

LEONARDO ELECTRONICS PENSION SCHEME

Report and Financial Statements for the year ended 5 April 2020

Scheme Registration No: 10273555



Queen's Quay, 33-35 Queen Square, Bristol BS1 4LU

XPS Administration is a trading name of XPS Administration Limited
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB
Part of XPS Pensions Group

LEONARDO ELECTRONICS PENSION SCHEME

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CHAIR'S INTRODUCTION

YEAR ENDED 5 APRIL 2020

I am pleased to present the Report and Financial Statements for the Leonardo Electronics Pension Scheme (the "Scheme") for the year ended 5 April 2020.

Since our last report, the investment environment has been challenging, particularly in the first quarter of 2020, however the total portfolio grew in value by 5.9% over the year. Within this, our on-risk assets fell by 6.6%, due to the COVID-19 related market volatility of Q1 2020, seeing the worst falls in markets since the Great Depression. Our hedging portfolio continued to maintain a 100% hedge against interest rates and inflation. In the short term markets continue to be volatile and the Trustee remains focused on developing our strategy with a strong focus on risk control to manage the ongoing uncertainties associated with the market environment.

The last valuation, as at 5 April 2017, showed a surplus of £192m with a funding ratio of 126%. The Trustee Board continues to monitor the funding position of the Scheme on a quarterly basis and has started work on the valuation as at 5 April 2020. In light of the COVID-19 pandemic, the Trustee is working with the Company and Scheme Advisers to explore the flexibilities available to help address the challenging market conditions as at 5 April 2020 and ensure longer term market expectations are reflected within the valuation assessment.

The key project for the Trustee during the year was the successful implementation of a £160m bulk annuity contract (a 'buy-in') with Just Retirement Limited. The bulk annuity policy covers risk in respect of the Scheme's pensioner liabilities, and is an asset of the whole Scheme with all members benefitting from the improved security provided.

The Trustee engaged Lane, Clark & Peacock (LCP) to provide an external review of the fiduciary management investment services. The Trustee is delighted to confirm it has re-appointed River and Mercantile as a result of this process and as part of the negotiation has achieved a significant improvement in the fee basis.

We continue to work with our administrators, XPS, to further develop the online tools available to members and to enhance the Scheme website, www.lepensions.co.uk, which contains a host of pensions information and Scheme contact details.

I am grateful to all the Trustee Directors, Pensions Management and Advisers for their significant contribution to the management of the Scheme and I look forward to working with them over the coming year.

Bernard Walsh

Chair

Leonardo Electronics Pension Scheme (Trustee) Ltd

Date: 15 September 2020

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TRUSTEE AND ADVISERS

Trustee : Leonardo Electronics Pension Scheme (Trustee) Ltd

Trustee Directors : Bernard Walsh * (Chair)
James Cull **
Martin Flavell *
Martin Johnson **
Lynda McVay *
Craig Porter *
Stuart Rushworth **
Scott Wallace **

* *Company Nominated*

** *Member Nominated*

Scheme Secretary : Rachael Skuse

Scheme Address: Leonardo Electronics Pension Scheme
Box 203
Leonardo MW Ltd
Lysander Road
Yeovil BA20 2YB

Principal Employer: Leonardo MW Ltd (02426132)
Sigma House
Christopher Martin Road
Basildon
Essex SS14 3EL

Actuary : Danny Vassiliades
XPS Pensions Limited
Phoenix House
Station Hill
Reading RG1 1NB

Auditor : RSM UK Audit LLP
25 Farringdon Street
London EC4A 4AB

Legal Advisers : Burges Salmon LLP
One Glass Wharf
Bristol BS2 0ZX

Bankers : Barclays Bank plc
1 Churchill Place
London E14 5HP

Covenant Advisers: Ernst & Young LLP

Investment Manager : River and Mercantile Investments Limited T/A River and Mercantile Solutions

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<i>Custodian:</i>	CACEIS (formerly known as KAS Bank NV)
<i>AVC Providers:</i>	Mobius Life Limited
<i>Buy In Providers:</i>	Just Retirement (Appointed 17 March 2020)
<i>Administrators:</i>	XPS Administration Limited Queen's Quay 33-35 Queen Square Bristol BS1 4LU
<i>Investment Adviser:</i>	River and Mercantile Investments Limited T/A River and Mercantile Solutions

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TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2020

The Trustee presents to the members its annual report and financial statements for the year ended 5 April 2020.

Scheme Information

The Scheme was established by a trust deed dated 24 March 2005 to provide pension and life assurance benefits to specified employees of the Principal Employer, Leonardo MW Ltd.

The Scheme has four different sections, each with a different historic benefit structure. The design of the Scheme was driven initially by a need to replicate a number of schemes run by BAE Systems plc. From 6 April 2016, the benefits provided by each section of the Scheme remain defined benefit in nature; however there has been some harmonisation between sections and a move from a final salary structure to a career salary structure. The 100+ Section of the Scheme provides both defined benefit and money purchase benefits to members.

The Scheme was closed to new entrants on 27 April 2009.

The Trustee of the Scheme is Leonardo Electronics Pension Scheme (Trustee) Ltd.

The Trustee Board is made up of eight Trustee Directors, consisting of four Trustee Directors nominated by the Principal Employer (one of which is the Chair of the Trustee Board) and four nominated by the membership.

The Member Nominated Directors are selected by the Pensions Consultative Committee from the members on the committee. Elections took place in October 2019, with two Member Nominated Directors being appointed for a period of six years. There is a staggered appointment process designed to maintain continuity within the Trustee board. The next election will take place in October 2022. Once the Trustee Directors have been selected, they are appointed as Directors of Leonardo Electronics Pension Scheme (Trustee) Ltd.

During the year, the Trustee Directors met frequently to deal with various matters relating to the management of the Scheme including monitoring funding and investing the Scheme assets. The Trustee Directors have the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents and in the best interests of the members.

The investment sub-committee and administration sub-committee also met regularly during the year in advance of each full Trustee meeting.

In addition, there is a Joint DC Investment Committee, which is a joint committee for the Leonardo Electronics Pension Scheme, Leonardo FuturePlanner and the Leonardo Helicopters Pension Scheme. The purpose of the DC Committee is to review the AVC and 100+ Retirement Account Plan investment strategy of the Leonardo Electronics Pension Scheme (together with the investment strategy of Leonardo FuturePlanner and the defined contribution elements of the Leonardo Helicopters Pension Scheme).

In total there were 5 Trustee meetings and 16 sub-committee meetings during the year, with Trustee Director attendance at 94% for the year (2019: 97%).

The Trustee produces an annual business plan, and a long-term strategic plan which sets out the objectives of the Trustee. Progress against the business plans are monitored by the Trustee at each quarterly meeting.

Trustee Knowledge

There is a requirement on the Trustee Directors to have knowledge and understanding of the law relating to pensions and the principles relating to the funding of the Scheme and the investment of the Scheme's assets. The Trustee Directors are also required to be conversant with the Scheme's documents. To fulfil these requirements the Trustee has adopted a training policy and attends regular training sessions.

Risk management

The Trustee Directors have put in place steps to monitor areas of potential risk to the Scheme. They regularly monitor, amongst other aspects of the Scheme, investments, the funding of the Scheme and the administration of the Scheme. The Scheme's risk register is reviewed on a quarterly basis by the Trustee and updated as necessary.

The Trustee has adopted an integrated risk management plan, which looks at the financial covenant, investment and funding risks faced by the Scheme on an integrated basis.

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Employer's Covenant

The Principal Employer of the Scheme is Leonardo MW Ltd.

The Trustee Directors recognise that the ability of the Principal Employer to meet its ongoing contribution requirement is important to the funding of the Scheme and hence the security of members' benefits. As a way of increasing the security of the Scheme, the Trustee has entered into an agreement with the Leonardo Group's parent company, Leonardo SpA, in which Leonardo confirms it will provide support for the Scheme. Leonardo has agreed that it will be responsible for the liabilities of the Principal Employer (and former participating employers) and has undertaken to pay any outstanding Scheme contributions and pay any Scheme deficit if the Scheme were to wind up with insufficient assets.

The Trustee regularly monitors the financial status of the Principal Employer and has engaged Ernst & Young LLP to carry out regular 6-monthly independent reviews of the financial strength of the employers, or more frequently if the Trustee considers this appropriate.

As part of the 5 April 2020 actuarial valuation, and in light of the COVID-19 pandemic, additional detailed reviews of the employer covenant have been commissioned, with Ernst & Young LLP reporting on a range of areas including cash resources, profitability and credit strength of the Principal Employer and its ultimate parent company. Overall, the employer covenant has been robust, and rated as strong, and this will continue to be monitored through the actuarial valuation process and as the impact of COVID-19 develops. The actuarial valuation is discussed in further detail on pages 16 and 17 of this report.

Voluntary Contributions

The Additional Voluntary Contribution (AVC) option provides members with an opportunity to make further provision for their retirement in addition to the benefits provided by the Scheme. Investment choices are available in the form of a "Lifestyle" arrangement and a "Pick & Mix" option. The investment choices available to members with AVC funds are the same as those available to members with 100+ Retirement Accounts.

In addition to AVCs, members are able to contribute under the Buy Up option which provides for a higher career salary accrual rate, in return for an additional member contribution. The cost of the Buy Up option is set by the Trustee each year.

As an alternative to AVCs and Buy Up, a closed group of members of the 2000 Section are paying extra contributions towards retirement benefits through the Selected Benefits Scheme (SBS). This option closed to new contributors in 2009 and is only available to members who are currently making SBS contributions towards retirement benefits at a fixed contribution percentage rate.

