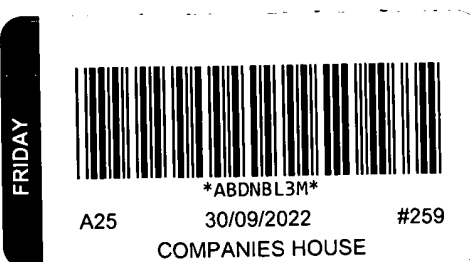


Registration number: 02426132

# Leonardo UK Ltd

Annual report and financial statements  
for the year ended 31 December 2021



## **Leonardo UK Ltd**

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## **Leonardo UK Ltd**

### **Company Information**

<b>Directors</b>	N J Bone (Chair and Chief Executive Officer)
	A Parrella
	G P Cutillo
	W Allen
	P Di Bartolomeo
	C J Higgins
	A Clarke
<b>Registered office</b>	1 Eagle Place St James's London SW1Y 6AF
<b>Auditor</b>	Ernst & Young LLP 1 More London Place London SE1 2AF

## **Leonardo UK Ltd**

### **Strategic Report For the Year Ended 31 December 2021**

The directors present their strategic report for the year ended 31 December 2021.

#### **Principal activities and business review**

Leonardo Group ("Leonardo") is one of the world's major players in Aerospace, Defence and Security, a global solutions provider and a trusted long-term partner of choice for governments, institutions and business customers, delivering cutting-edge and dual-use technologies, meeting both military and civil requirements. In partnership with its customers, working to strengthen global security, protect people, territories, infrastructure, and cyber networks. Innovation, continuous research, digital manufacturing and sustainability are the cornerstones of Leonardo group 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.

Operating from seven main sites across the UK employing over 7,400 highly skilled people, the Company makes a significant contribution to the UK economy with turnover of £2,006,836,000 (2020: £2,010,319,000), 42% (2020: 42%) of which was in export, and profit for the financial year of £184,484,000 (2020: £151,853,000).

#### **Future outlook and business environment**

The outlook of the Company remains positive with an order intake during the year of £2,138,838,000 (2020: £2,319,537,000) and an order book as at 31 December 2021 of £5,404,378,000 (2020: £5,321,786,000) which represents 269% of 2021 turnover (2020: 265%).

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

The Company welcomed the strategic direction of the UK government in relation to its defence policy as released by the Ministry of Defence (the MOD) in 2021, including the Integrated Review (IR), the Defence Command Paper (DCP) and the Defence and Security Industrial Strategy (DSIS). The Company was recognised in both the DCP and DSIS for specific capabilities in Defence Electronics and Rotary Wing with case studies and positive language as to future opportunities to collaborate with the MOD in areas supporting operational advantage and a discriminator to the overall position of the UK on the international stage. The Company's position has been further enhanced with the Strategic Partnering Arrangement for Aircraft Protection between the Company's Electronics Division and the MOD. This arrangement provides a strong platform for the Company to develop the critical new technologies and capabilities for the future whilst ensuring our existing offerings are the only solution for the UK. The Strategic Partnering Arrangement (SPA) in Aircraft Protection builds on the one already in place with the Company's Helicopter Division. The Company's Helicopter Division continues to develop a SPA with the MOD. The arrangement is designed to ensure that the Company and the MOD work together to enhance national prosperity through export success, and to ensure the right innovation and technologies are available in the UK to meet tomorrow's defence requirements.

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

With the announcement that the UK Government will seek to replace four existing helicopter types with one by the middle of the decade (2025), the Company has positioned the AW149 multi role platform as the solution for the 36-44 aircraft requirement. The competition for the programme commenced in late 2021 and is expected to conclude by mid 2023. 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. Social value is aimed at ensuring the UK economy in the broadest sense receives greater benefit from UK Government acquisitions by mandating those parties bidding, deliver prosperity, skills, employment, sustainability and resilience. Leonardo group has committed to manufacturing the AW149 in the UK for this programme and all future exports, a potential market of 550 helicopters has been identified. In addition, a package of over £1 billion foreign direct investment has been constructed which would significantly benefit the UK.

## **Leonardo UK Ltd**

### **Strategic Report For the Year Ended 31 December 2021 (continued)**

#### **Future outlook and business environment (continued)**

In July 2018 at the Farnborough International Air Show, it was announced that Leonardo would be working with the RAF Rapid Capability Office, BAE Systems, Rolls Royce and MBDA as 'Team Tempest' to provide the technologies, knowledge, skills and expertise to develop a Next Generation Combat Air System capable of operating in the 2040+ environment. The contract forms part of the ongoing Future Combat Air System Technology Initiative (FCAS TI) programme and will see the Company's Electronics Division developing the Sensor and Communications Systems technology for the next generation aircraft. Activity on the programme continues to move at pace with the international partnership model evolving. Activities with potential partners such as Italy, Japan and Sweden cover various capability areas and technologies of interest for Leonardo.

The development of the next generation Combat Air System is one of the most exciting engineering projects to be taking place over the coming decades. As part of Generation Tempest, the Royal Air Force and its industry partners are committed to promoting the future opportunities available to young people by embracing Science, Technology, Engineering and Mathematics (STEM). In line with the UK skills agenda, The Company is an active supporter of STEM activities, engaging with the next generation of engineers who will contribute to delivering the Tempest programme and other major UK aerospace programmes. This includes running education programmes around the UK which aim to encourage young people throughout their academic careers to take an interest in science and technology.

Throughout 2021, the Company continued to develop its "One Company" operating model and the Leonardo brand. This gives the Company the opportunity to have one clear identity and to present one voice to customers and stakeholders in a coherent and coordinated way. In conjunction with Leonardo's corporate and divisional strategies, and in line with an established business strategic planning process, the Company continues to review its current activities and future options in relation to growth and diversification. This will enable it to support future opportunities within domestic and overseas markets by leveraging on the integrated competencies, products and services offered by the Company and the optimisation of cost structures.

As in previous years the business environment continues to remain highly competitive with established companies and new entrants vying for market share. The economic scenario has and continues to be challenged by the global Covid 19 pandemic, conflict in Ukraine, inflationary and supply pressures, as countries, including our principal geographies, wrestle with how best to protect their people, economies and standing in the global society.

**COVID-19 pandemic** - As with many organisations Leonardo was forced to adapt to the challenges presented by the pandemic whilst maintaining effective business operations in support of UK and international customers.

Following on from the work done in 2020 on balancing the need for on campus operations to continue while providing improved tools to enable remote working, the Company moved to its 'custom working' arrangements, an approach to remote working that will continue to evolve, ensuring that employees can work remotely in a safe, flexible manner that balances business and individual needs. For colleagues that do not have the opportunity to fully benefit from 'custom working', a number of specific actions have been and continue to be implemented to maximise communication and engagement. The Company believes that its people will return to campus, it will continue to operate its custom working practices into the future as we believe that this flexibility and a technically enabled workforce is key to attracting and retaining talent.

The Company continued to work alongside the MOD to ensure critical programme timings were maintained and through the Defence Suppliers Forum (DSF) helped oversee resilience within the sector. With continuing impacts on material flow and continuity of supply, it was critical to maintain, forums such as the DSF as this was key in ensuring a sector wide position was maintained whilst demonstrating the significant value in sovereign UK capability and supply.

## **Leonardo UK Ltd**

### **Strategic Report For the Year Ended 31 December 2021 (continued)**

#### **Future outlook and business environment (continued)**

UK transition from the EU - The Company continues to closely monitor changes to policy and relevant procedures following the UK's transition from the EU. Areas of particular focus in relation to business continuity have been financial systems including exchange rates and taxation, trade compliance, supply chain and procurement and human resources. The robust and detailed planning that took place in advance of the transition ensured the business was well prepared for the majority of circumstances that arose and whilst monitoring is ongoing no significant impacts have been seen. The Company continues to work with institutional partners and the UK Government on specific points to support the development of future UK policies in areas such as trade compliance and visas.

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

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

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

#### **Strategy**

The Company's main strategy remains one of collaborating further with key end user customers and prime contractors.

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

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

## **Leonardo UK Ltd**

### **Strategic Report For the Year Ended 31 December 2021 (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.

#### ***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 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 involve increased down-payments or third party guarantees as well as regular reviews of the Company's debtor balances. The Company's significant loan debtor is with the parent company, Leonardo SpA, which is further discussed in the going concern section in the directors report.

**Covid 19 pandemic** - With the pandemic still very present, it is still influencing the Company's operations and in part decision making. The Company continues to follow its established "Pandemic Policy and Procedures" to ensure effective management and control to minimise the impact on employees and the Company's business.

