

LEONARDO ELECTRONICS PENSION SCHEME

Report and Financial Statements for the year ended 5 April 2023

Scheme Registration No: 10273555



One Temple Quay, Temple Back East, Bristol BS1 6DZ

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

TABLE OF CONTENTS

Chair's Introduction	2
Trustee and Advisers	3
Trustee's Report	5
Investment Report	10
Report on Actuarial Liabilities	18
Actuary's Certificate of Schedule of Contributions	20
Statement of Trustee's Responsibilities	21
Independent Auditor's Report	22
Fund Account	25
Statement of Net Assets (Available for benefits)	26
Notes to the Financial Statements	27
Independent Auditor's Statement about Contributions	43
Summary of Contributions paid in the year	44
Governance Statement	47
Implementation Statements	55

LEONARDO ELECTRONICS PENSION SCHEME

CHAIR'S INTRODUCTION

YEAR ENDED 5 APRIL 2023

I am pleased to present the Report and Financial Statements for the Leonardo Electronics Pension Scheme (the "Scheme") for the year ended 5 April 2023.

Following the Company consultation process through 2022 with active Scheme members and their representatives, the Company announced changes to future pension provision. The Scheme will close to pension accrual from 5 April 2024, with future pension then being provided through an enhanced version of the Company's defined contribution arrangement; Leonardo FuturePlanner. An implementation plan is being worked through to effect the changes next year.

The investment environment through 2022 was difficult with high levels of volatility. There was a challenging backdrop at the start of the year with the Russian invasion of Ukraine having impacted markets across the globe, with unprecedented rises in oil and gas prices and increasing levels of inflation and interest rates. The third quarter saw significant market turmoil associated with the Government's 'mini-budget' which had material impacts on UK pension schemes with gilt yields increasing at exceptional rates, putting pressure on the levels of collateral required to support liability hedging programmes. Whilst there was some impact, the Leonardo Electronics Scheme took urgent defensive action to put in place measures to help protect the Scheme when interest rates were spiralling upwards, and overall was well positioned during the crisis.

Whilst conditions have stabilised through the first quarter of 2023, the impact of the crisis during 2022 and the sustained levels of increased interest rates and inflation have changed the profile of the Scheme. There have been falls in asset values and corresponding falls in liability values. This has resulted in the Scheme being smaller in absolute terms over the year, which you will see in the reduction in assets as reported in the Financial Statements. The total portfolio reduction is 36%. Within this our on-risk assets fell by 3.9% with the balance of the reduction being the value of the liability hedge driven down by the significant increases in gilt yields. It is important to note, however, that the overall funding level of the Scheme has been stable, with the liability hedging having operated as intended by tracking the movements in liabilities.

The market environment continues to be uncertain and the Trustee remains focused on developing its risk control measures. A detailed review of Scheme funding and investment strategy in light of the volatile conditions and the announcement that future accrual will cease from April 2024 has allowed further steps in the de-risking journey during 2023 with further assets moved from the growth portfolio into off-risk allocations.

The Scheme's triennial actuarial valuation is due as at 5 April 2023 and the preliminary results will be available to the Trustee later this year.

There has also been a focus on developing policies on the Scheme's Environmental, Social and Governance (ESG) strategy as this affects both funding and investment. The Trustee has prepared its first climate-related risk report (TCFD report) which is available at www.lepensions.co.uk/compliance and includes information on our overarching goal to achieve Net Zero carbon emissions on the portfolio by 2050.

I wish to express my wholehearted thanks on behalf of the Trustee Board to three of our Trustee directors who have retired from the Trustee Board since the Scheme Year end. Bernard Walsh, James Cull and Scott Wallace have been longstanding Trustee Directors who have provided dedicated support for the Scheme and its members. We wish them all best wishes for their retirements.

I am grateful to all the Trustee Directors, Pensions Management and our advisers for their significant contribution to the management of the Scheme during a busy and challenging year.

Martin Flavell

Martin Flavell

Chair

Leonardo Electronics Pension Scheme (Trustee) Ltd

Date: 13 September 2023

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE AND ADVISERS

Trustee:	Leonardo Electronics Pension Scheme (Trustee) Ltd	
Trustee Directors:	Bernard Walsh *	(Chair to 5 July 2022, resigned 30 June 2023)
	James Cull **	(Resigned 30 June 2023)
	Martin Flavell *	(Chair from 5 July 2022)
	Martin Johnson **	
	Scott McMillan **	
	Lynda McVay *	
	Craig Porter *	(Resigned 31 July 2022)
	Scott Wallace **	(Resigned 30 June 2023)
	Adrian Weir *	(Appointed 20 September 2022)
	* <i>Company Nominated</i>	
	** <i>Member Nominated</i>	
Scheme Secretary:	Rachael Skuse	
Scheme Address:	Leonardo Electronics Pension Scheme Box 203 Leonardo UK Ltd Lysander Road Yeovil BA20 2YB	
Principal Employer:	Leonardo UK Ltd (02426132) One Eagle Place London SW1Y 6AF	
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:	Burgess Salmon LLP One Glass Wharf Bristol BS2 0ZX	
Bankers:	Barclays Bank plc 1 Churchill Place London E14 5HP	
Covenant Advisers:	Cardano Advisory Limited	
Investment Manager:	Schroders IS Limited	

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE AND ADVISERS (continued)

<i>Custodian:</i>	CACEIS
<i>AVC Providers:</i>	Mobius Life Limited
<i>Buy In Providers:</i>	Just Retirement
<i>Administrators:</i>	XPS Administration Limited One Temple Quay Temple Back East Bristol BS1 6DZ
<i>Investment Adviser:</i>	Schroders IS Limited

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023

The Trustee presents to the members its annual report and financial statements for the year ended 5 April 2023.

