

Registration number: 02426132

Leonardo UK Ltd

Annual report and financial statements

for the year ended 31 December 2022

Leonardo UK Ltd

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Leonardo UK Ltd

Company Information

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Leonardo UK Ltd

Strategic Report

For the Year Ended 31 December 2022

The Directors present their strategic report for the year ended 31 December 2022.

Principal activities

Leonardo Group (“Leonardo”) is one of the world’s major players in aerospace, defence and security. A global solutions provider and a trusted long-term partner of choice for governments, institutions and business customers, Leonardo delivers cutting-edge and dual-use technologies, meeting both military and civil requirements. In partnership with its customers, Leonardo is working to strengthen global security by protecting people, territories, infrastructure and cyber networks. Innovation, continuous research, digital manufacturing and sustainability are the cornerstones of Leonardo’s business worldwide.

Leonardo UK Ltd (“the Company”) is one of the UK’s leading aerospace companies and one of the biggest suppliers of defence and security equipment to the UK Ministry of Defence (“the MOD”). The Company has divisions in Defence Electronics, Cyber & Security and Helicopters.

Strategy

‘Be Tomorrow - Leonardo 2030’ is Leonardo’s ambitious plan for the remainder of this decade. It is both a roadmap and a vision of the world and clarifies how Leonardo is positioning itself in the future, drawing on its strength as a leader in industry and technology.

The plan begins with solid foundations: the Company is already on a path to sustainable growth, supported by the results achieved in 2022. The Company will combine this with the flexibility and responsiveness needed to tackle the unpredictable challenges put before us every day. The Company will invest valued capital: the skill and dedication of its people, the quality of its suppliers and the trust of investors and customers, as well as fruitful relations with governments, communities and institutions.

The Company is committed to a long-term approach to technological innovation as a crucial element in global sustainability. It is an approach which has inspired the Company’s strategy in line with the United Nations’ Sustainable Development Goals and the European Green Deal.

The Company is one of 19 to have a formal Strategic Partnership with the MOD, under the UK Government’s Strategic Partnering Programme (“SPP”). The SPP is a UK Cabinet Office-led programme, the aim of which is to enable effective and continuously improving, relationships between the UK Government and its key industry suppliers.

The SPP with Leonardo UK is led by the MOD, incorporating active contribution from related Government departments. The SPP enables mutual oversight across all levels of engagement with the Company, with agreed aims of the relationship captured within a joint vision. Capitalising on shared learning and knowledge, the vision is focused towards alignment of strategic direction, taking account of the Company’s contribution to the UK, together with performance improvement in quality, cost, service, product availability and profitability. 2022 saw the first two Partnering Executive Meetings take place. These showed evidence of a maturing of the relationship between the Company and the MOD, in particular towards greater understanding of business resilience and other shared challenges and thereby robust customer delivery, together with support to export growth, through 2023.

Leonardo UK Ltd
Strategic Report
For the Year Ended 31 December 2022 (continued)

Key performance indicators (“KPIs”)

The Company’s key operating performance indicators are as follows:

	2022	2021
	£ 000	£ 000
Order intake	2,936,655	2,138,838
Revenue	2,109,025	2,006,836
Operating profit	182,360	229,904
Cash generated from operations	179,405	175,580

Order intake was 37% higher than 2021 due to large Helicopter and Typhoon orders booked in the year. Revenue was 5% higher than 2021 due to progress on contracts.

Operating profit was 21% lower than 2021 reflecting inflationary pressures, administrative expenses and research and development spend returning to pre-pandemic levels as well as increased provisioning on contracts.

Cash generated from operations increased by £2,832,000 driven by higher net usage of contract provisioning in 2021 partly offset by increased trade debtors.

Electronics

The Electronics UK business designs, develops and produces a wide range of products and solutions for air, land and maritime platforms. These include integrated mission systems; radars and sensors; electronic warfare systems; on-board avionics and communications; targeting systems; and a range of support solutions. The Company is the largest supplier of complex electronics to the MOD and its solutions support the world-leading capabilities of the UK Armed Forces, as well as a growing number of international customers. With the balanced mix of development, production and support work, Electronics is well positioned to accommodate market fluctuations and its significant order backlog provides real certainty for the future.

We anticipate the balance of the full-scale development contract for the ECRS Mk2 Radar in 2023 to upgrade the Royal Air Force’s Eurofighter Typhoon fighter jet fleet.

The Integrated Sensing and Protection line of business secured a number of strategic wins in land with CEMA, Counter UAS and HALO.

The Electronic Warfare (EW) team secured a fielding recommendation and an airborne counter measures multi-purpose, designation from the US Air National Guard for BriteCloud, paving the way for future and significant orders.

In support of these programme events, we are also moving ahead with the next phase of our Future Factory programme. This is being developed at a fast pace, with components such as supply chain mapping and contract lifecycle management being added, as well as phase two of digital engineering and digital factory. The Company is on track to provide core radar and EW technology, alongside cyber security support, for a new generation of combat air fighter jet, following an agreement between the Governments of the UK, Italy and Japan. GCAP is an ambitious endeavour to develop a next-generation fighter aircraft by 2035, building on the foundations laid by Team Tempest through the Future Combat Air System (FCAS), Technology Initiative (TI) and FCAS Acquisition Program.

GCAP will build on the substantial progress already made in the UK by Leonardo, BAE Systems, MBDA UK, Rolls-Royce and the MOD, who have been working in partnership since 2018 as Team Tempest to research, evaluate and develop a host of next generation future combat air systems capabilities. Leonardo UK is leading the development of the future aircraft’s integrated sensing, non-kinetic effects and integrated communications for the UK. This domain will be at the heart of the system’s capability, ensuring that UK Armed Forces can effectively respond to the threats of the future. The UK industry partners have already generated strong working relationships with their counterparts in Italy and Japan, which will progress into the new joint development.

Leonardo UK Ltd Strategic Report For the Year Ended 31 December 2022 (continued)

Cyber and security

The results for the Cyber and Security Solutions business in the UK for the year show continuing growth on revenue and improving profitability. Its core business of Cyber has grown with the MOD, with consulting at the heart of its offering. It also saw sustained growth across its other major account, with the UK Home Office, primarily in its support of the national nuclear detection capability at UK borders. We expect continuing growth, building on the excellent backlog it has built up in 2022.

Cyber and Security Solutions is adapting its capability, working with the global Cyber and Security division and across Leonardo UK, to deliver an integrated portfolio. For 2023, it is focused on winning new business by developing data and intelligence propositions for the defence and security sectors. The business is also targeting its Cyber Resilience portfolio, which it is delivering to the MOD and into the UK Security focused Government departments.

The business is collaborating with the other UK divisions to be the partner of choice for Cyber and Digital within Leonardo UK. The business provides security operations and monitoring, ensuring the protection of the Company's and its customers' data from external threats. The partnership with the other UK divisions is also delivering cyber resilience for the new Global Combat Air Programme.

Helicopters

Leonardo's Helicopter business in the UK saw a positive 2022, with key changes in leadership made to transform the structure. Major contracts were secured in 2022, such as the next stage of the AW159 Wildcat helicopter Integrated Support and Training contract in the UK and the Canadian AW101/CH-149 "Cormorant" Mid-Life Upgrade Project for 16 aircraft in total.

There are significant business opportunities for platform and support, with capability upgrades and modifications with Italy, Poland and other international customers.

The Helicopters business is well positioned for Anti-Submarine Warfare; Special Operations; and Anti Surface Warfare missions. The business is also making significant progress in developing its uncrewed platforms with programmes such as AWHero and the Rotary Wing Uncrewed Aerial System.

The business was successful in securing RCAT, the Rotorcraft Concepts and Technologies contract.

A significant development was reached through the signing of The Rotary Wing Enterprise at RIAT with the MOD and Boeing. This agreement will see Defence Equipment & Support working with the Helicopters division to build upon the success of the Integrated Operational Support arrangements to develop the next generation of support solutions for both AW101 Merlin and AW159 Wildcat helicopters.

With the announcement that the UK Government will seek to procure up to 44 aircraft to replace four existing helicopter types with one by the middle of the decade, the Company's AW149 multi-role platform is well positioned to be the solution. The competitive procurement process was formally launched in early 2022 with the Invitation to Negotiate expected in 2023 and contract award in 2024. The New Medium Helicopter competition will be one of the first under the revised acquisition model from the MOD where social value will be considered. Leonardo has committed to manufacturing the AW149 in the UK for this programme and all future exports.

Future outlook

The Company outlook remains positive, with an order intake during the year of £2,936,655,000 (2021: £2,138,838,000) and an order book as at 31 December 2022 of £6,290,162,000 (2021: £5,404,378,000), which represents 298% of 2022 turnover (2021: 269%).

As in previous years, the business environment continues to remain highly competitive with established companies and new entrants vying for market share. The Company is uniquely placed to offer a wide spectrum of capabilities across platforms, systems and sensors providing integrated solutions and support services to its customers in the land, maritime, air, space and cyber security domains.

Leonardo UK Ltd
Strategic Report
For the Year Ended 31 December 2022 (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.

Contract winning and management

The principal risks and uncertainties to which the Company may be affected remain the levels of procurement spend amongst the key defence agencies to which the Company supplies, supplier performance and the Company's project management of its customer contracts. 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.

Business resilience

Managing business continuity of the Company's complex supply chain is an essential way of working. The ongoing volatility of the macro-economic environment adds risk and uncertainty across most sectors within the supply chain. Throughout the Covid-19 pandemic, Brexit, the Russia/Ukraine conflict, the global energy crisis, the cost of living crisis and impact from adjacent markets, the Company has continued to collaborate with its partners and suppliers, particularly with the SME community, to mitigate against these impacts.

Collaboration with the MOD, through the SPP, has enabled a proactive approach to longer-term supply risk, through greater transparency and forecasting. In addition, a number of cross-industry groups are working together to address common sub-tier supply risks within the sector, such as semi-conductor supply. With impacts on material flow and continuity of supply, the Company continues to lead and engage in industry forums. This is key to ensuring a sector-wide position is maintained and demonstrates the significant value in sovereign UK capability and supply.

The Company continued to work alongside the MOD to ensure critical programme timings were maintained and, through the Defence Suppliers Forum, helped oversee resilience within the sector.