#### **Financial risk management**

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

#### **Sustainability**

In 2021 the Company launched a renewed commitment to sustainability as a force for business transformation and a driver of our activities. Our sustainability strategy is set across three core pillars: People, Planet and Prosperity. The Company integrates sustainability into all aspects of our business to create long-term value and generate positive economic, social and environmental impacts for the Company and our stakeholders.

Integral to the sustainability strategy is the publication of our first Carbon Reduction Plan. This disclosed our 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 and 2020.
- 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).

How we look after our people is also key to our long-term commitment to a best-in-class workforce. At the end of 2021, the Company pledged to become a Living Wage employer and is in the process of seeking accreditation with the Living Wage Foundation.

## Leonardo UK Ltd

### Strategic Report For the Year Ended 31 December 2021 (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, CO<sub>2</sub>e intensity ratio (tCO<sub>2</sub>e (Tonnes) per £ million of turnover). The declaration identifies some of the energy saving measures implemented by the Company's UK sites.

The Company generated 27,735 tonnes of CO<sub>2</sub>e and consumed 134,257,034 kWh of energy in 2021 and saw reductions in greenhouse gas emissions that can be attributed to the ongoing decarbonisation of the grid.

#### Greenhouse gas emissions

Table 1 identifies CO<sub>2</sub> emissions for the Company for 2021 and compares this to emissions data generated in 2020.

Description	Scope	(As restated)	
		2021 Current Year tCO <sub>2</sub>	2020 Previous Year tCO <sub>2</sub>
All Direct Emissions from the activities undertaken within the control of the Company. Including fuel combustion such as gas boilers and fleet vehicles.	Scope 1	14,082	13,529
Indirect Emissions from the purchase of electricity, steam or cooling by the Company.	Scope 2	13,653	14,876
<b>Total</b>		<b>27,735</b>	<b>28,405</b>

#### Energy consumption

Table 2 identifies energy consumption (kWh) for the Company in 2021 and compares this to energy data from 2020. Aviation fuel and mechanical handling devices were previously included within Transport category.

Utility	(As restated)	
	2021 (kWh)	2020 (kWh)
Electricity	64,007,960	63,807,041
Gas	61,503,600	59,566,050
Mechanical Handling	576,488	497,369
Aviation Fuel	6,669,682	7,040,219
Transport	1,499,305	2,837,274
<b>Total</b>	<b>134,257,035</b>	<b>133,747,953</b>

**Leonardo UK Ltd****Strategic Report  
For the Year Ended 31 December 2021 (continued)****Simplified energy and carbon reporting ("SECR") (continued)****CO2 Intensity ratio**

Table 3 identifies CO2 emissions per £ million of turnover for the Company for 2021 compared with 2020.

<b>Description</b>	<b>(As restated)</b>	
	<b>2021</b>	<b>2020</b>
tCO2e (Tonnes) per £ million of turnover	13.583	13.643

**Energy efficiency measures**

Table 4 identifies the Energy Efficiency Measures that were implemented within 2021.

**Description**

Re-registration of 50001 Energy Management Standard at Yeovil site

Development of a Leonardo UK Ltd Sustainability Road Map generating a strategy to reduce CO2e emissions throughout all factory sites

**Methodology**

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

CO2 conversion factors and calorific convertors were generated via 'UK Government GHG Conversion Factors for Company Reporting 2021 and 2020'. 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 utility invoices, internal metering and the accounting systems of the Company.

**Key performance indicators ("KPIs")**

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

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Order intake	2,138,838	2,319,537
Revenue	2,006,836	2,010,319
Operating profit	229,904	180,831
Cash generated from operations	175,580	94,499

Order intake was lower than 2020 by 8% due to slippage of expected orders and a large programme received in 2020.

Revenues were marginally lower than 2020 due to delayed order receipt.

Operating profit for the year was significantly higher (27%) than 2020 reflecting improved performance on customer contracts and learning and adapting to the Covid lockdown situations and effective cost control.

Cash generated from operations improved by £81,081,000 driven by improved delivery performance on customer contracts.

## **Leonardo UK Ltd**

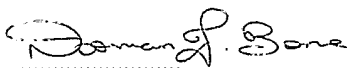
### **Strategic Report For the Year Ended 31 December 2021 (continued)**

#### **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 17 to 20), 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 13 to 21.

Throughout 2022, 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 29 September 2022 and signed on its behalf by:



N J Bone (Chair and Chief Executive Officer)  
Director

## **Leonardo UK Ltd**

### **Directors' Report For the Year Ended 31 December 2021**

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 2021.

#### **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.

#### **Change of company name**

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

#### **Dividends**

The directors do not recommend the payment of a final dividend in relation to the 2021 financial statements (2020: £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 period through to 31 December 2023 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.

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 29 July 2022 for the six months ended 30 June 2022 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 2021 (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:

N J Bone (Chair and Chief Executive Officer)

A Parrella

G P Cutillo

S Iarlori (resigned 24 February 2021)

C Porter (resigned 23 July 2021)

N C Whitney (resigned 30 May 2021)

W Allen (appointed 24 February 2021)

P Di Bartolomeo (appointed 24 February 2021)

C J Higgins (appointed 23 July 2021)

A Clarke (appointed 27 July 2022)

#### **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 2021 was £386,789,000 (2020: £341,965,000).

#### **Political contributions**

No political donations were made in the year (2020: £nil).

## **Leonardo UK Ltd**

### **Directors' Report For the Year Ended 31 December 2021 (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.

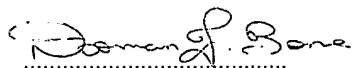
#### **Post balance sheet events**

In February 2022, Russia invaded Ukraine and there is an ongoing conflict. The UK Government and other national governments have imposed sanctions on Russia, Belarus and certain individuals. The Company has assessed the operational impact due to the sanctions and this will have minimal direct impact on its activities. The Company has controls in place to ensure compliance with the sanctions.

#### **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 29 September 2022 and signed on its behalf by:



N J Bone (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.

## 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 cognate of its responsibilities under s172 in discharging its duties and making decisions on behalf of the Company. Specific training on these aspects has been provided to all new directors during the year.

In 2021, the Company sought to further embed the Wates Principles by reviewing, challenging and developing the effectiveness of the new governance structures it put in place during 2019. During 2022, the Board will continue to focus on developing the Company’s systems of governance, its mechanisms for risk management, assurance and control, as well as seeking to better engage with its stakeholders. Below, we, the Board of directors, set out how the Wates Principles have been applied for the Company’s financial year ended 31 December 2021.

#### 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 S.p.a., an Italian registered company listed on the Milan Stock Exchange.

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

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

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

In 2021, the Company continued to face the challenges of the global pandemic of the Covid 19 virus. In response to new coronavirus variants, the Company took action to safeguard its employees and business through working from home policies, taking advantage of its investment in network infrastructure and devices during 2020.

A number of the Company’s activities were defined by the MOD as critical and were continued during 2021 in order to maintain the readiness of the UK’s and its allies’ armed forces and to ensure the national defence capability. Some of the workforce involved in these critical activities, in roles such as manufacturing, were unable to perform their roles remotely and were designated by the UK Government as essential workers. The Company took every measure to enable these essential workers to operate safely in the workplace and in transit. For example, varying working patterns to avoid rush hours, provision of PPE and maintenance of social distancing to comply with government safety guidelines.

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

## Leonardo UK Ltd

### Corporate Governance Report (continued)

#### Principle 1 - purpose and leadership (continued)

In pursuit of its mission, throughout 2021 the Company continued to build on the Leonardo Group's guiding framework of "One Company, One Voice". Our "Charter of Values" defines Leonardo's way of doing business, setting out the principles that guide the Company's strategy and daily activities of all those who work and collaborate with the Company and the Leonardo Group as a whole. These are:

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

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

([https://www.leonardocompany.com/documents/20142/115137/Carta\\_dei\\_Valori+ENG.pdf?t=1551772599336](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's corporate functions of legal and compliance and human resources, each of whom are required to show leadership and provide strategy to the Company.

#### Principle 2 – Board composition

Details of the Board are shown in the Directors' Report, this can be found on page 9.

During 2021, two directors stepped down from the Board: one from the shareholder who was replaced by an alternative representative, and the other from the finance function who was replaced with the head of the government affairs function, to bring greater knowledge and consideration of the market and primary customer. The UK Head of HR was appointed during the year as an additional director. The Board's size and composition is currently considered adequate for the scale and complexity of the business with a sufficient balance 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.