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 UK 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. Following a consultation process carried out by the Principal Employer with its employees and employee representatives, it has been announced that the Scheme will close to future benefit accrual from 5 April 2024.

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

The Trustee Board was made up of eight Trustee Directors at the Scheme Year-end, 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. Following a number of retirements post Scheme Year-end, at the time of signing these financial statements the Trustee Board is constituted of five Trustee Directors.

The Member Nominated Directors are selected by the Pensions Consultative Committee from the members on the committee. The Member Nominated Directors are appointed for a period of six years. There is a staggered appointment process designed to maintain continuity within the Trustee board. 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. A Joint DB Investment Committee met during the year made up of the investment sub-committees of the Leonardo Electronics Pension Scheme and the Leonardo Helicopters Pension Scheme. The Joint DB Investment Committee reviews common DB investment information and proposals and receives training from Schroders.

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 8 Trustee meetings and 15 sub-committee meetings during the year, with Trustee Director attendance at 94% for the year (2022: 95%).

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 for 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.

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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.

Employer's Covenant

The Principal Employer of the Scheme is Leonardo UK 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 Cardano Advisory Limited to carry out 6-monthly independent reviews of the financial strength of the employers, or more frequently if the Trustee considers this appropriate.

Overall, the employer covenant has been robust, and continues to be rated as strong. The announced closure of the Scheme to future benefit accrual from 5 April 2024 will assist in controlling the risks inherent in a defined benefit pension arrangement and enable the Trustee to take further de-risking steps.

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. A Mobius Life microsite is in place providing additional investment fund information to members.

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, with the Buy Up option ceasing from 5 April 2024 when accrual ceases.

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.

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023 (continued)

Membership

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

Active members at 6 April 2022 (includes 706 DC members)		1,642
Retirement	(124)	
Deferred	(36)	
Death	(1)	
		<hr/>
Active members at 5 April 2023 (includes 678 DC members)		1,481
Deferred pensioners at 6 April 2022 (includes 473 DC members)		1,153
From Active	36	
Transfer Out	(6)	
Death	(3)	
Total commutation	(1)	
Retirement	(42)	
		<hr/>
Deferred pensioners at 5 April 2023 (includes 524 DC members)		1,137
Pensioners at 6 April 2022		1,690
From Active	124	
From Deferred	42	
New dependants/spouses	14	
Death	(23)	
Total commutation	(3)	
		<hr/>
Pensioners at 5 April 2023		1,844
		<hr/>
Total members at 5 April 2023		4,462

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 2023 in accordance with the Rules of the Scheme. The applicable increase rate (before caps) on 1 May 2023 was generally 13.41% which is the level of RPI in January 2023, with benefits accrued before 6 April 2006 having increases capped at 5% and 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.

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023 (continued)

Scheme Changes

There have been no changes to the Scheme Rules over the year. Two deeds of amendment were entered into post Scheme year-end.

The first brings into effect the closure of the Scheme to future benefit accrual with effect from 5 April 2024. As part of the Company proposals, a new category of membership will be established known as 'employed deferred' members. Members in this category are entitled to an enhanced level of deferred member benefit for the period during which they remain in Leonardo UK Ltd.'s employment.

The second enables the Trustee to effect transfers from the Scheme into a Master Trust arrangement. This supports the retirement solution which the Trustee has developed with Smart Pension which provides members with defined contribution benefits the ability to re-register their existing DC funds across to Smart Pension and access retirement flexibilities such as income drawdown which the Scheme does not provide.

Financial Development of the Scheme

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

	£'000s
Net assets at 5 April 2022	1,203,750
Net additions from dealings with members	(1,765)
Net returns on investments	<u>(401,042)</u>
Net assets at 5 April 2023	<u>800,943</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 forecasted benefits.

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. All communications have moved to predominantly electronic distribution during the year, other than where members have opted into continuing with paper copies

Going concern

The Trustee of the Scheme has made an assessment on going concern and given the funding position and the support from the Principal Employer, the Trustee concludes that the Scheme retains sufficient liquidity that the going concern basis remains appropriate for the foreseeable future and at the very least for the next twelve months.

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
PO Box 562
Middlesbrough TS1 9JA
E-mail: futureplanner@xpsgroup.com

LEONARDO ELECTRONICS PENSION SCHEME

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2023 (continued)

MoneyHelper

MoneyHelper provides 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. MoneyHelper can be contacted at:

MoneyHelper
Holborn Centre
120 Holborn
London EC1N 2TD

Tel: 0800 011 3797

Email: pensions.enquiries@moneyhelper.org.uk

Website: www.moneyhelper.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:

Telecom House
125-135 Preston Road
Brighton BN1 6AF

Tel: 0345 600 0707

Email: customersupport@tpr.gov.uk

Website: www.thepensionsregulator.gov.uk

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:

The Pension Service
Post Handling Site A
Wolverhampton WV98 1AF

Tel: 0800 731 0193

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

LEONARDO ELECTRONICS PENSION SCHEME

INVESTMENT REPORT

Defined Benefit

Background

At the Scheme year end, 5 April 2023, the net investments of the Defined Benefit section of the Scheme were valued at £663 million (plus a buy-in asset valued at £109 million) compared with £1,031 million (plus a buy-in asset valued at £142 million) at the start of the Scheme year. This reduction in asset value was primarily driven by the significant increase in interest rates, which has pushed down the value of the Scheme's liability hedging assets. The Scheme's liabilities have also reduced by a corresponding amount and whilst the size of the Scheme has reduced, the funding level has held up.

The majority of the assets of the Scheme continue to be invested by the fiduciary manager Schroders IS 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 2023.

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 November 2022.