Inflation – Supply chain and wages

The Company is continuing to monitor inflation and its impact on the supply chain. The Company has carried out specific analysis over its stable production programmes to monitor the level of inflationary impact to specific projects and programmes. The Company is proactively engaging with its supply chain, particularly SMEs, to understand any inflationary challenges, in order to maintain high production line utilisation and improved pricing. Against a backdrop of geopolitical forces, such as the Ukraine-Russia conflict; the semi-conductor capacity shortages; and energy pricing still on the rise, 2023 and a portion of 2024 will continue to see inflationary pressures impacting the Company's supply base.

Pandemic

The Company has an established "Pandemic Policy and Procedures", to ensure effective management and control to minimise the impact on employees and the Company's business.

Leonardo UK Ltd
Strategic Report
For the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties (continued)

Financial risk management

Foreign currency risk

The Company has transactional currency exposure arising from sales and purchases in currencies other than the Company's functional currency of pounds sterling. The Company uses forward currency contracts to hedge certain of these exposures.

Credit risk

The Company has credit risk in respect of the recoverability of its trade and other debtors.

The majority of the Company's trade debtors are from UK, US and EU government agencies and prime contractors. The Company has a credit verification procedure that may require increased down-payments or third party guarantees and management performs regular reviews of the Company's debtor balances. The Company also has funds deposited with the parent company, Leonardo SpA, as part of a group-wide pooling arrangement which is further discussed in the going concern section in the directors' report.

Sustainability

The Company continues in its commitment to use sustainability as a force for business transformation and a driver of its activities. The sustainability strategy is set across three core pillars: People, Planet and Prosperity. This includes associated ESG KPIs for each. The Company integrates sustainability into all aspects of its business to create long-term value and generate positive economic, social and environmental impacts for the Company and its stakeholders.

Integral to the Company's sustainability strategy, is the publication of its first Carbon Reduction Plan. This disclosed its most transparent and detailed reporting to date, including:

- Carbon emissions performance for Scope 1, 2 and five categories within Scope 3 for a 2018 Baseline
- Set a new Scope 1 and 2 emissions target of 40% reduction by 2025 against the 2018 Baseline
- Committed to achieving Net Zero by 2030 for Scope 1 and 2, and by 2050 across the entire value chain (Scope 3).

The Company's commitment toward the Science Based Target initiative has been made, which will further define its objectives in 2023.

How the Company looks after its people is also key to its long-term commitment to a best-in-class workforce. As well as significant commitment to early careers and an extensive Inclusion & Diversity plan, the Company has pledged to become a Living Wage employer and has received accreditation with the Living Wage Foundation.

Leonardo UK Ltd
Strategic Report
For the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties (continued)
Sustainability (continued)

Simplified energy and carbon reporting (“SECR”)

This SECR report includes information relating to greenhouse gas emissions (Scope 1 and 2), energy consumption data for fuels, electricity, transport and fugitive emissions from the use of refrigerants. Also, CO₂e intensity ratio (tCO₂e (Tonnes) per £ million of turnover). The declaration identifies some of the energy-saving measures implemented by the Company’s UK sites.

The Company generated 13,791 tonnes of CO₂e and consumed 129,439,371 kWh of energy in 2022.

Greenhouse gas emissions

This identifies the CO₂e emissions (tonnes) for the Company for 2022 and compares this to emissions data generated in 2021.

Description	Scope	2022	2021 ⁽¹⁾
		tCO ₂ e	tCO ₂ e
All direct emissions from the activities undertaken within the control of Leonardo UK Ltd. Including fuel combustion such as gas boilers and fleet vehicles.	Scope 1	12,626	14,082
Indirect emissions from the purchase of electricity, steam or cooling by Leonardo UK Ltd.	Scope 2	1,166	1,203
Total		13,791	15,285

⁽¹⁾ The indirect emissions in 2021 have been restated as the company’s supplier for electricity provided Renewable Energy Guarantees of Origin (REGO) certificates confirming that 100% of the energy consumed during 2021 came from certified renewable sources.

Energy consumption

This identifies energy consumption (kWh) for the Company in 2022 and compares this to energy data from 2021.

Utility	2022 (kWh)	2021 (kWh)
Electricity	65,879,689	64,007,960
Gas	53,093,595	61,503,600
Mechanical Handling	2,221,774	576,488
Aviation Fuel	4,683,173	6,669,682
Transport	3,561,140	1,499,305
Total	129,439,371	134,257,035

CO₂ Intensity ratio

This identifies CO₂ emissions per £ million of turnover for the Company for 2022 compared with 2021.

Description	2022	2021
CO ₂ e (tonnes) per £ (millions) of turnover	6,514	7,485

Leonardo UK Ltd
Strategic Report
For the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties (continued)
Sustainability (continued)

Simplified energy and carbon reporting (“SECR”) (continued)

Energy efficiency measures

This identifies the Energy Efficiency Measures that were implemented within 2022.

Site	Description	Saving (kWh)
Leonardo UK Ltd	Maintaining 50001 Energy Management System	
Leonardo UK Ltd (Yeovil)	LED replacement light fittings	85,060
Leonardo UK Ltd (Southampton)	Hot water boiler replacement	1,755,000
Leonardo UK Ltd (Southampton)	Improvements to BEMS System	425,000
Leonardo UK Ltd (Edinburgh)	Replacement water chillers	107,000
Leonardo UK Ltd (Edinburgh)	Improvements to BEMS System	1,480,000

Methodology

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

CO2 conversion factors and calorific converters were generated via ‘UK Government GHG Conversion Factors for Company Reporting 2022 and 2021’. All utility information (electricity and natural gas) was generated from utility invoices. The scope 1 emissions include the equivalent CO2e value of fugitive emissions lost from refrigeration systems.

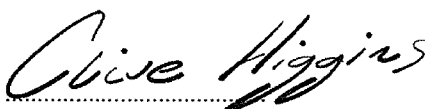
The transportation consumption was taken from information generated from the accounting systems of the Company.

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 13 to 17), 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 9 to 17.

Throughout 2023, 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.

Approved by the Board on 7 July 2023 and signed on its behalf by:



Clive Higgins (Interim Leonardo UK Chair and Chief Executive Officer)
 Director

Leonardo UK Ltd

Corporate Governance Report

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

The Principles provide a framework for the Company to not only demonstrate how the Board complies with its obligations as a large private company under The Companies Act 2006 and The Companies (Miscellaneous Reporting) Regulations 2018, but specifically how the Board makes decisions for the long term success of the Company, having regard to its stakeholders. The Company’s approach to its stakeholders is outlined in more detail within this Corporate Governance Report, as required by Section 172 of the Companies Act 2006 (‘s172’) (see Principle 6 - Stakeholders). The Board is aware of its responsibilities under s172 in discharging its duties and making decisions on behalf of the Company. In 2022, the Board focused on further developing the Company’s systems of governance as provided by the Wates Principles, review the mechanisms in place for risk management, assurance and control, and, promote better engagement with its stakeholders.

Below, we set out how the Company has been managed for the Company’s financial year ended 31 December 2022.

Principle 1 – Purpose and Leadership

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

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

Our mission statement solidifies this purpose, which is “To be the international aerospace, defence and security company that best enables its customers' success, by thinking creatively and working with passion”.

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

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

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

A copy of our Charter of Values is available on our website (https://www.leonardocompany.com/documents/20142/115137/Carta_dei_Valori+ENG.pdf?t=1551772599336).

The Company’s Board members are drawn from the Company’s divisions and functions and its shareholder, who provide strategic direction to the Company.

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 2 – Board Composition

The members of the Board are disclosed in the directors' report.

The Board's size and composition is considered appropriate for the scale and complexity of the business with a breadth of skills, knowledge and experience to govern the Company effectively.

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 partially executed through formally appointed committees as noted below.

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 director has specialist knowledge within their division or function, kept updated alongside their individual continuous professional development.

The Board sets the Company's purpose, values and standards of behaviour expected of all employees, satisfying itself that these and the culture of the business are aligned. The Board also sets the Leonardo UK strategy, oversees and monitors internal controls, risk management and the Company's governance framework, which sets out how we do business.

At the end of 2022, the Chairman and Chief Executive Officer stepped down from his role after twenty five years with the Company and its predecessors. Clive Higgins was appointed by the Company as Interim Chairman and Chief Executive Officer in January 2023.

Principle 3 – Directors' Responsibilities

Accountability

Good governance supports open and fair business, ensures that the Company has the right safeguards in place and supports informed decisions. Whilst Board oversight is always maintained, where appropriate, key areas are delegated to committees and to individuals in roles with the most appropriate knowledge and industry experience for detailed oversight and management, who report back to the Board on their work. Each Board member has a clear understanding of their accountability and responsibilities.

Committees

The Board cannot oversee every detail and it is important that key areas are represented and informed through the inclusion of experts from across the business. The Board committees continue to be an effective tool of governance by focusing on particular areas as set out below and contained in their terms of reference. The Chair of each governance committee reports to the Board on the committee's activities throughout the year.

Management Committee

The Committee provides the day-to-day management oversight function of the Board, with responsibility to review the Company's operational and financial performance, provide executive leadership, management and direction, assess and manage risk in conjunction with the Assurance and Internal Controls Committee, drive compliance, best practice and learning across the divisions, and to define and nurture the Company's culture as a just, ethical, diverse and inclusive employer.

The Committee has an associated Inclusion & Diversity sub-committee.

Assurance & Internal Controls Committee

The Committee assists the Board to fulfil its risk management responsibilities primarily through the review and evaluation of the adequacy of the Company's compliance with applicable legislation, regulations and Leonardo SpA's group-wide governance requirements, as well as audit findings.

The Committee has two sub committees – the Product Assurance sub-committee and the Data Protection Management Team.

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 3 – Directors' Responsibilities (continued)

Ethics & Social Responsibility Committee

The Committee seeks to reaffirm and define the Company's commitment to operating ethically in all the territories within which it does business and operates. The Committee formed a Sponsorship and Donations sub-committee to support it to fulfil its responsibilities to ensure all sponsorships and donations by the Company are compatible with its values and ethical policies.

Data, & Information Management Committee

The Committee was established 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.

UK Safety, Health and Environment Committee

The Committee assists the Board oversee and provide assurance on the management of their health, safety and environmental responsibilities.

The Committees are each chaired by senior managers to promote commitment, engagement and sponsorship at the top level of management. The Committee structures and membership are designed to encourage constructive problem-solving that benefits the long-term sustainability of the Company.

Each Committee can use its delegated authority as appropriate to fulfil its terms of reference, which may include the creation of sub-committees, steering groups or working groups reporting to it. Each Committee is accountable to the Board for the performance of its terms of reference.

Integrity of information

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

Each Committee Chair formally reports to the Board on the proceedings of their Committee's meetings on a regular basis.