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Membership

The number of members as at the year end was:-

Active members at 6 April 2019 (includes 767 DC members)		2,091
Retirement	(91)	
Deferred	(40)	
Death	(1)	
Active members at 5 April 2020 (includes 773 DC members)		1,959
Deferred pensioners at 6 April 2019 (includes 469 DC members)		1,177
From Active	40	
Transfer Out	(14)	
Death	(2)	
Total commutation	(1)	
Spouse liability only	(1)	
Retirement	(30)	
Deferred pensioners at 5 April 2020 (includes 464 DC members)		1,169
Pensioners at 6 April 2019		1,361
Retirement	121	
New dependants / spouses	13	
Death	(12)	
Total commutation	(69)	
Pensioners at 5 April 2020		1,414
Total members at 5 April 2020		4,542

Pension increases

Different rates of increase, and caps on the level of increase, apply for different sections and tranches of benefit within the Scheme.

All pensions in payment were increased on 1 May 2020 in accordance with the Rules of the Scheme. The increase applied on 1 May 2020 was generally 2.69% which is the level of RPI in January 2020, with benefits accrued after 5 April 2006 having increases capped at 2.5%.

Deferred pensions are generally increased annually in line with the statutory measure of inflation for pension purposes, up to a maximum of 5% for benefits accrued before 6 April 2009 and 2.5% for benefits accrued after.

All increases to pensions in payment and deferred pensions were made in accordance with the Rules of the Scheme. There were no discretionary increases made during the year.

Transfer Values

Cash equivalents (transfer values to other approved pension arrangements) payable are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

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Scheme Changes

On 17 March 2020, the Trustee completed the successful implementation of a £158m bulk annuity contract (a 'buy-in') with Just Retirement Limited. The buy-in annuity has been valued by the Scheme Actuary at £174.94m as at 5 April 2020. This increase in annuity value is a result of a significant reduction in interest rate expectations over the period which increased pension liabilities. The difference between the buy-in premium and the valuation of the annuity of £17.4m has been shown as a gain on investment in the Fund Account.

An initial premium payment of £163m was made by the Trustee to Just on 19 March 2020. Following significant market volatility over the period, the final premium calculated as at close of business on 19 March 2020, in line with an agreed price lock mechanism, was £157,554,198 and a refund was therefore repaid to the Trustee by Just of £5,445,802 on 2 April 2020.

The bulk annuity policy covers risk in respect of the Scheme's pensioner liabilities and is an asset of the whole Scheme with all members benefitting from the improved security provided. As at 5 April 2020, there were 1,247 pensioner liabilities covered by the buy-in annuity policy.

Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£'000s
Net assets at 5 April 2019	1,031,820
Net additions from dealings with members	7,335
Net returns on investments	<u>86,032</u>
Net assets at 5 April 2020	<u>1,125,187</u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Communication

"InFocus", a newsletter for Scheme members is issued by the Trustee on a regular basis. Benefit statements are issued on an annual basis to active members, and deferred members with 'final salary' benefits, setting out the amount of pension built up so far, and forecasts at normal retirement date.

In addition members can access information from the Scheme website, www.lepensions.co.uk. XPS Administration Limited also offers MyPension.com, an online tool for members enabling them to view their pension records and undertake various activities online. The tool has been developed during the year to add additional features.

COVID-19

COVID-19 has caused significant disruption to economic activity which has been reflected in global stock market fluctuations and, in turn, in the valuation of pension scheme assets. This matter has been further detailed in Note 28 to the financial statements.

The Trustee continues to monitor this ever evolving situation and is liaising with the Scheme's advisers and the Company to assess and manage the impact of COVID-19 on the Scheme.

Taxation Status

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

Enquiries

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee:

c/o XPS Administration Limited
Queen's Quay
33-35 Queen Square
Bristol BS1 4LU

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Email leps@xpsgroup.com

Money & Pensions Service (MaPS)

The MaPS was introduced in 2019 combining pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MaPS can be contacted at:

Money & Pensions Service
Holborn Centre
120 Holborn
London EC1N 2TD

MaPS Tel: 0115 965 9570
Email: contact@maps.org.uk
Website: www.moneyandpensionservice.org.uk

Pensions Ombudsman

Early Resolution Service

The early resolution service is available to assist with any difficulty that has not been resolved or to assist with a potential complaint.

Tel: 0800 917 4487
Email: helpline@pensions-ombudsman.org.uk

Complaints

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

The Pensions Regulator (tPR)

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House
Trafalgar Place
Brighton BN1 4DW

Tel: 0345 600 0707
Email: customersupport@tpr.gov.uk
Website: www.thepensionsregulator.gov.uk

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The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10273555. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: www.gov.uk/find-lost-pension

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INVESTMENT REPORT

Defined Benefit

Background

At the Scheme year end, 5 April 2020, the net investments of the Defined Benefit section of the Scheme were valued at £927 million (plus a buy-in asset valued at £175 million), compared with £1,008 million at the start of the Scheme year.

The majority of the assets of the Scheme continue to be invested by the fiduciary manager River and Mercantile Investments Limited. This includes a liability hedging portfolio through which the impact of movements in long-term interest rate and inflation expectations are managed. The Trustee also has a buy-in asset which insures a portion of the Scheme's pensioner liabilities.

This report gives information about the assets as at 5 April 2020.

Investment Principles

The Trustee has produced a Statement of Investment Principles (SIP) showing how it invests the assets of the Scheme. The SIP is reviewed regularly by the Trustee and was last updated in September 2019.

The overall objective of the Scheme is to meet the benefit payments promised as they fall due with the long term intention of becoming financially and operationally self-sufficient. This is broken down into the following qualitative objectives:

- Acquire suitable assets which, having due regard to risk, will generate income and capital growth to pay, together with the Employer and member contributions, the benefits as they fall due.
- Limit the risk of the assets failing to meet the liabilities over the long term.
- Achieve a return on investment which is expected at least to meet the Actuary's assumptions over the long term.
- Reduce the variability of the cost of future accrual where appropriate.

The Trustee has translated its objectives into benchmarks for the Scheme. The benchmarks are consistent with the Trustee's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk measured relative to liabilities.

Copies of the SIP (and the separate defined contribution SIP) are available to members from the Scheme Administrator, XPS Administration Limited, using the contact details on page 4. The SIPs are also available from the Trustee Documents section of the Scheme website at www.lepensions.co.uk/library/.

Investment Manager

The Trustee has delegated responsibility for the day-to-day management of the assets to the Scheme's Investment Manager, River and Mercantile Investments Limited ("River and Mercantile Solutions"). An Investment Management Agreement between the Trustee and River and Mercantile Investments Limited governs this relationship.

The Investment Manager has been appointed in two capacities:

- Implement a hedging strategy in relation to interest rate and inflation risk associated with the liabilities and
- Actively manage Growth Assets which covers a wide range of asset classes and investment managers and a Collateral Fund

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Market Commentary

Over the year to 5 April 2020 most return-seeking asset classes performed negatively with unprecedented volatility witnessed in Q1 2020. Global equity markets experienced large sell-offs as rising COVID-19 cases resulted in the shutdown of economies around the world. Sovereign bond and gold prices rose sharply accompanied by a surge in demand for the US dollar.

The 12-month period was largely characterised by the COVID-19 induced end of the 10-year 'bull-market'. However, most of the period coincided with an easing of monetary policy by central banks, including in a global trend of interest rate cuts. The US/China trade talks oscillated between escalating and easing tensions. UK extended the Brexit deadline from March 2019, to the end of October and then into 2020.

Asset Allocation

The Trustee reviews the strategic asset allocation of the Scheme on a regular basis. However, investment decisions within this framework are delegated to River and Mercantile Solutions.

The Trustee has allocated 60% of assets (excluding the pensioner buy-in) to return seeking assets and 40% of assets off-risk for liability hedging.

The Trustee continues to monitor the strategy through regular reviews. In addition, the Trustee will review on an on-going basis the extent to which risk and volatility can be reduced further over time.

The table below shows the asset allocation at the current and prior year ends (excluding the pensioner buy-in):

	5 April 2020		5 April 2019	
	Market value £'000	% of funds (ex DC)	Market value £'000	% of funds (ex DC)
Overseas Equity	173,730	18.7	256,345	25.4
Alternatives	122,090	13.2	115,074	11.4
Return Seeking Credit	62,507	6.7	112,408	11.1
Property	32,596	3.5	30,863	3.1
Cash & Sovereign Bonds	135,157	14.6	86,117	8.5
Currency Hedge	(6,280)	(0.7)	1,003	0.1
Total return seeking portfolio	519,800	56.0	601,810	59.7
Liability matching portfolio	407,599	44.0	406,581	40.3
Total assets (excluding DC and DB Insurance policies)	927,400	100.0	1,008,391	100.0
Defined Benefit Insurance policies	174,940		-	
Defined Contribution	21,547		23,005	
Total investments	1,123,887		1,031,396	

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Liability Risk

The Trustee has put a programme in place to reduce some of the unrewarded risks that the Scheme faces in relation to the value of the liabilities. In particular, River and Mercantile Derivatives manages a liability hedge.

The liability hedge is designed to protect the Scheme from adverse movements in long term interest rates and inflation, which directly impact the value of the Scheme's liabilities. The value of the gilts that are part of the hedging portfolio tends to move in line with the Scheme's liabilities when interest rates and inflation rates change. Similarly the swaps in the hedging portfolio, which are implemented via a number of counterparty banks, are such that, if interest rates fall significantly (and so the liabilities rise in value), the swap counterparty pays the Scheme to cover the rise in the value of the liabilities. Conversely, if the value of the liabilities falls due to interest rate and inflation changes, the Scheme pays the counterparty under the swap contracts an amount that is in line with this fall in the liabilities. Importantly, the purpose of the liability hedge is to offset (or hedge) the changes in the value of the liabilities whether there is a rise or fall.