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:

1. 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.
2. Limit the risk of the assets failing to meet the liabilities over the long term.
3. Achieve a return on investment which is expected at least to meet the Actuary's assumptions over the long term.

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, using the contact details on page 4. The SIPs are also available from the Scheme website at www.lepensions.co.uk/compliance.

Investment Manager

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

The Investment Manager has been appointed in two capacities:

- Implement a liability hedging strategy; and
- Actively manage a strategy consisting of: Growth Assets, which covers a wide range of asset classes and investment managers; Liability Hedging Assets; Active Structured Equity; and Cashflow Matching Credit Assets.

LEONARDO ELECTRONICS PENSION SCHEME

INVESTMENT REPORT (continued)

Market Commentary

Equity market review

Global equities were under pressure at the start of the 12-month period. Following Russia's invasion of Ukraine in February 2022, investors moved to price in interest rate rises and an increased risk of recession. Inflation continued to move higher in many major economies during the second quarter. Among equities, the MSCI Value index outperformed its growth counterpart but both saw sharp falls. After a rally in July, global equities turned lower and registered negative returns for the third quarter. Any hopes of interest rate cuts were dashed as central banks reaffirmed their commitment to fighting inflation. The Federal Reserve, European Central Bank and Bank of England all raised interest rates in the quarter. Emerging markets underperformed their developed counterparts.

Stock markets rounded off a tumultuous year with gains in the final quarter of 2022. Asian shares were boosted by China's relaxation of its zero-Covid policy, while European equities also advanced strongly. Government bond yields edged up towards the end of the fourth quarter (meaning prices fell). This reflected some market disappointment at major central banks reiterating plans to tighten monetary policy, even as inflation showed signs of peaking. Commodities gained in the quarter, led by industrial metals.

The positive performance of global equities continued in the first quarter of 2023, buoyed by receding recession worries in developed markets. Gains came despite the collapse of Silicon Valley Bank, which caused significant volatility in bank shares. Growth stocks outperformed value in the quarter.

Fixed income review

Global government bond yields dropped towards the end of the period. The March collapse of Silicon Valley Bank prompted a sharp rally in government bond markets and dwarfed concerns over the re-accelerating of inflation.

Within days of the market reaction to the banking crisis, government bond markets went from pricing in rate hikes to discounting sizeable rate cuts in some markets. Meanwhile, the US government intervened and invoked a "systemic risk exception" guaranteeing depositors access to their money.

Amid the changing market dynamics, central banks continued with their interest rate hikes, though some adjusted their stance. In the last 12 months, the Federal Reserve (Fed) announced nine rate hikes, with the latest being a relatively slower hike of 0.25% in response to the banking sector's turmoil. The Bank of England also approved nine rate hikes and followed the Fed's lead by taking the final increase to 0.25%. The European Central Bank maintained its stance, also enacting six rate hikes but raising their final rate by 0.5%.

Against this backdrop markets have been volatile, with US and European investment grade posting positive returns, but high yield was negative with poor performance from the banking sector dominating. Eurozone and US inflation continued their downward trajectory, pulling back from record highs seen last year but remaining elevated.

The US 10-year yields rose from 2.34% to 3.47%, with the two-year going from 2.34% to 4.03%. Germany's 10-year yield increased from 0.55% to 2.29%. The UK 10-year yield increased from 1.61% to 3.49% and two-year increased from 1.35% to 3.44%.

The US dollar's rally continued to lose steam, losing ground against most other G-10 currencies by the end of the 12-month period.

LEONARDO ELECTRONICS PENSION SCHEME

INVESTMENT REPORT (continued)

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 Schroders Solutions.

The Trustee has undertaken some significant de-risking during the year as the funding level has improved, and has allocated 17% of assets (excluding the pensioner buy in) to Growth Assets, 57% of assets off-risk for liability hedging, 6% of assets to Active Structured Equity and 20% of assets to Cash Flow Matching Credit Assets.

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 2023		5 April 2022	
	Market Value	% of funds	Market Value	% of funds
	£'000	(ex DC)	£'000	(ex DC)
Equity	43,960	6.6	132,074	12.8
Alternatives	13,477	2.0	52,412	5.1
Return Seeking Credit	22,343	3.4	33,743	3.3
Property	13,814	2.1	24,332	2.4
Cash & Sovereign Bonds	17,728	2.7	54,201	5.3
Commodities	-	0.0	8,208	0.8
Currency Hedge	(165)	(0.0)	(1,763)	(0.2)
Total Growth Assets portfolio	111,157	16.8	303,208	29.4
Liability Hedging Assets	378,830	57.2	514,848	49.9
Cash Flow Matching Credit Assets	132,959	20.1	95,202	9.2
Active Structured Equity	39,737	6.0	117,863	11.4
Total assets (excluding DC and DB Insurance policies)	662,672	100.0	1,031,121	100.0
Defined Benefit Insurance policies	109,100		142,100	
Defined contribution	27,906		29,249	
Total investments	799,678		1,202,470	

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, Schroders Solutions 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.

LEONARDO ELECTRONICS PENSION SCHEME

INVESTMENT REPORT (continued)

Liability Risk (continued)

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

	2023	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000	£000
Interest rate swaps	345	(3,219)	(198)	77,971	14,972	1,974
Total Return swaps	(14,406)	(19,393)	(2,794)	19,046	1,910	(462)
Inflation swaps	26,231	39,979	(7,211)	(18,287)	5,762	(253)
Proceed Asset Swap	-	-	-	(29,817)	(26,766)	(24,429)
Total Gain/(Loss)	12,170	17,367	(10,203)	48,913	(4,122)	(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, there were some adjustments in the level of the liability hedge to reflect the challenging market conditions associated with the 'mini-budget' crisis in September/October 2022. The hedge level was reduced during this period to ensure the Scheme retained sufficient collateral to support the hedge, and was subsequently increased when the volatile conditions subsided.