Key financial information is maintained within, and collated from, the Company's accounting systems. The Company's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. The Company's financial statements are externally audited at each financial year end. The Company's financial controls are reviewed by the Company's internal audit function. The adequacy of controls is reported to the Assurance & Internal Controls Committee annually through an Operational Assurance Statement.

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 its Committees. The Board reviews and takes responsibility for approving all major bids and strategic opportunities including those related to internal investment, executing these through its business divisions or corporate functions 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 "Future outlook and business environment, Strategy and Principal risks and uncertainties" sections of the strategic report (on pages 2 to 8).

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 4 – Opportunity and Risk (continued)

Risk

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

Lifecycle management is used to provide governance through gate reviews at key risk points in the Company's main programmes and projects. The standard process is defined by Leonardo in its Project Management Manual and applied across all divisions. Phase Review Chairs and their assessors, who are independent of the project or programme, conduct reviews of plans and progress at key stages. A summary report is issued to the project and the relevant management team identifying key actions to minimise risk going forward. The process also incorporates a 'lessons learned' mechanism to ensure that experiences in one project can be shared with other projects in order to enable continuous improvement activity.

In addition, the corporate functions undertake risk assessments against specific areas of regulation to ensure comprehensive compliance programmes are implemented.

The Assurance and Internal Controls Committee assists the Board in ensuring that inherent and emerging risks are identified, managed appropriately and in a timely manner. In 2022, the Committee implemented an Assurance Process which was designed to meet the requirements within the Leonardo UK Operational Framework and gain assurance that the compliance programme implemented is effective. Through this process, the Committee evaluates the compliance implementation process and works with compliance owners to understand the strengths and weaknesses of the Company's compliance approach.

The Company also formed a Product Assurance sub-committee which reports on product compliance across the Company.

Details of the Company's key operational risks and mitigations are outlined in the strategic report (on page 5).

Responsibility

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

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 5 – Remuneration

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

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

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

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

Principle 6 – Stakeholders

The Board recognises the importance of having a close working relationship and engagement with all of its stakeholders, including its group of companies, employees, customers, suppliers and the local communities in which it works across the UK and abroad. Effective communication and good governance are key to ensure the Company's strategic direction remains aligned with the Leonardo Group's long-term goals for sustainability, growth, diversification and investment in the aerospace, defence and technology industry. The Board is constituted of a blend of Leonardo UK and Leonardo SpA employees, ensuring that the parent company is represented and that communication between the Board and its sole shareholder is maintained. During 2022, three of the seven Board members were Leonardo SpA employees.

External stakeholders and impacts

The Board is committed to 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 (outlined above) underpins this ethos for establishing and maintaining trusting relationships with all its stakeholders.

The Company, alongside the other Leonardo group companies, is focused on contributing to the achievement of four of the seventeen Sustainable Development Goals 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.

We welcome the development of the Task Force on Climate-related Financial Disclosures recommendations and recognise climate change as one of the biggest threats the world faces, and one which poses particular challenges to our business.

Innovation and technical excellence are critical to the Company's sustainability strategy, as expressed in our Materiality Analysis with feedback from investors, customers as well as our own leadership teams. It enables the Company to respond to customer needs effectively. It also helps determine investment in SMEs, working with research centres, co-operating with educational institutions and providing positive engagement with external stakeholders, including building trusted relationships with governments and other public bodies.

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

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 6 – Stakeholders (continued)

The Company is committed to sustainable business transformation for our people, the planet and the prosperity of its customers, partners and societies where it does business. In 2022, the Company made significant progress on its sustainability journey that illustrates a wider commitment to responsible business. Digitalisation and data management underpin this transformation, alongside robust compliance activities for our products and services, our cyber assurance and our ethical behaviours. The Company has mature health and safety principles alongside well established plans for equality, inclusion and diversity.

In 2021, the Company published its first Carbon Reduction Plan and pledged to reduce its Scope 1 and 2 emissions by 40% by 2025 against a 2018 Baseline as well as achieve “Net Zero” by 2030 for Scope 1 and 2 and by 2050 for Scope 3 across the value chain.

At the end of 2022, the Company made the commitment to pursue the Science Based Targets initiative (SBTi) to enhance our decarbonisation commitments, bringing the wider Scope 3 emissions into focus and to assure these SBTi targets within two years.

The Company is also committed to adding social value through long-term initiatives in the communities where it does business. The Company is encouraging sustainable travel to work by installing more electric vehicle charge points at its sites and has launched a Go Green car scheme for employees making it easier to make the electric or hybrid vehicle switch.

The Company offers award winning graduate and apprenticeship programmes to nurture new skills in younger age groups. The Company has STEM Ambassadors who continually produce fresh initiatives to engage budding engineers, with a focus on those communities with less access to resources.

The Company develops pioneering technology to future-proof our industry, including digitisation of working methods, the provision of space sensors that monitor pollution, helicopters that use sustainable aviation fuel and radars that work faster to reduce flight time.

Leonardo is supporting its workforce in heightening their digital skills, creativity and ability to engage with open innovation in collaboration with universities, while giving them access to the benefits of big data, artificial intelligence, system thinking and additive manufacturing, for a sustainable factory of the future.

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

Employees

2022 has been a difficult year of high inflation and periods of general economic instability in the UK. The Company has responded by agreeing a 12% uplift to salaries over two years for all employees, excluding those on executive grades for whom performance based rewards are normal practice. The Company has also provided a commitment to review bonus arrangements for a large group of employees in 2023 with an implementation timeline of 2024.

Trust and choice are at the heart of the Company’s employee value position evident as the Company’s continues its hybrid-working journey in 2022, with all teams embedding ‘Custom Working’ practice via team charters. Although, the Company is seeing a more balanced split between home and on-site working following the lifting of restrictions and the growing confidence of people to mix again, empowering teams to decide where and how they work continues to prove popular with employees and new recruits. The Company also continues to explore opportunities to offer additional flexibility to roles that require a fixed working place and pattern. In addition to hybrid working opportunities, the Company also increased the number of flexible leave days employees can take from 8 to 12 for all employees regardless of length of service or seniority. 12 days flex leave in addition to 25 or 27 days annual leave and eight public holidays per year supports the Company’s commitment to a healthy work life balance.

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 6 – Stakeholders (continued)

Employees (continued)

The Company further supports the value of choice with its fully funded flexible benefits provision. Tax efficient benefits such as Individual Saving Accounts, Go-Green electric car purchases and private medical and dental insurances are favoured choices. The Company also experienced hundreds of employees both buying additional holiday and selling back unused holiday (always maintaining a healthy leave arrangement) to suit their individual circumstances and needs.

The Company concluded its extensive consultation on the closure to future accrual for its two defined benefit pension arrangements and proceeded to instruct the pension trustees to amend the deeds to allow for closure in April 2024. There remain open employee relations issues as a result of this decision that have yet to be concluded and talks continue with union representatives. The Company has set out a detailed seven-point business plan on its reasons for closure.

The physical, psychological, social and financial wellbeing of employees continues to be a strong focus for the Company. In 2022, the Company invested further in its wellbeing agenda supporting the creation of a Wellbeing Network group to promote a holistic approach to healthy lives to support people in achieving their full potential. The Company achieved the ‘we invest in wellbeing’ at gold level from Investors in People for its UK footprint. This adds to the Company’s prior achievements of Investors in People and Investors in Young People at Gold level accreditation.

Employee engagement is recognised as a critical element of business success at all stages of the employee journey. To ensure employees voices are heard, the Company employs a variety of communication and engagement methods that encourage a culture of listening and dialogue, supported by people managers, people business partners, occupational health and wellbeing advisors and our inclusion and diversity ambassadors.

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 of the Code of

Ethics, they can contact the Company’s Speak Up Helpline, administered by an independent service provider with anonymity. This will be formally investigated and reported to the Ethics and Social Responsibility Committee. The Board is committed to designing policies and developing a working environment that promotes the benefits and wellbeing of all its employees. For detailed information on our Company benefits, visit our website. (www.uk.leonardocompany.com/en/people-careers/life-at-leonardo/company-benefits).

As part of our Inclusion and Diversity 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.

The Company’s Inclusion and Diversity Strategy in 2022 delivered a STEM Returners programme, a Springboard Development Programme for Women, a Navigator Programme for men, engagement in the Women in Defence Mentoring Programme and a developing partnership with the Association For Black and Minority Ethnic Engineers-UK. On Remembrance Day, 11 November 2022, we announced the launch of our brand new Armed Forces Network Group. In addition, the Company became a Level 2 Disability Confident Employer and aims to achieve Level 3 during 2022.

Leonardo UK Ltd

Corporate Governance Report (continued)

Principle 6 – Stakeholders (continued)

Employees (continued)

Additionally, steps were taken towards: increasing the number of 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; implementing training in diversity and inclusion for all employees; actively improving our work-life balance solutions through Custom Working to encourage and promote changes in behaviour and culture within the Company.

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

Corporate Governance Report – Committee information

Management Committee

The Management Committee is responsible for the day-to-day management of the Company's business affairs.

The Committee has clearly defined terms of reference, outlining the Committee's objectives and responsibilities to review the Company's operational and financial performance; provide executive leadership, management and direction; assess and manage risk in conjunction with the Assurance and Internal Controls Committee; drive compliance, best practice and learning across the divisions; and define and nurture the Company's culture, as a just, ethical, diverse and inclusive employer.

In 2022, the Committee comprised of the Company's CEO as Chair; two statutory directors and nine members of senior management from across the business. The Board is satisfied that during 2022, the Committee's members 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 Leonardo SpA's group-wide governance requirements.

The Committee is chaired by the Finance and Performance Director of the Company with a membership of five functional leaders from across the business.

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, 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.

The Committee is chaired by the Digital and IT Director with a membership of five functional leaders from across the business.

Ethics & Social Responsibility Committee

The Ethics & Social Responsibility Committee's purpose is to assist the Board in reaffirming 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.

Leonardo UK Ltd

Corporate Governance Report (continued)

Corporate Governance Report – Committee information (continued)

UK Safety, Health and Environment Committee

The UK Safety, Health and Environment Committee assists the Board in fulfilling its safety, health and environmental responsibilities, including maintaining and reviewing long-term objectives and strategy, undertaking trend analysis on incidents and audit outcomes, and driving continuous improvement. The Committee had its first sitting in 2022 chaired by the Procurement Director and Head of Leonardo Global Solutions with a membership of ten functional leaders from across the business, including a statutory director and the Company Secretary.

