team 'Tempest' is an industrial collaboration with a mission to develop this aircraft and other supporting technologies. Leonardo is one of the key partners within the team and will lead on the sensors and sensor mission system activity, cementing our position as the UKs lead Sensors and mission system provider in the air domain.

Our integrated capability within the helicopter domain, means we remain the only UK company that has the end to end capability to produce military helicopters.

Throughout 2018, the UK continued to build its "One Company" operating model and 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.

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 continue to be some positive world economic trends, political uncertainties remain, not least in respect of Brexit, US trade policy, Italian/EU relationship, and the ongoing conflicts and destabilisation in the Middle East.

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 announcement of team 'Tempest', will give the Company opportunities in the future.

In addition, the Company has a 10 year Strategic Partnering Agreement with the UK MoD with the aim of strengthening the relationship for the mutual benefit of both parties in the helicopter sector. This was signed in 2016 and is focused on 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, the Middle East, Canada and Norway.

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.

Strategic report *(continued)*

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 company set up a working group during 2017 to investigate the possible areas impacted by brexit and identified the major risks to be related to the freedom of circulation of products, technologies, movements for workers and participation in joint intergovernmental programs. The company continues to monitor the situation and mitigating actions.

Brexit is one of the most significant economic events for the UK and currently there is great uncertainty as to the outcome which could impact the valuations of some assets and liabilities on the balance sheet eg goodwill, retirement benefit assets and liabilities as well as others.

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.

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 £217,252k *(2017 restated: profit of £124,653k).*

By order of the Board

NJBone

N.J.Bone
Director

27 March 2019

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 2018 was £198,720k *(2017: £150,806k).*

Proposed dividend

The directors do not recommend the payment of a final dividend in relation to the 2018 financial statements *(2017:Nil).* The dividend paid in relation to the 2017 financial statements was not approved until after the 2017 balance sheet date, and was recognised in the 2018 financial year.

During 2018, the Company paid dividends of £160,000k *(2017:£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. A. J. Cowdery	(resigned 9 January 2019)
Mr. A. Parrella	
Mr. J. M. M. Ponsonby	(resigned 10 January 2018)
Mr. G. P. Cutillo	
Mrs.S. Iarlori	
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 *(2017: £nil).*

Statement of disclosure of information to auditor

For each director in office at the date the directors' report is approved, the following is confirmed:

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

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

Directors' indemnities

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

Directors' report *(continued)*

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

N J Bone

N.J.Bone
Director

27 March 2019

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

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 and 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 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.

KPMG

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 2018 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 2018 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of goodwill and other intangible assets, the valuation of the retirement benefit pension asset and liability, the recoverability of trade debtors and the recoverability of contract assets and liabilities, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

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

We 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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

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.

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

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.

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 7, 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.

A Campbell

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

27 March 2019

Profit and Loss Account and other Comprehensive Income

for year ended 31 December 2018

	Note	2018	2017 Restated*
		£000	£000
Turnover	3	**2,058,763**	1,838,421
Changes in inventories of finished goods and work in progress		**(21,733)**	(22,058)
Raw material and consumables		**(876,266)**	(633,545)
Staff costs	5	**(435,411)**	(415,553)
Depreciation and other amounts written off tangible and intangible fixed assets	10,11,12	**(40,171)**	(46,855)
Other operating expenses		**(462,829)**	(561,276)
Operating profit	4	**222,353**	159,134
Income from shares in group undertakings		**7,214**	4,138
Profit on the sale of equity investment	13	**27,369**	-
Other interest receivable and similar income	7	**22,497**	13,863
Interest payable and similar expenses	8	**(16,497)**	(24,863)
Impairment of investments	13	**(7,214)**	(3,638)
Profit before taxation		**255,722**	148,634
Taxation	9	**(38,470)**	(23,981)
Profit for the financial year		**217,252**	124,653
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit liability/asset	22	**(10,289)**	65,486
Deferred tax (charge) on items that will not be reclassified to profit or loss	20	**(467)**	(11,132)
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges		**(12,820)**	12,687
Net change in fair value of cash flow hedges reclassified to profit or loss		**(5,455)**	20,963
Deferred tax (charge)/credit on (gain)/loss on cash flow hedge	20	**3,106**	(5,826)
Other comprehensive (expenditure)/income for the year, net of income tax		**(25,925)**	82,178
Total comprehensive income for the year		**191,327**	206,831

* The 2017 balances have been restated for changes in accounting policies, see note 28.

Balance Sheet
at 31 December 2018

	Note	2018 £000	2018 £000	2017 Restated* £000	2017 Restated* £000
Fixed assets					
Intangible assets					
Goodwill	10	**1,165,695**		1,165,526	
Other intangibles	10	**137,598**		140,826	
Tangible fixed assets	11	**162,993**		162,998	
Investment property	12	**3,251**		3,316	
Fixed asset investments	13	**305,913**		314,340	
Retirement benefit asset	22	**269,948**		291,681	
Deferred tax asset	20	**20,117**		16,039	
			2,065,515		2,094,726
Current assets					
Stocks	14	**346,857**		274,738	
Contract assets	15	**168,554**		124,755	
Debtors (including £4,437k (2017:£9,880) due after more than one year	16	**1,027,630**		1,288,423	
Cash at bank and in hand		**32,829**		15,566	
		1,575,870		1,703,482	
Creditors: amounts falling due within one year	19	**(1,721,053)**		(1,840,908)	
Net current liabilities			**(145,183)**		(137,426)
Total assets less current liabilities			**1,920,332**		1,957,300
Non current liabilities					
Deferred tax liability	20	**(70,560)**		(66,293)	
Retirement benefit liability	22	**(48,109)**		(66,616)	
Provisions for liabilities falling due after one year	21	**(17,148)**		(10,108)	
Financial liabilities	18	**(103,731)**		(163,541)	
			(239,548)		(306,558)
Net assets			**1,680,784**		1,650,742
Capital and reserves					
Called up share capital	23		**314,500**		314,500
Share premium account	23		**845,500**		845,500
Other reserves	23		**155**		15,324
Profit and loss account			**520,629**		475,418
Shareholders' funds			**1,680,784**		1,650,742

These financial statements were approved by the board of directors on 27 March 2019 and were signed on its behalf by:

N.J. Bone

N.J. Bone
Director

Company registered number: 2426132

* The 2017 balances have been restated for changes in accounting policies, see note 28.