#### Principle 3 – Directors' responsibilities

##### *Accountability*

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

## Leonardo UK Ltd

### Corporate Governance Report (continued)

#### Principle 3 – Directors' responsibilities (continued)

##### *Committees*

In 2019, the Board formally constituted four separate committees and during 2021 approved the formation of the UK safety, Health and Environment committee (listed below) to assist with executing its responsibilities for the operation of good governance and efficacy in the Company. Each committee's terms of reference was approved to undertake the following delegated matters:

##### Management Committee:

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

##### Assurance & Internal Controls Committee:

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

##### Ethics & Social Responsibility Committee:

To reaffirm and define its 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 them 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:

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

##### UK Safety, Health and Environment Committee:

During 2021, the Board formed the UK Safety, Health and Environment Committee (formerly included within the responsibility of the Assurance and Internal Controls Committee), to assist the Board in fulfilling its Safety, Health and Environmental ("SHE") responsibilities, including maintaining and reviewing long-term objectives and strategy, undertaking trend analysis on incidents and audit outcomes, and driving continuous improvement.

The Committees are each chaired by senior managers and are attended by at least one statutory officer of the Company to promote commitment, engagement and sponsorship at the top level of management, each provides six monthly reports to the Board. 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 work done by these supporting governance bodies.

##### *Integrity of information*

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

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

## **Leonardo UK Ltd**

### **Corporate Governance Report (continued)**

#### **Principle 3 – Directors’ responsibilities (continued)**

Key financial information is maintained within, and collated from, the Company’s accounting systems. The Company’s finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial statements are externally audited at each financial year end. Financial controls are reviewed by the Company’s internal audit function and Group external consultants 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).

##### ***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 (“AICC”) assists the Board in ensuring that inherent and emerging risks are identified, managed appropriately and in a timely manner. In 2021, the Committee implemented an operational assurance process designed to identify company-wide legal and regulatory compliance risks. This facilitates risk identification, classification and mitigation.

Details of the Company’s key operational risks and mitigations are outlined in the Strategic Report (on page 5).

##### ***Responsibility***

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

## **Leonardo UK Ltd**

### **Corporate Governance Report (continued)**

#### **Principle 4 – opportunity and risk (continued)**

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. Thus protecting the integrity and long-term sustainability of the Company, meeting strategic objectives and creating value for its parent company, customers and suppliers.

#### **Principle 5 – remuneration**

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

The total remuneration of Leonardo UK employees includes fixed and variable pay, 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 is key to ensure the Company's strategic direction remains aligned with the Leonardo Group's long-term goals for sustainability, growth, diversification and investment in the aerospace, defence and technology industry. The Board is constituted of a blend of Leonardo UK and Leonardo SpA employees, ensuring that the parent company is represented and that communication between the Board and its sole shareholder is maintained. During 2021 three of the seven Board members were Leonardo SpA employees.

## Leonardo UK Ltd

### Corporate Governance Report (continued)

#### Principle 6 – stakeholders (continued)

##### *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 (SDGs) promoted by the UN2030 Agenda. It also supports the “Ten Principles” of the UN Global Compact, the largest global initiative for sustainable business. It promotes the adoption of behaviours that contribute to the success of the Company and to the well-being of the community through the creation of work opportunities in the UK and other countries where it operates, in its associated supply chains, technological collaborations and the continuous improvement of products and services designed for the protection of nations, their citizens, and the environment.

Innovation and technical excellence is critical to the Company’s sustainability strategy. It allows the Company to respond to customer needs effectively. It also allows investment in SMEs, working with research centres, 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 divisions, collects gas emissions data that is submitted annually to its parent company via the Enablon SHE questionnaire which automatically calculates the Company’s Scope 1, 2 and 3 emissions for the six main greenhouse gases covered by the Kyoto Protocol, namely: carbon dioxide, methane, nitrox oxide, perfluorocarbons, hydrofluorocarbons and sulphur hexafluoride.

The Company 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 2021, the Company made significant progress on its sustainability journey that illustrates a wider commitment to responsible business.

In September, 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.

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 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 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.

## Leonardo UK Ltd

### Corporate Governance Report (continued)

#### Principle 6 – stakeholders (continued)

##### *External stakeholders and impacts (continued)*

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

##### *Employees*

2021 was a year of continued uncertainty for the Company's employees and their well-being has remained at the centre of the Company's focus. The Company has been innovative in responding to these challenges and has taken significant steps to safeguard its employees' physical and mental well-being.

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

To ensure the future of the Company as a competitive, forward-looking business, the Company implemented Custom Working: a model where its employees are empowered to decide where and how they work. When guidance on Covid restrictions allowed, the majority of employees were encouraged to reintegrate into the work place on a part time basis, with the remaining time working from home.

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

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

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

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

The Company upholds and promotes human rights in every context in which it operates, by creating equal opportunities for its people and fair treatment for all - regardless of race, nationality, political creed, religion, gender, age, diverse ability, sexual orientation, personal or social condition - and always respecting the dignity of each individual and each employee; amongst other things the Company promotes the inclusion of minorities, ensures freedom of assembly and abides by the absolute prohibition of illegal labour as set out in our Modern Slavery Statement. If any employee wishes to raise concerns or highlight any potential breaches 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](http://www.uk.leonardocompany.com/en/people-careers/life-at-leonardo/company-benefits)).

## **Leonardo UK Ltd**

### **Corporate Governance Report (continued)**

#### **Principle 6 – stakeholders (continued)**

##### ***Employees (continued)***

As part of our People and Inclusion Strategy, we have maximised engagement with our UK workforce across a range of channels including intranet and social media content, poster/banner campaigns, face to face with stands at sites as well as providing briefings throughout the year for divisional meetings and activities.

The Company Inclusion and Diversity Strategy in 2021 delivered a STEM Returners programme, a Springboard Development Programme for Women, engagement in the Women in Defence Mentoring Programme and a developing partnership with the Association For Black and Minority Ethnic Engineers-UK. In addition, the Company became a Level 2 Disability Confident Employer and aims to achieve Level 3 during 2022.

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 despite the continuing challenges presented by the impact of the Covid 19 pandemic on the business in 2021.

#### **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 2021, the Committee comprised of the Company's CEO as Chair; three other statutory directors; and nine other members of senior management from across the business. The Board is satisfied that during 2021, 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 group governance.

In 2021, the Committee was chaired by a statutory director with a membership of eight 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.

## **Leonardo UK Ltd**

### **Corporate Governance Report (continued)**

#### **Data & Information Management Committee (continued)**

In 2021, the Committee was chaired by a statutory director with a membership of seven functional leaders from across the business, including the Company's Data Protection Officer.

#### **Ethics & Social Responsibility Committee**

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

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

In 2021, the Committee was chaired by the Company Secretary with a membership of seven functional leaders from across the business, including a statutory director.

#### **UK Safety, Health and Environment Committee**

During 2021, the Board formed the UK Safety, Health and Environment Committee (formerly included within the responsibility of the Assurance and Internal Controls Committee), to assist the Board in fulfilling its Safety, Health and Environmental ("SHE") 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 a senior manager, with a membership of ten functional leaders from across the business, including a statutory director and the company secretary.

## **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 2021, which comprise the Statement of Total Comprehensive Income, Balance Sheet, Statement of Changes in Equity, 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 2021 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, including the evaluation of the ongoing impact of Covid-19 on the Company;
- We obtained management's going concern assessment, including the cash flow forecasts for the 15 month going concern period to 31 December 2023 and assessed whether the period applied is appropriate;
- Management has modelled a base case which is consistent with the assumptions used in the Company's forecast for 2022 and a reduced forecast compared to the budget for 2023. 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 revenue, 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 2021, including the impact of Covid-19;
- 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 2023.

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 2023.