Leonardo UK Ltd

Directors' Report For the Year Ended 31 December 2022

The directors present their annual report and the audited financial statements of Leonardo UK Ltd ('the Company') registered number 2426132, for the year ended 31 December 2022.

Matters covered in the strategic report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the directors' report have been included in the strategic report. These matters relate to principal activities, business review, key performance indicators, principal risks and uncertainties, future developments, research and development activities, financial instruments, policy with regard to employment of disabled persons, and engagement with employees. The strategic report also includes the directors' section 172 (1) statement addressing its interactions with key stakeholders, including with customers, suppliers and others.

Dividends

The directors do not recommend the payment of a final dividend in relation to the 2022 financial statements (2021: £nil).

Going concern

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

The Board of directors have assessed the Company's cash flow forecasts for the going concern period through to 31 December 2024 and have a reasonable expectation that the Company has adequate resources to continue in operational existence during this period. Accordingly, the financial statements have been prepared on a going concern basis.

The Company's business activities, together with the principal risks and the factors likely to affect its future development, performance and position are set out in the strategic report. 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, including the risk of inflation, demonstrate that the Company is able to operate within the level of facilities it has in place. As a consequence, the directors believe that the Company is well-placed to manage its business risks successfully. In reaching their conclusions, the directors have performed scenario analysis considering a severe but plausible downside scenario driven by a slowdown in delivery and a reduction in new orders. In assessing this scenario, the directors have considered:

- How the delivery of contracts may be impacted; and
- The availability of funds pooled with Leonardo SpA.

A key assumption in these conclusions is access to the Company's funds that have been pooled with Leonardo SpA, the ultimate parent company ("the Group"). The majority of the cash generated by the Company is pooled in a group-wide pooling arrangement. The directors have assessed the pooling documentation and confirmed the Company has the right to access the pooled funds when required. The directors have also considered the financial position of the Group, including the Group's results announced on 3 May 2023 for the three months ended 31 March 2023 and any material events subsequent to this date, and concluded that the ultimate parent company has sufficient liquidity to provide the Company with its pooled funds if required.

Leonardo UK Ltd

Directors' Report For the Year Ended 31 December 2022 (continued)

Directors of the Company

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

C J Higgins (Interim Chair and Chief Executive Officer)

N J Bone (resigned 31 December 2022)

A Parrella

G P Cutillo

N C Whitney (resigned 30 May 2022)

W Allen

P Di Bartolomeo

A Clarke (appointed 27 July 2022)

M Hamilton (appointed 1 January 2023)

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.

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 2022 was £452,680,000 (2021: £386,789,000).

Political contributions

No political donations were made in the year (2021: £nil).

Leonardo UK Ltd

**Directors' Report
For the Year Ended 31 December 2022 (continued)**

Statement of disclosure of information to auditor

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

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

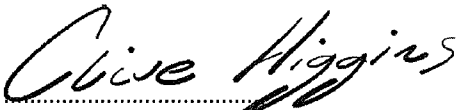
Directors' indemnities

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

Independent auditor

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

Approved by the Board on 7 July 2023 and signed on its behalf by:



C J Higgins (Interim Chair and Chief Executive Officer)
Director

Leonardo UK Ltd

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

The directors acknowledge their responsibility for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they 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 apply them consistently;
- make judgements and accounting 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; 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 UK Ltd

Opinion

We have audited the financial statements of Leonardo UK Ltd (the 'Company') for the year ended 31 December 2022, which comprise the Statement of Total Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included the following:

- We understood the process undertaken by management to perform the going concern assessment;
- We obtained management's going concern assessment, including the cash flow forecasts for the 18 month going concern period to 31 December 2024 and assessed whether the period applied is appropriate;
- Management has modelled a base case forecast which is consistent with the assumptions used in the Company's [approved budget] for 2023 and a reduced forecast compared to the [business plan] for 2024. Management also modelled a downside scenario driven by a slowdown in delivery and a reduction in new orders;
- We assessed the reasonableness of management's assumptions, with a particular focus on order intake, contract margins, cash receipts from customers and working capital. This has been performed by:
 - Confirming the opening cash position;
 - Checking the arithmetical accuracy of management's model;
 - Assessing the historical forecasting accuracy of the Company by comparing actual turnover, profit before tax and cash flows to prior year forecasts; and
 - Checking for consistency of the forecasts with other areas of the audit including the impairment assessment.

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

Conclusions relating to going concern (continued)

We compared the current financial performance to management's forecast by obtaining the latest available management accounts to identify any issues with current trading and cash flows;

We recalculated the results of the downside scenario performed by management to determine the impact of reasonably possible fluctuations in key assumptions on the Company's available liquidity;

We compared the reduction in cash receipts from customers assumed in the sensitivity scenario presented by management to the receipts achieved in the financial year ended 31 December 2022;

We inspected the cash pooling agreement with the ultimate parent company, Leonardo SpA, to confirm the terms of the agreement and the ability of the Company to access its cash resources, as required. We also assessed the financial position and liquidity of the parent company and its ability to provide access to these cash resources as required; and

We considered the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern for the period to 31 December 2024.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework, applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice) and the relevant UK tax compliance regulations, principally relating to those issued by HMRC. In addition, we concluded that there are certain significant laws and regulations which have an effect on the determination of the amounts and disclosures in the financial statements being the General Data Protection Regulation and those laws and regulations relating to health and safety and employee matters.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We understood how the Company is complying with those frameworks by making enquiries of those charged with governance and management, including those responsible for legal and compliance matters. We corroborated our enquiries through reading board and committee minutes and correspondence with regulatory bodies and by understanding the entity level controls implemented by those charged with governance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there to be susceptibility to fraud. We also considered where the significant estimates and judgements are in the financial statements. We assessed the programmes and controls those charged with governance have established to address the risks identified, or that otherwise prevent, deter or detect fraud and how management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included enquiries of those charged with governance, management and legal counsel, reviewing relevant correspondence; and journal entry testing with a focus on manual journals and unusual transactions based on our understanding the business.

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

Use of our report

This report is made solely to the 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.

DocuSigned by:

Ernst & Young LLP

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Paul Mapleston (Senior Statutory Auditor)

7 July 2023

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

Leonardo UK Ltd**Statement of Total Comprehensive Income
For the Year Ended 31 December 2022**

	Note	2022 £ 000	2021 £ 000
Turnover	4	2,109,025	2,006,836
Cost of sales		<u>(1,788,916)</u>	<u>(1,653,811)</u>
Gross profit		320,109	353,025
Administrative expenses		<u>(137,749)</u>	<u>(123,121)</u>
Operating profit	5	<u>182,360</u>	<u>229,904</u>
Amounts written off investments	16	-	(432)
Interest receivable and similar income	9	20,658	5,236
Interest payable and similar expenses	10	<u>(4,782)</u>	<u>(7,447)</u>
Profit before tax		198,236	227,261
Tax on profit	11	<u>(27,069)</u>	<u>(42,777)</u>
Profit for the year		<u>171,167</u>	<u>184,484</u>
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit liability and asset	22	(286,912)	243,600
Deferred tax charge on items that will not be reclassified to profit or loss		<u>71,728</u>	<u>(72,442)</u>
		<u>(215,184)</u>	<u>171,158</u>
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedges		(20,620)	4,944
Fair value of cash flow hedges reclassified to profit or loss		(15)	(4,932)
Deferred tax charge on gain on cash flow hedge		<u>5,159</u>	<u>(846)</u>
		<u>(15,476)</u>	<u>(834)</u>
Other comprehensive (loss)/income for the year, net of income tax		<u>(230,660)</u>	<u>170,324</u>
Total comprehensive (loss)/income for the year		<u>(59,493)</u>	<u>354,808</u>

The above results were derived from continuing operations.

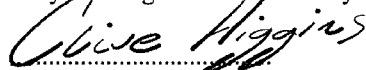
The notes on pages 31 to 72 form an integral part of these financial statements

Leonardo UK Ltd**(Registration number: 02426132)****Balance Sheet****As at 31 December 2022**

	Note	31 December 2022 £ 000	31 December 2021 £ 000
Fixed assets			
Intangible assets	12	1,364,292	1,349,313
Tangible fixed assets	13	175,778	168,151
Right of use assets	14	94,081	107,552
Investment property	15	2,992	3,057
Investments	16	304,448	304,448
Retirement benefit asset	22	190,300	490,800
		<u>2,131,891</u>	<u>2,423,321</u>
Current assets			
Stock	17	433,786	451,946
Debtors	18	1,601,187	1,422,921
Cash at bank and in hand		27,808	22,758
		<u>2,062,781</u>	<u>1,897,625</u>
Creditors: amounts falling due within one year	19	<u>(1,515,889)</u>	<u>(1,493,549)</u>
Net current assets		<u>546,892</u>	<u>404,076</u>
Total assets less current liabilities		<u>2,678,783</u>	<u>2,827,397</u>
Creditors: amounts falling due after one year	19	(109,537)	(117,623)
Provisions for liabilities and charges	21	(104,780)	(110,833)
Deferred tax liabilities	20	(70,173)	(145,503)
Retirement benefit liability	22	(1,639)	(1,639)
		<u>(286,129)</u>	<u>(375,598)</u>
Net assets		<u>2,392,654</u>	<u>2,451,799</u>
Capital and reserves			
Called-up share capital	23	314,500	314,500
Share premium reserve	23	845,500	845,500
Other reserves	23	(4,968)	10,508
Profit and loss account		<u>1,237,622</u>	<u>1,281,291</u>
Shareholders' funds		<u>2,392,654</u>	<u>2,451,799</u>

These financial statements of Leonardo UK Ltd, (registration number: 02426132) were approved by the Board of directors and authorised for issue on 7 July 2023.

