

Leonardo MW Ltd

Annual report and financial statements

Registered number 2426132

31 December 2019

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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 2019.

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 £1,758m (2018: £2,049m) and an order book as at 31 December 2019 of £5,140m (2018: £5,556m) which represents 240% of 2019 turnover (2018: 270%).

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.

Given the significant announcement in 2018 that the UK intends to develop its next generation fighter aircraft, the team 'Tempest' initiative has continued to develop during 2019 with funded activity. 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 UK's lead sensors and mission system provider in the air domain. 'Tempest' also now forms part of a wider multi-national collaboration program looking at future 'Combat air strategy' which in addition to the UK includes Sweden and Italy.

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 2019, the UK continued to maximise leverage through its "One Company" operating model and 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 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, all of which now have to be considered in the light of the Covid 19 pandemic.

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

In addition, the Company continues to support the 10 year Strategic Partnering Agreement with the UK MoD that aims 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

Our strategy remains one of developing ever closer links with current key end user customers and prime contracting agencies.

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

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

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 through its 'Business continuity planning' teams.

During this time of uncertainty with the Covid 19 Pandemic, Leonardo is following its established "Pandemic Policy and Procedures" to ensure effective management and control of the crisis. Initial strategic business impact assessments have been conducted and business continuity plans are in place. The uncertainty created by Covid 19 may have an impact on the 2020 trading and could impact the valuations of some assets and liabilities on the balance sheet both positively and negatively.

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.

Going Concern

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

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

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. Principal risks are detailed on page 4. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial statements. Note 22 to the financial statements addresses the management of the funding risks of the Company's employee benefit obligations.

The Company has considerable financial resources together with long-standing relationships with a number of Governments, customers and suppliers across different geographic areas. The Company's forecasts and projections, taking account of potential and realistic changes in trading performance, indicate that the Company is able to operate within the level of facilities in place at 31 December 2019. As a consequence, the directors believe that the Company is well-placed to manage its business risks successfully, despite the uncertainties inherent in the current economic outlook linked to COVID-19. In reaching their conclusions, the Directors have performed scenario analysis considering severe yet plausible downside scenarios driven by a slowdown in delivery and a potential reduction in new orders. In assessing these scenarios, the Directors have considered:

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

Strategic report (continued)

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

- The announcement that an additional €2 billion new credit facility, available for 24 months from 6th May 2020, has been entered into, that has no financial covenants, resulting in total liquidity of over €5 billion;
- Consideration of the results at 31 March 2020 of Leonardo SPA, that were released on 7th May 2020 and the Group's Board of Directors statements that they believe the Group's medium-long term prospects remain intact, with an order backlog of €37 billion ensuring a coverage in terms of equivalent production equal to about 2.5 years.
- April 2020 Standard & Poor's credit rating of the group as BB+ as reported in the results at 31 March 2020.
- May 2020 Fitch's credit rating of BBB- affirmed

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

Financial risk management

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

Key performance indicators ("KPIs")

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

Section 172 Companies Act 2006


The Wates Corporate Governance Principles for Large Private Companies (the "Wates Principles") provides a framework for the Company to not only demonstrate how the Board makes decisions for the long term success of the Company and its stakeholders (see principle 6 Stakeholders, on pages 9 to 11), but also having regard to how the Board operates in compliance with the requirements of Section 172 of the Companies Act 2006 to promote the success of the Company. Our reporting against the Wates Principles has been included on pages 6 to 12.

Throughout 2020, the Board will continue to review and challenge how the Company can improve engagement with its employees and stakeholders to deliver its long-term growth and sustainability.

Results

The Company's profit for the financial year is £223,842k (2018 : profit of £217,252k).

By order of the Board


N.J. Bone
Director
18th June 2020

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

Corporate Governance Report

The Company has prepared this report for its financial year ended 31 December 2019 in compliance with its obligations as a large private company under The Companies (Miscellaneous Reporting) Regulations 2018.

In 2019 the Company elected to enhance the robustness of its corporate governance systems by adopting the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council in December 2018), which it recognised as a "best practice" framework around which to further develop the Company's corporate governance.

Below we, the Board of Directors, set out how the Wates Principles have been applied for the Company's financial year.

Principle 1 – Purpose and Leadership

The Company is the UK operating company of the Leonardo Group, a global aerospace, defence and technology business, of which the ultimate parent is Leonardo S.p.A., an Italian registered company listed on the Milan Stock Exchange. The Company is primarily engaged in the electronics defence systems and helicopters business domains, as well as providing high integrity surveillance networks to provide management information for security and mission essential services. It has a commitment to create value for all its stakeholders through a path of long-term sustainable growth, investing in the continuous improvement of its key competencies, products, technologies and workforce.

In pursuit of its mission, throughout 2019 the Company continued to build on the Leonardo Group's guiding framework of "One Company, One Voice". Our 'Charter of Values' defines Leonardo's way of doing business, setting out the principles that guide the Company's strategy and daily activities of all those who work and collaborate with the Company and the Leonardo Group as a whole. These are:

- Ethics & Respect
- Expertise & Merit
- Innovation & Excellence
- Internationality & Multiculturalism
- Rights & Sustainability

A copy of our 'Charter of Values' is available on our website

(https://www.leonardocompany.com/documents/20142/115137/Carta_dei_Valori+ENG.pdf?t=1551772599336).

Leadership conferences were held, on behalf of the Board, across its UK sites to communicate to its workforce the business's strategic direction aligned with the Leonardo Group's long-term goals for sustainability, growth, diversification and investment in the aerospace, defence and technology industry. Stakeholders also benefit from Board members' periodic press and media coverage (including social media) with interviews and articles on the Company's innovation, technical excellence and sustainability plans. Into 2020, the Board will be exploring new ways of engaging with its stakeholders. It builds on the Board's existing commitment to good governance and social responsibility.

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

In 2019 the Board created a "Management Committee" consisting of senior management from across the business to whom it delegates oversight of operational performance. This Committee, which is chaired by the Managing Director of the Company, provides an appropriate degree of oversight and strategic direction to the UK business.

In addition, the Board took steps to approve its "Delegations Protocol" (subsequently approved in January 2020). This Protocol sets out the delegation of authority flowing from the Board of Directors to its governance committees and to specific divisional or functional leads – effectively providing clarity over authority levels and increasing efficiency within the organisation in UK by empowering senior management.

Corporate Governance Report *(continued)*

Principle 2 – Board Composition

Details of The Board are shown in the Directors' Report.

The Board's size and its composition is deemed appropriate for the scale and complexity of the business and has the right balance of skills, knowledge and experience to govern the Company effectively.

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

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

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

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

Principle 3 – Directors' Responsibilities

Accountability

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

Committees

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

Management Committee:

To provide oversight of the business's performance and delivery.