The mark to market valuation of the swaps represented an unrealised gain/loss, as at 5 April, for the following years:

	2020	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000	£000
Interest rate swaps	77,971	14,971	1,974	23,827	44,787	45,378
Total Return swaps	19,046	1,910	(462)	3,518	743	n/a
Inflation swaps	(18,287)	5,762	(253)	9,907	(9,412)	(5,038)
Proceed Asset Swap	<u>(29,817)</u>	<u>(26,765)</u>	<u>(24,429)</u>	<u>(34,714)</u>	<u>(21,270)</u>	<u>(17,170)</u>
Total Gain/(Loss)	48,913	(4,122)	(23,170)	2,538	14,848	23,170

A positive mark-to-market value of the swaps represents a rise in the value of the swaps from the Scheme's perspective, and vice versa. However, this rise will have been necessary to offset the rise in the value of the Scheme's liabilities, and so the impact of the interest rate changes on the Scheme's finances will (as intended) have been broadly neutral.

During the Scheme year, the Trustee maintained a strategic hedging level of 100% of the interest rate risk and 100% of the inflation risk of the liabilities, including the liabilities due to be accrued to the date of the next scheduled actuarial valuation (as at 5 April 2020). At the year end the portfolio was hedging 101% of the interest rate risk and 94% of the inflation risk.

Collateral

The gilts can be used to meet collateral calls from the Scheme's counterparties: Barclays Bank plc, Credit Suisse International, Citigroup Inc., Deutsche Bank plc, BNP Paribas, HSBC plc, Royal Bank of Scotland plc, Merrill Lynch & Co. Inc. and Morgan Stanley & CO. International plc. The Scheme would be obliged to post collateral to the counterparties as and when the swap mark-to-market is negative to the Scheme (i.e. in the counterparties' favour). Once the collateral is transferred to the respective counterparty it is held by the counterparty but in the name of the Trustee.

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Return-Seeking Portfolio

The Growth Assets (GA) is designed to deliver performance in excess of a specific target through exposure to diversified investment arrangements. River and Mercantile Solutions invests and manages the Scheme's assets on behalf of the Trustee.

River and Mercantile Solutions' fiduciary management service reduces the risks and costs of decision delay and provides access to a broad range of asset allocation and increased investment specialisation, such as high yield bonds, leveraged loans and other alternative asset classes as well as currency hedging. As well as the delegated responsibility for dynamic asset allocation, River and Mercantile Solutions is also responsible for selecting, combining and replacing fund managers.

The core strength of the fiduciary management portfolio proposition lies in the delegation to the manager of the flexibility to dynamically allocate across all asset classes in accordance with medium to long term views on global markets, and to 'defend' by increasing the allocation to cash when the risk/return attributes of multiple asset classes are poor. This is demonstrated in the Asset Allocation table above showing the variation at the current and prior year end.

The investment objective for GA is a return of Cash + 3% per annum, after the deduction of fees, over rolling three year periods. Performance of the GA assets against objective is as follows:

GA	1 year	3 years p.a.	5 years p.a.
Investment return	-8.4%	-0.6%	2.0%
Objective	3.8%	3.6%	3.6%
Investment return relative to target	-12.2%	-4.2%	-1.6%

Performance is shown to 5 April 2020 after the deduction of fees (to the extent that fees are paid from assets). The objective is shown to 5 April 2020.

The Trustee monitors the performance of GA on a quarterly basis and is provided with a valuation of all of the Scheme's assets on a monthly basis.

The Trustee also has a derivatives programme to manage the exposure of the assets to currency movement which is managed by River and Mercantile Solutions.

The Trustee will continue to consider further opportunities to reduce unrewarded risks where this can be done cost effectively. There are appropriate arrangements in place to provide collateral for the derivatives programmes.

Total Investment Performance

The performance of the Scheme's return-seeking portfolio and the total performance (including the performance of the swaps) was positive over the year ended 5 April 2020, although behind its target return.

Performance against objective over different time periods is as follows:

Total performance	1 year	3 years p.a.	5 years p.a.
Investment return	7.2%	4.3%	8.5%
Objective	15.2%	8.4%	10.6%
Investment return relative to target	-7.4%	-4.1%	-2.1%

The objective for three years covers the period 1 April 2017 to 5 April 2020, and for five years it covers 1 April 2015 to 5 April 2020.

Investment Expenses

Investment management fees and expenses amounted to £1.3m during the period (previously £2.8m). It should be noted that, in addition to these direct expenses, the majority of underlying managers' fees are reflected in unit prices and these are not separately disclosed. Discounts on investment management fees are negotiated where possible.

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Custody of Assets

The swap contracts entered into with Barclays, Credit Suisse, Citigroup, Deutsche Bank, BNP Paribas, HSBC, Merrill Lynch Morgan, Stanley and RBS are held directly in the Trustee's name. These direct principal to principal contracts do not themselves require safe custody. However, the collateral provided to the counterparties to secure their value when their mark-to-market is positive is held by CACEIS N.V., as custodian for the Scheme, in the name of its nominee company, CACEIS Nominees Limited.

The pooled fund units and shares comprising the assets managed through the fiduciary management portfolio are held by CACEIS Bank N.V. in the name of its nominee company, CACEIS Nominees Limited.

Environmental, Social and Governance Factors

Financially material investment considerations can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. The Trustee delegates consideration of financially material factors to the Investment Manager, who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. All references to ESG also include climate change.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with other factors, such as stewardship, as a part of overall engagement.

Corporate Governance

The Scheme's investments are made via pooled investment funds, in which the Scheme's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes or social, ethical or environmental factors, is delegated to the manager of the pooled investment fund. The extent to which these factors are taken into account in the selection, retention and realisation of investments is considered by the Investment Manager as part of the process of selecting organisations with which to invest.

The Trustee supports the Myners Principles and the UK Stewardship Code. It has conducted a 'comply or explain' review in respect of the Myners Principles and Investment Guidance from the Pensions Regulator.

Defined Contribution

Retirement Account

The Trustee has produced a defined contribution Statement of Investment Principles which was also last updated in September 2019.

Members of the 100+ Section have contributions equal to 2% of their Pensionable Salary put into their Retirement Account by their employer.

The members' Retirement Accounts are held with Mobius Life Limited and members have the choice of investing their account in one or more of eight funds: Long Term Growth, Stable Growth, Cautious Growth, Global Equity Fund, Corporate Bond Fund, Fixed Annuity Focus Fund, Inflation Linked Annuity Focus Fund and Cash Fund. In addition, there is a default Lifestyle Strategy, used by the majority of members, which incorporates four River and Mercantile Solutions 'blend funds' with different 'inflation plus' targets. If a member chooses the default Lifestyle Strategy, they must place the whole of their Retirement Account in this fund.

The performance of the funds can be found in published reports within the documents section of MyPension.com.

Employer Related Investments

There were no employer related investments during the year.

LEONARDO ELECTRONICS PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, pension schemes are subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover their technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed at least every 3 years using the assumptions agreed between the Trustee and the Company and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request by contacting XPS Administration Limited at the address set out on page 8.

Actuarial valuation as at 5 April 2017

The most recent full actuarial valuation of the Scheme was carried out as at 5 April 2017. This showed that on that date:

- The technical provisions were £749.0 million
- The value of the assets was £941.3 million

As at 5 April 2017, the Scheme therefore had an ongoing surplus of £192.3 million with a funding level of 126%.

Whilst the actuarial valuation identified a past service surplus, it also showed a significant increase in the future service contribution rate. The cost of future benefit accrual had increased by 14.5% of pensionable salaries per annum between the 2014 and 2017 valuations. The Trustee and the Company have agreed that there will be no changes to member or Company contributions and no changes to member benefits as part of this valuation. The consequence of this approach is that a portion of the surplus will be used to support the increased future service cost.

In addition to the ongoing funding valuation, the actuary also carries out a discontinuance valuation, known as a solvency valuation, and a Pension Protection Fund ("PPF") valuation.

1. The solvency valuation basis differs from the ongoing funding basis in that it assumes that the Scheme had discontinued and all contributions ceased with effect from the valuation date. As at 5 April 2017, the deficit on a solvency valuation basis was £80 million and the Scheme's assets would have been sufficient to cover 92% of the total estimated winding up liabilities. It is a legal requirement that these solvency valuation numbers are produced and it does not mean that there is any intention to wind up the Scheme in the foreseeable future.
2. The PPF valuation compares the assets of the Scheme to the value of the benefits that would be provided by the PPF in the event of the Scheme entering the PPF. As at 5 April 2017, the surplus on a PPF valuation basis was £63 million and the Scheme's assets would have been sufficient to cover 107% of the PPF benefits.

The next full actuarial valuation is due with an effective date no later than 5 April 2020, and will be completed no later than 5 July 2021.

Actuarial report as at 5 April 2019

The Trustee receives formal annual funding updates from the actuary in non-actuarial valuation years. These reports provide information on the development of the funding position of the Scheme (on an ongoing funding basis) since the last full actuarial valuation, so that the Trustee can assess whether any action is needed.

The most recent actuarial report was produced as at 5 April 2019. At that date, the surplus on the ongoing funding basis was £159.4 million with a funding level of 119%. Between 5 April 2017 and 5 April 2019, the surplus has therefore reduced by approximately £33 million. This was mainly due to contributions made by the Company into the Scheme being lower than the assessed cost of new benefit accrual over the period (as agreed as part of the 5 April 2017 actuarial valuation process) and the investment returns earned on the Scheme's 'return seeking' assets being lower than expected under the actuarial assumptions over the period.

LEONARDO ELECTRONICS PENSION SCHEME

Method and significant assumptions for technical provisions

The method and significant actuarial assumptions used to determine the technical provisions for the 5 April 2017 actuarial valuation are as follows (all assumptions adopted are set out in the Statement of Funding Principles signed on 18 December 2017):

Method

The actuarial method used in the calculation of the technical provisions was the Projected Unit Method.

Significant actuarial assumptions

Pre retirement discount interest rate: term dependent rates calculated as 1.8% per annum above a blended interest rate yield curve. The blended curve comprises 60% of the gilt interest rate curve and 40% of the swap interest rate curve.

Post retirement discount interest rate: term dependent rates calculated as 0.3% per annum above a blended interest rate yield curve. The blended curve comprises 60% of the gilt interest rate curve and 40% of the swap interest rate curve.