They were signed on its behalf by:



C J Higgins (Interim Chair and Chief Executive Officer)
Director

The notes on pages 31 to 72 form an integral part of these financial statements

Leonardo UK Ltd

Statement of Changes in Equity For the Year Ended 31 December 2022

	Called-up share capital £ 000	Share premium reserve £ 000	Cash flow hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Balance at 1 January 2021	314,500	845,500	11,342	924,971	2,096,313
Profit for the year	-	-	-	184,484	184,484
Other comprehensive income	-	-	(834)	171,158	170,324
Total comprehensive income	-	-	(834)	355,642	354,808
Share based payment transactions	-	-	-	678	678
Balance at 31 December 2021	314,500	845,500	10,508	1,281,291	2,451,799

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	Called-up share capital £ 000	Share premium reserve £ 000	Cash flow hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Balance at 1 January 2022	314,500	845,500	10,508	1,281,291	2,451,799
Profit for the year	-	-	-	171,167	171,167
Other comprehensive income	-	-	(15,476)	(215,184)	(230,660)
Total comprehensive income	-	-	(15,476)	(44,017)	(59,493)
Share based payment transactions	-	-	-	348	348
Balance at 31 December 2022	314,500	845,500	(4,968)	1,237,622	2,392,654

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The notes on pages 31 to 72 form an integral part of these financial statements
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Leonardo UK Ltd

Statement of Cash Flows For the Year Ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Cash flows from operating activities			
Profit for the year		171,167	184,484
<i>Adjustments to cash flows from non-cash items</i>			
Depreciation, amortisation and impairment	5	53,003	52,321
Foreign exchange loss/(gain)		4,065	(6,642)
Pension costs, defined benefit scheme	22	23,600	23,900
Finance income	9	(20,658)	(5,236)
Finance costs	10	4,782	7,447
Loss/(gain) on sale of tangible fixed assets		58	(56)
Share based payment transactions	24	348	678
Income tax expense	11	27,069	42,777
		<u>263,434</u>	<u>299,673</u>
Working capital adjustments			
Increase in trade and other debtors	18	(25,639)	(14,202)
Decrease in stock	17	18,160	9,945
Decrease in trade and other creditors	19	(70,486)	(86,847)
Decrease in provisions	21	(6,053)	(31,940)
Interest paid	10	(11)	(56)
		<u>179,405</u>	<u>176,573</u>
Cash generated from operations			
Income taxes paid	11	(32,335)	(14,190)
		<u>147,070</u>	<u>162,383</u>
Net cash flow from operating activities			
Cash flows from investing activities			
Proceeds from sale of tangible assets	13	-	65
Interest received	9	8,068	3,815
Acquisitions of tangible assets	13	(35,384)	(33,298)
Capitalised development expenditure	12	(14,725)	(11,955)
Acquisition of other intangible assets	12	(11,698)	(8,536)
		<u>(53,739)</u>	<u>(49,909)</u>
Net cash flows from investing activities			

The notes on pages 31 to 72 form an integral part of these financial statements

Leonardo UK Ltd**Statement of Cash Flows
For the Year Ended 31 December 2022 (continued)**

	2022	2021
	£ 000	£ 000
Cash flows from financing activities		
Repayment of loans	-	(60,000)
Net change in financial debts and receivables	(70,624)	(49,715)
Lease repayments	(18,562)	(18,121)
Net cash flows from financing activities	<u>(89,186)</u>	<u>(127,836)</u>
Net increase/(decrease) in cash and cash equivalents	4,145	(15,362)
Cash and cash equivalents at 1 January	22,758	37,755
Effect of exchange rate fluctuations on cash held	905	365
Cash and cash equivalents at 31 December	<u>27,808</u>	<u>22,758</u>

The notes on pages 31 to 72 form an integral part of these financial statements

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022

1 General information

Leonardo UK Ltd (the “Company”) is a private Company limited by share capital incorporated, domiciled and registered in England in the UK. The registered number is 02426132 and the registered address is 1 Eagle Place, St James's, London, England, SW1Y 6AF.

2 Significant accounting policies

Summary of significant accounting policies and key accounting estimates

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

The Company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements because it is a wholly owned subsidiary of Leonardo SpA, which prepares publicly available consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about it as a consolidated group.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards, but makes amendments where necessary in order to comply with the Companies Act 2006. In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- IAS 1 para 79 (a) (iv) comparative period reconciliation for share capital, tangible fixed assets, intangible assets and investment properties;
- IAS 1 para's 134 -136 disclosures in respect of capital management;
- IAS 8 para's 30 - 31 effects of new but not yet effective IFRSs;
- IAS 16 para 73(e) comparative period reconciliation for tangible fixed assets;
- IAS 24 para 17 disclosures in respect of the compensation of key management personnel;
- IAS 24 para 17a disclosures of transactions with a management entity that provides key management personnel services to the company; and
- IFRS 15 para 110, 113 - 115, 118, 119 (a - c) 120 - 127, 129 certain disclosures regarding revenue.

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:

- IAS 36 para's 130 f (ii) (iii), 134 (d) -134 (f), 135 (c) - 135 (e) disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- IFRS 2 para's 45(b), 46 - 52 share based payments in respect of group settled share based payments;
- 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

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Basis of preparation (continued)

• IFRS 13 para's 91 - 99 disclosures and the disclosures required by IFRS 7 Financial Instrument Disclosures. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

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

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

The IASB issued on 1 October 2019 with an effective date from 1 January 2022 the Interest Rate Benchmark Reform - Phase 2, (amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7) Financial Instruments: Disclosures. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

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

Going concern

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

The Board of directors have assessed the Company's cash flow forecasts for the period through to 31 December 2024 and 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 principal risks and the factors likely to affect its future development, performance and position are set out in the strategic report. 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, including the risk of inflation, demonstrate that the Company is able to operate within the level of facilities it has in place. As a consequence, the directors believe that the Company is well-placed to manage its business risks successfully. In reaching their conclusions, the directors have performed scenario analysis considering a severe but plausible downside scenario driven by a slowdown in delivery and a reduction in new orders. In assessing this scenario, the directors have considered:

- How the delivery of contracts may be impacted; and
- The availability of funds pooled with Leonardo SpA.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Going concern (continued)

A key assumption in these conclusions is access to funds that have been pooled with Leonardo SpA, the ultimate parent company. The majority of the cash generated by the Company is pooled in a group-wide pooling arrangement. The directors have reassessed the pooling documentation and confirmed the Company has the right to access the pooled funds when required. The directors have also considered the financial position of the Group, including the Group's results announced on 3 May 2023 for the three months ended 31 March 2023 and any material events subsequent to this date, and concluded that the ultimate parent company has sufficient liquidity to provide the Company with its pooled funds if required.

Currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of trading foreign currency transactions and from the translation at the year-end exchange rate of operating assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss within cost of sales. Non trading foreign exchange gains and losses resulting from the settlement of transactions and the translation at year end exchange rates are recognised in the statement of profit and loss within other interest receivable and similar income and interest payable and similar charges.

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 or production cost, including directly related expenses allocated to them when preparing the asset for operation 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.

Goodwill

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

Computer software

Acquired computer software licences 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.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Intangible assets (continued)

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 included in liabilities as deferred income and credited to the profit and loss account over the expected useful life of the assets, on the basis of deliveries to the ultimate customer.

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

Tangible assets

Tangible assets are 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 asset 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 included in liabilities as deferred income and credited to the profit and loss account over the expected useful life of the asset.

Depreciation

The value of an asset is adjusted by depreciation calculated on a straight line basis over the residual useful life of the asset itself. The estimated useful lives adopted by the Company for the various asset classes are as follows:

Asset class	Depreciation rate
Freehold buildings	30 to 50 years
Leasehold buildings	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 if there are indications that the carrying values may not be recoverable.

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

Investment property

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

Investment property is depreciated over 50 years.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Tangible assets (continued)

Impairment of intangible assets and tangible assets

Intangible assets with indefinite lives are not depreciated or amortised, but are subject to impairment tests at least once a year to ascertain the recoverability of their book value.

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

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

If the reasons for such write-downs should cease to occur, the impairment is reversed and the write-back is taken to the profit and loss account. However, the value of goodwill that has been written down cannot be reversed.

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 indicate 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.

Stock

Stock is 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 reversed in future periods if the reason for the write-down should cease to occur.

The Company classifies stock as follows:

- Raw material
- Work in progress

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

Contract assets and liabilities

Contract assets and liabilities are recognised on the basis of progress (or percentage of completion), whereby costs, revenue and hence contract margins are recognised based on the progress of the contract. The stage of completion is the ratio between costs incurred at the measurement date and the total expected costs for the programme. 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.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Contract assets and liabilities (continued)

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

Progress payments in excess of costs incurred are recorded as a liability under contract liabilities within creditors: amounts falling due within one year.

Financial instruments

(i) Recognition and initial measurement

Financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

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

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 other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

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

Investments in subsidiaries are carried at cost less impairment.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Cash and cash equivalents

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

(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:

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

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

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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.

(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 cash flow hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied - see below), the associated cumulative gain or loss is removed from the cash flow 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 profit and loss account in the same period or periods during which the hedged expected future cash flows affect profit or loss.

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

Fair value hedges

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

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

(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.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers 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 expected 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).

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.

Impairment

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

Share capital and share premium

Share capital consists of the capital subscribed and paid up by the Company.

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

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and comprises current and deferred income tax. Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement or other comprehensive income. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

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, deferred income tax is not accounted for (a) 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 or (b) in respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets and liabilities are measured on an undiscounted basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

Employee benefit costs

Defined benefit plans

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

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 profit and loss account within cost of sales and administrative expenses and the expected return on the schemes' assets, net of interest on scheme liabilities, is included within other interest receivable and similar 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 profit and loss account in the periods during which services are rendered by employees.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Share-based payment transactions

Leonardo SpA operates long term investment performance share plans for senior management of Leonardo SpA and its subsidiaries. Share plans 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 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 amounts due to group undertakings.

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. 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.

Leasing

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

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

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 tangible assets. 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.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Leasing (continued)

As a lessee (continued)

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

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

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

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

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

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

Short term leases and leases of low-value assets.

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

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

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 is recognised at a point in time or over time for the performance obligations identified within each contract at the 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 a 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, then reviewed as required 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 is 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 that do not provide an additional service are accounted for as part of the main supply and the costs of the warranty are recognised when the warranty period begins.

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.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Revenue recognition (continued)

Contract liabilities

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

Sale of production and other goods

Revenue is recognised when the Company transfers control over a product to the customer.

Revenue for the sale of a series of goods or specific customised products is recognised over time. Revenue on these contracts is recognised on the percentage of completion method based on the cost to cost approach.

Rendering of services

Revenue from the rendering of services is recognised over time. 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, or the actual service provided as a proportion of the total services to be provided on the contract.

Interest receivable and payable

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

Dividends

Dividends are recognised when 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.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

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

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

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

The Company operates in sectors and with contractual arrangements that are especially complex. Margins recognised in profit and loss are a function of both the progress on the 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 estimates of the final costs and revenues on each contract including any extra costs, variable revenue 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 recognised in the financial statements represent management's best estimate at the reporting date using these procedures.

Retirement benefits valuation

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

The Company takes advice from independent actuaries relating to the appropriateness of the assumptions. However, comparatively small changes in the assumptions used may have a significant effect on the Company's financial statements. For the sensitivity on the results of the key assumptions 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.