Statement of Changes in Equity

	Note	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 2018		314,500	845,500	15,324	475,418	1,650,742
Changes in accounting policies (note 28)		-	-	-	(1,977)	(1,977)
Balance at 1 January 2018 restated*		**314,500**	**845,500**	**15,324**	**473,441**	**1,648,765**
Total comprehensive income for year						
Profit for the financial year		-	-	-	217,252	217,252
Actuarial loss on post-employment benefits:						
Gain in the year		-	-	-	(10,289)	(10,289)
Deferred tax on gain in the year	*20*	-	-	-	(467)	(467)
Items that will not be reclassified to profit and loss		-	-	-	(10,756)	(10,756)
Cash flow hedges:						
Effective portion on changes in fair value of cash flow hedges		-	-	(12,820)	-	(12,820)
Net change in fair value of cash flow hedge reclassified to profit or loss		-	-	(5,455)	-	(5,455)
Deferred tax on cash flow hedge	*20*	-	-	3,106	-	3,106
Items that are or may be subsequently reclassified to profit or loss		-	-	(15,169)	-	(15,169)
Other comprehensive income		-	-	(15,169)	(10,756)	(25,925)
Total comprehensive income for the year		**-**	**-**	**(15,169)**	**206,496**	**191,327**
Transactions with owners:						
Dividends paid in the year	*23*	-	-	-	(160,000)	(160,000)
Share based payment expense	*24*	-	-	-	692	692
Total transactions with owners		**-**	**-**	**-**	**(159,308)**	**(159,308)**
Balance at 31 December 2018		**314,500**	**845,500**	**155**	**520,629**	**1,680,784**

* The opening balances have been restated for changes in accounting policies, see note 28.

Statement of Changes in Equity

	Note	**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
Changes in accounting policies (note 28)		-	-	-	(10,194)	(10,194)
Balance at 1 January 2017 restated*		**270,000**	**-**	**(8,658)**	**445,799**	**707,141**
Changes in accounting policies (note 28)					(11,809)	(11,809)
Balance at 1 January 2017 restated after business acquisition (note 28)		**270,000**	**-**	**(8,658)**	**433,990**	**695,332**
Total comprehensive income for year						
Profit for the financial year restated*		-	-	-	124,653	124,653
Actuarial gain on post-employment benefits:						
Gain in the year		-	-	-	65,486	65,486
Deferred tax on gain in the year	*20*	-	-	-	(11,132)	(11,132)
Items that will not be reclassified to profit and loss restated*		-	-	-	54,354	54,354
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)
Items that are or may be subsequently reclassified to profit or loss		-	-	27,824	-	27,824
Other comprehensive income restated*		-	-	27,824	54,354	82,178
Total comprehensive income for the year restated*		**-**	**-**	**27,824**	**179,007**	**206,831**
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
Total transactions with owners		**44,500**	**845,500**	**(3,842)**	**(137,579)**	**748,579**
Balance at 31 December 2017 restated*		**314,500**	**845,500**	**15,324**	**475,418**	**1,650,742**

* The 2017 balances have been restated for changes in accounting policies, see note 28.

Cash Flow Statement
for year ended 31 December 2018

	Note	2018 £000	2017 Restated* £000
Cash flows from operating activities			
Profit for the year		**217,252**	124,653
Adjustments for:			
Depreciation, amortisation and impairment	10,11,12	**40,171**	46,855
Foreign exchange losses		**(1,666)**	6,283
Impairment of Investments	13	**(7,214)**	(3,638)
Charge relating to defined benefit pension scheme	22	**57,242**	45,424
Interest receivable and similar income	7	**(49,866)**	(13,863)
Interest payable and similar expenses	8	**16,497**	24,863
(Gain)/Loss on sale of tangible fixed assets		**(238)**	229
Provisions	21	**(10,515)**	(22,437)
Equity settled share-based payment expenses	24	**692**	880
Taxation	9	**38,470**	23,981
Decrease in trade and other debtors		**(1,384)**	27,655
(Increase) in stocks		**(115,918)**	(18,492)
(Decrease) in trade and other creditors		**(71,922)**	(47,642)
(Decrease)/increase in provisions		**(6,179)**	34,702
Interest paid	8	**(8,719)**	(9,796)
Tax paid		**(27,894)**	(25,323)
Defined benefit pension scheme contributions	22	**(57,635)**	(54,652)
Net cash from operating activities		**11,174**	139,682
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**569**	153
Proceeds from sale of investments		**28,582**	-
Interest received	7	**6,350**	4,148
Dividends received		**7,214**	4,138
Acquisition relating to a business combination	2	**-**	(178,153)
Acquisition of a subsidiary (net of cash received)	2	**-**	(1,047,914)
Acquisition of tangible fixed assets	11	**(28,159)**	(31,015)
Acquisition of other intangible assets	10	**(1,092)**	(435)
Capitalised development expenditure	10	**(8,598)**	(18,032)
Net cash (used in) investing activities		**4,866**	(1,267,110)
Cash flows from financing activities			
Proceeds from the issue of share capital	23	**-**	890,000
Proceeds from new loan	18	**-**	160,000
Repayments of loans		**(60,000)**	-
Net change in financial debts and receivables		**214,434**	215,529
Dividends paid	23	**(160,000)**	(140,000)
Net cash (used in)/from financing activities		**(5,566)**	1,125,529
Net increase/(decrease) in cash and cash equivalents		**10,474**	(1,899)
Cash and cash equivalents at beginning of the year		**15,566**	25,833
Effect of exchange rate fluctuations on cash held		**6,789**	(8,368)
Cash and cash equivalents at end of the year		**32,829**	15,566

* The 2017 balances have been restated for changes in accounting policies, see note 28.

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

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

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

- IFRS2 *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 IFRS3 *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 29.