Future Retail Prices Index ("RPI") inflation: term dependent rates calculated using a blended inflation rate yield curve. The blended curve comprises 70% of the gilt RPI inflation curve and 30% of the swap RPI inflation curve.

Future Consumer Prices Index ("CPI") inflation: 1% per annum below the RPI inflation curve.

Future Pensionable Salary increases: 1.5% per annum above the RPI inflation curve.

Future pension increases in payment: pensions in payment accrued after 5 April 2006 increase in line with RPI inflation subject to a cap of 2.5% per annum. Pensions in payment accrued before this date increase in line with RPI inflation subject to a cap of 5% per annum.

Future pension increases in deferment: set as future CPI inflation, capped at 5% per annum for pension accrued before 6 April 2009 and 2.5% per annum for pension accrued after that date.

Future mortality in retirement: 97% for males and 96% for females of the mortality rates in the standard SAPS (S2PA) base tables, with an allowance for future improvements in line with the CMI 2016 projection model using a long term annual improvement rate of 1% and a smoothing parameter of 8.0.

LEONARDO ELECTRONICS PENSION SCHEME

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Actuary's certification of schedule of contributions

Name of scheme: Leonardo Electronics Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in the schedule of contributions dated 18 December 2017 are such that the statutory funding objective could have been expected on 5 April 2017 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, the schedule of contributions dated 18 December 2017 is consistent with the statement of funding principles dated 18 December 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature:

Date: 22-12-2017

Name: Danny Vassiliades

Qualification: Fellow of the Institute and Faculty of Actuaries

Address: Punter Southall Limited
1 Colmore Row
Birmingham
B3 2BJ

LEONARDO ELECTRONICS PENSION SCHEME

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee's Report, which includes the Investment Report, the Report on Actuarial Liabilities and the Statement of Trustee's Responsibilities was approved by the Trustee.

Date: 15 September 2020

Name: Bernard Walsh

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

Date: 15 September 2020

Name: Scott Wallace

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

LEONARDO ELECTRONICS PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LEONARDO ELECTRONICS PENSION SCHEME

Opinion

We have audited the financial statements of the Leonardo Electronics Pension Scheme for the year ended 5 April 2020 which comprise the Fund Account, the Statement of Net Assets (Available for benefits) and the notes to the financial statements, 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 5 April 2020, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

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 Scheme 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 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identifiable material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 Scheme's Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

LEONARDO ELECTRONICS PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE LEONARDO ELECTRONICS PENSION SCHEME (Continued)

Responsibilities of the Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 19, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines 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 Trustee is responsible for assessing the Scheme'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 Trustee either intends to liquidate the Scheme 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://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 Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it 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 Scheme and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 15 September 2020

LEONARDO ELECTRONICS PENSION SCHEME

FUND ACCOUNT

For the year ended 5 April 2020

	Note	2020 Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	2020 Total £'000s	2019 Defined Benefit Section £'000s	2019 Defined Contribution Section £'000s	2019 Total £'000s
CONTRIBUTIONS AND BENEFITS							
Employer contributions		23,322	435	23,757	23,634	461	24,095
Employee contributions		750	2,577	3,327	785	2,248	3,033
Total contributions	4	24,072	3,012	27,084	24,419	2,709	27,128
Other income	5	224	-	224	433	-	433
		<u>24,296</u>	<u>3,012</u>	<u>27,308</u>	<u>24,852</u>	<u>2,709</u>	<u>27,561</u>
Benefits paid or payable	6	12,185	185	12,370	9,001	248	9,249
Payments to and on account of leavers	7	5,248	505	5,753	6,101	446	6,547
Other payments	8	458	-	458	529	-	529
Administrative expenses	9	1,392	-	1,392	1,009	4	1,013
		<u>19,283</u>	<u>690</u>	<u>19,973</u>	<u>16,640</u>	<u>698</u>	<u>17,338</u>
NET ADDITIONS FROM DEALINGS WITH MEMBERS		<u>5,013</u>	<u>2,322</u>	<u>7,335</u>	<u>8,212</u>	<u>2,011</u>	<u>10,223</u>
RETURNS ON INVESTMENTS							
Investment income	10	13,382	-	13,382	14,943	-	14,943
Change in market value of investments	12	75,279	(1,343)	73,936	55,988	1,125	57,113
Investment management expenses	11	(1,286)	-	(1,286)	(2,754)	-	(2,754)
NET RETURNS ON INVESTMENTS		<u>87,375</u>	<u>(1,343)</u>	<u>86,032</u>	<u>68,177</u>	<u>1,125</u>	<u>69,302</u>
NET INCREASE IN THE FUND FOR THE YEAR		<u>92,388</u>	<u>979</u>	<u>93,367</u>	<u>76,389</u>	<u>3,136</u>	<u>79,525</u>
TRANSFERS BETWEEN SECTIONS		<u>2,179</u>	<u>(2,179)</u>	<u>-</u>	<u>1,157</u>	<u>(1,157)</u>	<u>-</u>
OPENING NET ASSETS		<u>1,008,760</u>	<u>23,060</u>	<u>1,031,820</u>	<u>931,214</u>	<u>21,081</u>	<u>952,295</u>
CLOSING NET ASSETS		<u>1,103,327</u>	<u>21,860</u>	<u>1,125,187</u>	<u>1,008,760</u>	<u>23,060</u>	<u>1,031,820</u>

The notes on pages 24 to 39 form part of these financial statements.

LEONARDO ELECTRONICS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2020

	Note	2020 Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	2020 Total £'000s	2019 Defined Benefit Section £'000s	2019 Defined Contribution Section £'000s	2019 Total £'000s
INVESTMENT ASSETS	12						
Bonds		456,830	-	456,830	437,760	-	437,760
Pooled investment vehicles	13	400,307	21,547	421,854	565,321	23,005	588,326
Derivatives	14	240,856	-	240,856	110,903	-	110,903
Insurance policies	15	174,940	-	174,940	-	-	-
Cash deposits		28,572	-	28,572	6,915	-	6,915
Other investment balances	16	2,003	-	2,003	1,618	-	1,618
		1,303,508	21,547	1,325,055	1,122,517	23,005	1,145,522
INVESTMENT LIABILITIES							
Derivatives	14	(201,168)	-	(201,168)	(114,126)	-	(114,126)
TOTAL NET INVESTMENTS		1,102,340	21,547	1,123,887	1,008,391	23,005	1,031,396
CURRENT ASSETS	20	2,245	313	2,558	3,012	55	3,067
CURRENT LIABILITIES	21	(1,258)	-	(1,258)	(2,643)	-	(2,643)
CLOSING NET ASSETS		1,103,327	21,860	1,125,187	1,008,760	23,060	1,031,820

The notes on pages 24 to 39 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section, is dealt with in the Report on Actuarial Liabilities on page 16 and 17 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on 15 September 2020.

Name: Bernard Walsh

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

Name: Scott Wallace

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2020

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The Scheme is a registered hybrid pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by the employer and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment. The Scheme is administered by the Trustee in accordance with the Trust Deed and Rules, solely for the benefit of its members and other beneficiaries.

As stated in the Statement of Trustee's Responsibilities on page 19, the Trustee is responsible for preparing the Financial Statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis. The Trustee has undertaken an assessment in relation to going concern and has considered such matters as the potential impact on the Scheme's investment strategy, the Employer's business and its ability to pay contributions to the Scheme, taking into account the Scheme's strong funding level, well diversified investment strategy, strength of the Employer covenant and the guarantee from Leonardo SpA. The Trustee Board has determined that whilst there is some uncertainty over the impact on the Employer's financial performance and resources, this is anticipated to be modest and there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and the Trustee therefore believes it remains appropriate to prepare the Financial Statements on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is c/o XPS Administration Limited, Queen's Quay, 33-35 Queen Square, Bristol BS1 4LU.

Email leps@xpsgroup.com.

3. ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements are prepared on an accruals basis.

(b) Contributions

Employers' contributions, members' contributions, including those paid under the SMART option, are accounted for on an accruals basis in accordance with the Schedule of Contributions.

AVC's are accounted for on an accruals basis, and the resulting investments are included within the net assets statement on the basis values provided by the AVC investment managers.

Augmentation contributions are accounted for in accordance with the agreement under which they are payable, or, in the absence of an agreement, on a receipt basis.

(c) Payments to Members

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

3. ACCOUNTING POLICIES (continued)

(d) Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration.

(e) Investment Income

Income from bonds and other interest receivable is taken into account on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

(f) Investments

Investments are included at fair value as follows:

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Unquoted securities are included at fair value estimated by the Trustee using appropriate valuation techniques.

Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Swaps are valued based on the present value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Options are valued at fair value using pricing models and relevant market data at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Annuities in the name of the Scheme have been valued by the Scheme Actuary at the present value of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date.

(g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the year end.

(h) Currency

The Scheme's functional and presentation currency is Pound Sterling (GBP). Monetary amounts in these financial statements are rounded to the nearest £'000.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

4. CONTRIBUTIONS

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Employer contributions			
Normal	14,832	435	15,267
SMART	8,490	-	8,490
	<u>23,322</u>	<u>435</u>	<u>23,757</u>
Employee contributions			
Normal	106	-	106
Additional voluntary*	-	2,577	2,577
Special**	644	-	644
	<u>750</u>	<u>2,577</u>	<u>3,327</u>
	<u>24,072</u>	<u>3,012</u>	<u>27,084</u>
		2019	
Employer contributions			
Normal	15,055	461	15,516
SMART	8,579	-	8,579
	<u>23,634</u>	<u>461</u>	<u>24,095</u>
Employee contributions			
Normal	109	-	109
Additional voluntary*	-	2,248	2,248
Special**	676	-	676
	<u>785</u>	<u>2,248</u>	<u>3,033</u>
	<u>24,419</u>	<u>2,709</u>	<u>27,128</u>

* Members of all sections can pay additional voluntary contributions (AVCs) to Mobius Life Limited, which are invested separately from the Scheme's other assets. The proceeds of each member's AVC account are used to provide additional benefits for, or in respect of, the member. The majority of the AVCs are paid through the salary sacrifice arrangement.