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 12, 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)**

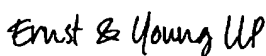
### ***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)***

- 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 minutes 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; 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:  
  
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**Paul Mapleston (Senior Statutory Auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
Bristol

30 September 2022

**Leonardo UK Ltd****Statement of Total Comprehensive Income  
For the Year Ended 31 December 2021**

	Note	2021 £ 000	2020 £ 000
<b>Turnover</b>	4	2,006,836	2,010,319
Cost of sales		<u>(1,653,811)</u>	<u>(1,706,075)</u>
<b>Gross profit</b>		353,025	304,244
Administrative expenses		<u>(123,121)</u>	<u>(123,413)</u>
<b>Operating profit</b>	5	<u>229,904</u>	<u>180,831</u>
Amounts written off investments	16	(432)	(251)
Interest receivable and similar income	9	5,236	8,210
Interest payable and similar expenses	10	<u>(7,447)</u>	<u>(17,661)</u>
<b>Profit before tax</b>		227,261	171,129
Tax on profit	11	<u>(42,777)</u>	<u>(19,276)</u>
<b>Profit for the year</b>		<u>184,484</u>	<u>151,853</u>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurements of defined benefit liability and asset		243,600	84,823
Deferred tax charge on items that will not be reclassified to profit or loss		<u>(72,442)</u>	<u>(18,268)</u>
		<u>171,158</u>	<u>66,555</u>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Changes in fair value of cash flow hedges		4,944	7,640
Fair value of cash flow hedges reclassified to profit or loss		(4,932)	(6,134)
Deferred tax charge on gain on cash flow hedge		<u>(846)</u>	<u>(536)</u>
		<u>(834)</u>	<u>970</u>
<b>Other comprehensive income for the year, net of income tax</b>		<u>170,324</u>	<u>67,525</u>
<b>Total comprehensive income for the year</b>		<u>354,808</u>	<u>219,378</u>

The above results were derived from continuing operations.

**Leonardo UK Ltd****(Registration number: 02426132)****Balance Sheet****As at 31 December 2021**

		<b>31 December 2021 £ 000</b>	<b>(As restated) 31 December 2020 £ 000</b>
	<b>Note</b>		
<b>Fixed assets</b>			
Intangible assets	12	1,349,313	1,338,719
Tangible fixed assets	13	168,151	162,179
Right of use assets	14	107,552	121,789
Investment property	15	3,057	3,121
Investments	16	304,448	304,880
Retirement benefit asset	22	490,800	266,800
		<u>2,423,321</u>	<u>2,197,488</u>
<b>Current assets</b>			
Stock	17	451,946	461,891
Debtors	18	1,422,921	1,381,934
Cash at bank and in hand		22,758	37,755
		<u>1,897,625</u>	<u>1,881,580</u>
<b>Total assets</b>		<u>4,320,946</u>	<u>4,079,068</u>
<b>Creditors: amounts falling due within one year</b>	19	<u>(1,493,549)</u>	<u>(1,629,970)</u>
<b>Net current assets</b>		<u>404,076</u>	<u>251,610</u>
<b>Non current liabilities</b>			
Creditors: amounts falling due after one year	19	(117,623)	(127,392)
Provisions for liabilities and charges	21	(110,833)	(142,773)
Deferred tax liabilities	20	(145,503)	(80,981)
Retirement benefit liability	22	(1,639)	(1,639)
		<u>(375,598)</u>	<u>(352,785)</u>
<b>Net assets</b>		<u>2,451,799</u>	<u>2,096,313</u>
<b>Capital and reserves</b>			
Called-up share capital	23	314,500	314,500
Share premium reserve	23	845,500	845,500
Other reserves	23	10,508	11,342
Profit and loss account		<u>1,281,291</u>	<u>924,971</u>
<b>Shareholders' funds</b>		<u>2,451,799</u>	<u>2,096,313</u>

The notes on pages 32 to 74 form an integral part of these financial statements.

**Leonardo UK Ltd**

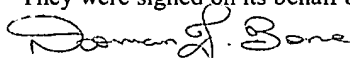
**(Registration number: 02426132)**

**Balance Sheet**

**As at 31 December 2021 (continued)**

These financial statements of Leonardo UK Ltd, (registration number: 02426132) were approved by the Board of Directors and authorised for issue on 29 September 2022.

They were signed on its behalf by:

A handwritten signature in black ink, appearing to read 'N J Bone', written over a dotted line.

N J Bone (Chair and Chief Executive Officer)  
Director

**Leonardo UK Ltd****Statement of Changes in Equity  
For the Year Ended 31 December 2021**

		<b>Called-up share capital £ 000</b>	<b>Share premium reserve £ 000</b>	<b>Cash and cash equivalents</b>
<b>Balance at 1 January 2020</b>		314,500	845,500	1
Profit for the year		-	-	
Other comprehensive income		-	-	
<b>Total comprehensive income</b>		-	-	
Share based payment transactions		-	-	
<b>Balance at 31 December 2020</b>	23	<u>314,500</u>	<u>845,500</u>	<u>1</u>
		<b>Called-up share capital £ 000</b>	<b>Share premium reserve £ 000</b>	<b>Cash and cash equivalents</b>
<b>Balance at 1 January 2021</b>		314,500	845,500	1
Profit for the year		-	-	
Other comprehensive income		-	-	
<b>Total comprehensive income</b>		-	-	
Share based payment transactions		-	-	
<b>Balance at 31 December 2021</b>	23	<u>314,500</u>	<u>845,500</u>	<u>1</u>

The notes on pages 32 to 74 form an integral part of these financial statements.  
Page 29

**Leonardo UK Ltd****Statement of Cash Flows  
For the Year Ended 31 December 2021**

		2021	(As restated) 2020
	Note	£ 000	£ 000
<b>Cash flows from operating activities</b>			
Profit for the year		184,484	151,853
<i>Adjustments to cash flows from non-cash items</i>			
Depreciation, amortisation and impairment	5	52,321	52,892
Foreign exchange gain		(6,642)	(2,870)
Loss from sales of investments	5	-	251
Pension costs, defined benefit scheme	22	23,900	21,023
Finance income	9	(5,236)	(8,210)
Finance costs	10	7,447	17,661
(Gain)/loss on sale of tangible fixed assets		(56)	11
Share based payment transactions	24	678	699
Income tax expense	11	42,777	19,276
		<u>299,673</u>	<u>252,586</u>
<b>Working capital adjustments</b>			
Increase in trade and other debtors	18	(14,202)	(58,377)
Decrease/(increase) in stock	17	9,945	(63,477)
Decrease in trade and other creditors	19	(86,847)	(30,097)
(Decrease)/increase in provisions	21	(31,940)	25,787
Interest paid	10	(56)	(2,695)
Cash generated from operations		176,573	123,727
Income taxes paid	11	(14,190)	(50,588)
<b>Net cash flow from operating activities</b>		<u>162,383</u>	<u>73,139</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of tangible assets	13	65	146
Interest received	9	3,815	3,210
Acquisitions of tangible assets	13	(33,298)	(29,012)
Capitalised development expenditure	12	(11,955)	(13,571)
Acquisition of other intangible assets	12	(8,536)	(30,304)
<b>Net cash flows from investing activities</b>		<u>(49,909)</u>	<u>(69,531)</u>

The notes on pages 32 to 74 form an integral part of these financial statements.

**Leonardo UK Ltd****Statement of Cash Flows  
For the Year Ended 31 December 2021 (continued)**

	<b>2021</b>	<b>(As restated)</b>
	<b>£ 000</b>	<b>2020</b>
		<b>£ 000</b>
<b>Cash flows from financing activities</b>		
Repayment of loans	(60,000)	(60,000)
Net change in financial debts and receivables	(49,715)	88,883
Lease repayments	(18,121)	(16,552)
Net cash flows from financing activities	(127,836)	12,331
Net (decrease)/increase in cash and cash equivalents	(15,362)	15,939
Cash and cash equivalents at 1 January	37,755	22,293
Effect of exchange rate fluctuations on cash held	365	(477)
Cash and cash equivalents at 31 December	22,758	37,755

The notes on pages 32 to 74 form an integral part of these financial statements.

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021**

#### **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; and
- IAS 24 para 17a disclosures of transactions with a management entity that provides key management personnel services to the company.
- IAS 38 para 118(e) comparative period reconciliation for intangible assets
- IAS 40 para 79(d) comparative period reconciliation for investment properties.
- 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 2021 (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.

##### **Prior year comparative information**

The directors have changed the presentation of the profit and loss account to follow format 1 under the Companies Act 2006 as they consider it is more appropriate for the nature of the business. The profit and loss account for the year ended 31 December 2020 has been represented to align to format 1. This has no impact on the profit reported for the year ended 31 December 2020.

The prior year financial statements have also been restated for the following matters.

- Contract assets and contract liabilities have been increased by £77,627,000 to £324,979,000 and £637,118,000 respectively at 31 December 2020 to present the position on each performance obligation on a net basis.
- Intangible assets and accruals and deferred income at 31 December 2020 have been increased by £29,228,000 to £1,338,719,000 and £87,488,000 respectively as, per FRS 101, government grants cannot be deducted from the value of the asset in respect of which the grant was given. The profit and loss account has not been restated to reclassify the amortisation of the grant as other operating income as the amount was immaterial.
- The research and development expenditure for the year ended 31 December 2020 was understated and has been increased by £132,835,000 to £341,965,000.