Changes in accounting Policies

In these financial statements the company has changed its accounting policies in the following areas:

IFRS 15 :Revenue from Contract with Customers - See note 28

IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

IFRS 15 establishes a five step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The company adopted IFRS 15 using the full retrospective method using the practical expedients detailed below on transition.
PE1 - For completed contracts, contracts that begin and end within 2017 have not been restated
PE2 - For completed contracts that have variable consideration the transaction price at the contract completion is used for comparative reporting periods
PE3 - For contracts that were modified prior to 1 January 2017, the information available at 1 January 2017 has been used

IFRS 9 : Financial Instruments – See note 28

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and measurement.*
The company has elected to adopt the new general hedge accounting model in IFRS 9. This requires the company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward looking approach to assessing hedge effectiveness.

All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9 credit losses are recognised earlier than under IAS 39.

The company has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. The reclassifications and adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheets as at 31 December 2017 but are recognised in the opening balance sheet on 1 January 2018.

The adoption of IFRS 9 did not have a material impact on the financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

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*

1.2.1.1 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 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 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 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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

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

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	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 group 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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

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

1.9 Contract assets and liabilities

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.9 Contract assets and liabilities *(continued)*

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

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

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

1.10 Financial instruments (policy applicable from 1 January 2018)

(i) *Recognition and initial measurement*

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

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

(ii) Classification and subsequent measurement

Financial assets
(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

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

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

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

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

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

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

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

Investments in subsidiaries are carried at cost less impairment

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Financial instruments (policy applicable from 1 January 2018 (continued)*

Cash and cash equivalents

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

(b) Subsequent measurement and gains and losses

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

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

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

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

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:
(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

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

Intra-group financial instruments

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Financial instruments (policy applicable from 1 January 2018) (continued)

(iii) Derivative financial instruments and hedging

Derivative financial instruments

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

Cash flow hedges

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

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

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

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

Fair value hedges

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

(iv) Impairment

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.10 Financial instruments (policy applicable from 1 January 2018) (continued)

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

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

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Write-offs

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

1.11 Financial instruments (policy applicable prior to 1 January 2018)

(i) Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

(ii) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Notes *(continued)*

1 Accounting policies *(continued)*

1.11 Financial instruments (policy applicable prior to 1 January 2018) (Continued)

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment.

Cash and cash equivalents

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

(iii) Derivative financial instruments and hedging

Derivative financial instruments

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

Cash flow hedges

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

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the profit and loss account in the same period or periods during which the hedged forecast transaction affects profit or loss.

Notes *(continued)*

1 Accounting policies *(continued)*

1.11 Financial instruments (policy applicable prior to 1 January 2018) (continued)

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

Fair value hedges

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

(iv) Intra-group financial instruments

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

(v) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

1.12 *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.

1.13 *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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 *Employee benefit costs*

Defined benefit plans

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

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

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

Defined contribution plans

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

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.

1.15 *Provisions for liabilities and charges*

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

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

1.16 *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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.17 *Revenue recognition*

The Company has adopted IFRS 15 from 1 January 2018.

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

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

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

Variable consideration

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

Significant financing component

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

Warranties

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

Contract balances

Contract assets

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

Trade receivables

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

Contract liabilities

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.7.1 Contract assets and liabilities

See contract assets and liabilities section 1.9 (above)

1.7.2 Sale of spares and other goods

Revenue is recognised when the Company transfers control over a product to the customer. In many cases this will coincide with the transfer of title or possession to the buyer.

1.7.3 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.

1.18 *Interest receivable and payable*

Interest is recognised on an accruals basis using the effective interest rate method, ie 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.

1.19 *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.

1.20 *Related party transactions*

Related party transactions are made at arm's length.

Notes *(continued)*

2 Acquisitions of businesses

Acquisitions in the previous year

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

Acquiree's net assets at the acquisition date:	Recognised values on acquisition £000
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 Acquisitions of businesses *(continued)*

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

	£000
Total consideration transferred for the share capital of AgustaWestland Limited	1,050,000
Fair value of identifiable net assets (see above)	170,939
Goodwill	879,061

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 previous year, which integrated with the existing business, enhances business opportunities.

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

Acquiree's net assets at the acquisition date:	Recognised values on acquisition £000
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)
Net identifiable assets and liabilities	7,214
Total consideration	8,000

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
Goodwill (note 10)	786

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

Notes *(continued)*

3 Turnover

	2018 £000	2017 Restated* £000
Sale of goods	**1,251,047**	1,171,032
Rendering of services	**682,025**	607,855
Change in contract assets and liabilities	**125,691**	59,534
Total turnover	**2,058,763**	1,838,421

	2018 £000	2017 Restated* £000
By geographical market:		
United Kingdom	**1,181,872**	1,052,797
Rest of Europe	**471,358**	384,751
USA and Canada	**166,171**	181,777
Rest of World	**239,362**	219,096
	2,058,763	1,838,421

	2018 £000	2017 Restated* £000
By Division		
Electronics	**1,074,900**	988,072
Helicopters	**983,863**	850,349
	2,058,763	1,838,421

All revenue originates in the UK.

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

Turnover from contracts with customers

Contract balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers. The Company recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balances at 1 January 2018.

	Note	31 December 2018 £000	1 January 2018 £000
Receivables	*16*	**266,869**	241,607
Contract assets	*15*	**168,554**	124,755
Contract liabilities	*19*	**(811,906)**	(924.554)

Notes *(continued)*

3 Turnover *(continued)*

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

The amount of revenue recognised in current period that was included in the contract liability balance at the beginning of the period was £ 511,253k

4 Expenses and auditor's remuneration

Included in profit are the following:

	2018 **£000**	2017 £000
Depreciation of tangible assets	**27,242**	27,339
Amortisation of intangible assets	**4,309**	6,572
Amortisation of investment property	**65**	65
Impairment loss tangible assets	**-**	5,372
Impairment loss intangible assets	**8,555**	7,507
Impairment of Investments	**7,214**	3,638
Foreign exchange losses on operating items	**-**	11,141
Research and development expenses as incurred	**186,705**	141,311
Onerous construction contracts – charged direct to profit and loss	**-**	2,634
Onerous construction contracts – provisions created	**13,620**	3,788
Research and development tax credits	**9,675**	8,900
Pension service cost	**57,242**	45,424

Impairment of investments

During the year, the Company has recognised an impairment charge on investments £7,214k *(2017: £3,638k)* in relation to the subsidiary DRS Technologies UK Ltd who completed a capital reduction exercise and paid a dividend to the Company of £7,214k (shown as income from shares in group undertakings) *(2017: £3,638k)* after completion of the capital reduction.