Assurance and Internal Controls Committee:

To fulfil the Board's risk management responsibilities, primarily through the review and evaluation of the adequacy of the Company's compliance with applicable legislation, regulations and group governance.

Ethics and Social Responsibility Committee:

To reaffirm and define its commitment to operating ethically in all the territories within which it does business and operates.

Data and Information Management Committee:

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

Corporate Governance Report *(continued)*

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

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

Integrity of information

Each Committee Chairperson is required to formally report to the Board on the proceedings of its Committee meetings on a half-yearly basis. Each Committee Chairperson is a member of the Management Committee (which includes divisional and functional executive board members representation). The Management Committee meetings are held at least every 6 weeks, and provide regular and timely information to members of the Board on all key aspects of the business including health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability.

Key financial information is collated from the Company's accounting systems. The Company's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by KPMG LLP on an annual basis. Areas of financial risk are also independently audited on an ad hoc basis. Financial controls are reviewed by the Company's internal audit function.

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

Principle 4 – Opportunity and Risk

The board seeks out opportunity whilst mitigating risk.

Opportunity

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

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

Details of the Company's opportunities are outlined in the Strategic Report (on pages 3 to 5).

Risk

Enterprise risk is managed using the Company's standard risk management process. This is a benchmark process that requires all Divisions to identify risks, described in a formal syntax of cause(s), risk events, and consequence(s). These risks are then analysed using statistical analysis both pre- and post-mitigation to assess the potential impact. A central risk tool supports the process and generates a comprehensive analysis across the whole business.

The Assurance and Internal Controls Committee has responsibility to assist the Board in ensuring that inherent and emerging risks are identified and managed appropriately and in a timely manner. In 2019 the Committee initiated a process of enhancing its existing risk management framework to ensure consistency across all its Divisional business areas and corporate functions in relation to monitoring risk identification, classification and mitigation. A Compliance Assurance Tracker has been designed to provide detail on the levels of compliance and exposure across the business informing the Company's risk profile and enabling it to mitigate risk. Details of any emerging risks is reported to the Assurance and Internal Controls Committee and considered at each meeting. An assurance report will be made to the Board every six months, on the status of compliance within the business.

Corporate Governance Report *(continued)*

Details of the Company's key operational risks and mitigations are outlined in the Strategic Report (on pages 3 to 5).

Responsibility

The Company has a divisional and functional Operating Framework which contains its operating policies, processes and procedures. It is the fundamental platform to the Company's internal control framework which includes its ISO certifications.

The Board approves any contract above a certain value, risk level or which may be considered strategic (determined by group governance) or any transactional matters specifically reserved to the Board pursuant to group governance. This ensures that the appropriate level of diligence has been performed in understanding the obligations, risks and terms of contract. This enables the Company to protect the integrity and long-term sustainability of its business, to meet strategic objectives and to create value for its parent company, customers and suppliers.

Principle 5 – Remuneration

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

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

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

The Company applies equal pay principles in line with the Equality Act 2010. In 2018, the Company published its Gender Pay Gap Report for the second time. It highlighted the specific areas of focus in 2019 with the aim to ensure its resourcing, career development and rewards policies, practices and procedures are fair and transparent for all employees.

Principle 6 – Stakeholders

The Board recognises the importance of having a close working relationship with all its stakeholders, including its group of companies, customers, employees, suppliers and the local communities in which it works across the UK and abroad. Effective communication and good governance is key to ensure the Company's strategic direction remains aligned with the Leonardo Group's long-term goals for sustainability, growth, diversification and investment in the aerospace, defence and technology industry. Three of the six Board members are employees of the parent company, Leonardo Spa, and they together represent a primary communication route between the Board and its sole shareholder.

External stakeholders and impacts

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

Corporate Governance Report *(continued)*

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

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

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

Currently, the drive to reduce greenhouse emissions is through energy reduction and business travel reduction projects. Into 2020, the Company is looking to develop its "Sustainability Road Map" that lays down the plans to achieve Carbon Neutral status by 2030.

All our suppliers share and comply with ethical, social and environmental standards, acknowledging and accepting the Company's "Code of Ethics" and "Supplier Code of Conduct" as well as the guidance provided in the organisational and control models. This is adhered to at the on-boarding phase and monitored throughout the period of the supply relationship. We have a Procurement web portal which facilitates transparency and traceability of information.

The Payment Practice and Performance Reporting has highlighted some areas which the Company needs to improve in its engagement with its stakeholders.

Employees

The workforce is at the heart of the Company's existence when doing business in a sustainable manner. The Company has Gold level accreditation until 2021 for both *Investors in People* and *Investors in Young People*, demonstrating the Company's commitment to supporting the training and development of its employees through opportunities offered by technology, succession planning and flexible working, and tackling challenges such as ineffectual decision-making, absenteeism and employee disengagement.

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

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

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

Corporate Governance Report *(continued)*

As part of our People & Inclusion Strategy, we have maximised engagement with our UK workforce across a range of channels including intranet and social media content, poster/banner campaigns, face to face with stands at sites as well as providing briefings throughout the year for divisional meetings and activities. In 2019 the Company saw the launch of three network groups: Pride (LGBTQ+), Equalise (gender balance) and Carers. Additionally, steps were taken towards: an increase in female new starters; an increase in our female workforce promoted into more senior roles within the Company; attracting key female talent into the engineering sector through STEM activities in the local communities; introducing mandatory training in Diversity and Inclusion for all employees; actively reviewing our work-life balance solutions to encourage and promote a change in behaviours and culture within the Company; piloting an equality awareness session for team leaders and people managers with a view to extend across all its UK sites.

The workforce across its UK sites, undertake a variety of fundraising initiatives and have raised tens of thousands of pounds for several charities in recent years and will continue to do so beyond 2019.

Corporate Governance Report – Committee information

Management Committee

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

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

In 2019, the Committee comprised of the Company's Managing Director as Chair; two other Statutory Directors; and eight other members in senior management from across the business. The Board is satisfied that the Committee's members during 2019 followed the principles of good governance in relation to their skills, knowledge and experience.

Assurance & Internal Controls Committee

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

In 2019, the Committee was chaired with a membership of eight functional leaders from across the business, including a Statutory Director

Data & Information Management Committee

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

In 2019, the Committee was chaired with a membership of seven functional leaders from across the business, including the Company's Data Protection Officer.

Corporate Governance Report *(continued)*

Ethics & Social Responsibility Committee

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

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

In 2019, the Committee was chaired with a membership of seven functional leaders from across the business, including a Statutory Director.

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 2019 was £197,701k (2018: £198,720k).

Proposed dividend

The directors do not recommend the payment of a final dividend in relation to the 2019 financial statements (2018: Nil). The dividend paid in relation to the 2018 financial statements was not approved until after the 2017 balance sheet date, and was recognised in the 2018 financial year.