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 determine a suitable discount rate in order to calculate the present value of the goodwill. 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 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 ongoing reassessment.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

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

Right of use assets

Right of use assets are recognised as required by IFRS 16. The value attributed to each right of use asset is calculated by reference to relevant assumptions regarding the expected future costs of continuing to occupy specific leased sites. It is assumed that current levels of site occupation, duration and the costs of carrying out projected dilapidations work prior to handing leased properties back to the landlord on lease termination will be in line with current estimates. It is assumed that the current interest rate assumptions will continue to apply. A significant change in projected outcomes versus the assumptions currently made might require a revised value for the right of use assets to be recognised.

4 Turnover

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

	2022	2021
	£ 000	£ 000
Sale of goods	964,945	1,036,631
Rendering of services	1,144,080	970,205
	<u>2,109,025</u>	<u>2,006,836</u>

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

	2022	2021
	£ 000	£ 000
By geographical market:		
United Kingdom	1,300,653	1,168,910
Rest of Europe	467,447	457,781
USA and Canada	212,782	231,950
Rest of World	128,143	148,195
	<u>2,109,025</u>	<u>2,006,836</u>

	2022	2021
	£ 000	£ 000
By Division		
Electronics	1,298,562	1,155,341
Helicopters	810,463	851,495
	<u>2,109,025</u>	<u>2,006,836</u>

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.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

4 Turnover (continued)

Contract balances

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

	Note	2022 £ 000	2021 £ 000
Trade debtors	18	216,309	169,522
Amounts owed by group undertakings	18	90,112	111,681
Contract assets	18	317,786	325,521
Contract liabilities	19	<u>(693,222)</u>	<u>(657,854)</u>

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 the current period that was included in the contract liability balance at the beginning of the period was £508,503,000 (2021: £501,591,000).

5 Operating profit

Arrived at after charging/(crediting):

	2022 £ 000	2021 £ 000
Depreciation expense	27,699	27,317
Depreciation on right of use assets	13,795	14,611
Amortisation expense	11,444	5,213
Amortisation of investment property	65	64
Impairment on intangible assets	-	4,684
Research and development costs	452,680	386,789
Impairment on investment	-	432
(Gain)/loss on disposal of right of use assets	-	62
Research and development tax credits	(21,349)	(20,337)
Loss/(gain) on disposal of fixed assets	<u>58</u>	<u>(6)</u>

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****6 Auditor's remuneration**

	2022	2021
	£ 000	£ 000
Audit of the financial statements	957	795

7 Staff numbers and costs

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

	2022	2021
	No.	No.
Management	1,055	998
Production	962	1,024
Technical/admin	5,435	5,357
	<u>7,452</u>	<u>7,379</u>

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

	2022	2021
	£ 000	£ 000
Wages and salaries	405,718	374,245
Share based payments (note: 24)	348	775
Social security costs	45,747	40,493
Contributions to defined contribution scheme	24,579	21,162
Pension costs, defined benefit scheme	60,400	62,900
	<u>536,792</u>	<u>499,575</u>

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2022 £ 000	2021 £ 000
Directors' remuneration	4,739	2,069
Amounts receivable under long term incentive schemes – cash	217	48
	<u>4,956</u>	<u>2,117</u>

The remuneration of the highest paid director was £3,031,000 inclusive of a payment of £1,409,000 in relation to a non-compete agreement (2021: £1,666,000). The highest paid director received no shares under long term incentive schemes.

Three of the directors serving during the year were employees of another Leonardo Group company (2021: three). They did not receive any remuneration for their service as a director of the Company for the period (2021: £nil). Three directors were members of the Company defined benefit pension schemes (2021: three). No directors received shares under long term incentive schemes (2021: 4 directors).

9 Interest receivable and similar income

	2022 £ 000	2021 £ 000
Interest income on short term loans	8,068	936
Foreign exchange gain	2,590	-
Net interest on defined benefit plan assets (note: 22)	10,000	4,300
	<u>20,658</u>	<u>5,236</u>

Interest income on short term loans includes income from group undertakings of £7,826,000 (2021: £613,000).

10 Interest payable and similar expenses

	2022 £ 000	2021 £ 000
Bank fees	11	56
Ineffective portion of cash flow hedges	553	2,508
Foreign exchange loss	-	236
Interest on leases (note: 25)	4,218	4,647
	<u>4,782</u>	<u>7,447</u>

Interest on leases includes interest payable to group undertakings of £1,668,000 (2021: £949,000).

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****11 Tax on profit**

Tax charged in the profit and loss account

	2022	2021
	£ 000	£ 000
Current taxation		
UK corporation tax	30,418	36,635
UK corporation tax adjustment to prior periods	(5,160)	376
	<u>25,258</u>	<u>37,011</u>
Foreign tax	236	324
Foreign tax adjustment to prior periods	19	74
	<u>255</u>	<u>398</u>
Total current income tax	<u>25,513</u>	<u>37,409</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,046	(582)
Deferred tax adjustments for prior periods	(490)	(2,110)
Arising from changes in tax rates and laws	-	8,060
Total deferred taxation	<u>1,556</u>	<u>5,368</u>
Tax expense in the profit and loss account	<u>27,069</u>	<u>42,777</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2021: 19%).

The differences are reconciled below:

	2022	2021
	£ 000	£ 000
Profit before tax	<u>198,236</u>	<u>227,261</u>
Corporation tax at standard UK tax rate	37,665	43,180
Effect of tax rates in foreign jurisdictions	21	35
Increase in tax rate on deferred tax balances	385	7,907
Non-deductible expenses	(566)	(90)
Patent box deduction	(4,483)	(5,700)
Adjustments in respect of prior periods	(5,631)	(1,660)
Other	<u>(322)</u>	<u>(895)</u>
Total tax charge	<u>27,069</u>	<u>42,777</u>

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****12 Intangible assets**

	Goodwill £ 000	Capitalised development costs £ 000	Software and other intangibles £ 000	Total £ 000
Cost				
At 1 January 2022	1,238,033	257,297	31,925	1,527,255
Additions	-	14,725	11,698	26,423
At 31 December 2022	<u>1,238,033</u>	<u>272,022</u>	<u>43,623</u>	<u>1,553,678</u>
Amortisation				
At 1 January 2022	72,338	82,984	22,620	177,942
Amortisation charge	-	9,784	1,660	11,444
At 31 December 2022	<u>72,338</u>	<u>92,768</u>	<u>24,280</u>	<u>189,386</u>
Carrying amount				
At 31 December 2022	<u>1,165,695</u>	<u>179,254</u>	<u>19,343</u>	<u>1,364,292</u>
At 31 December 2021	<u>1,165,695</u>	<u>174,313</u>	<u>9,305</u>	<u>1,349,313</u>

Impairment testing

Goodwill has been allocated to cash generating units as follows:

	2022 £ 000	2021 £ 000
Electronics	286,634	286,634
Helicopters	879,061	879,061
	<u>1,165,695</u>	<u>1,165,695</u>

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 company's approved business plan. Cash flows after the five year business plan period were extrapolated using long term growth rates in order to calculate the terminal recoverable amounts. A specifically calculated weighted average cost of capital (discount rate) is used for each cash generating unit.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

12 Intangible assets (continued)

The key assumptions of this calculation are shown below:

	2022	2021
	£	£
Period on which management approved forecasts are based	5 years	5 years
Growth rate applied beyond approved forecast period	2.0%	2.0%
Pre-tax discount rate – Electronics	9.3%	10.1%
Pre-tax discount rate – Helicopters	10.2%	10.3%

Management performed a sensitivity analysis by varying the key assumptions in determining if any impairment is required.

Increasing the Helicopters discount rate by 1.8% (2021: 3.4%) would result in an impairment.

Reducing the cash flow forecasts for Helicopters by 20% (2021: 38%) would also result in an impairment.

No sensitivities are disclosed for the Electronics CGU as no reasonably possible change in the assumptions could lead to an impairment.

13 Tangible assets

	Freehold land and buildings £ 000	Leasehold land and buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost				
At 1 January 2022	65,347	11,992	494,332	571,671
Additions	673	112	34,599	35,384
Disposals	-	(4)	(35,156)	(35,160)
At 31 December 2022	<u>66,020</u>	<u>12,100</u>	<u>493,775</u>	<u>571,895</u>
Depreciation				
At 1 January 2022	10,946	3,936	388,638	403,520
Charge for the year	2,834	569	24,296	27,699
Eliminated on disposal	-	(4)	(35,098)	(35,102)
At 31 December 2022	<u>13,780</u>	<u>4,501</u>	<u>377,836</u>	<u>396,117</u>
Carrying amount				
At 31 December 2022	<u>52,240</u>	<u>7,599</u>	<u>115,939</u>	<u>175,778</u>
At 31 December 2021	<u>54,401</u>	<u>8,056</u>	<u>105,694</u>	<u>168,151</u>

Non-depreciating assets (assets in the course of construction) of £28,337,000 (2021: £24,196,000) are included within leasehold land and buildings and plant and equipment above and are not being depreciated.

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****14 Right of use assets**

	Leasehold and buildings £ 000	Property and equipment £ 000	Total £ 000
Cost			
At 1 January 2022	143,476	10,276	153,752
Additions	1,713	909	2,622
Disposals	(2,241)	(362)	(2,603)
At 31 December 2022	<u>142,948</u>	<u>10,823</u>	<u>153,771</u>
Depreciation			
At 1 January 2022	38,197	8,003	46,200
Charge for the year	12,624	1,171	13,795
Eliminated on disposal	-	(305)	(305)
At 31 December 2022	<u>50,821</u>	<u>8,869</u>	<u>59,690</u>
Carrying amount			
At 31 December 2022	<u>92,127</u>	<u>1,954</u>	<u>94,081</u>
At 31 December 2021	<u>105,279</u>	<u>2,273</u>	<u>107,552</u>

15 Investment property

	2022 £ 000	2021 £ 000
Cost		
At 1 January	<u>3,381</u>	<u>3,381</u>
At 31 December	<u>3,381</u>	<u>3,381</u>
Amortisation		
At 1 January	324	260
Amortisation charge	<u>65</u>	<u>64</u>
At 31 December	<u>389</u>	<u>324</u>
Carrying amount		
At 31 December	<u>2,992</u>	<u>3,057</u>

The carrying value of the investment property and the fair value are not considered to be materially different. The rental income in the year associated with this property was £512,000 (2021: £512,000).