Pension service cost

With the purchase of the AgustaWestland business in the prior year, the Company acquired the Leonardo Helicopter Pension Scheme. The service cost for the Leonardo Electronics Pension Scheme during the year was £31,642k *(2017: £30,824k)* and the service cost for the Leonardo Helicopters Pension Scheme was £25,600k *(2017: £15,300k)* (net of credit). There was a credit in relation to past service costs of £1,900k *(2017: £12,900k)* in the Leonardo Helicopters Pension Scheme as a result of the first tranche of a pension increase exchange programme.

Auditor's remuneration:

	2018 **£000**	2017 £000
Audit of these financial statements, including half year review	**846**	607
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**42**	33
Audit-related assurance services	**-**	72
Tax advisory services	-	13
	888	725

Notes *(continued)*

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	
	2018	2017
Management	**971**	986
Technical/admin	**4,898**	4,857
Production	**973**	1,013
	6,842	6,856

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	**330,620**	324,666
Social security costs	**35,430**	33,731
Contributions to defined contribution plans	**12,683**	11,032
Expenses related to defined benefit plans	**56,678**	46,124
	435,411	415,553

6 Directors' remuneration

	2018	2017
	£000	£000
Director's remuneration	**1,682**	1,623
Amounts receivable under long term incentive schemes – shares	**301**	370
Amounts receivable under long term incentive schemes – cash	**14**	34
	1,997	2,027

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £957k *(2017: £1,071k).*

Three of the directors serving during the year were employees of another Leonardo Group Company *(2017:six)*. They did not receive any direct remuneration for their service as a director of the Company for the period *(2017: none)* and any allocation to this Company could be considered to be £nil *(2017: nil)*.

One director was a member of the Company defined benefit pension schemes *(2017: none)*, and the contributions on their behalf were £18k *(2017: nil).*

Notes *(continued)*

7 Other interest receivable and similar income

	2018	2017
	£000	£000
Total interest expense on short term loans	**4,224**	3,476
Net foreign exchange gain	**8,384**	843
Net interest on net defined benefit plan assets (see note 22)	**7,763**	8,872
Other similar income	**2,126**	672
Total interest receivable and similar income	**22,497**	13,863

Interest receivable and similar income includes income from group undertakings of £4,224k *(2017: £3,476k).*

8 Interest payable and similar expenses

	2018	2017
	£000	£000
Total interest expense on short term loans	**1,184**	517
Total interest expense on long term loans	**5,992**	6,382
Total interest expense on overdrafts and bank loans	**47**	134
Ineffective portion of changes in fair value cash flow hedges	**3,089**	9,516
Net foreign exchange loss	**3,689**	2,151
Net interest on net defined benefit plan assets (see note 22)	**1,000**	3,400
Other similar expenses	**1,496**	2,763
Total other interest payable and similar expense	**16,497**	24,863

Interest payable and similar expenses includes interest payable to group undertakings of £7,176k *(2017: £8,927k).*

9 Taxation

Recognised in the profit and loss account

	2018	**2018**	2017 Restated*	2017 Restated*
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period	**39,048**		23,626	
Adjustments in respect of prior periods	**(3,990)**		(2,716)	
		35,058		20,910
Foreign tax				
Current tax on income for the period	**103**		43	
Adjustments in respect of prior periods	**8**		(10)	
		111		33
Total current tax		**35,169**		20,943
Deferred tax (see note 20)				
Origination and reversal of temporary differences	**2,503**		3,067	
Adjustments in respect of prior periods	**798**		383	
Reduction in tax rate	**-**		(412)	
Total deferred tax		**3,301**		3,038
Tax charge for the year (see below)		**38,470**		23,981

Notes *(continued)*

Reconciliation of effective tax rate

	2018 £000	2017 Restated* £000
Profit for the financial year	**217,252**	124,653
Total tax expense	**38,470**	23,981
Profit excluding taxation	**255,722**	148,634
Tax using the UK corporation tax rate of 19.00% (2017:19.25%)	**48,587**	28,612
Effect of tax rates in foreign jurisdictions	**103**	43
Reduction in tax rate on deferred tax balances	**-**	(412)
Non-deductible expenses	**(3,410)**	550
Patent box	**(1,900)**	(1,925)
Adjustments in respect of prior periods	**(3,184)**	(2,979)
Other	**(1,726)**	92
Total tax charge for the year (see above)	**38,470**	23,981

10 Intangible assets

	Goodwill £000	Capitalised development costs £000	Software and other intangibles £000	Total £000
Cost				
Balance at 1 January 2018	1,237,864	191,997	21,386	1,451,247
Acquisitions	169	8,598	923	9,690
Disposals	-	-	(2,466)	(2,466)
Reclassification	-	(159)	931	772
Balance as at 31 December 2018	1,238,033	200,436	20,774	1,459,243
Amortisation and impairment				
Balance at 1 January 2018	72,338	53,077	19,480	144,895
Amortisation for the year	-	2,819	1,490	4,309
Impairment for the year	-	8,555	-	8,555
Disposals	-	-	(2,464)	(2,464)
Reclassification	-	-	655	655
Balance at 31 December 2018	72,338	64,451	19,161	155,950
Net book value				
At 31 December 2017 and 1 January 2018	1,165,526	138,920	1,906	1,306,352
At 31 December 2018	**1,165,695**	**135,985**	**1,613**	**1,303,293**

In addition to the capitalised development costs, there has been £38,337k *(2017:£33,978k)* expensed through the income statement in relation to research and development in the year and spend on development contracts of £148,368k *(2017:£107,333k)*.

Notes *(continued)*

10 Intangible assets *(continued)*

Impairment loss and subsequent reversal

Development costs £8,555k *(2017: £7,507k)* were impaired during year.

Impairment testing

Goodwill increased significantly in 2017 due to the acquisition of AgustaWestland Limited (note 2).

Goodwill has been allocated to cash generating units as follows:

	2018	2017
	£000	£000
Electronics	**286,634**	286,465
Helicopters	**879,061**	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.