During 2019, the Company paid no dividends (2018: £160,000k).

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	(resigned 30 April 2020)
Mr. A. J. Cowdery	(resigned 9 January 2019)
Mr. A. Parrella	
Mr. G. P. Cutillo	
Mrs. S. Iarlori	
Mr. C. Porter	
Mr. N.C. Whitney	(appointed 22 April 2020)

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 (2018: £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
Director

18th June 2020

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

Statement of directors' responsibilities in respect of the Annual report and financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEONARDO MW LTD

Opinion

We have audited the financial statements of Leonardo MW Ltd ("the company") for the year ended 31 December 2019 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

We 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 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 directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the 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 15, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Andrew Campbell-Orde (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House, 100 Hills Road, Cambridge, CB2 1AR
18th June 2020

Profit and Loss Account and other Comprehensive Income
for year ended 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Turnover	2	2,139,436	2,058,763
Changes in inventories of finished goods and work in progress		11,167	(21,733)
Raw material and consumables		(862,439)	(876,266)
Staff costs	4	(433,143)	(435,411)
Depreciation and other amounts written off tangible and intangible fixed assets	9, 10, 11, 12	(51,922)	(40,171)
Other operating expenses		(521,865)	(462,829)
Operating profit	3	281,234	222,353
Income from shares in group undertakings		-	7,214
Profit on the sale of equity investment	13	18	27,369
Other interest receivable and similar income	6	15,777	22,497
Interest payable and similar expenses	7	(29,350)	(16,497)
Impairment of investments	13	-	(7,214)
Profit before taxation		267,679	255,722
Taxation	8	(43,837)	(38,470)
Profit for the financial year		223,842	217,252
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability/asset	22	(47,378)	(10,289)
Deferred tax (credit/charge) on items that will not be reclassified to profit or loss	20	8,054	(467)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Effective portion of changes in fair value of cash flow hedges		6,301	(12,820)
Net change in fair value of cash flow hedges reclassified to profit or loss		6,014	(5,455)
Deferred tax (charge)/credit on (gain)/loss on cash flow hedge	20	(2,098)	3,106
Other comprehensive expenditure for the year, net of income tax		(29,107)	(25,925)
Total comprehensive income for the year		194,735	191,327

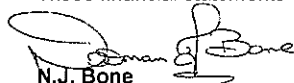
The accompanying notes form part of these financial statements.

Balance Sheet

at 31 December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets					
<i>Intangible assets</i>					
Goodwill	9	1,165,695		1,165,695	
Other intangibles	9	139,071		137,598	
<i>Tangible fixed assets</i>					
Right of use assets	10	161,006		162,993	
Investment property	11	124,870		-	
Fixed asset investments	12	3,186		3,251	
Retirement benefit asset	13	305,231		305,913	
Deferred tax asset	22	244,900		269,948	
	20	23,209		20,117	
			2,167,168		2,065,515
Current assets					
Stocks	14	441,308		346,857	
Contract assets	15	204,458		168,554	
Debtors (including £7,937k (2018:£4,437k) due after more than one year)	16	1,130,318		1,027,630	
Cash at bank and in hand		22,293		32,829	
			1,798,377		1,575,870
Creditors	19	(1,769,871)		(1,721,053)	
Net current assets/(liabilities)			28,506		(145,183)
Total assets less current liabilities			2,195,674		1,920,332
Non current liabilities					
Deferred tax liability	20	(69,678)		(70,560)	
Retirement benefit liability	22	(48,039)		(48,109)	
Provisions for liabilities falling due after one year	21	(12,736)		(17,148)	
Other creditors	19	(7,964)		-	
Financial liabilities	18	(181,021)		(103,731)	
			(319,438)		(239,548)
Net assets			1,876,236		1,680,784
Capital and reserves					
Called up share capital	23	314,500		314,500	
Share premium account	23	845,500		845,500	
Other reserves	23	10,372		155	
Profit and loss account		705,864		520,629	
Shareholders' funds			1,876,236		1,680,784

These financial statements were approved by the board of directors on 18th June 2020 and were signed on its behalf by:


N.J. Bone
Director

Company registered number: 2426132

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

	<i>Note</i>	Called up share capital £000	Share premium account £000	Cash flow hedging reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019		314,500	845,500	155	520,629	1,680,784
Total comprehensive income for year						
Profit for the financial year		-	-	-	223,842	223,842
Actuarial loss on post-employment benefits:						
Loss in the year		-	-	-	(47,378)	(47,378)
Deferred tax on loss in the year	20	-	-	-	8,054	8,054
Items that will not be reclassified to profit and loss		-	-	-	(39,324)	(39,324)
Cash flow hedges:						
Effective portion on changes in fair value of cash flow hedges		-	-	6,301	-	6,301
Net change in fair value of cash flow hedge reclassified to profit or loss		-	-	6,014	-	6,014
Deferred tax on cash flow hedge	20	-	-	(2,098)	-	(2,098)
Items that are or may be subsequently reclassified to profit or loss		-	-	10,217	-	10,217
Other comprehensive income/(loss)		-	-	10,217	(39,324)	(29,107)
Total comprehensive income for the year		-	-	10,217	184,518	194,735
Transactions with owners:						
Share based payment expense	24	-	-	-	717	717
Total transactions with owners		-	-	-	717	717
Balance at 31 December 2019		314,500	845,500	10,372	705,864	1,876,236

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

	<i>Note</i>	Called up share capital £000	Share premium account £000	Cash flow hedging reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2018		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:						
Loss in the year		-	-	-	(10,289)	(10,289)
Deferred tax on Loss 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 loss		-	-	(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 accompanying notes form part of these financial statements.

Cash Flow Statement

for year ended 31 December 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the year		223,842	217,252
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	9,10,11, 12	51,922	40,171
Foreign exchange losses		(2,534)	(1,666)
Profit on sale of investments		(18)	
Impairment of investments	13	-	(7,214)
Charge relating to defined benefit pension scheme	22	27,800	57,242
Interest receivable and similar income	6	(15,777)	(49,866)
Interest payable and similar expenses	7	29,350	16,497
Loss/(Gain) on sale of tangible fixed assets		234	(238)
Provisions	21	(21,313)	(10,515)
Equity settled share-based payment expenses	24	717	692
Taxation	8	43,837	38,470
Decrease/(increase) in trade and other debtors		126,793	(1,384)
(Increase) in stocks		(130,355)	(115,918)
Increase/(decrease) in trade and other creditors		4,732	(71,922)
Increase/(decrease) in provisions		53,046	(6,179)
Interest paid	7	(6,887)	(8,719)
Tax paid		(39,335)	(27,894)
Defined benefit pension scheme contributions	22	(42,800)	(57,635)
Net cash from operating activities		303,254	11,174
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets			569
Proceeds from sale of investments		700	28,582
Interest received	6	7,677	6,350
Dividends received		-	7,214
Acquisition of tangible fixed assets	10	(30,226)	(28,159)
Acquisition of other intangible assets	9	(1,559)	(1,092)
Capitalised development expenditure	9	(6,104)	(8,598)
Net cash (used in)/generated from investing activities		(29,512)	4,866
Cash flows from financing activities			
Repayments of loans		(40,000)	(60,000)
Net change in financial debts and receivables		(226,902)	214,434
Dividends paid	23	-	(160,000)
Lease repayments		(13,982)	-
Net cash (used in) financing activities		(280,884)	(5,566)
Net increase/(decrease) in cash and cash equivalents		(7,142)	10,474
Cash and cash equivalents at beginning of the year		32,829	15,566
Effect of exchange rate fluctuations on cash held		(3,394)	6,789
Cash and cash equivalents at end of the year		22,293	32,829