Collateral

The gilts can be used to meet collateral calls from the Scheme's counterparties: Barclays Bank plc, Citigroup Inc., Royal Bank of Scotland plc, Merrill Lynch & Co. Inc., Royal Bank of Canada, Lloyds Banking Group, JP Morgan 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.

Return-Seeking Portfolio

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

Schroders 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, Schroders 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.

LEONARDO ELECTRONICS PENSION SCHEME

INVESTMENT REPORT (continued)

Return-Seeking Portfolio (continued)

The investment objective for GA is a return of SONIA + 3.125% 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	-3.9%	8.4%	4.0%
Objective	5.4%	3.9%	3.9%
Investment return relative to target	-9.3%	4.5%	0.1%

Performance is shown to 5 April 2023 after the deduction of fees (to the extent that fees are paid from assets). The objective is shown to 5 April 2023.

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 impact of the challenging and volatile market conditions described above resulted in negative performance for GA over the 12 month period, although performance over longer periods remains around or above target.

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

The Trustee has de-risked the portfolio significantly during the year and 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 negative over the year ended 5 April 2023 although in line with benchmark. This was driven by the significant increases in gilt yields, which has driven down the value of the liability hedging assets alongside a corresponding reduction in the value of the Scheme's liabilities.

Performance against objective over different time periods is as follows:

Total performance	1 Year	3 Years p.a.	5 Years p.a.
Investment return	-36.2%	-11.2%	-4.2%
Objective	-36.3%	-15.0%	-6.0%
Investment return relative to target	0.1%	3.8%	1.8%

The objective for three years covers the period 1 April 2020 to 5 April 2023, and for five years it covers 1 April 2018 to 5 April 2023.

Investment Expenses

Investment management fees and expenses amounted to £1.7m during the period (previously £1.9m). 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.

Custody of Assets

The swap contracts entered into with Barclays Bank plc, Citigroup Inc., Royal Bank of Scotland plc, Merrill Lynch & Co. Inc., Royal Bank of Canada, Lloyds Banking Group, JP Morgan and Morgan Stanley & CO. International plc 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, as custodian for the Scheme.

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

INVESTMENT REPORT (continued)

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.

There has been a focus on developing policies on the Scheme’s ESG strategy as this affects both funding and investment. The Trustee has prepared its first climate-related risk report (TCFD report) which is available at www.lepensions.co.uk/compliance and includes information on our overarching goal to achieve Net Zero carbon emissions on the portfolio by 2050.

Corporate Governance and Stewardship

The Trustee and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager’s activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of the SIP and is required to exercise its powers with a view to giving effect to the principles contained therein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustee has appointed the Investment Manager to implement the Scheme’s investment strategy. The Investment Manager manages assets directly on behalf of the Trustee as well as having delegated authority to appoint, monitor and change the underlying managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustee periodically reviews the overall value-for-money of using Schroders Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Investment Manager’s remuneration is based on the Scheme’s asset size, and the Investment Manager is therefore incentivised to maximise the Scheme’s asset size over the long term. The Trustee is satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustee’s investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance.

The success of such engagement will contribute to the Scheme’s performance, which is measured relative to the Trustee’s long-term performance objectives.

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.

INVESTMENT REPORT (continued)

Financial Material Considerations

These 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, and 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.

Non-financial matters

The Trustee does not directly take into account non-financial matters (such as members’ ethical or future impact priorities) given the difficulty of establishing consensus views on such matters. The Trustee maintains a dialogue with members through the Pension Consultative Committee and may seek views directly from time to time. The DCISC consults members from time to time in the context of self-select investment options for DC assets.

Turnover costs

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager’s expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

Conflicts of interest

The Trustee acknowledges the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager’s Conflict of Interest framework is available publicly here: <https://www.schroders.com/en/identification-and-management-of-conflicts-of-interest/>

INVESTMENT REPORT (continued)

Defined Contribution

Retirement Account

The Trustee has produced a defined contribution Statement of Investment Principles which was last updated in September 2022.

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 Schroders 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 on the Mobius Life Microsite via the investment section of MyPension.com. The Microsite contains published fund factsheets, together with interactive fund performance tools.

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 2020

The most recent full actuarial valuation of the Scheme was carried out as at 5 April 2020. This showed that on that date:

- The technical provisions were £971.4 million
- The value of the assets was £1,096.8 million

As at 5 April 2020, the Scheme therefore had an ongoing surplus of £125.4 million with a funding level of 113%.

Whilst the actuarial valuation identified a past service surplus, it also showed an increase in the future service contribution rate. The cost of future benefit accrual had increased by 3.3% of pensionable salaries per annum between the 2017 and 2020 valuations. The Trustee and the Company agreed that there will be no changes to member or Company contributions and no changes to member benefits as part of that valuation. The consequence of this approach is that a portion of the surplus has been 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 2020, the deficit on a solvency valuation basis was £255 million and the Scheme's assets would have been sufficient to cover 81% 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 2020, the deficit on a PPF valuation basis was £90 million and the Scheme's assets would have been sufficient to cover 92% of the PPF benefits.

The next full actuarial valuation is due with an effective date no later than 5 April 2023, and will be completed no later than 5 July 2024.

Actuarial report as at 5 April 2022

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 2022. At that date, the surplus on the ongoing funding basis was £216 million with a funding level of 122%. Between 5 April 2020 and 5 April 2022, the surplus therefore increased by £91 million. This was mainly due to the investment returns earned on the Scheme's 'return seeking' assets being higher than expected under the actuarial assumptions over the period. This was partially offset by the 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 2020 actuarial valuation process).