##### **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 2021 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 relevant to the Company given that it doesn't apply hedge accounting to its benchmark interest rate exposures.

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)**

#### **2 Significant accounting policies (continued)**

##### **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 2023 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.

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 29 July 2022 for the six months ended 30 June 2022 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.

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)**

#### **2 Significant accounting policies (continued)**

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

##### *Development costs*

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

Any public capital grants related to development costs are 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.

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)

#### 2 Significant accounting policies (continued)

##### 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 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 land and buildings	30 to 33 years
Leasehold land and 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 group of assets are calculated by comparing the sales price with the related net book value.

##### Investment property

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

Investment property is depreciated over 50 years.

##### Impairment of intangible assets and tangible assets

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

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

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

If the reasons for such write-downs should cease to occur, the asset's book value is restored within the limits of its net book value; the write-back is also taken to the profit and loss account. However, the value of goodwill that has been written down cannot be reversed.

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)**

#### **2 Significant accounting policies (continued)**

##### **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 and semi-finished goods

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.

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

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

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)

#### 2 Significant accounting policies (continued)

##### 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; 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.

###### *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.

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)

#### 2 Significant accounting policies (continued)

##### Financial instruments (continued)

###### *Financial assets (continued)*

###### (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.

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.

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)

#### 2 Significant accounting policies (continued)

##### Financial instruments (continued)

##### (iii) *Derivative financial instruments and hedging*

###### *Derivative financial instruments*

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

###### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the 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 affects profit or loss.

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

###### *Fair value hedges*

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

##### (iv) *Impairment*

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

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

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

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)**

#### **2 Significant accounting policies (continued)**

##### **Financial instruments (continued)**

###### **(iv) Impairment (continued)**

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers 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). ECLs are discounted at the effective interest rate of the financial asset.

###### *Credit-impaired financial assets*

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

###### *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 2021 (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 a separately administered fund.

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

The current service cost and any past service costs are included in the income statement 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 2021 (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 the income statement on profit or loss. A corresponding entry is made to equity. Amounts recharged by the parent company in relation to settled equity share based payments are debited to equity with a corresponding credit to inter company creditors.

##### **Provisions for liabilities and charges**

Provisions for liabilities and charges are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. 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 2021 (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-to-use assets that do not meet the definition of investment property separately within fixed assets and lease liabilities within financial liabilities.

##### *Short term leases and leases of low-value assets.*

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

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021 (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 may be 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 would be adjusted to take into consideration the significant financing component.

##### *Warranties*

Warranties that provide customers with a service in addition to assurance that the product complies with agreed specification are accounted for as separate performance obligations. Assurance warranties 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 2021 (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 percentage of completion method based on the cost to cost methodology.

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

###### *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 2021 (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 relaying on actuarial estimates and other assumptions. Details of the key assumptions are set out in note 22.

The Company takes advice from independent actuaries relating to the appropriateness of the assumptions. It is important to note, however, that comparatively small changes in the assumptions used may have a significant effect on the Company's Financial Statements. As an indication of the sensitivity of the results to key assumption see note 22.

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

##### *Goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate 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 2021 (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, and 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:

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Sale of goods	1,036,631	1,049,510
Rendering of services	970,205	960,809
	<u>2,006,836</u>	<u>2,010,319</u>

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

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>By geographical market:</b>		
United Kingdom	1,168,910	1,170,114
Rest of Europe	457,781	452,615
USA and Canada	231,950	208,322
Rest of World	148,195	179,268
	<u>2,006,836</u>	<u>2,010,319</u>

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>By Division</b>		
Electronics	1,155,341	1,060,237
Helicopters	851,495	950,082
	<u>2,006,836</u>	<u>2,010,319</u>

All revenue originates in the UK.

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

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (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.

			(As restated)
		2021	2020
	Note	£ 000	£ 000
Trade debtors	18	281,203	264,205
Contract assets	18	325,521	324,979
Contract liabilities	19	<u>(657,854)</u>	<u>(637,118)</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 £501,591,000 (2020: £505,823,000).

**5 Operating profit**

Arrived at after charging/(crediting):

		(As restated)
	2021	2020
	£ 000	£ 000
Depreciation expense	27,317	27,704
Depreciation on right of use assets - Machinery	14,611	14,469
Amortisation expense	5,213	9,150
Amortisation of investment property	64	65
Impairment on intangible assets	4,684	772
Impairment on right of use assets	-	732
Research and development cost	386,789	341,965
Impairment on investment	432	-
Loss on disposal of right of use assets	62	-
Research and development tax credits	(20,337)	(19,640)
(Gain)/loss on disposal of fixed assets	(6)	11
Loss on sale of investment	<u>-</u>	<u>(251)</u>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****6 Auditor's remuneration**

	<b>2021</b> <b>£ 000</b>	<b>2020</b> <b>£ 000</b>
Audit of the financial statements	795	707
<b>Other fees paid to the auditors</b>		
The auditing of accounts of any associate of the Company	41	41
Audit-related assurance services	-	5
	41	46

**7 Staff numbers and costs**

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

	<b>2021</b> <b>No.</b>	<b>2020</b> <b>No.</b>
Management	998	1,024
Production	1,024	1,121
Technical/admin	5,357	5,254
	7,379	7,399

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

	<b>2021</b> <b>£ 000</b>	<b>2020</b> <b>£ 000</b>
Wages and salaries	374,245	369,080
Share based payments (note: 24)	775	816
Social security costs	40,493	38,651
Contributions to defined contribution scheme	21,162	18,884
Pension costs, defined benefit scheme	62,900	62,400
	499,575	489,831

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****8 Directors' remuneration**

The directors' remuneration for the year was as follows:

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Directors' remuneration	2,069	3,016
Amounts receivable under long term incentive schemes – shares	450	556
Amounts receivable under long term incentive schemes – cash	48	94
	<u>2,567</u>	<u>3,666</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,666,000 (2020: £1,730,000).

Three of the directors serving during the year were employees of another Leonardo Group Company (2020: three). They did not receive any direct remuneration for their service as a director of the Company for the period (2020: £nil).

Three directors were a members of the Company defined benefit pension schemes (2020: one), and the contributions on their behalf were £47,000 (2020: £23,000).

**9 Interest receivable and similar income**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Interest income on short term loans	936	1,323
Foreign exchange gain	-	1,662
Net interest on defined benefit plan assets (note: 22)	4,300	5,000
Other income	-	225
	<u>5,236</u>	<u>8,210</u>

Interest income on short term loans includes income from group undertakings of £613,000 (2020: £995,000).

**10 Interest payable and similar expenses**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Interest expense on short term loans	-	2,532
Bank fees	56	153
Ineffective portion of cash flow hedges	2,508	6,860
Foreign exchange loss	236	2,560
Interest on defined benefit plan assets (note: 22)	-	500
Interest on leases (note: 25)	4,647	5,056
	<u>7,447</u>	<u>17,661</u>

Interest expense on short term loans includes interest payable to group undertakings of £nil (2020: £2,532,000).

Interest on leases includes interest payable to group undertakings of £949,000 (2020: £2,542,000).

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****11 Tax on profit**

Tax charged in the profit and loss account

	<b>2021</b> <b>£ 000</b>	<b>2020</b> <b>£ 000</b>
<b>Current taxation</b>		
UK corporation tax	36,635	29,022
UK corporation tax adjustment to prior periods	376	(11,891)
	<u>37,011</u>	<u>17,131</u>
Foreign tax	324	363
Foreign tax adjustment to prior periods	74	207
	<u>398</u>	<u>570</u>
Total current income tax	<u>37,409</u>	<u>17,701</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(582)	(2,320)
Deferred tax adjustments for prior periods	(2,110)	808
Arising from changes in tax rates and laws	8,060	3,087
Total deferred taxation	<u>5,368</u>	<u>1,575</u>
Tax expense in the profit and loss account	<u>42,777</u>	<u>19,276</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2020: 19%).