The accompanying notes form part of these financial statements.

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:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill; and
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

Notes (continued)

1 Accounting policies (continued)

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

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 16

Leases

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is less than 12 months or the underlying assets has a low value.

A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing the obligation to make lease payments.

The lessee measures right of use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. A lessee recognises depreciation on the right of use asset and interest on the lease liability.

The company adopted IFRS 16 using the modified retrospective approach measuring the right of use asset at an amount equal to the lease liability adjusted for any accruals and prepayments, and using the incremental borrowing rate at the date of initial application.

1.1 Going Concern

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

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. Principal risks are detailed on page 4. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial statements. Note 22 to the financial statements addresses the management of the funding risks of the Company's employee benefit obligations.

The Company has considerable financial resources together with long-standing relationships with a number of Governments, customers and suppliers across different geographic areas. The Company's forecasts and projections, taking account of potential and realistic changes in trading performance, indicate that the Company is able to operate within the level of facilities in place at 31 December 2019. As a consequence, the directors believe that the Company is well-placed to manage its business risks successfully, despite the uncertainties inherent in the current economic outlook linked to COVID-19. In reaching their conclusions, the Directors have performed scenario analysis considering severe yet plausible downside scenarios driven by a slowdown in delivery and a potential reduction in new orders. In assessing these scenarios, the Directors have considered:

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

Notes (continued)

1 Accounting policies (continued)

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

- The announcement that an additional €2 billion new credit facility, available for 24 months from 6th May 2020, has been entered into, that has no financial covenants, resulting in total liquidity of over €5 billion;
- Consideration of the results at 31 March 2020 of Leonardo SPA, that were released on 7th May 2020 and the Group's Board of Directors statements that they believe the Group's medium-long term prospects remain intact, with an order backlog of €37 billion ensuring a coverage in terms of equivalent production equal to about 2.5 years.
- April 2020 Standard & Poor's credit rating of the group as BB+ as reported in the results at 31 March 2020.
- May 2020 Fitch's credit rating of BBB- affirmed

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

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.

Notes (continued)

1 Accounting policies (continued)

1.3.2 Computer Software

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

1.3.3 Development costs

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

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

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

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.

1.4 Property, Plant and equipment

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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Investment Property

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

Investment property is depreciated over 50 years.

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.

Notes (continued)

1 Accounting policies (continued)

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.

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

(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.

Notes (continued)

1 Accounting policies (continued)

1.10 Financial instruments (continued)

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

Investments in subsidiaries are carried at cost less impairment

Cash and cash equivalents

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

(b) Subsequent measurement and gains and losses

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

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

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

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

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.

Notes (continued)

1 Accounting policies (continued)

1.10 Financial instruments (continued)

Intra-group financial instruments

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

(iii) Derivative financial instruments and hedging

Derivative financial instruments

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

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.

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

Notes (continued)

1 Accounting policies (continued)

1.10 Financial instruments (continued)

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

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Write-offs

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

1.11 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.

1.12 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)

1.13 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.

1.14 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.

Notes (continued)

1 Accounting policies (continued)

1.15 Leasing

The company has applied IFRS 16 from 1 January 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact is disclosed in

Policy applicable from 1 January 2019

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

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

This policy is applied to contracts entered into, or changed, on or after 1 January 2019

i. As a lessee

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

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

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

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

1.15 Leasing (continued)

The Company presents right-to-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowing' in the statement of financial position.

Short term leases and leases of low-value assets.

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

ii. As a lessor

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

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

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

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

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

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i. As a lessee

Under IAS 17

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Notes (continued)

1 Accounting policies (continued)

1.15 Leasing (continued)

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

1.16 Revenue recognition

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

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

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

Variable consideration

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

Significant financing component

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

Warranties

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

Contract assets

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

Trade receivables

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

Notes (continued)

1 Accounting policies (continued)

1.16 Revenue recognition (continued)

Contract liabilities

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

1.16.1 Contract assets and liabilities

See contract assets and liabilities section 1.9 (above)

1.16.2 Sale of production and other goods

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

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

1.16.3 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.

1.17 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.

1.18 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.

1.19 Related party transactions

Related party transactions are made at arm's length.

Notes (continued)

2 Turnover

	2019 £000	2018 £000
Sale of goods	1,376,755	1,251,047
Rendering of services	707,154	682,025
Change in contract assets and liabilities	55,527	125,691
Total turnover	2,139,436	2,058,763
<hr/>		
	2019 £000	2018 £000
<i>By geographical market:</i>		
United Kingdom	1,160,258	1,181,872
Rest of Europe	555,942	471,358
USA and Canada	205,678	166,171
Rest of World	217,558	239,362
Total turnover	2,139,436	2,058,763
<hr/>		
	2019 £000	2018 £000
<i>By Division</i>		
Electronics	1,149,958	1,074,900
Helicopters	989,478	983,863
Total turnover	2,139,436	2,058,763

All revenue originates in the UK.

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

Turnover from contracts with customers

Contract balances

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

	Note	31 December 2019 £000	31 December 2018 £000
Receivables	16	313,011	266,869
Contract assets	15	204,458	168,554
Contract liabilities	19	(763,528)	(811,906)

Notes (continued)

2 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 £559,845k (2018: £511,253k).

3 Expenses and auditor's remuneration

Included in profit are the following:

	2019 £000	2018 £000
Depreciation of tangible assets	29,437	27,242
Depreciation of right of use assets	16,230	-
Amortisation of intangible assets	6,190	4,309
Amortisation of investment property	65	65
Impairment loss intangible assets	1,462	8,555
Impairment of Investments	-	7,214
Research and development expenses as incurred	190,080	186,705
Onerous construction contracts – provisions created	49,497	13,620
Research and development tax credits	27,100	9,675
Pension service cost	27,800	57,242
Profit on sale of investment	18	27,369

Impairment of investments

During the year, the Company did not recognise any impairment charge on investments £Nil (2018: £7,214k). The 2018 charge was 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) after completion of the capital reduction.