LEONARDO ELECTRONICS PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES (continued)

Method and significant assumptions for technical provisions

The method and significant actuarial assumptions used to determine the technical provisions for the 5 April 2020 actuarial valuation are as follows (all assumptions adopted are set out in the Statement of Funding Principles signed on 8 December 2020):

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 2.0% per annum above a blended interest rate yield curve. The blended curve comprises 75% of the gilt interest rate curve and 25% of the Sterling overnight index average (SONIA) swap interest rate curve.

Post-retirement discount interest rate: term dependent rates calculated as 0.4% per annum above a blended interest rate yield curve. The blended curve comprises 75% of the gilt interest rate curve and 25% of the Sterling overnight index average (SONIA) 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 75% of the gilt RPI inflation curve and 25% of the swap RPI inflation curve.

Future Consumer Prices Index ("CPI") inflation*: 0.75% 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. The caps are applied using the Black Scholes model with an assumed RPI inflation volatility of 1.3% 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 females of the mortality rates in the standard SAPS (S3PA) base tables, with an allowance for future improvements in line with the CMI 2019 projection model using a long term annual improvement rate of 1.25%, a smoothing parameter of 7.0 and an initial addition parameter of 0.75% per annum.

* On 25 November 2020, the UK Government and UK Statistics Authority issued a response to their joint consultation on aligning the RPI with the CPI including owner occupiers' housing costs ("CPIH"). Based on this, and absent any unforeseen event, the RPI will be calculated in the same way as the CPIH from February 2030. To reflect this post-valuation date event, when calculating the Technical Provisions at effective dates on or after 25 November 2020 (in particular for annual actuarial reports) the RPI and CPI inflation assumptions may be adjusted based on the RPI gilt and swap market expectations at the relevant effective date.

To calculate the technical provisions as at 5 April 2023, the CPI inflation assumption was set as follows:

- RPI inflation less 0.75% per annum before February 2030.
- RPI inflation from February 2030.

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Actuary's certification of schedule of contributions

Leonardo Electronics Pension Scheme ("the Scheme")

Adequacy of rates of contributions

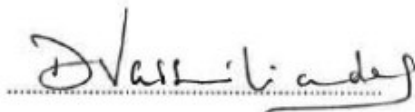
1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 5 April 2020 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 8 December 2020.

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

18 December 2020

Name

Danny Vassiliades

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

Phoenix House
1 Station Hill
Reading
RG1 1NB

Employer

XPS Pensions

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.

Martin Flavell

.....
Name: Martin Flavell

Date: 13 September 2023

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

Martin Johnson

.....
Name: Martin Johnson

Date: 13 September 2023

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 2023 which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including 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 2023, 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

In auditing the financial documents, we have concluded that the Scheme Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Schemes ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Schemes Trustee with respect to going concern are described in the relevant sections of this report.

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 Schemes Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of 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 20, 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 is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Scheme operates in and how the Scheme is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

LEONARDO ELECTRONICS PENSION SCHEME

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

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments, evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business, challenging judgments and estimates.

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 Schemes Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Schemes Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Schemes Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK Audit LLP

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

13 September 2023

Date:.....

LEONARDO ELECTRONICS PENSION SCHEME

FUND ACCOUNT

For the year ended 5 April 2023

	Note	2023 Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	2023 Total £'000s	2022 Defined Benefit Section £'000s	2022 Defined Contribution Section £'000s	2022 Total £'000s
CONTRIBUTIONS AND BENEFITS							
Employer contributions	4	20,542	432	20,974	21,176	420	21,596
Employee contributions	4	508	3,242	3,750	563	2,928	3,491
Total contributions	4	21,050	3,674	24,724	21,739	3,348	25,087
Other income	5	172	4	176	295	-	295
		<u>21,222</u>	<u>3,678</u>	<u>24,900</u>	<u>22,034</u>	<u>3,348</u>	<u>25,382</u>
Benefits paid or payable	6	21,849	-	21,849	17,473	260	17,733
Payments to and on account of leavers	7	3,212	-	3,212	6,764	98	6,862
Other payments	8	474	-	474	487	-	487
Administrative expenses	9	1,130	-	1,130	1,038	-	1,038
		<u>26,665</u>	<u>-</u>	<u>26,665</u>	<u>25,762</u>	<u>358</u>	<u>26,120</u>
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS		<u>(5,443)</u>	<u>3,678</u>	<u>(1,765)</u>	<u>(3,728)</u>	<u>2,990</u>	<u>(738)</u>
RETURNS ON INVESTMENTS							
Investment income	10	10,347	2	10,349	7,084	-	7,084
Change in market value of investments	12	(408,094)	(1,557)	(409,651)	2,778	1,112	3,890
Investment management expenses	11	(1,740)	-	(1,740)	(1,952)	-	(1,952)
NET RETURNS ON INVESTMENTS		<u>(399,487)</u>	<u>(1,555)</u>	<u>(401,042)</u>	<u>7,910</u>	<u>1,112</u>	<u>9,022</u>
NET (DECREASE)/INCREASE IN THE FUND FOR THE YEAR		<u>(404,930)</u>	<u>2,123</u>	<u>(402,807)</u>	<u>4,182</u>	<u>4,102</u>	<u>8,284</u>
TRANSFERS BETWEEN SECTIONS		<u>3,495</u>	<u>(3,495)</u>	<u>-</u>	<u>2,389</u>	<u>(2,389)</u>	<u>-</u>
OPENING NET ASSETS		<u>1,174,379</u>	<u>29,371</u>	<u>1,203,750</u>	<u>1,167,808</u>	<u>27,658</u>	<u>1,195,466</u>
CLOSING NET ASSETS		<u>772,944</u>	<u>27,999</u>	<u>800,943</u>	<u>1,174,379</u>	<u>29,371</u>	<u>1,203,750</u>

The notes on pages 27 to 42 form part of these financial statements.