The differences are reconciled below:

	<b>2021</b> <b>£ 000</b>	<b>2020</b> <b>£ 000</b>
Profit before tax	<u>227,261</u>	<u>171,129</u>
Corporation tax at standard UK tax rate of 19% (2020: 19%)	43,180	32,515
Effect of tax rates in foreign jurisdictions	35	363
Increase in tax rate on deferred tax balances	7,907	3,087
Non-deductible expenses	(90)	643
Patent box deduction	(5,700)	(5,489)
Adjustments in respect of prior periods	(1,660)	(10,876)
Other	(895)	(967)
Total tax charge	<u>42,777</u>	<u>19,276</u>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****12 Intangible assets**

	<b>Goodwill £ 000</b>	<b>Capitalised development costs £ 000</b>	<b>Software and other intangibles £ 000</b>	<b>Total £ 000</b>
<b>Cost</b>				
At 1 January 2021 - restated	1,238,033	245,342	23,407	1,506,782
Additions	-	11,955	8,536	20,491
Disposals	-	-	(18)	(18)
At 31 December 2021	<u>1,238,033</u>	<u>257,297</u>	<u>31,925</u>	<u>1,527,255</u>
<b>Amortisation</b>				
At 1 January 2021	72,338	74,255	21,470	168,063
Amortisation charge	-	4,045	1,168	5,213
Eliminated on disposal	-	-	(18)	(18)
Impairment	-	4,684	-	4,684
At 31 December 2021	<u>72,338</u>	<u>82,984</u>	<u>22,620</u>	<u>177,942</u>
<b>Carrying amount</b>				
At 31 December 2021	<u>1,165,695</u>	<u>174,313</u>	<u>9,305</u>	<u>1,349,313</u>
At 31 December 2020 - restated	<u>1,165,695</u>	<u>171,087</u>	<u>1,937</u>	<u>1,338,719</u>

**Impairment testing**

Goodwill has been allocated to cash generating units as follows:

	<b>2021 £ 000</b>	<b>2020 £ 000</b>
Electronics	286,634	286,634
Helicopters	<u>879,061</u>	<u>879,061</u>
	<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 companies approved business plan. Cash flows after the 5 year business plan period were extrapolated using a long term growth rate in order to calculate the terminal recoverable amount. A specifically calculated weighted average cost of capital (discount rate) is used for each cash generating unit.

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****12 Intangible assets (continued)**

The key assumptions of this calculation are shown below:

	<b>2021</b>	<b>2020</b>
	<b>£</b>	<b>£</b>
Period on which management approved forecasts are based	5 years	5 years
Growth rate applied beyond approved forecast period	2.0%	2.0%
Discount Rate – Electronics	7.7%	7.5%
Discount Rate – Helicopters	8.4%	8.2%

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

Increasing the Helicopters discount rate by 3.4% (2020: 6.5%) would result in an impairment.

Reducing the later years cash flow used in the terminal value calculation by 44% (2020: 65%) 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**

	<b>Freehold land and buildings £ 000</b>	<b>Leasehold land and buildings £ 000</b>	<b>Plant and equipment £ 000</b>	<b>Total £ 000</b>
<b>Cost</b>				
At 1 January 2021	63,894	10,906	464,375	539,175
Additions	1,664	1,089	30,545	33,298
Disposals	(211)	(3)	(588)	(802)
At 31 December 2021	<u>65,347</u>	<u>11,992</u>	<u>494,332</u>	<u>571,671</u>
<b>Depreciation</b>				
At 1 January 2021	8,691	3,384	364,921	376,996
Charge for the year	2,466	553	24,298	27,317
Eliminated on disposal	(211)	(1)	(581)	(793)
At 31 December 2021	<u>10,946</u>	<u>3,936</u>	<u>388,638</u>	<u>403,520</u>
<b>Carrying amount</b>				
At 31 December 2021	<u>54,401</u>	<u>8,056</u>	<u>105,694</u>	<u>168,151</u>
At 31 December 2020	<u>55,203</u>	<u>7,522</u>	<u>99,454</u>	<u>162,179</u>

Non-depreciating assets (assets in the course of construction) of £24,196,000 (2020: £20,842,000) 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 2021 (continued)****14 Right of use assets**

	<b>Leasehold and buildings £ 000</b>	<b>Property and equipment £ 000</b>	<b>Total £ 000</b>
<b>Cost</b>			
At 1 January 2021	146,090	9,925	156,015
Additions	-	1,130	1,130
Disposals	(2,614)	(779)	(3,393)
At 31 December 2021	<u>143,476</u>	<u>10,276</u>	<u>153,752</u>
<b>Depreciation</b>			
At 1 January 2021	26,659	7,567	34,226
Charge for the year	13,454	1,157	14,611
Eliminated on disposal	(1,916)	(721)	(2,637)
At 31 December 2021	<u>38,197</u>	<u>8,003</u>	<u>46,200</u>
<b>Carrying amount</b>			
At 31 December 2021	<u>105,279</u>	<u>2,273</u>	<u>107,552</u>
At 31 December 2020	<u>119,431</u>	<u>2,358</u>	<u>121,789</u>

**15 Investment property**

	<b>2021 £ 000</b>	<b>2020 £ 000</b>
<b>Cost</b>		
At 1 January	<u>3,381</u>	<u>3,381</u>
At 31 December	<u>3,381</u>	<u>3,381</u>
<b>Amortisation</b>		
At 1 January	260	195
Amortisation charge	<u>64</u>	<u>65</u>
At 31 December	<u>324</u>	<u>260</u>
<b>Carrying amount</b>		
At 31 December	<u>3,057</u>	<u>3,121</u>

The carrying value of the investment property and the fair value are not considered to be materially different.

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****16 Investments**

	<b>2021 £ 000</b>
<b>Subsidiaries</b>	
<b>Cost</b>	
At 1 January 2021	304,880
At 31 December 2021	304,880
<b>Provision</b>	
At 1 January 2021	-
Impairment	432
At 31 December 2021	432
<b>Carrying amount</b>	
At 31 December 2021	304,448
At 31 December 2020	304,880

Selex Elsag Ltd was impaired by £432,000 during the year.

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

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

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

As at 31 December 2021, ordinary shares in group companies held by the Company were:

Entity	Registered office address	Class of Shares held	Ownership	
			2021	2020
Leonardo Electronics US Inc (formerly Selex Galileo Inc)	Suite 704, 201 12th Street South, Arlington, Virginia 22202	Ordinary	100%	100%
Tactical Technologies Inc	STE 200, 2685 Queensview Drive, Ottawa, Ontario K2B 8K2	Ordinary	100%	100%
Selex ES Saudi Arabia	PO Box 9743, Riyadh 11423	Ordinary	100%	100%
Leonardo Limited	Lysander Road, Yeovil, Somerset BA20 2YB	Ordinary	100%	100%
Leonardo MW Ltd	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%
SELEX Elsag Limited	Sigma House, Christopher Martin Road, Basildon, Essex, SS14 3EL	Ordinary	100%	100%

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****16 Investments (continued)**

Entity	Registered office address	Class of Shares held	Ownership	
			2021	2020
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**

	2021 £ 000	2020 £ 000
Raw materials and consumables	242,370	259,273
Work in progress	209,576	202,618
	<u>451,946</u>	<u>461,891</u>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****18 Debtors**

	2021	(As restated) 2020
	£ 000	£ 000
Trade debtors	169,522	115,640
Contract assets	325,521	324,979
Amounts owed by group undertakings (note: 27)	111,681	148,565
Amounts owed by parent undertakings	738,125	683,991
Loans due from group companies	5,970	5,891
Derivative financial instruments	22,180	18,327
Income tax asset	6,641	19,936
Other debtors	38,085	45,562
Deferred tax assets (note: 20)	-	14,133
Prepayments	5,196	4,910
	<u>1,422,921</u>	<u>1,381,934</u>

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

The Company has provided a loan facility to Selex Galileo Inc of USD 15,000,000 (£11,128,000) for short term funds, of which USD 6,500,000 (£4,822,000) was utilised at the year end.

Amounts owed by parent undertakings and loans due from group companies are repayable within 4 months from the balance sheet date. The fair value of the amounts is not materially different to the book value.

Interest on the amounts owed by the parent undertaking are at variable rates based on LIBOR. Average rate for the year was 0.13% (2020: 0.29%) on sterling dominated amounts.

**19 Creditors**

	2021	(As restated) 2020
	£ 000	£ 000
<b>Creditors: amounts falling due within one year</b>		
Contracts liabilities	657,854	637,118
Trade creditors	227,360	256,391
Amounts owed to group undertakings (note: 27)	237,831	310,483
Loan from Leonardo SpA	-	60,000
Loans from group companies	232,730	233,679
Derivative financial liabilities	5,279	6,161
Social security and other taxes	27,161	25,773
Lease liabilities (note: 25)	12,218	12,877
Accruals and deferred income	93,116	87,488
	<u>1,493,549</u>	<u>1,629,970</u>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****19 Creditors (continued)**

	2021 £ 000	(As restated) 2020 £ 000
<b>Creditors: amounts falling due after one year</b>		
Other creditors	4,025	3,600
Derivative financial liabilities	3,998	2,177
Lease liabilities (note: 25)	109,600	121,615
	<u>117,623</u>	<u>127,392</u>

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

All financial instruments (except from lease liabilities) are held at fair value. Lease liabilities are held at cost. The fair value is not materially different to the book value. All loans are repayable on demand.