Pension service cost

The service cost for the Leonardo Electronics Pension Scheme during the year was £29,000k (2018: £31,642k) and the service cost for the Leonardo Helicopters Pension Scheme was a credit of (£1,200k) (2018: £25,036k). There was a credit in relation to past service costs of £24,700k (2018: £1,900k) in the Leonardo Helicopters Pension Scheme as a result of the at retirement pension increase exchange programme.

Auditor's remuneration:

	2019 £000	2018 £000
Audit of these financial statements, including half year review	626	642
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	41	42
Audit-related assurance services	5	-
Tax advisory services	-	-
	672	684

Notes (continued)

4 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	
	2019	2018
Management	996	971
Technical/admin	5,064	4,898
Production	1,033	973
	7,093	6,842

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	352,133	330,620
Social security costs	37,659	35,430
Contributions to defined contribution plans	15,550	12,683
Expenses related to defined benefit plans	27,801	56,678
	433,143	435,411

5 Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	1,928	1,682
Amounts receivable under long term incentive schemes – shares	445	301
Amounts receivable under long term incentive schemes – cash	2	14
	2,375	1,997

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,584k (2018: £957k).

Three of the directors serving during the year were employees of another Leonardo Group Company (2018: three). They did not receive any direct remuneration for their service as a director of the Company for the period (2018: none) and any allocation to this Company could be considered to be £nil (2018: nil).

One director was a member of the Company defined benefit pension schemes (2018: one), and the contributions on their behalf were £22k (2018: £18k).

Notes (continued)

6 Other interest receivable and similar income

	2019 £000	2018 £000
Total interest income on short term loans	3,665	4,224
Net foreign exchange gain	3,982	8,384
Net interest on net defined benefit plan assets (see note 22)	8,100	7,763
Other similar income	30	2,126
Total interest receivable and similar income	15,777	22,497

Interest receivable and similar income includes income from group undertakings of £3,522k (2018: £4,224k).

7 Interest payable and similar expenses

	2019 £000	2018 £000
Total interest expense on short term loans	2,174	1,184
Total interest expense on long term loans	4,079	5,992
Total interest expense on overdrafts and bank loans	634	47
Ineffective portion of changes in fair value cash flow hedges	7,878	3,089
Net foreign exchange loss	8,927	3,689
Net interest on net defined benefit plan assets (see note 22)	700	1,000
Interest on leases	4,958	1,496
Total other interest payable and similar expense	29,350	16,497

Interest payable and similar expenses includes interest payable to group undertakings of £7,413k (2018: £7,176k).

8 Taxation

Recognised in the profit and loss account

	2019 £000	2019 £000	2018 £000	2018 £000
<i>UK corporation tax</i>				
Current tax on income for the period	48,063		39,048	
Adjustments in respect of prior periods	(6,271)		(3,990)	
		41,792		35,058
<i>Foreign tax</i>				
Current tax on income for the period	55		103	
Adjustments in respect of prior periods	8		8	
		63		111
Total current tax		41,855		35,169
<i>Deferred tax (see note 20)</i>				
Origination and reversal of temporary differences	1,651		2,503	
Adjustments in respect of prior periods	331		798	
Total deferred tax		1,982		3,301
Tax charge for the year (see below)		43,837		38,470

Notes (continued)

8 Taxation (continued)

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the financial year	223,842	217,252
Total tax expense	43,837	38,470
Profit excluding taxation	267,679	255,722
Tax using the UK corporation tax rate of 19.00% (2018:19%)	50,858	48,587
Effect of tax rates in foreign jurisdictions	56	103
Reduction in tax rate on deferred tax balances	(366)	-
Non-deductible expenses	1,568	(3,410)
Patent box	(1,900)	(1,900)
Adjustments in respect of prior periods	(5,932)	(3,184)
Other	(447)	(1,726)
Total tax charge for the year (see above)	43,837	38,470

9 Intangible assets

	Goodwill £000	Capitalised development costs £000	Software and other intangibles £000	Total £000
Cost				
Balance at 1 January 2019	1,238,033	200,436	20,774	1,459,243
Acquisitions	-	6,104	1,559	7,663
Reclassification	-	2	(2)	-
Balance as at 31 December 2019	1,238,033	206,542	22,331	1,466,906
Amortisation and impairment				
Balance at 1 January 2019	72,338	64,451	19,161	155,950
Amortisation for the year	-	3,588	1,140	4,728
Impairment for the year	-	1,462	-	1,462
Balance at 31 December 2019	72,338	69,501	20,301	162,140
Net book value				
At 31 December 2018 and 1 January 2019	1,165,695	135,985	1,613	1,303,293
At 31 December 2019	1,165,695	137,041	2,030	1,304,766

In addition to the capitalised development costs, there has been £42,901k (2018:£38,337k) expensed through the income statement in relation to research and development in the year and spend on development contracts of £147,179k (2018:£148,368k).

Notes (continued)

9 Intangible assets (continued)

Impairment loss and subsequent reversal

Development costs of £1,462k (2018: £8,555k) were impaired during year.

Impairment testing

Goodwill has been allocated to cash generating units as follows:

	2019 £000	2018 £000
Electronics	286,634	286,634
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:

	2019	2018
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	5.4%	5.9%
Discount Rate – Helicopters	6.9%	8.2%

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

The Electronics CGU has significant head room.

Increasing the Helicopters discount rate by 3.1% would result in an impairment.

Notes (continued)

10 Tangible fixed assets

	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost				
Balance at 1 January 2019	57,911	9,943	428,347	496,201
Additions	134	-	30,092	30,226
Disposals	(82)	-	(747)	(829)
Reclassification	880	956	(4,378)	(2,542)
Balance at 31 December 2019	58,843	10,899	453,314	523,056
Depreciation and impairment				
Balance at 1 January 2019	4,278	2,489	326,441	333,208
Charge for the year	2,426	448	26,563	29,437
Disposals	-	-	(595)	(595)
Balance at 31 December 2019	6,704	2,937	352,409	362,050
Net book value				
At 31 December 2018 and 1 January 2019	53,633	7,454	101,906	162,993
At 31 December 2019	52,139	7,962	100,905	161,006

Non-depreciating assets (assets in course of construction) of £24,336k (2018: £26,097k) are included within leasehold land and buildings and plant and equipment above and are not being depreciated.

Impairment loss and subsequent reversal

Plant and equipment assets of £nil (2018: nil) were impaired during year.