** Members of the 2000 Section of the Scheme can pay additional voluntary contributions to the Selected Benefit Scheme (SBS) in order to increase their retirement benefits. SBS contributions are invested in the same way as the Scheme's other assets. The majority of the SBS contributions are paid through the salary sacrifice arrangement.

Employer contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the Employer.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

5. OTHER INCOME

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Claims on term insurance policies	224	-	224

		2019	
Claims on term insurance policies	433	-	433

6. BENEFITS PAID OR PAYABLE

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Pensions	6,007	-	6,007
Commutation of pensions and lump sum retirement benefits	5,745	185	5,930
Purchase of annuities	93	-	93
Lump sum death benefits	247	-	247
Refunds of contributions on death	43	-	43
Taxation where lifetime or annual allowance exceeded	50	-	50
	12,185	185	12,370

		2019	
Pensions	5,283	-	5,283
Commutation of pensions and lump sum retirement benefits	2,942	248	3,190
Purchase of annuities	58	-	58
Lump sum death benefits	629	-	629
Refunds of contributions on death	16	-	16
Taxation where lifetime or annual allowance exceeded	73	-	73
	9,001	248	9,249

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Individual transfers out to other schemes	5,248	505	5,753

		2019	
Individual transfers out to other schemes	6,101	446	6,547

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

8. OTHER PAYMENTS

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Premiums on term insurance policies	458	-	458
		2019	
Premiums on term insurance policies	529	-	529

Other payments represent premiums paid to Zurich Assurance Limited who have underwritten the Scheme's death in service benefits during the year.

9. ADMINISTRATIVE EXPENSES

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Administration	554	-	554
Actuarial fees	317	-	317
Legal fees	166	-	166
Investment advice	237	-	237
Audit fees	17	-	17
PPF levy	58	-	58
Other fees	43	-	43
	1,392	-	1,392
		2019	
Administration	535	4	539
Actuarial fees	328	-	328
Legal fees	26	-	26
Audit fees	25	-	25
PPF levy	36	-	36
Other fees	59	-	59
	1,009	4	1,013

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

10. INVESTMENT INCOME

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Income from bonds	5,153	-	5,153
Income from pooled investment vehicles	6,250	-	6,250
Interest on cash deposits	(11)	-	(11)
Gains/(losses) on foreign exchange	535	-	535
Income from derivatives / swaps	1,455	-	1,455
	<u>13,382</u>	<u>-</u>	<u>13,382</u>

		2019	
Income from bonds	8,477	-	8,477
Income from pooled investment vehicles	5,527	-	5,527
Interest on cash deposits	52	-	52
Gains/(losses) on foreign exchange	(350)	-	(350)
Income from derivatives / swaps	1,237	-	1,237
	<u>14,943</u>	<u>-</u>	<u>14,943</u>

11. INVESTMENT MANAGEMENT EXPENSES

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Administration, management & custody	1,507	-	1,507
Investment fee rebate	(221)	-	(221)
	<u>1,286</u>	<u>-</u>	<u>1,286</u>

		2019	
Administration, management & custody	3,103	-	3,103
Investment fee rebate	(349)	-	(349)
	<u>2,754</u>	<u>-</u>	<u>2,754</u>

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

12. RECONCILIATION OF INVESTMENTS

	Value at 5.4.2019	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 5.4.2020
	£'000s	£'000s	£'000s	£'000s	£'000s
Defined Benefit Section					
Bonds	437,760	331,247	(356,166)	43,989	456,830
Pooled investment vehicles	565,321	570,707	(695,883)	(39,838)	400,307
Derivatives	(3,223)	11,253	(22,084)	53,742	39,688
Insurance policies	-	157,554	-	17,386	174,940
	999,858	1,070,761	(1,074,133)	75,279	1,071,765
Cash deposits	6,915				28,572
Other investment balances	1,618				2,003
	<u>1,008,391</u>				<u>1,102,340</u>

Defined Contribution Section

Pooled investment vehicles	<u>23,005</u>	<u>5,089</u>	<u>(5,204)</u>	<u>(1,343)</u>	<u>21,547</u>
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Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Transaction costs analysed by main asset class and type of cost are as follows:

	Fees	Commission	Stamp duty and taxes	2020 Total	2019 Total
	£	£	£	£	£
Pooled investment vehicles	<u>1</u>	<u>7</u>	<u>-</u>	<u>8</u>	<u>-</u>
2019	<u>25</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>84</u>

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

For the Defined Contribution Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. For members who invest in the with profit account the investment provider designates the investment records by member. For members who invest in the managed funds the investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

12. RECONCILIATION OF INVESTMENTS (continued)

AVCs are included within Defined Contribution pooled investment vehicles but are not significant to the Scheme assets and therefore have not been disclosed separately.

Defined Contribution assets are allocated to members and the Trustee as follows:

	2020 £'000	2019 £'000
Members	21,547	23,005
Trustee	-	-
	<u>21,547</u>	<u>23,005</u>

13. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year end comprised:

	2020 £'000	2019 £'000
Defined Benefit Section		
Equity	203,789	274,827
Bonds	55,172	101,454
Property	32,596	30,863
Cash	11,957	32,148
Alternative	96,793	126,029
	<u>400,307</u>	<u>565,321</u>
	2020 £'000	2019 £'000
Defined Contribution Section		
Equity	1,094	1,306
Bonds	220	217
Cash	748	669
Growth	16,970	18,131
Retirement protection	2,237	2,329
Annuity protection	278	353
	<u>21,547</u>	<u>23,005</u>

The impact of the COVID-19 pandemic was felt by the UK property industry in March 2020. Property and property related assets are inherently difficult to value due to the individual nature of each property. The Tritax Property Fund's valuers have expressed material uncertainty in their valuation as at 31 March 2020 in view of the COVID-19 pandemic. The Defined Benefit Section of the Scheme held £14.5m of assets in the Tritax Property Fund at 31 March 2020.

14. DERIVATIVES

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme as follows.

Futures – the Trustee did not want cash held to be “out of the market” and therefore bought exchange traded index based futures contracts which had an underlying economic value broadly equivalent to cash held.

Options – the Trustee wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year the Scheme held a number of equity option contracts that protect it from falls in value in the main markets in which the Scheme invests.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

14. DERIVATIVES (continued)

Swaps – the Trustee's aim is to match as far as possible the fixed income portfolio and the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the year end the Scheme held the following derivatives:

	2020 Asset £'000	2020 Liability £'000	2019 Asset £'000	2019 Liability £'000
Swaps	229,961	(180,970)	109,294	(113,416)
Options	-	(3,023)	396	(500)
Forward foreign exchange contracts	10,895	(17,175)	1,213	(210)
	<u>240,856</u>	<u>(201,168)</u>	<u>110,903</u>	<u>(114,126)</u>
	<u>39,688</u>			<u>(3,223)</u>

Swaps

Nature	Expiration	Notional principal £'000	Asset £'000	Liability £'000
Interest rate swaps (OTC)	2024-2059	585,875	205,561	(127,589)
Inflation swaps (OTC)	2020-2059	391,589	5,277	(23,564)
Total return swaps	2020-2023	134,928	19,123	-
Asset swaps	Nov 2055	20,423	-	(29,817)
Total 2020			<u>229,961</u>	<u>(180,970)</u>

Included in bonds is collateral of £16.2m (2019: £11.9m) which has been pledged to the counterparty.

At the year end the Scheme held £55.8m (2019: £14.3m) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

Options

Type	Expiration	Underlying Investment	No of outstanding contracts	Asset £'000	Liability £'000
Call	April 2020	SPX Index	1	-	(753)
Call	April 2020	SPS Index	1	-	(2,270)
Total 2020				<u>-</u>	<u>(3,023)</u>

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

14. DERIVATIVES (continued)

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000	Liability £'000
Forward OTC	Under 1 month	€5,724,000	£5,235,228	-	(185)
Forward OTC	Under 1 month	\$9,750,400	£8,103,858	-	(129)
Forward OTC	Under 1 month	¥214,610,000	£1,667,416	-	(49)
Forward OTC	Under 1 month	€9,587,300	£8,331,939	126	-
Forward OTC	Under 1 month	¥103,080,000	£751,918	25	-
Forward OTC	Under 1 month	£24,853,188	\$ 32,413,900	-	(1,657)
Forward OTC	Under 1 month	\$12,510,700	£9,657,200	575	-
Forward OTC	Under 1 month	€24,591,300	£20,797,969	897	-
Forward OTC	Under 1 month	¥511,470,000	£3,604,598	251	-
Forward OTC	Under 1 month	\$167,262,000	£127,776,602	9,021	-
Forward OTC	Under 1 month	£42,443,929	€49,639,700	-	(1,349)
Forward OTC	Under 1 month	£198,632,791	\$ 258,938,700	-	(13,144)
Forward OTC	Under 1 month	£8,572,642	¥1,224,830,000	-	(662)
Total 2020				10,895	(17,175)

15. INSURANCE POLICIES

	2020 £	2019 £
The Scheme held insurance policies at the year end as follows:		
Annuity policy with Just Retirement	174,940	-

During the year, the Trustee completed a buy-in with Just Retirement. An initial premium payment of £163m was made by the Trustee to Just on 19 March 2020. Following significant market volatility over the period, the final premium calculated as at close of business on 19 March 2020, in line with an agreed price lock mechanism, was £157,554,198 and a refund was therefore repaid to the Trustee by Just of £5,445,802 on 2 April 2020. Further details can be found on page 7 of the Trustee's Report.