LEONARDO ELECTRONICS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2023

	Note	2023 Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	2023 Total £'000s	2022 Defined Benefit Section £'000s	2022 Defined Contribution Section £'000s	2022 Total £'000s
INVESTMENT ASSETS							
Bonds	12	414,414	-	414,414	664,290	-	664,290
Pooled investment vehicles	13	224,670	27,905	252,575	327,073	29,249	356,322
Derivatives	14	351,889	-	351,889	1,645,184	-	1,645,184
Insurance policies	15	109,100	-	109,100	142,100	-	142,100
Cash deposits		6,191	1	6,192	18,531	1	18,532
Other investment balances	16	9,148	-	9,148	1,835	-	1,835
		1,115,412	27,906	1,143,318	2,799,013	29,250	2,828,263
INVESTMENT LIABILITIES							
Derivatives	14	(336,055)	-	(336,055)	(1,625,792)	-	(1,625,792)
Other investment balances	16	(7,584)	-	(7,584)			
		(343,639)	-	(343,639)			
TOTAL NET INVESTMENTS		<u>771,773</u>	<u>27,906</u>	<u>799,679</u>	<u>1,173,221</u>	<u>29,250</u>	<u>1,202,471</u>
CURRENT ASSETS	20	3,344	93	3,437	3,465	121	3,586
CURRENT LIABILITIES	21	(2,173)	-	(2,173)	(2,307)	-	(2,307)
CLOSING NET ASSETS		<u>772,944</u>	<u>27,999</u>	<u>800,943</u>	<u>1,174,379</u>	<u>29,371</u>	<u>1,203,750</u>

The notes on pages 27 to 42 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 18 and 19 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 13 September 2023.

Martin Flavell

Name: Martin Flavell

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

Martin Johnson

Name: Martin Johnson

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2023

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.

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, PO Box 562, Middlesbrough TS1 9JA.

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.

(d) **Expenses**

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

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

3. ACCOUNTING POLICIES (continued)

(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) *Critical accounting estimates and judgements*

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements, but note estimation uncertainty in the valuation of annuity policies, as disclosed in Note 15.

(i) *Currency*

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

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

4. CONTRIBUTIONS

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Employer contributions			
Normal	12,768	432	13,200
SMART	7,774	-	7,774
	<u>20,542</u>	<u>432</u>	<u>20,974</u>
Employee contributions			
Normal	83	-	83
AVC	-	3,242	3,242
Special**	425	-	425
	<u>508</u>	<u>3,242</u>	<u>3,750</u>
	<u>21,050</u>	<u>3,674</u>	<u>24,724</u>
		2022	
Employer contributions			
Normal	13,254	420	13,674
SMART	7,922	-	7,922
	<u>21,176</u>	<u>420</u>	<u>21,596</u>
Employee contributions			
Normal	95	-	95
Additional voluntary*	-	2,928	2,928
Special**	468	-	468
	<u>563</u>	<u>2,928</u>	<u>3,491</u>
	<u>21,739</u>	<u>3,348</u>	<u>25,087</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 2023

5. OTHER INCOME

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Sundry income	-	4	4
Claims on term insurance policies	172	-	172
	<u>172</u>	<u>4</u>	<u>176</u>
		2022	
Claims on term insurance policies	295	-	295

6. BENEFITS PAID OR PAYABLE

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Pensions	10,493	-	10,493
Commutation of pensions and lump sum retirement benefits	10,574	-	10,574
Purchase of annuities	151	-	151
Lump sum death benefits	264	-	264
Taxation where lifetime or annual allowance exceeded	367	-	367
	<u>21,849</u>	<u>-</u>	<u>21,849</u>
		2022	
Pensions	8,660	-	8,660
Commutation of pensions and lump sum retirement benefits	8,430	90	8,520
Purchase of annuities	160	170	330
Lump sum death benefits	(13)	-	(13)
Refunds of contributions of death	231	-	231
Taxation where lifetime or annual allowance exceeded	5	-	5
	<u>17,473</u>	<u>260</u>	<u>17,733</u>

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Individual transfers out to other schemes	3,212	-	3,212
		2022	
Individual transfers out to other schemes	6,764	98	6,862

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

8. OTHER PAYMENTS

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Premiums on term insurance policies	474	-	474
Other payments	1	-	1
Premiums on term insurance policies	486	-	486
	487	-	487

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	2023 Defined Contribution Section £'000s	Total £'000s
Administration	574	-	574
Actuarial fees	283	-	283
Legal fees	90	-	90
Audit fees	23	-	23
PPF levy	129	-	129
Other fees	31	-	31
	1,130	-	1,130
		2022	
Administration	531	-	531
Actuarial fees	336	-	336
Legal fees	24	-	24
Investment advice	17	-	17
Audit fees	18	-	18
PPF levy	81	-	81
Other fees	31	-	31
	1,038	-	1,038

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

10. INVESTMENT INCOME

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Income from bonds	3,896	-	3,896
Income from pooled investment vehicles	9,196	-	9,196
Interest on cash deposits	38	2	40
Gains/(losses) on foreign exchange	1,113	-	1,113
Income from derivatives / swaps	(9,861)	-	(9,861)
Annuity income	5,965	-	5,965
	<u>10,347</u>	<u>2</u>	<u>10,349</u>
		2022	
Income from bonds	4,154	-	4,154
Income from pooled investment vehicles	5,014	-	5,014
Interest on cash deposits	(31)	-	(31)
Gains/(losses) on foreign exchange	658	-	658
Income from derivatives / swaps	(8,539)	-	(8,539)
Annuity income	5,828	-	5,828
	<u>7,084</u>	<u>-</u>	<u>7,084</u>