The key assumptions of this calculation are shown below:

	2018	2017
Period on which management approved forecasts are based	**5 years**	5 years
Growth rate applied beyond approved forecast period	**2.0%**	2.0%
Discount Rate – Electronics	**5.9%**	7.9%
Discount Rate – Helicopters	**8.2%**	8.5%

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

Notes *(continued)*

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 2018	57,867	8,235	424,087	490,189
Additions	237	-	27,922	28,159
Disposals	(193)	(57)	(28,616)	(28,866)
Reclassification	-	1,765	4,954	6,719
Balance at 31 December 2018	57,911	9,943	428,347	496,201
Depreciation and impairment				
Balance at 1 January 2018	2,214	2,180	322,797	327,191
Charge for the year	2,257	363	24,622	27,242
Disposals	(193)	(54)	(27,814)	(28,061)
Reclassification	-	-	6,836	6,836
Balance at 31 December 2018	4,278	2,489	326,441	333,208
Net book value				
At 31 December 2017 and 1 January 2018	55,653	6,055	101,290	162,998
At 31 December 2018	**53,633**	**7,454**	**101,906**	**162,993**

Non-depreciating assets (assets in course of construction) of £26,097k *(2017: £26,801k)* 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 £6,770k *(2017: £6,115k)* is included within plant and equipment above. The depreciation charge on finance leased assets in the year was £2,173k *(2017: £5,018k)*.

Impairment loss and subsequent reversal

Plant and equipment assets £nil *(2017: £5,372k)* were impaired during year.

Notes *(continued)*

12 Investment property

	2018 £000	2017 £000
Cost		
Balance at 1 January 2018	**3,381**	-
Acquired as part of business combination (note 2)	**-**	3,381
Balance at 31 December 2018	**3,381**	3,381
Amortisation and impairment		
Balance at 1 January 2018	**65**	-
Amortisation for the year	**65**	65
Balance at 31 December 2018	**130**	65
Net book value		
At 1 January	**3,316**	-
At 31 December	**3,251**	3,316

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

13 Fixed asset investment

	2018 £000	2017 £000
Balance at 1 January	**314,340**	139,550
Additions	**-**	1,058,000
Less amount transferred to goodwill (note 2)	**-**	(879,847)
Acquired as part of business combination (note 2)	**-**	275
Capital impairment	**(7,214)**	(3,638)
Disposals	**(275)**	-
Share Capital repayment	**(938)**	-
Balance at 31 December	**305,913**	314,340

During the year DRS Technologies UK Ltd completed a capital reduction exercise and paid a dividend of £ 7,214k to the company resulting in a impairment charge of £7,214k.

The Company sold its 50% holding in Aviation Training International Limited for consideration of £27,645k and its 100% shareholding in SC Elettra Communications SA.

The company received £ 938k share capital repayment from its investment in Selex ES for Trading of Machinery and Devices Ltd

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).
During 2017 Finmeccanica UK completed a capital reduction exercise and paid a dividend of £3,638k to the company and this resulted in an impairment charge of £3,638k

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 10m (£2,083k) for short term funds, the facility was not in use at year end.

The Company has provided a loan facility to Selex Galileo Inc of USD 15m (£11,719k) for short term funds, of which USD 2.5m (£1,953) was utilised at the year end.

As at 31 December 2018, ordinary shares in group companies held by the Company were:

Entity	Registered office address	Class of Shares held	Ownership 2018	2017
Selex Galileo Inc	Suite 704, 201 12th Street South, Arlington, Virginia 22202	Ordinary	**100%**	100%
Lastertel 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	**93%**	93%
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 2XB	Ordinary	**100%**	100%
VEGA Consulting Services Limited	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	**100%**	100%
AgustaWestland Limited	Lysander Road, Yeovil, Somerset, BA20 2YB	Ordinary	**100%**	100%
DRS Technologies	Silvertree Coxbridge Business Park, Alton Road, Farnham, Surrey, GU10 5EH	Ordinary	**100%**	100%
Leonardo International Limited (Formerly PCA Electronic Test Limited)	Silvertree Coxbridge Business Park, Alton Road, Farnham, Surrey, GU10 5EH	Ordinary	**100%**	100%

Notes *(continued)*

14 Stocks

	2018 £000	2017 £000
Raw materials and consumables	**240,287**	168,471
Work in progress	**106,570**	106,267
	346,857	274,738

15 Contract assets and liabilities

	2018 £000	2017 Restated* £000
Contracts in progress at balance sheet date:		
Amounts due from contract customers show as contract assets	**168,554**	124,755
Amounts due to contract customer shown as contract liabilities (note 19)	**(811,906)**	(924,554)
Net contract liabilities	**(643,352)**	(799,799)
Contract costs incurred plus recognised profits less recognised losses to date	**457,426**	138,308
Progress Billings	**(1,100,778)**	(938,107)
Net contract liabilities	**(643,352)**	(799,799)

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

16 Debtors

	2018 £000	2017 Restated* £000
Trade debtors	**266,869**	241,607
Amounts owed by group undertakings (see note 27)	**168,836**	198,041
Other debtors	**42,015**	27,945
Derivative financial instruments	**14,656**	22,406
Financial assets (see note 17)	**528,647**	790,824
Prepayments	**6,607**	7,600
Total debtors	**1,027,630**	1,288,423

Notes *(continued)*

17 Financial assets

	2018	2017
	£000	£000
Amounts falling due within one year:		
Short term loans from Leonardo SpA (note 27)	**525,560**	788,401
Loans to other group companies (note 27)	**3,087**	2,423
Total financial assets	**528,647**	790,824

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 0.80% (2017: 0.39%) on Sterling denominated loans.

18 Financial liabilities

	2018	2017
	£000	£000
Amounts falling due within one year:		
Short term loans from Leonardo SpA (note 27)	**-**	38,229
Loans from other group companies (note 27)	**233,411**	241,524
Other	**458**	2,049
Total amounts falling due within one year (note 19)	**233,869**	281,802
Amounts falling due after one year:		
Long term loans from Leonardo SpA (note 27)	**100,000**	160,000
Other	**3,731**	3,541
Total amounts falling due after one year	**103,731**	163,541
Total financial liabilities	**337,600**	445,343

All financial instruments are held at fair value. The fair value is not materially different to the book value. The balance is denominated in Sterling. The short term loans are repayable on demand and interest free. The long term loan is repayable within 2 - 5 years at interest rate of 4%.