16. OTHER INVESTMENT BALANCES

	2020 £'000s	2019 £'000s
Amounts due from broker	978	63
Dividends and interest receivable	1,025	1,555
	2,003	1,618

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

17. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 5 April 2020			
	Level 1 £	Level 2 £	Level 3 £	Total £
Defined Benefit Section				
Bonds	456,830	-	-	456,830
Buy In Policy	-	-	174,940	174,940
Pooled investment vehicles	26,820	268,294	105,193	400,307
Derivatives	-	39,688	-	39,688
Cash	28,572	-	-	28,572
Accrued investment income	1,025	-	-	1,025
Unsettled items	978	-	-	978
	<u>514,225</u>	<u>307,982</u>	<u>280,133</u>	<u>1,102,340</u>

Defined Contribution Section				
Pooled investment vehicles	-	21,547	-	21,547
	<u>514,225</u>	<u>329,529</u>	<u>280,133</u>	<u>1,123,887</u>

	At 5 April 2019			
	Level 1 £	Level 2 £	Level 3 £	Total £
Defined Benefit Section				
Bonds	-	437,760	-	437,760
Pooled investment vehicles	205,823	307,132	52,366	565,321
Derivatives	-	(3,223)	-	(3,223)
Cash	6,915	-	-	6,915
Accrued investment income	1,555	-	-	1,555
Unsettled items	63	-	-	63
	<u>214,356</u>	<u>741,669</u>	<u>52,366</u>	<u>1,008,391</u>

Defined Contribution Section				
Pooled investment vehicles	-	23,005	-	23,005
	<u>214,356</u>	<u>764,674</u>	<u>52,366</u>	<u>1,031,396</u>

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

18. INVESTMENT RISK DISCLOSURES

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, over the counter (OTC) derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore indirectly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Trustee's policy for managing credit risk is detailed in the Statement of Investment Principles.

The Scheme holds £456.8m in directly held bonds (2019: £437.8m), £39.7m in OTC derivatives (2019: -£3.2m) and £29.6m in directly held cash balances (2019: £7.0m). The Scheme also holds £67.1m in bonds and cash through underlying pooled fund investments (2019: £133.6m).

Credit risk arising on derivatives held directly depends on whether the derivative is exchange traded or over the counter. The Scheme holds OTC derivative contracts which are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. Credit risk for OTC derivative contracts is mitigated by placing restrictions on River and Mercantile Solutions which ensure that new contracts are only entered into with counterparties that are investment grade. The credit risk in respect of OTC swaps is further reduced by collateral arrangements.

Credit risk arising on bonds held directly is mitigated by River and Mercantile Solutions choosing to only invest in government bonds, where the credit risk is minimal.

Directly held cash balances are at financial institutions which are at least investment grade credit rated. This is the position at the year-end.

Credit risk also arises on the insurance policy that is held with a regulated insurance company.

In all above instances, "investment grade" is defined as being rated at least BBB- by Standard & Poor's or Baa3 by Moody's.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

18. INVESTMENT RISK DISCLOSURES (continued)

Indirect credit risk arises in relation to underlying investments held in bond and cash pooled investment vehicles. This risk is mitigated by the Trustee mandating River and Mercantile Solutions that the underlying investment in sub-investment grade debt may not exceed 30% of the Growth Assets.

Both direct and indirect credit risk is mitigated by holding a diversified portfolio to minimise the impact of default by any one issuer. The Trustee monitors the investment strategy adopted by River and Mercantile Solutions to ensure that the arrangement remains diversified.

Direct credit risk arises in respect of pooled investment vehicles. The Scheme's Growth Assets is invested across a large number of different pooled funds which have various legal structures in various domiciles (e.g. open-ended investment companies, unit trusts, limited partnerships etc.).

A summary of pooled investment vehicles by type of arrangement is as follows:

Type of arrangement	2020	2019
	£'000s	£'000s
Closed Ended Fund of Hedge Funds	13,291	12,885
Investment company with variable capital (ICVC)	19,835	37,550
Limited Liability Company	51,537	61,514
Limited Partnership	1,547	5,762
Open ended investment company (OEIC)	69,061	96,233
Exchange Traded Fund	26,820	205,823
Unit Trust	39,077	77,163
Open Ended Unit Trust	7,321	10,056
Investment company with variable capital (SICAV)	26,006	42,381
Mutual Fund	145,812	15,953
	400,307	565,321

The direct credit risk associated with these managers is also mitigated by:

- the regulatory environments in which those managers operate;
- diversification amongst a large number of pooled arrangements; and
- due diligence checks by River and Mercantile Solutions on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee's policy for managing this risk is detailed in the Statement of Investment Principles.

Currency risk is mitigated by delegating management of currency exposures at total portfolio level to River and Mercantile Solutions. River and Mercantile Solutions implement currency hedging through the use of hedged shared classes of pooled funds (where available) and the use of FX forward contracts.

Net of currency hedging, 10.1% of the Scheme's holdings were exposed to overseas currencies as at year-end (2019: 11.4%).

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

18. INVESTMENT RISK DISCLOSURES (continued)

Interest rate risk

Some of the Scheme's Growth Assets will be subject to interest rate risk. The Scheme's Liability Hedging Assets will be affected by changes in interest rate in a way that largely offsets the impact of changing interest rates on the Scheme's liabilities, and therefore act as a liability hedge. Under this strategy if interest rates fall the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise these investments will fall in value as will actuarial liabilities because of an increase in the discount rate. At the year-end, the assets held for liability hedging purposes comprised of:

	2020 £'000s	2019 £'000s
Direct		
Bonds	456,830	437,760
Swaps	48,990	(4,122)
Indirect		
Bond PIVs	55,173	101,454
Cash PIVs	11,957	32,148

Please note clean values have been used where applicable.

Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities held in pooled vehicles, equity options, hedge funds, other alternatives and property. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2020 £'000s	2019 £'000s
Direct		
Equity Options	-	-
Put Equity Options	(3,023)	(104)
Indirect		
Bond PIVs	55,173	101,454
Cash PIVs	11,957	32,148
Equity PIVs	203,789	274,827
Property PIVs	32,596	30,863
Alternative PIVs	96,793	126,028

19. CONCENTRATION OF INVESTMENTS

The following investments represented over 5% of the net assets of the Scheme in the current or previous year:

	2020		2019	
	£'000s	%	£'000s	%
BNY (River & Mercantile) Global Equity Fund	127,747	11.5	-	-
R&M Interest Rate Swaps	77,971	7.0	14,972	1.5
R&M 3.5% Gilt 2068	60,576	5.4	73,579	7.1
R&M 1.5% IL Gilt 2055	119,349	10.6	84,300	8.2
Just Retirement buy in policy	174,940	15.6	n/a	n/a

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

20. CURRENT ASSETS

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Bank balance	2,175	313	2,488
Tax recoverable	54	-	54
Life assurance paid in advance	16	-	16
	<u>2,245</u>	<u>313</u>	<u>2,558</u>
		2019	
Bank balance	2,696	55	2,751
Other assets	11	-	11
Tax recoverable	58	-	58
Life assurance paid in advance	247	-	247
	<u>3,012</u>	<u>55</u>	<u>3,067</u>

Included in the DC Section bank balance is £Nil (2019: £Nil) which is not allocated to members.

21. CURRENT LIABILITIES

	Defined Benefit Section £'000s	2020 Defined Contribution Section £'000s	Total £'000s
Accrued expenses	743	-	743
Unpaid benefits	423	-	423
Tax payable	92	-	92
	<u>1,258</u>	<u>-</u>	<u>1,258</u>
		2019	
Accrued expenses	2,113	-	2,113
Unpaid benefits	378	-	378
Tax payable	152	-	152
	<u>2,643</u>	<u>-</u>	<u>2,643</u>

22. EMPLOYER RELATED INVESTMENTS

There were no employer related investments within the meaning of Section 40(2) of the Pensions Act 1995.

23. CONTINGENT LIABILITIES

A data verification exercise is currently on-going in connection with the Buy-In with Just Retirement Limited (as described above in Note 6) which may result in additional premium or refund due to/from Just Retirement Limited. The value cannot be reliably measured at the date of this Report, but it is unlikely to be material. There were no contingent liabilities as at 5 April 2019.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 5 April 2020

24. RELATED PARTIES

Transactions with related parties of the Scheme have been disclosed in the financial statements as follows:

Five of the eight current Trustee Directors were contributing members of the Scheme during the Scheme Year. Their contributions were calculated and paid to the Scheme in accordance with the Scheme Rules.

Three of the Trustee Directors are pensioner members of the Scheme, who receive pension benefits in line with the Scheme Rules.

Management and governance services are provided by an in-house Pensions Management team based at Leonardo MW Ltd which is the Principal Employer. Costs of the governance service are agreed with Leonardo MW Ltd and are met by the Scheme. For 2019/20, these costs amounted to £160,000 (2018/19: £160,000).

At the year end £54,464 was due to the Scheme from the Employer in respect of VAT reclaimed by the Employer on Scheme Administration expenses. (2019: £57,862).

Trustee Directors who are pensioner members of a Leonardo group pension scheme receive remuneration from Leonardo MW Ltd for governance services. Trustee remuneration for the 2019/20 Scheme Year totalled £29,735 (2018/19: £26,010).

The Trustee Directors are not aware of any material related party transactions that require disclosure in the financial statements, other than those already disclosed.

25. CAPITAL COMMITMENTS

There were no outstanding capital commitments as at 5 April 2020 (2019: Nil).

26. TAXATION

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

27. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many defined benefit pension schemes. The issue will not affect the Scheme as the Scheme does not provide any guaranteed minimum pension benefits.

28. COVID-19

As a result of the COVID-19 (Coronavirus) pandemic, there was a dramatic downturn in global markets in March 2020. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand, and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, the economies of certain nations, and individual issuers, all of which may negatively impact the Scheme's investment return and the fair value of the Scheme investments.

The Trustee has designed and implemented an investment strategy which takes a necessarily long-term view, whilst also having built in resilience to withstand short term fluctuations. The Trustee continues to take proactive and considered steps, in conjunction with their advisers, to assess the situation and respond to it.

LEONARDO ELECTRONICS PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE LEONARDO ELETRONICS PENSION SCHEME

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the Leonardo Electronics Pension Scheme on page 41, in respect of the Scheme year ended 5 April 2020, to which this statement is attached.