Notes (continued)

11 Right of Use Assets

	Leasehold land and buildings £000	Plant and equipment £000	Total £000
Balance at 1 January 2019	134,291	2,621	136,912
Additions	965	681	1,646
Depreciation	(12,791)	(3,439)	(16,230)
Reclassification	-	2,542	2,542
At 31 December 2019	122,465	2,405	124,870

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

12 Investment property

	2019 £000	2018 £000
Cost		
Balance at 1 January 2019	3,381	3,381
Balance at 31 December 2019	3,381	3,381
Amortisation and impairment		
Balance at 1 January 2019	130	65
Amortisation for the year	65	65
Balance at 31 December 2019	195	130
Net book value		
At 1 January	3,251	3,316
At 31 December	3,186	3,251

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

Notes (continued)

13 Fixed asset investment

	2019 £000	2018 £000
Balance at 1 January	305,913	314,340
Capital impairment	-	(7,214)
Disposals	(682)	(275)
Share Capital repayment	-	(938)
Balance at 31 December	305,231	305,913

On 1 January 2019, Selex Galileo Inc and Lasertel Inc merged to form Leonardo Electronics US Inc.

During the year Selex ES for Trading of Machinery and Devices Ltd was sold for a consideration of £700k, a profit of £18k was made on disposal.

During 2018 DRS Technologies UK Ltd completed a capital reduction exercise and paid a dividend of £7,214k to the company resulting in an impairment charge of £7,214k.

During 2018 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.

During 2018 the company received £938k share capital repayment from its investment in Selex ES for Trading of Machinery and Devices Ltd.

Notes (continued)

13 Fixed asset investments (continued)

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

The Company has provided a loan facility to Selex Galileo Inc of USD 15m (£11,360k) for short term funds, of which USD 2.5m (£1,893) was utilised at the year end.

As at 31 December 2019, ordinary shares in group companies held by the Company were:

Entity	Registered office address	Class of Shares held	Ownership	
			2019	2018
Selex Galileo Inc	Suite 704, 201 12 th 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 (in liquidation)	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	0%	93%
Leonardo Limited (formerly 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

	2019 £000	2018 £000
Raw materials and consumables	237,259	240,287
Work in progress	204,049	106,570
	441,308	346,857

15 Contract assets and liabilities

	2019 £000	2018 £000
Contracts in progress at balance sheet date:		
Amounts due from contract customers show as contract assets	204,458	168,554
Amounts due to contract customer shown as contract liabilities (note 19)	(763,528)	(811,906)
Net contract liabilities	(559,070)	(643,352)
Contract costs incurred plus recognised profits less recognised losses to date	624,546	457,426
Progress Billings	(1,183,616)	(1,100,778)
Net contract liabilities	(559,070)	(643,352)

Contract costs are amortised when the related revenues are recognised. In current period, the amount of amortisation was £ 1,763,274k.

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

	2019 £000	2018 £000
Trade debtors	173,661	266,869
Amounts owed by group undertakings (see note 27)	139,350	168,836
Other debtors	35,987	42,015
Derivative financial instruments	18,752	14,656
Financial assets (see note 17)	758,128	528,647
Prepayments	4,440	6,607
Total debtors	1,130,318	1,027,630

Notes (continued)

17 Financial assets

	2019 £000	2018 £000
Amounts falling due within one year:		
Short term loans to Leonardo SpA (note 27)	755,064	525,560
Loans to other group companies (note 27)	3,064	3,087
Total financial assets	758,128	528,647

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 0.85% (2018: 0.80%) on Sterling denominated loans.

18 Financial liabilities

	2019 £000	2018 £000
Amounts falling due within one year:		
Short term loans from Leonardo SpA (note 27)	40,000	-
Loans from other group companies (note 27)	234,013	233,411
Lease liabilities - group	2,894	458
Lease liabilities – third party	9,012	-
Total amounts falling due within one year (note 19)	285,919	233,869
Amounts falling due after one year:		
Long term loans from Leonardo SpA (note 27)	60,000	100,000
Lease liabilities - group	27,635	-
Lease liabilities – third party	93,386	-
Other	-	3,731
Total amounts falling due after one year	181,021	103,731
Total financial liabilities	466,940	337,600

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

	2019 £000	2018 £000
Contract liabilities (see note 15)	763,528	811,906
Trade creditors	273,099	335,198
Amounts owed to group undertakings (see note 27)	213,907	180,955
Corporation tax	17,782	13,521
Provisions for liabilities and charges (see note 21)	104,250	45,292
Accruals	86,674	70,321
Other taxation and social security	18,127	17,397
Derivative financial liabilities	6,585	12,594
Other financial liabilities (see note 18)	285,919	233,869
Creditors: amounts falling due within one year	1,769,871	1,721,053
Other creditors	3,843	-
Derivative financial liabilities	4,121	-
Creditors: amounts falling due after one year	7,964	-

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% (2018: 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	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Tangible fixed assets	-	-	3,599	4,266	3,599	4,266
Intangible assets	-	-	9,258	9,540	9,258	9,540
Financial assets/liabilities	630	(514)	1,543	1,304	2,173	790
Employee benefits	(22,464)	(17,733)	55,935	55,450	33,471	37,717
Share-based payments	(242)	(192)	-	-	(242)	(192)
Provisions	(1,790)	(1,678)	-	-	(1,790)	(1,678)
Tax (assets)/liabilities	(23,866)	(20,117)	70,335	70,560	46,469	50,443
Net of tax (assets)		-	-		(23,209)	(20,117)
Net of tax (liabilities)		-	-		69,678	70,560

There is no unrecognised deferred tax.

Notes (continued)

20 Deferred tax (continued)

Movement in deferred tax during the current year

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

Movement in deferred tax during the prior year

	1 January 2018	Recognised in income	Recognised in equity	31 December 2018
	£000	£000	£000	£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 utilised	(447)	447	-	-
Changes in accounting policies	(4,622)	5,095	(473)	-
Tax (assets)/liabilities	50,254	3,301	(3,112)	50,443

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £3,464k and the deferred tax liability would have increased by £8,932k.