11. INVESTMENT MANAGEMENT EXPENSES

	Defined Benefit Section £'000s	2023 Defined Contribution Section £'000s	Total £'000s
Administration, management & custody	1,968	-	1,968
Investment fee rebate	(228)	-	(228)
	<u>1,740</u>	<u>-</u>	<u>1,740</u>
		2022	
Administration, management & custody	2,016	-	2,016
Investment fee rebate	(64)	-	(64)
	<u>1,952</u>	<u>-</u>	<u>1,952</u>

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

12. RECONCILIATION OF INVESTMENTS

	Value at 5.4.2022	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 5.4.2023
	£'000s	£'000s	£'000s	£'000s	£'000s
Defined Benefit Section					
Bonds	664,290	690,850	(696,968)	(243,758)	414,414
Pooled investment vehicles	327,073	245,783	(316,741)	(31,445)	224,670
Derivatives	19,392	125,532	(29,199)	(99,891)	15,834
Insurance policies	142,100	-	-	(33,000)	109,100
	<u>1,152,855</u>	<u>1,062,165</u>	<u>(1,042,908)</u>	<u>(408,094)</u>	<u>764,018</u>
Cash deposits	11,275				6,191
Other investment balances	<u>9,091</u>				<u>1,564</u>
	<u>1,173,221</u>				<u>771,773</u>

Defined Contribution Section

Pooled investment vehicles	29,249	<u>8,373</u>	<u>(8,160)</u>	<u>(1,557)</u>	27,905
Cash in transit	<u>1</u>				<u>1</u>
	<u>29,250</u>				<u>27,906</u>

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 £'000s	Commission £'000s	Stamp duty and taxes £'000s	2023 Total £'000s	2022 Total £'000s
Pooled investment vehicles	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2022	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</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 2023

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:

	2023 £'000s	2022 £'000s
Members	<u>27,905</u>	<u>29,249</u>

13. POOLED INVESTMENT VEHICLES

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

	2023 £'000s	2022 £'000s
Defined Benefit Section		
Equity	35,905	118,184
Bonds	150,833	125,925
Property	13,813	24,332
Cash	10,145	836
Alternative	13,974	49,588
Commodities	-	8,208
	<u>224,670</u>	<u>327,073</u>
	2023	2022
Defined Contribution Section	£'000s	£'000s
Equity	2,021	2,064
Bonds	388	471
Cash	511	430
Growth	20,292	22,791
Retirement protection	4,508	3,224
Annuity protection	185	268
	<u>27,905</u>	<u>29,249</u>

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:

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.

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 2023

14. DERIVATIVES (continued)

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:

	2023 Asset £'000s	2023 Liability £'000s	2022 Asset £'000s	2022 Liability £'000s
Swaps	341,923	(329,753)	1,625,309	(1,607,943)
Options	9,722	(5,894)	19,243	(15,454)
Forward foreign exchange contracts	244	(408)	632	(2,395)
	<u>351,889</u>	<u>(336,055)</u>	<u>1,645,184</u>	<u>(1,625,792)</u>
	<u>15,834</u>		<u>(19,392)</u>	

Swaps

Nature	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Interest rate swaps (OTC)	2025-2060	390,350	314,803	(314,456)
Inflation swaps (OTC)	2024-2046	171,981	26,970	(739)
Total return swaps	2022-2023	109,145	150	(14,558)
Total 2023			<u>341,923</u>	<u>(329,753)</u>

Included in bonds is collateral of £20.4m (2022: £18.0m) which has been pledged to the counterparty.

At the year-end the Scheme held £40.9m (2022: £30.0m) 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 £'000s	Liability £'000s
Call	2023-2023	MXEF Index	2	298	(124)
Call	2023-2023	NKY Index	4	1,280	(650)
Call	2023-2024	SPX Index	14	5,260	(2,654)
Call	2023-2024	SX5E Index	10	2,570	(1,242)
Call	2024	UKX index	2	314	(120)
Put	2024	MXEF Index	1	-	(68)
Put	2023-2024	SPX Index	7	-	(628)
Put	2023-2023	NKY Index	2	-	(46)
Put	2023-2024	SX5E Index	5	-	(338)
Put	2024	UKX index	1	-	(24)
Total 2023				<u>9,722</u>	<u>(5,894)</u>

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

14. DERIVATIVES (continued)

Forward Foreign Exchange

Contract	Settlement Date	Number of contracts	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	Under 1 month	3	£34,997,465	\$43,309,200	217	-
Forward OTC	Under 1 month	3	£4,632,534	€5,264,100	27	-
Forward OTC	Under 1 month	4	\$15,059,700	£12,487,866	-	(393)
Forward OTC	Under 1 month	2	€1,599,900	£1,414,306	-	(15)
Total 2023					<u>244</u>	<u>(408)</u>

15. INSURANCE POLICIES

	2023 £'000s	2022 £'000s
The Scheme held insurance policies at the year-end as follows:		
Annuity policy with Just Retirement	<u>109,100</u>	<u>142,100</u>

For accounting purposes, the policy has been valued at the year-end by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date. Key assumptions were an average discount rate of 1.5% p.a. (2022: 1.5% p.a.) and average RPI-linked pension increase rates of 3.6% p.a. for pre-6 April 2006 pensions and 2.4% p.a. for post-5 April 2006 pensions (2022: 3.6% and 2.4% p.a.).