**20 Deferred tax**

Deferred tax is calculated in full 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:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	2021	2020	2021	2020	2021	2020
	£000	£000	£000	£000	£000	£000
Tangible fixed assets	-	-	3,326	2,319	3,326	2,319
Intangible assets	-	-	17,594	12,243	17,594	12,243
Financial assets/liabilities	(205)	(72)	3,717	2,739	3,512	2,667
Employee benefits	(7,730)	(14,329)	130,028	64,714	122,298	50,385
Share-based payments	(331)	(233)	-	-	(331)	(233)
Provisions	(896)	(533)	-	-	(896)	(533)
Tax (assets)/liabilities	<u>(9,162)</u>	<u>(15,167)</u>	<u>154,665</u>	<u>82,015</u>	<u>145,503</u>	<u>66,848</u>

There is no unrecognised deferred tax.

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****20 Deferred tax (continued)***Movement in deferred tax during the current year*

	<b>1 January 2021</b>	<b>Recognised in income</b>	<b>Recognised in equity</b>	<b>31 December 2021</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Tangible fixed assets	2,319	1,007	-	3,326
Intangible assets	12,243	5,352	-	17,595
Financial assets	2,667	-	845	3,512
Employee benefits	50,385	(531)	72,443	122,297
Share-based payments	(233)	(98)	-	(331)
Provisions	(533)	(363)	-	(896)
	<u>66,848</u>	<u>5,367</u>	<u>73,288</u>	<u>145,503</u>
Tax liabilities	<u>66,848</u>	<u>5,367</u>	<u>73,288</u>	<u>145,503</u>

In the UK FY21 Spring Budget on 3 March 2021, 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%.

On 23 September 2022, the Chancellor announced the increase in the corporation tax rate to 25% would be reversed with the rate remaining at 19%.

**21 Provisions**

	<b>Restructuring £ 000</b>	<b>Contract losses £ 000</b>	<b>Warranty £ 000</b>	<b>Other £ 000</b>	<b>Total £ 000</b>
Balance at 1 January 2021	2,555	107,789	16,181	16,248	142,773
Provisions used during the year	(2,047)	(26,339)	(7,479)	(4,643)	(40,508)
Provisions made during the year	747	12,500	9,508	-	22,755
Provisions reversed during the year	(9)	(2,037)	(3,967)	(8,174)	(14,187)
Balance at 31 December 2021	<u>1,246</u>	<u>91,913</u>	<u>14,243</u>	<u>3,431</u>	<u>110,833</u>
Amounts falling due within one year	<u>1,246</u>	<u>21,650</u>	<u>8,463</u>	<u>3,431</u>	<u>34,790</u>
Amounts falling due after one year	<u>-</u>	<u>70,263</u>	<u>5,780</u>	<u>-</u>	<u>76,043</u>

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (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 two years.

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

Warranty provisions mainly comprise expected cost of maintenance 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

	2021 £ 000	2020 £ 000
Retirement benefit asset – Leonardo Electronics Pension Scheme	301,600	247,000
Retirement benefit asset – Leonardo Helicopters Pension Scheme	189,200	19,800
<b>Total retirement benefit asset</b>	<b>490,800</b>	<b>266,800</b>
Retirement medical benefit liability – Leonardo Helicopters Pension Scheme	(1,639)	(1,639)
<b>Total retirement benefit liability</b>	<b>(1,639)</b>	<b>(1,639)</b>

#### *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 2021 (continued)****22 Retirement benefit liability (continued)**

A full actuarial valuation of the scheme was carried out in 2020 and updated to 31 December 2021 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms) as follows:

	<b>2021</b>	<b>2020</b>
Discount rate	1.95%	1.45%
Inflation assumption (RPI)	3.15%	2.80%
Inflation assumption (CPI)	2.80%	2.10%
Career salary revaluation	3.80%	3.10%
RPI max 5% pension increases	3.05%	2.75%
RPI max 2.5% pension increases	2.10%	2.00%

Assumed life expectancies at age 65 are (years):

	<b>2021</b>	<b>2020</b>
Retiring today – Males	22.6	22.6
Retiring today – Females	24.9	24.9
Retiring in 20 years time – Males	24.0	23.9
Retiring in 20 years time – Females	26.4	26.3

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Present value of funded obligations	(982,900)	(976,800)
Fair value of scheme assets	<u>1,284,500</u>	<u>1,223,800</u>
<b>Surplus in funded scheme</b>	<u><b>301,600</b></u>	<u><b>247,000</b></u>

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

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Fair value of scheme assets at beginning of year	1,223,800	1,080,000
Interest income on scheme assets	17,800	21,700
Return on assets, excluding interest income	41,400	115,900
Contributions by employers	13,900	14,777
Contributions by scheme participants	8,100	8,400
Benefits paid	(19,300)	(14,277)
Scheme administrative cost	<u>(1,200)</u>	<u>(2,700)</u>
<b>Fair value of scheme assets at end of the year</b>	<u><b>1,284,500</b></u>	<u><b>1,223,800</b></u>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****22 Retirement benefit liability (continued)****The assets in the scheme were:**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Cash and cash equivalents	195,900	201,300
Derivatives	49,100	28,100
UK equities	-	800
Overseas equity	162,800	314,000
Private equities	59,200	78,200
Fixed interest gilts	373,300	198,900
Index linked gilts	336,800	259,900
Corporate bonds	107,400	129,800
Commodities	-	12,800
<b>Fair value of scheme assets at end of the year</b>	<b>1,284,500</b>	<b>1,223,800</b>
<b>The actual return on assets over the period was:</b>	<b>59,200</b>	<b>137,600</b>

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

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Benefit obligation at beginning of year	976,800	835,100
Service cost	35,300	32,700
Interest cost	14,100	16,700
Contributions by scheme participants	8,100	8,400
Re-measurement (gains)/losses- financial	(35,300)	95,877
Re-measurement losses - demographic	18,200	2,000
Re-measurement (gains)/losses- experience	(15,000)	300
Benefits paid	(19,300)	(14,277)
<b>Benefit obligation at end of the year</b>	<b>982,900</b>	<b>976,800</b>

**The amounts recognised in profit and loss are:**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Current service cost	35,300	32,700
Service cost – administrative cost	1,200	2,700
Net interest on the net defined benefit liability	(3,700)	(5,000)
<b>Total expense recognised in profit and loss</b>	<b>32,800</b>	<b>30,400</b>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****22 Retirement benefit liability (continued)****Re-measurements of the net defined benefit assets to be shown in OCI:**

	2021 £ 000	2020 £ 000
Re-measurement – financial	(35,300)	95,877
Re-measurement – demographic	18,200	2,000
Re-measurement – experience	(15,000)	300
Return on assets, excluding interest income	(41,400)	(115,900)
<b>Total re-measurement of net defined benefit assets shown in OCI</b>	<b>(73,500)</b>	<b>(17,723)</b>

**Characteristics of the Scheme and the risks associated with the Scheme****(a) Information about the characteristics of the Scheme**

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

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

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was at 5 April 2020 and revealed a surplus of £125,000,000.

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

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

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

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

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (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 contribution.
- ii. Falls in asset values not being matched by similar falls in the value of liabilities.
- iii. Unanticipated future changes in mortality patterns leading to an increase in the Scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest Scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time.
- iv. The potential exercise (by members or others) of options against the Scheme for example taking early retirement or exchanging a portion of pension for a cash lump sum.

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

The Scheme's investment strategy

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

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

Sensitivity analysis

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

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.

	2021 £ 000	2020 £ 000
Current retirement benefit asset	301,600	247,000
Discount rate	934,600	927,600
Inflation *	<u>1,015,400</u>	<u>1,009,100</u>

\* 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 £13,700,000 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 £95,000,000. These contributions include an allowance the cost of administrative expenses and insurance premiums for the Scheme. Employee contributions are expected to be £7,100,000 million over the year, excluding any voluntary contributions (to SBS, AVC's or Buy Up accounts), based on average member contribution rates of 7.5% of pensionable salaries.

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (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 22 years (2020: 24 years).