Notes *(continued)*

19 Creditors: amounts falling due within one year

	2018 £000	2017 Restated* £000
Contract liabilities (see note 15)	**811,906**	924,554
Trade creditors	**335,198**	247,908
Amounts owed to group undertakings (see note 27)	**180,955**	231,556
Corporation tax	**13,521**	6,186
Provisions for liabilities and charges (see note 21)	**45,292**	30,641
Accruals	**70,321**	79,854
Other taxation and social security	**17,397**	31,086
Derivative financial liabilities	**12,594**	7,321
Other financial liabilities (see note 18)	**233,869**	281,802
Total creditors: amounts falling due within one year	**1,721,053**	1,840,908

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% *(2017: 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	
	2018 £000	2017 £000	**2018 £000**	2017 Restated £000	**2018 £000**	2017 Restated £000
Tangible fixed assets	**-**	-	**4,266**	5,751	**4,266**	5,751
Intangible assets	**-**	-	**9,540**	8,241	**9,540**	8,241
Financial assets/liabilities	**(514)**	-	**1,304**	3,757	**790**	3,757
Employee benefits	**(17,733)**	(11,417)	**55,450**	49,586	**37,717**	38,169
Share-based payments	**(192)**	(150)	**-**	-	**(192)**	(150)
Provisions	**(1,678)**	(445)	**-**	-	**(1,678)**	(445)
Tax value of loss carry-forwards	**-**	(447)	**-**	-	**-**	(447)
Changes in accounting policies (see note 28)	**-**	(4,622)	**-**	-	**-**	(4,622)
Tax (assets)/liabilities	**(20,117)**	(17,081)	**70,560**	67,335	**50,443**	50,254
Net of tax (assets)	**-**	-	**-**	-	**(20,117)**	(16,039)
Net of tax (liabilities)	**-**	-	**-**	-	**70,560**	66,293

There is no unrecognised deferred tax.

Notes *(continued)*

20 Deferred tax *(continued)*

Movement in deferred tax during the current year

	1 January 2018 Restated* £000	Recognised in income £000	Recognised in equity £000	31 December 2018 £000
Tangible fixed assets	5,751	(1,485)	-	4,266
Intangible assets	8,241	1,299	-	9,540
Financial assets	3,757	139	(3,106)	790
Employee benefits	38,169	(919)	467	37,717
Share-based payments	(150)	(42)	-	(192)
Provisions	(445)	(1,233)	-	(1,678)
Tax value of loss carry-forwards	(447)	447	-	-
Changes in accounting policies (see note 28)	(4,622)	5,095	(473)	-
Tax (assets)/liabilities	50,254	3,301	(3,112)	50,443

Movement in deferred tax during the prior year

	1 January 2017 Restated* £000	Recognised in income £000	Recognised in equity £000	Acquired in business combination see note 2) £000	31 December 2017 Restated* £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)**
Changes in accounting policies (see note 28)	(5,258)	636	-	-	**(4,622)**
Tax (assets)/liabilities	**55,447**	**3,038**	**16,958**	**(25,189)**	**50,254**

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 (see note 2)	-	-	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 2018	5,652	2,634	30,463	2,000	40,749
Provisions made during the year	2,602	1,143	8,386	655	12,786
Provisions used during the year	(3,033)	-	(7,482)	-	(10,515)
Provisions reversed during the year	(1,921)	-	(17,044)	-	(18,965)
Provisions reclassified	3	-	38,382	-	38,385
Balance at 31 December 2018	**3,303**	**3,777**	**52,705**	**2,655**	**62,440**
Amounts falling due within one year	**3,303**	**3,777**	**35,557**	**2,655**	**45,292**
Amounts falling after one year	**-**	**-**	**17,148**	**-**	**17,148**

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

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

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

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

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

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.

	2018 £000	2017 £000
Retirement benefit asset – Leonardo Electronics Pension Scheme	**269,948**	291,681
Total retirement benefit liability	**269,948**	291,681
Retirement benefit liability – Leonardo Helicopters Pension Scheme	**(45,600)**	(64,100)
Retirement medical benefit liability – Leonardo Helicopters Pension Scheme	**(2,509)**	(2,516)
Total retirement benefit liability	**(48,109)**	(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 2018 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	2018	2017
Discount rate	**2.90%**	2.60%
Inflation assumption (RPI)	**3.25%**	3.55%
Inflation assumption (CPI)	**2.25%**	2.55%
Career Salary revaluation	**3.25%**	3.50%
RPI max 5% pension increases	**3.15%**	3.40%
RPI max 2.5% pension increases	**2.20%**	2.30%

Assumed life expectancies at age 65 are (years):

	2018	2017
Retiring today – Males	**22.3**	22.1
Retiring today – Females	**24.3**	24.0
Retiring in 20 years time – Males	**24.0**	23.2
Retiring in 20 years time – Females	**26.1**	25.3

Notes *(continued)*

22 Retirement benefit obligations *(continued)*

	2018 £000	2017 £000
Present value of funded obligations	**(669,941)**	(675,021)
Fair value of scheme assets	**939,889**	966,702
Surplus in funded scheme	**269,948**	291,681

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

	2018 £000	2017 £000
Fair value of scheme assets at beginning of year	**966,702**	904,909
Interest income on scheme assets	**25,202**	25,395
Return on assets, excluding interest income	**(57,273)**	32,212
Contributions by employers	**15,535**	16,252
Contributions by scheme participants	**8,710**	9,095
Benefits paid	**(17,392)**	(19,556)
Scheme administrative cost	**(1,595)**	(1,605)
Fair value of scheme assets at end of the year	**939,889**	966,702

The assets in the scheme were:

	2018 £000	2017 £000
Cash and Cash equivalents	**2,922**	5,617
Derivatives	**(20,219)**	11,501
Investment Funds – Securities:		
Alternative securities	**136,881**	154,851
Equity	**210,285**	321,169
Bonds	**519,823**	425,272
Cash	**58,732**	18,284
Other	**31,465**	30,008
Fair value of scheme assets at end of the year	**939,889**	966,702
The actual return on assets over the period was:	**(32,071)**	57,607