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****16 Investments**

	2022
	£ 000
Subsidiaries	
Cost	
At 1 January 2022	304,880
At 31 December 2022	304,880
Provision	
At 1 January 2022	432
At 31 December 2022	432
Carrying amount	
At 31 December 2022	304,448
At 31 December 2021	304,448

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

As at 31 December 2022, ordinary shares in group companies held by the Company were:

Entity	Registered office address	Class of shares held	Ownership	
			2022	2021
Leonardo Electronics US Inc	Suite 704, 201 12th Street South, Arlington, Virginia 22202	Ordinary	100%	100%
Tactical Technologies Inc	STE 200, 2685 Queensview Drive, Ottawa, Ontario K2B 8K2	Ordinary	100%	100%
Leonardo Saudi Arabia	PO Box 9743, Riyadh 11423	Ordinary	100%	100%
Leonardo Limited	Lysander Road, Yeovil, Somerset BA20 2YB	Ordinary	100%	100%
Leonardo MW Ltd	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
SELEX Eltag Limited	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****16 Investments (continued)**

Entity	Registered office address	Class of shares held	Ownership	
			2022	2021
Selex ES (Projects) Ltd	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%
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 FuturePlanner (Trustee) Ltd	Lysander Road, Yeovil, Somerset, BA20 2XB	Ordinary	100%	100%

17 Stock

	2022	2021
	£ 000	£ 000
Raw materials and consumables	225,034	242,370
Work in progress	208,752	209,576
	<u>433,786</u>	<u>451,946</u>

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

18 Debtors

	2022 £ 000	2021 £ 000
Trade debtors	216,309	169,522
Contract assets	317,786	325,521
Amounts owed by parent undertaking	960,902	831,251
Amounts owed by subsidiaries	12,649	7,403
Amounts owed by other group undertakings	17,789	17,122
Derivative financial instruments	10,851	22,180
Current tax debtor	13,464	6,641
Other debtors	42,650	38,085
Prepayments	8,787	5,196
	1,601,187	1,422,921

Amounts owed by parent undertaking include a cash pooling amount of £888,484,000 which is placed on deposit on the Company's behalf for up to four months. Interest on these amounts owed are at variable rates based on SONIA average rate for the year was 1.24% (2021: 0.13%) on sterling dominated amounts.

Amounts owed by group undertakings include a loan facility to Leonardo Electronics US Inc of USD 15,000,000 (£12,473,000) for short term funds of which USD 12,800,000 (£10,644,000) was utilised at the year end. Leonardo UK also holds a guarantee on behalf of Leonardo US Inc. of £58,200,000 (2021: £Nil)..

19 Creditors

	2022 £ 000	2021 £ 000
Creditors: amounts falling due within one year		
Contracts liabilities	693,222	657,854
Trade creditors	176,013	227,360
Amounts owed to parent undertaking	164,113	224,238
Amounts owed to subsidiaries	316,288	236,750
Amounts owed to other group undertakings	13,189	9,573
Derivative financial liabilities	18,125	5,279
Social security and other taxes	36,742	27,161
Lease liabilities (note: 25)	12,003	12,218
Accruals and deferred income	86,194	93,116
	1,515,889	1,493,549

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****19 Creditors (continued)**

	2022	2021
	£ 000	£ 000
Creditors: amounts falling due after one year		
Other creditors	3,610	4,025
Derivative financial liabilities	7,530	3,998
Lease liabilities (note: 25)	98,397	109,600
	<u>109,537</u>	<u>117,623</u>

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

Derivative financial liabilities are recognised at fair value. Creditors and lease liabilities are measured at amortised cost using the effective interest rate method. The fair value is not materially different to the book value.

Accruals and deferred income include £35,873,000 in respect of government grants (2021: £32,821,000).

20 Deferred tax

Deferred tax is calculated on temporary differences under the liability method.

The movement in deferred tax is as shown below:

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Tangible fixed assets	-	-	7,559	3,326	7,559	3,326
Intangible assets	-	-	18,265	17,594	18,265	17,594
Financial (assets)/liabilities	(1,647)	(205)	-	3,717	(1,647)	3,512
Employee benefits	(11,577)	(7,730)	58,750	130,028	47,173	122,298
Share-based payments	(97)	(331)	-	-	(97)	(331)
Provisions	(1,080)	(896)	-	-	(1,080)	(896)
Tax (assets)/liabilities	<u>(14,401)</u>	<u>(9,162)</u>	<u>84,574</u>	<u>154,665</u>	<u>70,173</u>	<u>145,503</u>

There is no unrecognised deferred tax.

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****20 Deferred tax (continued)***Movement in deferred tax during the current year*

	1 January 2022	Recognised in income	Recognised in equity	31 December 2022
	£000	£000	£000	£000
Tangible fixed assets	3,326	4,233	-	7,559
Intangible assets	17,595	670	-	18,265
Financial assets	3,512	-	(5,159)	(1,647)
Employee benefits	122,297	(3,397)	(71,727)	47,173
Share-based payments	(331)	234	-	(97)
Provisions	(896)	(184)	-	(1,080)
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax liabilities	145,503	1,556	(76,886)	70,173

In the UK FY21 Spring Budget on 3 March 2022, it was announced that the main rate of UK Corporation Tax will rise from 19% to 25% from 1 April 2023. As the 25% rate was substantively enacted by the balance sheet date, deferred tax balances that will reverse after 1 April 2023 have been measured at 25%.

21 Provisions

	Restructuring £ 000	Contract losses £ 000	Warranty £ 000	Other £ 000	Total £ 000
Balance at 1 January 2022	1,246	91,913	14,243	3,431	110,833
Provisions used during the year	(510)	(45,124)	(4,877)	-	(50,511)
Provisions made during the year	90	57,319	5,526	700	63,635
Provisions reversed during the year	(374)	(13,561)	(5,242)	-	(19,177)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2022	452	90,547	9,650	4,131	104,780
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amounts falling due within one year	452	21,295	6,734	4,131	32,612
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amounts falling due after one year	-	69,252	2,916	-	72,168
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

21 Provisions (continued)

A provision for restructuring is recognised when the Company has approved a 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 expected to be incurred within one year.

Contract provisions are made to cover losses on onerous contracts and are expected to be utilised within five years.

Warranty provisions mainly comprise the expected cost of repair or replacement under warranties 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 one and five years.

Other provisions include other liabilities on contracts and to third parties. Management has reflected current knowledge in assessing the provision levels.

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.

22 Retirement benefit liability

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

	2022	2021
	£ 000	£ 000
Retirement benefit asset – Leonardo Electronics Pension Scheme	109,300	301,600
Retirement benefit asset – Leonardo Helicopters Pension Scheme	81,000	189,200
Total retirement benefit asset	190,300	490,800
Retirement medical benefit liability – Leonardo Helicopters Pension Scheme	(1,639)	(1,639)
Total retirement benefit liability	(1,639)	(1,639)

Leonardo Electronics Pension Scheme

Since 27 April 2009, the scheme has been closed to new members. 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.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (continued)

A full actuarial valuation of the scheme was carried out in 2021 and updated to 31 December 2022 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	2022	2021
Discount rate	4.75%	1.95%
Inflation assumption (RPI)	3.20%	3.15%
Inflation assumption (CPI)	2.65%	2.80%
Career salary revaluation	3.65%	3.80%
RPI max 5% pension increases	2.95%	3.05%
RPI max 2.5% pension increases	2.05%	2.10%
Assumed life expectancies at age 65 are (years):		
	2022	2021
Retiring today – Males	22.7	22.6
Retiring today – Females	25.0	24.9
Retiring in 20 years time – Males	24.0	24.0
Retiring in 20 years time – Females	26.4	26.4
	2022	2021
	£ 000	£ 000
Present value of funded obligations	(619,400)	(982,900)
Fair value of scheme assets	728,700	1,284,500
Surplus in funded scheme	109,300	301,600
Reconciliation of opening and closing balances of the fair value of scheme assets		
	2022	2021
	£ 000	£ 000
Fair value of scheme assets at beginning of year	1,284,500	1,223,800
Interest income on scheme assets	25,000	17,800
Return on assets, excluding interest income	(580,900)	41,400
Contributions by employers	13,312	13,900
Contributions by scheme participants	7,900	8,100
Benefits paid	(20,012)	(19,300)
Scheme administrative cost	(1,100)	(1,200)
Fair value of scheme assets at end of the year	728,700	1,284,500

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****22 Retirement benefit liability (continued)****The assets in the scheme were:**

	2022	2021
	£ 000	£ 000
Cash and cash equivalents	143,900	195,900
Derivatives	4,100	49,100
Overseas equity	28,700	162,800
Private equities	28,700	59,200
Fixed interest gilts	236,900	373,300
Index linked gilts	157,400	336,800
Corporate bonds	129,000	107,400
Fair value of scheme assets at end of the year	728,700	1,284,500
The actual return on assets over the period was:	(555,900)	59,200

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

	2022	2021
	£ 000	£ 000
Benefit obligation at beginning of year	982,900	976,800
Service cost	33,600	35,300
Interest cost	19,000	14,100
Contributions by scheme participants	7,900	8,100
Re-measurement gains - financial	(431,100)	(35,300)
Re-measurement (gains)/losses - demographic	(200)	18,200
Re-measurement losses/(gains) - experience	27,312	(15,000)
Benefits paid	(20,012)	(19,300)
Benefit obligation at end of the year	619,400	982,900

The amounts recognised in profit and loss are:

	2022	2021
	£ 000	£ 000
Current service cost	33,600	35,300
Service cost – administrative cost	1,100	1,200
Net interest on the net defined benefit liability	(6,000)	(3,700)
Total expense recognised in profit and loss	28,700	32,800

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (continued)

Re-measurements of the net defined benefit assets recognised in OCI:

	2022 £ 000	2021 £ 000
Re-measurement – financial	(431,100)	(35,300)
Re-measurement – demographic	(200)	18,200
Re-measurement – experience	27,312	(15,000)
Return on assets, excluding interest income	580,900	(41,400)
Total re-measurement of net defined benefit assets recognised in OCI	<u>176,912</u>	<u>(73,500)</u>

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 2021 showed an actuarial surplus of £125,000,000.

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.

- iii. The scheme was established on 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 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 lower surplus or a deficit disclosed. This may also impact the Company's ability to grant discretionary benefits or other enhancements to members.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (continued)

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

- i. The return on the scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Company contributions.
- ii. Falls in asset values not being matched by similar falls in the value of liabilities.
- iii. Unanticipated future changes in mortality patterns leading to an increase in the scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.
- iv. The potential exercise (by members or others) of options against the scheme for example taking early retirement or exchanging a portion of pension for a cash lump sum.