Notes (continued)

21 Provisions

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

	2019 £000	2018 £000
Retirement benefit asset – Leonardo Electronics Pension Scheme	244,900	269,948
Total retirement benefit liability	244,900	269,948
Retirement benefit liability – Leonardo Helicopters Pension Scheme	(46,400)	(45,600)
Retirement medical benefit liability – Leonardo Helicopters Pension Scheme	(1,639)	(2,509)
Total retirement benefit liability	(48,039)	(48,109)

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 2020 are expected to be £15.4 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 £8.6 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 2019 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	2019	2018
Discount rate	2.00%	2.90%
Inflation assumption (RPI)	3.00%	3.25%
Inflation assumption (CPI)	2.00%	2.25%
Career Salary revaluation	3.00%	3.25%
RPI max 5% pension increases	2.90%	3.15%
RPI max 2.5% pension increases	2.15%	2.20%

Assumed life expectancies at age 65 are (years):

	2019	2018
Retiring today – Males	22.1	22.3
Retiring today – Females	24.1	24.3
Retiring in 20 years time – Males	23.8	24.0
Retiring in 20 years time – Females	26.0	26.1

Notes (continued)

22 Retirement benefit obligations (continued)

	2019 £000	2018 £000
Present value of funded obligations	(835,100)	(669,941)
Fair value of scheme assets	1,080,000	939,889
Surplus in funded scheme	244,900	269,948

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

	2019 £000	2018 £000
Fair value of scheme assets at beginning of year	939,900	966,702
Interest income on scheme assets	27,400	25,202
Return on assets, excluding interest income	106,000	(57,273)
Contributions by employers	15,300	15,535
Contributions by scheme participants	8,400	8,710
Benefits paid	(15,500)	(17,392)
Scheme administrative cost	(1,500)	(1,595)
Fair value of scheme assets at end of the year	1,080,000	939,889

The assets in the scheme were:

	2019 £000	2018 £000
Cash and Cash equivalents	2,906	2,922
Derivatives	18,334	(20,219)
Investment Funds – Securities:		
Alternative securities	97,770	136,881
Equity	341,310	210,285
Bonds	544,751	519,823
Cash	44,153	58,732
Other	30,776	31,465
Fair value of scheme assets at end of the year	1,080,000	939,889
The actual return on assets over the period was:	133,400	(32,071)

Notes (continued)

22 Retirement benefit obligations (continued)

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

	2019 £000	2018 £000
Benefit obligation at beginning of year	669,900	675,021
Service cost	27,500	30,047
Interest cost	19,300	17,439
Contributions by scheme participants	8,400	8,710
Net re-measurement losses – financial	132,300	(66,164)
Net re-measurement (gains) – demographic	(7,500)	22,280
Net re-measurement losses/(gains) – experience	700	-
Benefits paid	(15,500)	(17,392)
Benefit obligation at end of the year	835,100	669,941

The amounts recognised in profit and loss are:

	2019 £000	2018 £000
Service cost – including current service cost, past service cost and settlements	27,500	30,047
Service cost – administrative cost	1,500	1,595
Net interest on the net defined benefit liability	(8,100)	(7,763)
Total expense recognised in profit and loss	20,900	23,879

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

	2019 £000	2018 £000
Net re-measurement – financial	132,300	(66,164)
Net re-measurement – demographic	(7,500)	22,280
Net re-measurement – experience	700	-
Return on assets, excluding interest income	(106,000)	57,273
Total re-measurement of net defined benefit assets shown in OCI	19,500	13,389

Notes (continued)

22 Retirement benefit obligations (continued)

Characteristics of the Scheme and the risks associated with the Scheme

a) Information about the characteristics of the Scheme

- i. The Scheme provides pensions in retirement and death benefits to members. Up until 5 April 2016, pension benefits were linked to a member's final salary at retirement and their length of service. Benefits accrued from 6 April 2016 are based on a member's salary over their working lifetime and their length of service.
- ii. The Scheme is a registered scheme under UK legislation and its Main Section was contracted out of the State Second Pension prior to the abolition of contracting out in 2016.

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was at 5 April 2018 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 the youngest Scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.
- iv. The potential exercise (by members or others) of options against the Scheme for example taking early retirement or exchanging a portion of pension for a cash lump sum.

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

Notes (continued)

22 Retirement benefit obligations (continued)

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

	2019 £000	2018 £000
Discount rate	783,300	637,300
Inflation *	870,400	686,700
Mortality (increase life expectancy by one year)	869,000	688,200

* 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 £15.4 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 £106.7 million. These contributions include an allowance for the cost of administrative expenses and insurance premiums for the Scheme.

The liabilities of the Scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 60 years or more. The average duration of the liabilities is approximately 24 years (2018: 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 Agusta Westland Limited.

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

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

Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 50% of the liabilities are attributable to current employees, 13% to former employees not yet in receipt of a pension and 37% to current pensioners. The scheme duration is an indicator of the weighted average time until benefit payments are made. For the Scheme as a whole, the duration is approximately 22 years (2018: 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 £10.0m is expected to be paid by the Company during the year ending on 31 December 2020.

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

	2019	2018
Discount rate	2.00%	2.90%
Inflation assumption (RPI)	3.00%	3.25%
Inflation assumption (CPI)	2.00%	2.15%
Rate of general long-term increase in salaries	3.00%	3.25%
In-service career salary revaluation	2.00%	2.15%
Rate of increase to pensions in payment (post April 2005)	2.15%	2.25%
Rate of increase to pensions in payment (pre April 2005)	2.90%	3.10%

Assumed life expectancies at age 65 are (years):

	2019 £000	2018 £000
Retiring today – Males	22.3	23.1
Retiring today – Females	24.2	25.0
Retiring in 20 years time – Males	24.0	24.9
Retiring in 20 years time – Females	26.0	26.8

Notes *(continued)*

22 Retirement benefit obligations *(continued)*

	2019 £000	2018 £000
Present value of funded obligations	(1,673,800)	(1,491,400)
Fair value of scheme assets	1,627,400	1,445,800
Deficit in funded scheme	(46,400)	(45,600)

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

	2019 £000	2018 £000
Fair value of scheme assets at beginning of year	1,445,800	1,509,600
Expected return on scheme assets	41,700	37,700
Administration expenses	(2,800)	(2,300)
Re-measurement (losses)/gains on scheme assets	175,700	(93,900)
Contributions by the employer	27,500	42,100
Net benefits paid out	(60,500)	(47,400)
Fair value of scheme assets at end of the year	1,627,400	1,445,800

The assets in the scheme were:

	2019 £000	2018 £000
Cash and cash equivalents	100,200	151,700
Derivatives	83,200	23,600
Infrastructure	5,400	8,500
UK equities	15,800	-
Overseas equity	665,900	354,900
Private equities	15,700	20,800
Hedge funds	173,000	207,400
Fixed interest gilts	79,500	273,300
Index linked gilts	373,100	343,700
Corporate bonds	115,600	61,900

Fair value of scheme assets at end of the year	1,627,400	1,445,800
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Interest income on scheme assets	41,700	37,700
Re-measurement gains on scheme assets	175,700	(93,900)

The actual return on assets over the period was:	217,400	(56,200)
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Notes (continued)

22 Retirement benefit obligations (continued)

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

	2019 £000	2018 £000
Benefit obligation at beginning of year	1,491,400	1,573,700
Current service cost	20,700	25,200
Past service cost	(24,700)	(1,900)
Interest cost	42,400	38,800
Net re-measurement losses – financial	247,000	(121,100)
Net re-measurement (gains) – demographic	(46,100)	12,000
Net re-measurement losses/(gains) – experience	3,600	12,100
Benefits paid	(60,500)	(47,400)
Benefit obligation at end of the year	1,673,800	1,491,400