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

##### *Leonardo Helicopters Pension Scheme*

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

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

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

##### *Profile of the Scheme*

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, about 40% of the liabilities are attributable to current employees, 14% to former employees not yet in receipt of a pension and 46% to current pensioners. The scheme duration is an indicator of the weighted average time until benefit payments are made. For the Scheme as a whole, the duration is approximately 20 years (2020: 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 a 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 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 2022.

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

	2021	2020
Discount rate	1.95%	1.45%
Inflation assumption (RPI)	3.20%	2.80%
Inflation assumption (CPI)	2.80%	2.10%
Rate of general long-term increase in salaries	3.20%	2.80%
In-service career salary revaluation	2.70%	2.10%
Rate of increase to pensions in payment (post April 2005)	2.15%	2.00%
Rate of increase to pensions in payment (pre April 2005)	3.10%	2.75%

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****22 Retirement benefit liability (continued)**

Assumed life expectancies at age 65 are (years):

	2021	2020
Retiring today – Males	22.4	22.4
Retiring today – Females	24.2	24.1
Retiring in 20 years time – Males	23.7	23.7
Retiring in 20 years time – Females	25.7	25.6

	2021 £ 000	2020 £ 000
Present value of funded obligations	(1,737,900)	(1,818,400)
Fair value of scheme assets	1,927,100	1,838,200
<b>Surplus in funded scheme</b>	<b>189,200</b>	<b>19,800</b>

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

	2021 £ 000	2020 £ 000
Fair value of scheme assets at beginning of year	1,838,200	1,627,400
Interest income on scheme assets	26,500	32,400
Return on scheme assets, excluding interest income	100,200	213,600
Contributions by the employer	25,100	26,600
Benefits paid	(60,800)	(58,900)
Scheme administration expenses	(2,100)	(2,900)
<b>Fair value of scheme assets at end of the year</b>	<b>1,927,100</b>	<b>1,838,200</b>

**The assets in the scheme were:**

	2021 £ 000	2020 £ 000
Cash and cash equivalents	98,900	113,300
Derivatives	70,500	103,200
Infrastructure	3,500	4,500
UK equities	-	1,600
Overseas equity	412,300	689,400
Private equities	5,800	6,400
Hedge funds	133,300	156,300
Fixed interest gilts	487,600	153,700
Index linked gilts	522,500	349,400
Corporate bonds	192,700	231,900
Commodities	-	28,500
<b>Fair value of scheme assets at end of the year</b>	<b>1,927,100</b>	<b>1,838,200</b>
<b>The actual return on assets over the period</b>	<b>126,700</b>	<b>246,000</b>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****22 Retirement benefit liability (continued)****Reconciliation of opening and closing balances of the present value of the defined benefit obligation**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Benefit obligation at beginning of year	1,818,400	1,673,800
Current service cost	24,300	22,300
Past service cost	-	1,800
Interest cost	25,900	32,900
Re-measurement (gains)/ losses - financial	(40,100)	184,900
Re-measurement (gains) - demographic	(3,900)	(24,700)
Re-measurement (gains) - experience	(25,900)	(13,700)
Benefits paid	(60,800)	(58,900)
<b>Benefit obligation at end of the year</b>	<b><u>1,737,900</u></b>	<b><u>1,818,400</u></b>

**The amounts recognised in profit and loss are:**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Current service cost	24,300	24,100
Service cost – administrative cost	2,100	2,900
Net interest on the net defined benefit liability	(600)	500
<b>Total expense recognised in profit and loss</b>	<b><u>25,800</u></b>	<b><u>27,500</u></b>

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

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
Re-measurement - financial	(40,100)	184,900
Re-measurement - demographic	(3,900)	(24,700)
Re-measurement - experience	(25,900)	(13,700)
Return on assets, excluding interest income	(100,200)	(213,600)
<b>Total re-measurement of net defined benefit assets show in OCI</b>	<b><u>(170,100)</u></b>	<b><u>(67,100)</u></b>

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (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, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.
Inflation risk	The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

##### Sensitivity to key assumptions

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

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

	2021 £ 000	2020 £ 000
Current retirement benefit asset	189,200	19,800
Discount rate	271,400	112,200
Inflation *	125,100	(46,900)

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

Note that we have assumed there were 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 £21,162,000 (2020: £18,884,000).

## Leonardo UK Ltd

### Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)

#### 22 Retirement benefit liability (continued)

##### Other post-retirement benefits

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

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

Employee benefits provisions include £1,639,000 (2020: £1,639,000) being the present value of post-retirement medical benefit liabilities. The charge to comprehensive income for the year amounted to £nil (2020: £nil).

#### 23 Called-up share capital

##### Allotted, called-up and fully paid shares

	2021		2020	
	No. 000	£ 000	No. 000	£ 000
314,500,100 ordinary shares of £1 each	<u>314,500</u>	<u>314,500</u>	<u>314,500</u>	<u>314,500</u>

##### Authorised

	2021		2020	
	No. 000	£ 000	No. 000	£ 000
314,500,100 ordinary shares of £1 each	<u>314,500</u>	<u>314,500</u>	<u>314,500</u>	<u>314,500</u>

##### Share premium account

The Company has a share premium account of £845,500,000 (2020: 845,500,000).

##### Cash flow hedging reserve

The hedging reserve of £10,508,000 (2020: £11,342,000) 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 (2020: £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 2017, 2018, 2019, 2020 and 2021 are accounted within the Financial Statements.

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****24 Share-based payments (continued)**

The long term investment plan has 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:

- €1.73 and €11.04 per share for the shares on the long term investment plans.

The charge to the income statement in the year was £775,000 (2020: £816,000).

Shares allotted during the year were £97,000 (2020: £117,000).

**25 Leases**

Non-cancellable lease rentals are payable as follows:

	2021	2020
	£000	£000
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	15,634	16,809
Two to five years	46,661	63,845
More than five years	77,381	77,466
Total undiscounted lease liabilities at 31 December	<u>139,676</u>	<u>158,120</u>
	2021	2020
	£000	£000
Current	12,218	12,877
Non current	<u>109,600</u>	<u>121,615</u>
<b>Lease liabilities included in the balance sheet at 31 December</b>	<u>121,818</u>	<u>134,492</u>
	2021	2020
	£000	£000
<b>Amounts recognised in profit and loss</b>		
Interest on lease liabilities	<u>4,647</u>	<u>5,056</u>
Expenses relating to short term leases of low value assets, excluding short term leases of low value assets	<u>2,233</u>	<u>2,114</u>
<b>Amounts recognised in the statement of cash flows</b>		
Total cash outflow for leases	<u>18,121</u>	<u>16,552</u>

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 2021 (continued)****26 Commitments**

Capital commitments and other financial commitments

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Contracts placed for future capital expenditure not provided in the financial statements:</b>		
Property, plant and equipment	<u>9,949</u>	<u>1,941</u>

**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:

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>With Leonardo SpA:</b>		
Purchases of goods and services	190,896	217,386
Sales of goods and services	115,411	133,444
Net interest receivable/(payable)	577	(1,609)
<b>With subsidiaries:</b>		
Purchases of goods and services	38,819	40,253
Sales of goods and services	5,422	2,818
Net interest payable	(913)	(994)
<b>With other group companies:</b>		
Purchases of goods and services	21,929	37,528
Sales of goods and services	33,380	39,322
	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Included within advances to suppliers</b>		
Leonardo SpA	11,826	11,613
Subsidiaries	<u>3,083</u>	<u>3,363</u>
	<u>14,909</u>	<u>14,976</u>

**Leonardo UK Ltd****Notes to the Financial Statements  
For the Year Ended 31 December 2021 (continued)****27 Related party transactions (continued)**

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Included within progress billings</b>		
Leonardo SpA	1,696	2,389
Other group companies	2,712	5,888
	<u>4,408</u>	<u>8,277</u>

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

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>
<b>Included within trade and other receivables</b>		
Leonardo SpA	831,251	816,305
Subsidiaries	7,403	6,531
Other group companies	17,122	15,611
	<u>855,776</u>	<u>838,447</u>

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>

**Included within trade and other creditors**

Leonardo SpA	224,238	355,217
Subsidiaries	261,384	265,110
Other group companies	9,573	11,470
	<u>495,195</u>	<u>631,797</u>

	<b>2021</b>	<b>2020</b>
	<b>£ 000</b>	<b>£ 000</b>

**Included within advances**

Leonardo SpA	1,647	-
Subsidiaries	1,199	-
Other group companies	6,521	17,150
	<u>9,367</u>	<u>17,150</u>

**28 Post balance sheet events**

There were no events after the reporting date.

## **Leonardo UK Ltd**

### **Notes to the Financial Statements For the Year Ended 31 December 2021 (continued)**

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