In our opinion the contributions for the Scheme year ended 5 April 2020 as reported in the attached summary of contributions on page 41 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 22 December 2017.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 41 in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of the Trustee and the Auditor

As explained more fully on page 19 in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an Auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

RSM UK Audit LLP

Statutory Auditor, Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 15 September 2020

LEONARDO ELECTRONICS PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions were as follows:

	£'000s
Employer normal contributions	15,267
Employer additional contributions	8,490
Employee normal contributions	<u>106</u>
Total contributions paid	<u>23,863</u>
Reconciliation to the financial statements:	
Contributions paid under the Schedule of Contributions	23,863
Members' Additional Voluntary Contributions	<u>3,221</u>
Contributions receivable per the financial statements	<u>27,084</u>

This summary was approved by the Trustee on 15 September 2020.

Signed on behalf of the Trustee

Name: Bernard Walsh

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

Name: Scott Wallace

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

LEONARDO ELECTRONICS PENSION SCHEME

GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE LEONARDO ELECTRONICS PENSION SCHEME

The Scheme provides certain defined contribution ("DC") arrangements through the Additional Voluntary Contribution option and the Retirement Account Plan within the 100+ Section.

Governance requirements apply to these DC arrangements to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement to describe how the governance requirements have been met in relation to:

- the default investment arrangement;
- the requirements for processing core financial transactions;
- charges and transaction costs borne by members;
- a value for members assessment; and
- Trustee knowledge and understanding.

This statement covers the period from 6 April 2019 to 5 April 2020.

Investment strategy

The Trustee has in place a Statement of Investment Principles ("SIP") which governs decisions about investments and sets out the aims and objectives of the Scheme's investment strategy, including full information about the default investment strategy. In particular it covers:

- the Trustee's investment policy, including policies on risk, balancing and realising assets, return and ethical investing; and
- how the default investment strategy is intended to ensure that assets are invested in the best interests of members and beneficiaries.

Generally, the Trustee reviews the default strategy on an ongoing basis, particularly in response to any significant changes in investment market conditions, member demographics or the regulatory framework. The most recent change to the default strategy was made from 1 July 2018 when the benchmark allocation within the Retirement Focus fund was adjusted. This fund is used as the final phase of the default switching process in the three years leading up to the Target Retirement Age and was to reflect the way members on average are drawing their retirement benefits. The performance of the funds underlying the default investment strategy is formally reviewed quarterly as part of the quarterly investment reporting to the Trustee provided by the Scheme's Investment Manager. The last review was carried out on 10 June 2020 for the period ending 31 March 2020. The DC strategy was reviewed and no changes were considered necessary. The next performance review as at 30 June 2020 is due to be considered at the September 2020 DC investment committee meeting.

You can find the DC SIP at www.lepensions.co.uk (within library / trustee documents).

Financial transactions

Core financial transactions are processed by the various service providers to the Trustee. These providers are appointed under agreements with specific service standards. The providers issue quarterly reports against these standards which are reviewed at the Trustee meetings. Service standards have been met or exceeded during the year. Where areas for improvement have been identified, these have been addressed expediently and discussed at length with the relevant service provider.

The service standard provides for contributions to be invested in member Retirement Accounts no later than required by regulatory guidance. Over the year, XPS Administration Limited (the Scheme administrator) achieved this comfortably with contributions invested between 4 and 7 working days after final amounts have been received. XPS have robust monitoring and reporting mechanisms in place and monitor compliance with each service standard. Detailed reporting on each service standard is provided on a quarterly basis to the Trustee.

For members claiming benefits, service standards have been agreed typically of between 5 and 10 working days, depending on the type of transaction. During the year, XPS Administration Limited completed 97.3% of the reported tasks within the standards.

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The Trustee is satisfied that core financial transactions were processed promptly and accurately.

Charges and transaction costs

Member charges differ between the investment funds that are available. The charges applicable to the funds underlying the default lifestyle strategy and the 'pick & mix' options available on a self-select basis as at 31 March 2020 are set out in the table below:

	Fund	TER*
Default Lifestyle Funds	Long Term Growth	0.49%
	Stable Growth Fund	0.51%
	Cautious Growth Fund	0.47%
	Retirement Focus Fund (Default)	0.39%
Self-Select Funds	Retirement Focus Fund (Invest into Retirement)	0.44%
	Retirement Focus Fund (Income for Life)	0.31%
	Retirement Focus Fund (Take Your Pot as Cash)	0.35%
	Global Equity Fund	0.15%
	Corporate Bond Fund	0.12%
	Fixed Annuity Focus Fund	0.12%
	Inflation-Linked Annuity Focus Fund	0.12%
	Cash Fund	0.12%

Source: Mobius Life, R&M Calculations as at July 2020

(*) TER: Total Expense Ratio

Transaction costs incurred by members are complex and are associated with different member, Trustee or manager actions. They can be split into three areas:

1. Transaction costs incurred by members as part of changes in the fund range

There have been no changes to the fund range at a member level (e.g. replacing Long Term Growth with another blend at a strategic level) for the period under review. Therefore, those members self-selecting their investment options would not have incurred any transaction costs as a result of changes in the fund range over the year.

Within the Lifestyle option there are four blended funds, each with varying allocations to underlying managers and securities. The fiduciary manager alters these underlying allocations with a view to generating fund returns and managing risk, ensuring each fund performs in line with its objective. These changes can be subject to transaction costs, primarily through dealing costs associated with the buying and selling of funds and securities.

These costs are reflected as part of the transaction cost details set out under "3. Frictional Costs" below.

2. Transaction costs incurred by members buying and selling funds as part of a lifestyle

A member in the default lifestyle is required to buy and sell assets when automatically switching between funds within the lifestyle. We estimate that over a member's life, the cost of entering the lifestyle, switching between funds and subsequently redeeming assets upon retirement for each £1 of income invested in the Long Term Growth Fund is c. 0.184% (or 0.18p) in a worst case scenario. This equates to an average of 0.004% per annum, as at 31 March 2020.

A breakdown of the cost estimate on a worst case basis is provided in the table below. The calculations do not take account of netting trades within the funds (e.g. cancelling out selling common underlying funds between the blends). It also assumes that a member pays a cost of "bid price – mid price" for any sale of assets and "mid price – offer price" for any purchase of assets (hence the "worst case scenario").

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Members will experience varying levels of cost depending on their position within the lifestyle. Actively contributing members would have experienced at least one source of transition cost on the contributions they made over the year. Deferred members may or may not have experienced transition costs of this nature, depending on if they phased between funds or not. These costs will continue in the future at a level expected to be similar to below.

Lifestyling is carried out automatically for members who are invested in the default lifestyle. Market conditions are considered in the context of deciding on the composition of the funds in the lifestyle, but not when automatically phasing members between funds. The funds are established and governed in a way which is cognisant of market conditions, therefore it is not necessary (or practical) to consider market conditions for each member each month when lifestyling.

The funds are priced on a "single swinging basis", meaning they may be priced at bid or offer on any day, depending on the net cashflow (from all investors in/out of the fund) that day. Therefore, in practice, the cost incurred is unlikely to be the full amount above and may even provide an uplift, should fund prices swing favourably. Members will also experience varying levels of costs depending on their position within the lifestyle. Therefore, it is not practical to split out the actual costs incurred by each member.

Movement between funds	Worst case cost
Buy Long Term Growth	0.021%
Long Term Growth → Stable Growth	0.028%
Stable Growth → Cautious Growth	0.033%
Cautious Growth → Retirement Focus	0.073%
Sell Retirement Focus	0.030%
Total	0.184%
Total p.a.	0.004%

Source: Underlying fund managers. R&M Solutions calculations as at July 2020.

Assumptions:

- (1) members join the Scheme 40 years from retirement
- (2) price swings are all unfavourable to members
- (3) no netting of trades occurs

3. "Frictional costs" incurred by members due to funds internally buying and selling underlying assets (e.g. stocks or bonds)

As part of day-to-day trading activities, the funds may incur "frictional costs". Frictional costs are categorised as explicit costs and implicit costs. Explicit costs are directly observable and in most cases managers are in a position to report them. Examples of explicit costs include broker fees, transaction taxes and custody fees. Implicit costs cannot be observed in the same way but do have an impact on fund performance. Examples of implicit costs include bid-offer spreads and market impact.

These costs would be incurred every time a fund manager makes a trade within that fund and are intended to improve investment returns, reduce risk, or contribute to the smooth running of a fund. Some costs will be cognisant of market conditions (e.g. some active investment decisions), and some costs are in respect of decisions not linked to market conditions.

LEONARDO ELECTRONICS PENSION SCHEME

The table below sets out the total transaction costs for each fund within the default and self-select range covering the period 06/04/2018 to 05/04/2020.

	Fund	LEPS
Default Lifestyle Funds	Long Term Growth	0.019%
	Stable Growth Fund	0.138%
	Cautious Growth Fund	0.068%
	Retirement Focus Fund (Default)	0.035%
Self-Select Funds	Retirement Focus Fund (Invest into Retirement)	0.037%
	Retirement Focus Fund (Income for Life)	N/A ¹
	Retirement Focus Fund (Take Your Pot as Cash)	N/A ¹
	Global Equity Fund	0.055%
	Corporate Bond Fund	-0.061%
	Fixed Annuity Focus Fund	-0.005%
	Inflation-Linked Annuity Focus Fund	0.014%
	Cash Fund	-0.012%

Source: OMW from 6 April 2018 to 30 January 2019. ML from 31 January 2019 to 5 April 2020. Underlying fund managers. R&M calculations as at July 2020.

The Appendix on pages 46 to 50 provides illustrative examples of the cumulative effect over time of the application of charges and costs on the value of a member's pension pot.

Value for members review

The Trustee considers that members get value for money, as the costs and charges deducted from members' pots provide good value in relation to the benefits and services provided.