The amount recognised in profit and loss are:

	2019 £000	2018 £000
Service cost – including current service cost, past service cost and settlements	(4,000)	23,300
Service cost – administrative cost	2,800	2,300
Net interest on the net defined benefit liability	700	1,000
Total expense recognised in profit and loss	(500)	26,600

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

	2019 £000	2018 £000
Net re-measurement – financial	247,000	(121,100)
Net re-measurement – demographic	(46,100)	12,000
Net re-measurement – experience	3,600	12,100
Net re-measurement – business combinations	-	-
Return on assets, excluding interest income	(175,700)	93,900
Total re-measurement of net defined benefit assets show in OCI	28,800	(3,100)

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:

	2020 service cost £000	2020 net interest £000	2020 P&L Charge £000	Plan Assets £000	DBO £000	Deficit £000
Current figures	26,800	500	27,300	1,627,400	1,673,800	(46,400)
0.25% decrease in the discount rate	27,600	2,800	30,400	1,627,400	1,767,200	(139,800)
0.25% increase in the RPI inflation	27,500	2,200	29,700	1,627,400	1,739,500	(112,100)

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 £15,550k (2018: £12,683k).

Other post-retirement benefits

Certain employees are entitled to post-retirement benefits other than pensions. At 31 December 2019, the liabilities for post-retirement medical benefits were assessed at the year-end date by qualified independent actuaries using the projected unit method.

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

Employee benefits provisions include £1,639k (2018: £3,209k) being the present value of post-retirement medical benefit liabilities. The charge to comprehensive income for the year amounted to £(870k) (2018: Nil).

Notes (continued)

23 Capital and reserves

Share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
314,500,100 ordinary shares (2018: 314,500,100) of £1 each	314,500	314,500
Authorised		
314,500,100 ordinary shares (2018: 314,500,100) of £1 each	314,500	314,500

Share premium account

The company has a share premium account of £845,500k (2018: £845,500k).

Cash flow hedging reserve

The hedging reserve surplus of £10,372k (2018: £155k 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 (2018: Nil). During the year, the company paid a dividend of £nil (2018: £160,000k).

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 2019. The plans have a rolling structure of three year cycles commencing in 2015, 2016, 2018 (first plan) and commencing in 2019, 2019 and 2020 (second plan) with shares being issued after the end of each 3 year period. The plans commencing in 2015, 2016, 2018 and 2019 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:

€3.51 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 £919k (2018: £1,098k)

Shares allotted during the year were £202k (2018: £406k).

Notes (continued)

25 Leases

Non-cancellable lease rentals are payable as follows:

	2019 £000
Maturity analysis – contractual undiscounted cash flows	
Less than one year	16,305
Two to five years	58,986
More than five years	88,110
Total undiscounted lease liabilities at 31 December	163,401
Lease liabilities included in the statement of financial position at 31 December	132,927
Current	11,906
Non current	121,021
Amounts recognised in profit and loss	
Interest on lease liabilities	4,958
Expenses relating to short term leases of low value assets, excluding short term leases of low value assets	3,841
Amounts recognised in the statement of cash flows	
Total cash outflow for leases	13,982
Leases as at 31 December 2018	2018 £000
Non- cancellable operating lease rentals as at 31 December 2018 were payable as follows :	
Less than one year	12,119
Between one and five years	54,878
More than five years	111,385
	178,382

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

26 Commitments

Capital commitments and other financial commitments

	2019 £000	2018 £000
Contracts placed for future capital expenditure not provided in the financial statements:		
Property, plant and equipment	6,394	8,601
	6,394	8,601

Notes (continued)

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:

	2019 £000	2018 £000
With subsidiaries:		
Purchases of goods and services	42,975	36,405
Sales of goods and services	4,784	1,575
Net interest receivable	74	73
With Leonardo SpA:		
Purchases of goods and services	134,111	224,881
Sales of goods and services	263,863	165,425
Net interest (payable)/receivable	(2,805)	(3,020)
With other group companies:		
Purchases of goods and services	150,379	44,742
Sales of goods and services	44,818	78,379

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

	2019 £000	2018 £000
Included within trade and other receivables (note 16)		
Leonardo SpA	120,975	136,483
Subsidiaries	3,867	612
Other group companies	14,508	31,741
	139,350	168,836

	2019 £000	2018 £000
Included within financial assets (note 17)		
Leonardo SpA	755,064	525,560
Subsidiaries	3,064	3,087
Other group companies	-	-
	758,128	528,647

	2019 £000	2018 £000
Included within trade and other creditors (note 19)		
Leonardo SpA	193,777	158,404
Subsidiaries	7,907	4,812
Other group companies	12,223	17,739
	213,907	180,955

	2019 £000	2018 £000
Included within financial liabilities (note 18)		
Leonardo SpA	100,000	100,000
Subsidiaries	264,542	111,138
Other group companies	-	122,273
	364,542	333,411

Notes (continued)

28 Changes in Accounting Policies

The Company has changed its accounting policies during the year following the adoption of IFRS 16.

On transition to IFRS 16, the Company recognised an additional £136,912k of right-of-use assets and £140,390k of lease liabilities.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.72%

	2019 £000
Right of Use Assets	
Discounted operating lease values	139,482
Prepayment/(accrual) adjustment	(2,570)
	<hr/>
Right Of Use assets recognised at 1 January 2019	136,912

	2019 £000
Lease liabilities	
Operating lease commitment at 31 December 2018 as disclosed in the Company accounts	178,382
Discounted using the incremental borrowing rate at 1 January 2019	(38,900)
Finance lease liabilities recognised as at 31 December 2018	908
	<hr/>
Lease liabilities recognised at 1 January 2019	140,390

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

Taxation

On 11th March 2020 it was announced that the Corporation Tax rate would not be reduced to 17% at the 1st April 2020 as had been previously enacted but would remain at 19%. This change was subsequently enacted on 17th March 2020. If this change had been substantively enacted at the current balance sheet date, the deferred tax asset would have increased by £3,464k, deferred tax liabilities would have increased by £8,932k, deferred tax in equity would have decreased by £2,402k and the deferred tax charge in the income statement would have increased by £3,066k.

Covid 19

Covid 19 pandemic has created a great deal of uncertainty and this may have an impact on valuations of assets and liabilities at the balance sheet date both positively and negatively.

Leonardo is committed, throughout this challenging period, to continuing its operations in accordance with Government rules, in support of the UK's national security objectives and overall prosperity of the UK. It is of the utmost priority for the Company to safeguard the health and safety of its employees, and any other stakeholders with whom we engage, throughout the duration of the COVID-19 situation.

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.