Notes *(continued)*

22 Retirement benefit obligations *(continued)*

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

	2018 £000	2017 £000
Benefit obligation at beginning of year	**675,021**	595,714
Service cost	**30,047**	30,059
Interest cost	**17,439**	16,523
Contributions by scheme participants	**8,710**	9,095
Net re-measurement losses – financial	**(66,164)**	25,191
Net re-measurement (gains) – demographic	**22,280**	(6,548)
Net re-measurement losses/(gains) – experience	**-**	25,383
Benefits paid	**(17,392)**	(19,556)
Settlements	**-**	(840)
Benefit obligation at end of the year	**669,941**	675,021

The amounts recognised in profit and loss are:

	2018 £000	2017 £000
Service cost – including current service cost, past service cost and settlements	**30,047**	29,219
Service cost – administrative cost	**1,595**	1,605
Net interest on the net defined benefit liability	**(7,763)**	(8,872)
Total expense recognised in profit and loss	**23,879**	21,952

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

	2018 £000	2017 £000
Net re-measurement – financial	(66,164)	**25,191**
Net re-measurement – demographic	22,280	**(6,548)**
Net re-measurement – experience	-	**25,383**
Return on assets, excluding interest income	57,273	**(32,212)**
Total re-measurement of net defined benefit assets shown in OCI	13,389	**11,814**

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 sheme funding valuation of the Scheme was 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.

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 thte youngest Scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.

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

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

Notes *(continued)*

22 Retirement benefit obligations *(continued)*

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

	2018	2017
	£000	£000
Discount rate	**637,300**	640,100
Inflation *	**686,700**	692,200
Mortality (increase life expectancy by one year)	**688,200**	696,300

* *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 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.

The Company is not materially impacted by the GMP pension equalisation court judgement delivered in October 2018.

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).

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:

	2018	2017
Discount rate	**2.90%**	2.50%
Inflation assumption (RPI)	**3.25%**	3.25%
Inflation assumption (CPI)	**2.15%**	2.15%
Rate of general long-term increase in salaries	**3.25%**	3.25%
In-service career salary revaluation	**2.15%**	2.15%
Rate of increase to pensions in payment (post April 2005)	**2.25%**	2.20%
Rate of increase to pensions in payment (pre April 2005)	**3.10%**	3.10%

Assumed life expectancies at age 65 are (years):

	2018 **£000**	2017 £000
Retiring today – Males	**23.1**	23.0
Retiring today – Females	**25.0**	24.8
Retiring in 20 years time – Males	**24.9**	24.7
Retiring in 20 years time – Females	**26.8**	26.6

Notes *(continued)*

22 Retirement benefit obligations *(continued)*

	2018 £000	2017 £000
Present value of funded obligations	**(1,491,400)**	(1,573,700)
Fair value of scheme assets	**1,445,800**	1,509,600
Deficit in funded scheme	**(45,600)**	(64,100)

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

	2018 £000	2017 £000
Fair value of scheme assets at beginning of year	**1,509,600**	1,403,300
Expected return on scheme assets	**37,700**	38,300
Administration expenses	**(2,300)**	(1,900)
Re-measurement (losses)/gains on scheme assets	**(93,900)**	61,500
Contributions by the employer	**42,100**	38,400
Net benefits paid out	**(47,400)**	(40,300)
Net increase in assets from disposals/acquisitions	**-**	10,300
Fair value of scheme assets at end of the year	**1,445,800**	1,509,600

The assets in the scheme were:

	2018 £000	2017 £000
Cash and cash equivalents	**151,700**	109,800
Derivatives	**23,600**	11,700
Infrastructure	**8,500**	12,200
Overseas equity	**354,900**	526,800
Private equities	**20,800**	28,700
Hedge funds	**207,400**	141,400
Fixed interest gilts	**273,300**	190,400
Index linked gilts	**343,700**	393,800
Corporate bonds	**61,900**	94,800
Fair value of scheme assets at end of the year	**1,445,800**	1,509,600

Interest income on scheme assets	**37,700**	38,300
Re-measurement gains on scheme assets	**(93,900)**	61,500
The actual return on assets over the period was:	**(56,200)**	99,800

Notes *(continued)*

22 Retirement benefit obligations *(continued)*

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

	2018 £000	2017 £000
Benefit obligation at beginning of year	**1,573,700**	1,564,400
Current service cost	**25,200**	26,300
Past service cost	**(1,900)**	(12,900)
Interest cost	**38,800**	41,700
Net re-measurement losses – financial	**(121,100)**	53,800
Net re-measurement (gains) – demographic	**12,000**	(32,600)
Net re-measurement losses/(gains) – experience	**12,100**	(39,400)
Benefits paid	**(47,400)**	(40,300)
Net increase from disposals/acquisitions	**-**	12,700
Benefit obligation at end of the year	**1,491,400**	1,573,700

The amount recognised in profit and loss are:

	2018 £000	2017 £000
Service cost – including current service cost, past service cost and settlements	**23,300**	13,400
Service cost – administrative cost	**2,300**	1,900
Net interest on the net defined benefit liability	**1,000**	3,400
Costs charged in the financial statements of other members companies (equals their cash contribution to the scheme)	**-**	(700)
Total expense recognised in profit and loss	**26,600**	18,000

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

	2018 £000	2017 £000
Net re-measurement – financial	**(121,100)**	53,800
Net re-measurement – demographic	**12,000**	(32,600)
Net re-measurement – experience	**12,100**	(39,400)
Net re-measurement – business combinations	**-**	2,400
Return on assets, excluding interest income	**93,900**	(61,500)
Total re-measurement of net defined benefit assets show in OCI	**(3,100)**	(77,300)

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:

	2019 service cost £000	2019 net interest £000	2019 P&L Charge £000	Plan Assets £000	DBO £000	Deficit £000
Current figures	26,400	700	27,100	1,445,800	(1,491,400)	(45,600)
0.25% decrease in the discount rate	27,800	2,700	30,500	1,445,800	(1,568,800)	(123,000)
0.25% increase in the RPI inflation	27,400	2,400	29,800	1,445,800	(1,547,100)	(101,300)

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

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

Defined contribution scheme

The Company participates in a group defined contribution scheme called Leonardo FuturePlanner. Contributions by the Company to the defined contribution scheme were £12,683k *(2017: £11,032k).*