The Trustee keeps value for members generally in mind on an on-going basis, including as an item on the Scheme's risk register. The Trustee undertakes an annual value for members' review which consists of two phases; a self-assessment facilitated by our investment advisors and then an independent assessment through a third party adviser at least every three years.

1. Value for members – self-assessment

The most recent self-assessment was conducted in July 2020 and looked at whether the total cost of Scheme membership represented value for money, whether the investment risk profile is tailored to the needs of members, the level of contributions in the light of the membership profile, the degree of flexibility available and the transaction costs incurred by members.

The Trustee considered, among other items, the absolute level of charges, the competitiveness of charges relative to the marketplace and the level of service provided to members. The Trustee also notes that the costs of administering Scheme benefits are met by the employer.

In accordance with the Pensions Regulator's guidance for DC schemes in this area, it was concluded that, with an average annual fee of 0.49% for the default funds, the Scheme represents value for its members as it offers above average service levels while passing on an average level of charge to members. In particular, value for members is demonstrated through:

- A bespoke investment strategy that takes account of membership needs and controls risk based on the time to retirement and the need for protection to increase.
- Good investment performance, with the funds on average performing broadly in line with the fund objectives as advised to members.
- Risk management within the blend funds through delegation of day to day investment decisions and asset allocation to a fiduciary manager and investment managers.

¹ No transaction costs as at 31/03/2020 as there has been no member investment

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- Robust internal controls and operations covering business continuity plans, internal and external audit of the funds and a wide range of investment operations.

The average fee compares favourably to the charge cap set by the Government of 0.75%.

2. Value for members – independent assessment

An independent assessment of value for members was conducted by LCP in August 2020. The report assessed all areas of the Scheme as "good" or "very good", with governance and communications receiving particularly high ratings. The only suggestion for improvement was to consider the cost of advice and governance within the investment charges. The Trustee will review this suggestion and implement actions over the coming 12 months.

The Trustee will conduct a further independent review no later than in 2023 to assess the impact of these changes and other best practice developments.

Knowledge and understanding

The Trustee Directors have sufficient knowledge and understanding of the law relating to pensions and trusts, and sufficient understanding of the relevant principles relating to the funding and investment of occupational pension schemes. The Trustee has a training policy with the objective of ensuring that Trustee Directors understand their duties and that their knowledge is at a level to enable them to take decisions with the level of skill and competence that members can expect from someone familiar with the issues concerned. The Trustee Directors' combined knowledge and understanding, together with available advice, enables them to properly exercise their functions.

New Trustees are briefed by the Chair and Secretary to the Trustee and familiarise themselves with Scheme documentation, including the Trust Deed and Rules, SIP and all other documents setting out the Trustee's current policies as appropriate to ensure that they have a good working knowledge of these documents.

Within six months of appointment, Trustee Directors are able to attend an introductory training course through an external provider, and are expected to complete the Pensions Regulator's Trustee Toolkit.

On an ongoing basis all Trustee Directors aim to complete at least two days (fourteen hours) training per year during the course of their appointment. One day of training is provided on a collective basis to address joint needs, and this always includes a session on Trustee effectiveness. Other training opportunities are selected on the basis of the individual needs of each Trustee Director. During the year seven Trustee directors achieved the 14 hours objective, completing an average level of 21 hours per Trustee Director. During 2020, online training opportunities have been more widely available and all Trustee Directors have been encouraged to participate in a range of training webinars.

Trustee Directors review their own knowledge and understanding against the Pensions Regulator's guidance at least annually and are supported by the Secretary in selecting suitable training opportunities. Individual training requirements are addressed through a combination of internal and external training and individual training logs are kept to assess compliance with the policy.

In addition training on DC matters is included within the agenda for the joint DC investment committee and within the formal Trustee training day which is held each year jointly with the sister UK pension schemes in the Leonardo group.

Bernard Walsh
Chair of the Trustee

Date: 15 September 2020

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Appendix: Projected pension pots, in today's terms

The tables below provide illustrative examples of the cumulative effect over time of the application of charges and costs on the value of a member's pension pot. In preparing these illustrations, account has been taken of the relevant statutory guidance.

The examples outline the effects of charges and transaction costs (as described in the Governance Statement) across the fund range and over different time periods (in years).

The tables show the projected 'Gross' fund and then fund 'Net' of all charges, lifestyling costs and buy/sell costs as appropriate. The projections are based on assumptions which can be found after the projection tables.

Projected pension pot for the Default investment strategy:

Years	Default strategy	
	Gross	Net
1	£2,500	£2,500
3	£7,300	£7,300
5	£12,600	£12,400
10	£27,700	£27,000
15	£45,400	£43,600
20	£65,800	£61,900
25	£89,700	£82,900
30	£116,000	£105,600
35	£144,400	£129,600
40	£172,600	£153,100

Projected pension pot for the Blend funds:

Years	Long Term Growth Fund		Stable Growth Fund		Cautious Growth Fund		Retirement Focus Fund (Default)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1	£2,500	£2,500	£2,500	£2,500	£2,500	£2,400	£2,400	£2,400
3	£7,300	£7,300	£7,200	£7,200	£7,200	£7,100	£7,000	£7,000
5	£12,600	£12,400	£12,400	£12,200	£12,200	£12,000	£11,700	£11,600
10	£27,700	£27,000	£26,900	£26,000	£26,100	£25,400	£24,100	£23,600
15	£46,000	£44,300	£44,000	£41,900	£42,100	£40,400	£37,400	£36,200
20	£68,200	£64,700	£64,100	£60,100	£60,400	£57,200	£51,600	£49,500
25	£94,900	£88,800	£87,800	£80,900	£81,400	£76,100	£66,900	£63,600
30	£126,900	£117,100	£115,500	£104,500	£105,300	£97,100	£83,200	£78,300
35	£165,200	£150,200	£147,800	£131,400	£132,600	£120,600	£100,700	£93,800
40	£210,900	£188,800	£185,400	£161,800	£163,600	£146,600	£119,300	£110,200

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Projected pension pot for self-select funds:

Years	Global Equity Fund		Corporate Bond Fund		Cash Fund	
	Gross	Net	Gross	Net	Gross	Net
1	£2,500	£2,500	£2,400	£2,400	£2,400	£2,400
3	£7,400	£7,400	£6,900	£6,900	£6,800	£6,800
5	£12,800	£12,800	£11,400	£11,400	£11,300	£11,300
10	£28,800	£28,700	£23,000	£22,800	£22,400	£22,300
15	£48,900	£48,600	£34,800	£34,500	£33,600	£33,300
20	£74,000	£73,500	£46,900	£46,400	£44,800	£44,300
25	£105,400	£104,400	£59,400	£58,700	£56,100	£55,400
30	£144,200	£142,600	£72,300	£71,200	£67,600	£66,600
35	£192,300	£189,800	£85,600	£84,100	£79,200	£77,900
40	£251,600	£247,800	£99,300	£97,300	£91,000	£89,300

Years	Fixed Annuity Focus Fund		Inflation-Linked Annuity Focus Fund	
	Gross	Net	Gross	Net
1	£2,400	£2,400	£2,400	£2,400
3	£6,900	£6,900	£6,900	£6,900
5	£11,300	£11,300	£11,300	£11,300
10	£22,600	£22,500	£22,600	£22,500
15	£34,000	£33,800	£34,000	£33,700
20	£45,600	£45,100	£45,600	£45,100
25	£57,400	£56,700	£57,400	£56,500
30	£69,400	£68,400	£69,400	£68,200
35	£81,700	£80,200	£81,700	£80,000
40	£94,200	£92,400	£94,200	£92,100

Projected pension pot for funds focused on retirement (alternative lifestyle options):

Years	Retirement Focus Fund (Invest into Retirement)		Retirement Focus Fund (Income for Life)		Retirement Focus Fund (Take Your Pot as Cash)	
	Gross	Net	Gross	Net	Gross	Net
1	£2,400	£2,400	£2,400	£2,400	£2,400	£2,400
3	£7,100	£7,000	£6,800	£6,800	£6,800	£6,800
5	£12,000	£11,800	£11,200	£11,100	£11,300	£11,200
10	£25,100	£24,500	£22,200	£21,900	£22,400	£22,000
15	£39,600	£38,200	£33,100	£32,400	£33,600	£32,700
20	£55,800	£53,200	£44,000	£42,700	£44,800	£43,300
25	£73,700	£69,400	£54,900	£53,000	£56,100	£53,900
30	£93,500	£87,000	£65,800	£63,200	£67,600	£64,500
35	£115,200	£106,000	£76,800	£73,300	£79,200	£75,000
40	£139,200	£126,500	£87,900	£83,500	£91,000	£85,700

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Assumptions for the projected pension pots:

- Values shown are estimates and are not guaranteed;
- Frictional transaction costs used are an average of those over the 24 months to 31 March 2020, which is the longest timeframe over which consistent data is available;
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- Inflation of 2.5% per annum;
- Charges in future years are equal to charges today (transaction costs are shown in the table above);
- A member is aged 25 years old now and stops contributing at age 65;
- An overall contribution rate of 9% of annual salary, the £ amount of which increases in line with assumed salary inflation;
- A member salary of £25,000 in Year 0, increasing at 1% per annum above inflation;
- The accumulation rates used, are set out below:

	Fund	Real accumulation rate per annum (gross of charges)
Default 'blend' funds	Long Term Growth Fund	3.3%
	Stable Growth Fund	2.7%
	Cautious Growth Fund	2.1%
	Retirement Focus Fund (Default)	0.5%
Self-select funds	Retirement Focus Fund (Invest into Retirement)	1.3%
	Retirement Focus Fund (Income for Life)	-1.2%
	Retirement Focus Fund (Take Your Pot as Cash)	-1.0%
	Global Equity Fund	4.1%
	Corporate Bond Fund	-0.5%
	Fixed Annuity Focus Fund	-0.8%
	Inflation-Linked Annuity Focus Fund	-0.8%
	Cash Fund	-1.0%

Source: R&M Solutions' calculations as at May 2020