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

The scheme's investment strategy

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

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

Sensitivity analysis

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

The table below shows the changes in the present value of the retirement benefit asset when increasing the following assumptions by 0.25% per annum.

	2022 £ 000	2021 £ 000
Current retirement benefit asset	109,300	301,600
Discount rate	134,900	934,600
Inflation *	94,200	1,015,400

* 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 8 December 2020, the Company is expected to pay contributions of £13,200,000 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 £91,800,000. These contributions include an allowance for the cost of administrative expenses and insurance premiums for the scheme. Employee contributions are expected to be £6,900,000 over the year, excluding any voluntary contributions (to SBS, AVC's or Buy Up accounts), based on average member contribution rates of 7.5% of pensionable salaries.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (continued)

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 18 years (2021: 22 years).

The Company is not materially impacted by the GMP pension equalisation court judgements delivered in October 2018 and December 2021.

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 35% of the liabilities are attributable to current employees, 12% to former employees not yet in receipt of a pension and 53% 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 17 years (2021: 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 2020 and showed an actuarial deficit of £94,800,000. The Company is paying deficit contributions which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 January 2027. The next funding valuation is due as at 5 April 2023, at which progress towards full-funding will be reviewed. A deficit contribution of £4,000,000 is expected to be paid by the Company during the year ending on 31 December 2023.

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

	2022	2021
Discount rate	4.75%	1.95%
Inflation assumption (RPI)	3.20%	3.20%
Inflation assumption (CPI)	2.65%	2.80%
Rate of general long-term increase in salaries	3.20%	3.20%
In-service career salary revaluation	2.55%	2.70%
Rate of increase to pensions in payment (post April 2005)	2.05%	2.15%
Rate of increase to pensions in payment (pre April 2005)	2.95%	3.10%

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (continued)

Assumed life expectancies at age 65 are (years):

	2022	2021
Retiring today – Males	22.5	22.4
Retiring today – Females	24.3	24.2
Retiring in 20 years time – Males	23.8	23.7
Retiring in 20 years time – Females	25.8	25.7

	2022 £ 000	2021 £ 000
Present value of funded obligations	(1,080,700)	(1,737,900)
Fair value of scheme assets	1,161,700	1,927,100
Surplus in funded scheme	81,000	189,200

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

	2022 £ 000	2021 £ 000
Fair value of scheme assets at beginning of year	1,927,100	1,838,200
Interest income on scheme assets	37,400	26,500
Return on scheme assets, excluding interest income	(770,400)	100,200
Contributions by the employer	23,500	25,100
Benefits paid	(53,000)	(60,800)
Scheme administration expenses	(2,900)	(2,100)
Fair value of scheme assets at end of the year	1,161,700	1,927,100

The assets in the scheme were:

	2022 £ 000	2021 £ 000
Cash and cash equivalents	99,200	98,900
Derivatives	(59,900)	70,500
Infrastructure	200	3,500
UK equities	1,500	-
Overseas equity	96,200	412,300
Private equities	3,800	5,800
Hedge funds	100,600	133,300
Fixed interest gilts	386,200	487,600
Index linked gilts	375,500	522,500
Corporate bonds	158,400	192,700
Fair value of scheme assets at end of the year	1,161,700	1,927,100
The actual return on assets over the period	(733,000)	126,700

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****22 Retirement benefit liability (continued)****Reconciliation of opening and closing balances of the present value of the defined benefit obligation**

	2022	2021
	£ 000	£ 000
Benefit obligation at beginning of year	1,737,900	1,818,400
Current service cost	23,400	24,300
Past service cost	(600)	-
Interest cost	33,400	25,900
Re-measurement gains - financial	(712,400)	(40,100)
Re-measurement gains - demographic	(300)	(3,900)
Re-measurement losses/(gains) - experience	52,300	(25,900)
Benefits paid	(53,000)	(60,800)
Benefit obligation at end of the year	1,080,700	1,737,900

The amounts recognised in profit and loss are:

	2022	2021
	£ 000	£ 000
Current service cost	23,400	24,300
Past service cost	(600)	-
Service cost – administrative cost	2,900	2,100
Net interest on the net defined benefit liability	(4,000)	(600)
Total expense recognised in profit and loss	21,700	25,800

Re-measurements of the net defined benefit asset recognised in OCI:

	2022	2021
	£ 000	£ 000
Re-measurement - financial	(712,400)	(40,100)
Re-measurement - demographic	(300)	(3,900)
Re-measurement - experience	52,300	(25,900)
Return on assets, excluding interest income	770,400	(100,200)
Total re-measurement of net defined benefit assets recognised in OCI	110,000	(170,100)

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (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, through 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.

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:

The table below shows the changes in the present value of the retirement benefit asset when increasing the following assumptions by 0.25% per annum.

	2022 £ 000	2021 £ 000
Current retirement benefit asset	81,000	189,200
Discount rate	122,800	271,400
Inflation *	50,100	125,100

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 will be no change to the value of the scheme's assets, although this is unlikely to be the case in reality.

Defined contribution scheme

The Company participates in a group defined contribution scheme called Leonardo Future Planner. Contributions by the Company to the defined contribution scheme were £24,579,000 (2021: £21,162,000).

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

22 Retirement benefit liability (continued)

Other post-retirement benefits

Certain employees are entitled to post-retirement benefits other than pensions. The liabilities for post-retirement medical benefits were assessed by qualified independent actuaries using the projected unit method.

The main financial assumptions were that medical costs would increase by 4.45% per annum.

Employee benefits provisions include £1,639,000 (2021: £1,639,000) being the present value of post-retirement medical benefit liabilities. The charge to comprehensive income for the year amounted to £nil (2021: £nil).

23 Called-up share capital

Allotted, called-up and fully paid shares

	2022		2021	
	No. 000	£ 000	No. 000	£ 000
314,500,100 ordinary shares of £1 each	314,500	314,500	314,500	314,500

Authorised

	2022		2021	
	No. 000	£ 000	No. 000	£ 000
314,500,100 ordinary shares of £1 each	314,500	314,500	314,500	314,500

Share premium account

The Company has a share premium account of £845,500,000 (2021: 845,500,000).

Cash flow hedging reserve

The hedging reserve of £(4,968,000) (2021: £10,508,000) 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 (2021: £nil).

24 Share-based payments

Leonardo SpA (parent Company) has long term investment performance share plans as part of its compensation for senior management of Leonardo SpA and its subsidiaries. The current long term incentive plans were approved in May 2018 and May 2021. The plans have a rolling structure of three year cycles commencing in 2018, 2019 and 2020 (plan approved May 2018) and 2021, 2022 and 2023 (plan approved May 2021) with shares being issued after the end of each three year period. The plans commencing in 2019, 2020, 2021 and 2022 are accounted within the financial statements.

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

24 Share-based payments (continued)

The long term investment plans have both market and performance based vesting conditions and are equity settled. The attainment for the plan 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:

- €6.46 and €9.68 per share for the shares on the long term investment plans.

The charge to the profit and loss account in the year was £348,000 (2021: £775,000).

The shares allotted during the year were £nil (2021: £97,000).

25 Leases

Non-cancellable lease rentals are payable as follows:

	2022	2021
	£000	£000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	15,813	15,634
Two to five years	49,137	46,661
More than five years	63,538	77,381
Total undiscounted lease liabilities at 31 December	128,488	139,676
Current	12,003	12,218
Non current	98,397	109,600
Lease liabilities included in the balance sheet at 31 December	110,400	121,818
Amounts recognised in profit and loss		
Interest on lease liabilities	4,218	4,647
Expenses relating to short term leases of low value assets	2,848	2,233
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	18,562	18,121
These figures include payments related to short term leases of low value items.		

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****26 Commitments**

Capital commitments and other financial commitments

	2022 £ 000	2021 £ 000
Contracts placed for future capital expenditure not provided in the financial statements:		
Property, plant and equipment	14,018	9,949

27 Related party transactions

During the year, the Company entered into transactions with the ultimate parent undertaking, Leonardo SpA, as well as subsidiaries of the ultimate parent undertaking. These transactions were in the normal course of business on an arm's length basis. The aggregate value of these transactions in the year was as follows:

	2022 £ 000	2021 £ 000
With Leonardo SpA:		
Purchases of goods and services	171,620	190,896
Sales of goods and services	125,736	115,411
Interest receivable	7,667	577
With subsidiaries:		
Purchases of goods and services	41,758	38,819
Sales of goods and services	5,258	5,422
Interest payable	(838)	(949)
Interest receivable	159	36
With other group companies:		
Purchases of goods and services	140,774	123,807
Sales of goods and services	60,787	39,409

Advances to suppliers included within contract assets

Leonardo SpA	20,038	11,826
Subsidiaries	5,176	3,083
	<u>25,214</u>	<u>14,909</u>

Leonardo UK Ltd**Notes to the Financial Statements
For the Year Ended 31 December 2022 (continued)****27 Related party transactions (continued)**

	2022	2021
	£ 000	£ 000
Included within progress billings		
Leonardo SpA	807	1,696
Other group undertakings	15,232	3,806
	<u>16,039</u>	<u>5,502</u>

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

	2022	2021
	£ 000	£ 000
Included within debtors		
Leonardo SpA –	960,902	831,251
Subsidiaries	12,649	7,403
Other group undertakings	17,789	17,122
	<u>991,340</u>	<u>855,776</u>

At 31 December 2022, the Company provided £2,000,000 against amounts due from related parties (2021: £nil).

	2022	2021
	£ 000	£ 000
Included within creditors		
Leonardo SpA	164,113	224,238
Subsidiaries (including lease liabilities)	337,810	261,384
Other group undertakings	13,189	9,573
	<u>515,112</u>	<u>495,195</u>

	2022	2021
	£ 000	£ 000
Advances included within contract liabilities		
Leonardo SpA	2,876	1,647
Subsidiaries	3,840	1,199
Other group undertakings	88,658	18,428
	<u>95,374</u>	<u>21,274</u>

Leonardo UK Ltd

Notes to the Financial Statements For the Year Ended 31 December 2022 (continued)

28 Subsequent events

The board of directors agreed a dividend payment to the parent company of £400,000,000 on 30 June 2023, through a written resolution. The dividend was paid on 30 June 2023.

29 Parent and ultimate parent undertaking

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

The largest and smallest groups in which the results of the Company are consolidated is that headed by Leonardo SpA, which is incorporated in Italy. Copies of Leonardo SpA's financial statements may be obtained from Piazza Montegrappa 4, 00195 Rome, Italy.