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 £3,209k *(2017: £2,516k)* being the present value of post-retirement medical benefit liabilities. The charge to comprehensive income for the year amounted to £nil *(2017: Nil).*

Notes *(continued)*

23 Capital and reserves

Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
314,500,100 ordinary shares *(2017: 314,500,100)* of £1 each	**314,500**	314,500
Authorised		
314,500,100 ordinary shares *(2017: 314,500,100)* of £1 each	**314,500**	314,500

Share premium account
The company has a share premium account of £845,500k *(2017: £845,500k).*

Cash flow hedging reserve
The hedging reserve surplus of £155k *(2017: £15,324k 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 *(2017: Nil).* During the year, the company paid a dividend of £160,000k *(2017: £140,000k).*

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 new long term incentive plan (second plan) was approved in May 2018. The plans have a rolling structure of three year cycles commencing in 2015, 2016, 2017 (first plan) and commencing in 2018, 2019 and 2020 (second plan).with shares being issued after the end of each 3 year period. The plans commencing in 2015, 2016, 2017 and 2018 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 €14.76 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 £1,098k *(2017: £880k)*

Shares allotted during the year were £406k *(2017: nil).*

Notes *(continued)*

25 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018	2017 Restated
	£000	£000
Less than one year	**12,119**	14,973
Between one and five years	**54,878**	55,362
More than five years	**111,385**	55,484
	178,382	125,819

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

26 Commitments

Capital commitments and other financial commitments

	2018	2017
	£000	£000
Contracts placed for future capital expenditure not provided in the financial statements:		
Property, plant and equipment	**8,601**	5,357
	8,601	5,357

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:

	2018	2017
	£000	£000
With subsidiaries:		
Purchases of goods and services	**36,405**	44,928
Sales of goods and services	**1,575**	958
Net interest receivable	**73**	15
With Leonardo SpA:		
Purchases of goods and services	**224,881**	231,009
Sales of goods and services	**165,425**	135,071
Net interest (payable)/receivable	**(3,020)**	(5,466)
With other group companies:		
Purchases of goods and services	**44,742**	31,446
Sales of goods and services	**78,379**	69,849

Notes *(continued)*

27 Related Parties *(continued)*

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

	2018 £000	2017 £000
Included within trade and other receivables (note 16)		
Leonardo SpA	**136,483**	169,680
Subsidiaries	**612**	266
Other group companies	**31,741**	28,095
	168,836	198,041
Included within financial assets (note 17)		
Leonardo SpA	**525,560**	788,401
Subsidiaries	**3,087**	1,849
Other group companies	**-**	574
	528,647	790,824

	2018 £000	2017 £000
Included within trade and other creditors (note 19)		
Leonardo SpA	**158,404**	206,596
Subsidiaries	**4,812**	5,793
Other group companies	**17,739**	19,167
	180,955	231,556
Included within financial liabilities (note 18)		
Leonardo SpA	**100,000**	198,229
Subsidiaries	**111,138**	111,165
Other group companies	**122,273**	130,359
	333,411	439,753

Notes *(continued)*

28 Changes in Accounting Policies

The Company has changed its accounting policies during the year following the adoption of IFRS 15 and IFRS 9. IFRS 9 has generally been adopted without restating comparative information.

The following tables show the adjustments for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers below.

Balance sheet – 31 December 2017	**31 December 2017 As reported £000**	**IFRS 15 £000**	**31 December 2017 Restated* £000**
Deferred tax assets	11,417	4,622	16,039
Debtors	1,292,997	(4,574)	1,288,423
Contract assets	138,389	(13,634)	124,755
Contract liabilities	768,201	156,353	924,554
Accruals and deferred Income	230,460	(150,606)	79,854
Total assets less current liabilities	1,976,633	(19,333)	1,957,300
Net assets	1,670,075	(19,333)	1,650,742
Profit and loss account	494,751	(19,333)	475,418
Shareholders' funds	1,670,075	(19,333)	1,650,742

Balance sheet – 1 January 2017	**1 January 2017 As reported (Pre business acquisition) £000**	**IFRS 15 £000**	**1 January 2017 Restated** (Pre business acquisition) £000**	**IFRS 15 Effect of business acquisition (note2)** £000**
Deferred tax assets	2,380	2,392	4,772	2,866
Debtors	276,525	-	276,525	(10,454)
Contract assets	82,395	(12,586)	69,809	(20,305)
Contract liabilities	167,130	-	167,130	157,277
Accruals and deferred Income	38,470	-	38,470	(141,193)
Total assets less current liabilities	780,420	(10,194)	770,226	(11,809)
Net assets	717,335	(10,194)	707,141	(11,809)
Profit and loss account	455,993	(!0,194))	445,799	(11,809)
Shareholders' funds	717,335	(10,194))	707,141	(11,809)

Profit and loss account and other comprehensive income- year ended 31 December 2017	**2017 As reported £000**	**IFRS 15 £000**	**2017 Restated* £000**
Revenue	1,822,492	15,929	1,838,421
Changes in inventories of finished goods and work in progress	(9,435)	(12,623)	(22,058)
Operating profit	155,828	3,306	159,134
Profit before taxation	145,328	3,306	148,634
Taxation	(23,345)	(636)	(23,981)
Profit for financial year	121,983	2,670	124,653
Total comprehensive income for the year	204,161	2,670	206,831

**Shows the impact on the reported balance sheet at 1 January 2017 prior to acquisition of AgustaWestland on 1 January 2017

***Shows only the impact of adoption of IFRS 15 on the business acquisition assets of AgustaWestland on 1 January 2017

The reported operating profit for 2017 was £152,190k which has been restated to exclude the impairment of investments £3,638k which is reported in profit before taxation.

Notes *(continued)*

29 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 contract assets and liabilities and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to support this activity, the Company uses contract management and risk analysis processes to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the Financial Statements represent management's best estimate at the reporting date using these procedures.

Goodwill

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

Development costs

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

Retirement Benefits valuation

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

Notes *(continued)*

30 Subsequent Event

Subsequent to the balance sheet date, an arbitration tribunal made an award in favour of the company, in relation to a completed contract that will result in the partial reversal of an onerous contract provision relating to the claim in 2019.

31 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.