16. OTHER INVESTMENT BALANCES

	2023 £'000s	2022 £'000s
Amounts due from broker	7,455	7,246
Amounts due to broker	(7,584)	-
Dividends and interest receivable	<u>1,693</u>	<u>1,845</u>
	<u>1,564</u>	<u>9,091</u>

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.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023 (continued)

17. FAIR VALUE DETERMINATION (continued)

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

At 5 April 2023				
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Defined Benefit Section				
Bonds	414,414	-	-	414,414
Insurance policies	-	-	109,100	109,100
Pooled investment vehicles	9,114	178,302	37,254	224,670
Derivatives	-	15,834	-	15,834
Cash	6,191	-	-	6,191
Other Investments	1,564	-	-	1,564
	<u>431,283</u>	<u>194,136</u>	<u>146,354</u>	<u>771,773</u>
Defined Contribution Section				
Pooled investment vehicles	-	27,905	-	27,905
Cash	1	-	-	1
	<u>1</u>	<u>27,905</u>	<u>-</u>	<u>27,906</u>
	<u>431,284</u>	<u>222,041</u>	<u>146,354</u>	<u>799,679</u>
At 5 April 2022				
	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000s
Defined Benefit Section				
Bonds	664,290	-	-	664,290
Insurance policies	-	-	142,100	142,100
Pooled investment vehicles	5,502	247,032	74,539	327,073
Derivatives	-	19,392	-	19,392
Cash	18,532	-	-	18,532
Accrued investment income	1,835	-	-	1,835
	<u>690,158</u>	<u>266,424</u>	<u>216,639</u>	<u>1,173,221</u>
Defined Contribution Section				
Pooled investment vehicles	-	29,249	-	29,249
Cash	1	-	-	1
	<u>1</u>	<u>29,249</u>	<u>-</u>	<u>29,250</u>
	<u>690,159</u>	<u>295,673</u>	<u>216,639</u>	<u>1,202,471</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

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 £414.4m in directly held bonds (2022: £664.3m), £15.8m in OTC derivatives (2022: £19.4m) and £6.1m in directly held cash balances (2022: £18.5m). The Scheme also holds £161.0m in bonds and cash through underlying pooled fund investments (2022: £126.8m).

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 Schroders 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 Schroders 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.

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

18. INVESTMENT RISK DISCLOSURES

Credit risk (continued)

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.

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 Schroders 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 Schroders 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.).

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 Schroders Solutions on the appointment of new pooled managers, and monitoring on an ongoing basis for any changes to the operating environment of each manager.

Type of arrangement	2023 £'000s	2022 £'000s
Closed Ended Fund of Hedge Funds	-	8,358
Cayman Islands Exempted Company	1,863	2,002
Investment company with variable capital (ICVC)	5,818	22,340
Limited Liability Company	4,369	16,379
Limited Partnership	2,078	1,805
Open ended investment company (OEIC)	141,829	108,767
Exchange Traded Fund	9,114	5,503
Exchange Traded Commodity	-	8,208
Unit Trust	24,727	24,955
Open Ended Unit Trust	-	-
Investment company with variable capital (SICAV)	4,525	3,076
Mutual Fund	<u>30,347</u>	<u>125,680</u>
	<u>224,670</u>	<u>327,073</u>

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 Schroders Solutions. Schroders 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, 3.2% of the Scheme's holdings were exposed to overseas currencies as at year-end (2022: 5.9%).

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

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:

	2023 £'000s	2022 £'000s
Direct		
Bonds	414,414	664,290
Swaps	12,170	17,367
Indirect		
Bond PIVs	151,833	125,925
Cash PIVs	10,144	836

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:

	2023 £'000s	2022 £'000s
Direct		
Equity Options	2,528	2,610
S&P Options	1,300	1,179
Indirect		
Bond PIVs	151,833	125,924
Cash PIVs	10,144	836
Equity PIVs	35,905	118,183
Property PIVs	13,814	24,332
Alternative PIVs	13,973	49,588
Commodities PIVs	-	8,208

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

19. CONCENTRATION OF INVESTMENTS

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

	2023		2022	
	£'000s	%	£'000s	%
BNY (River & Mercantile) Global Equity Fund	-	-	112,385	9.4
Insight Buy & Maintain Bond Fund 2031-2035	105,686	13.2	73,800	6.1
Schroders 1.625% Treasury Gilt 2054	-	-	90,493	7.5
Schroders 0.625% Treasury Gilt 2040	49,280	6.2	-	-
Schroders 0.75% Treasury Gilt 2034	51,510	6.4	-	-
Schroders 1.25% Treasury Gilt 2055	41,493	5.2	-	-
Just Retirement buy in policy	109,100	13.61	142,100	11.8

20. CURRENT ASSETS

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Bank balance	2,945	93	3,038
Tax recoverable	41	-	41
Life assurance paid in advance	358	-	358
	<u>3,344</u>	<u>93</u>	<u>3,437</u>
	2022		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Bank balance	3,086	121	3,207
Tax recoverable	31	-	31
Life assurance paid in advance	348	-	348
	<u>3,465</u>	<u>121</u>	<u>3,586</u>

Included in the DC Section bank balance is £5,759 (2022: £Nil) which is not allocated to members.

21. CURRENT LIABILITIES

	2023		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Accrued expenses	1,323	-	1,323
Unpaid benefits	654	-	654
Tax payable	196	-	196
	<u>2,173</u>	<u>-</u>	<u>2,173</u>
	2022		Total
	Defined Benefit Section £'000s	Defined Contribution Section £'000s	£'000s
Accrued expenses	1,182	-	1,182
Unpaid benefits	990	-	990
Tax payable	135	-	135
	<u>2,307</u>	<u>-</u>	<u>2,307</u>

LEONARDO ELECTRONICS PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2023

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

There were no contingent liabilities as at 5 April 2023 (2022: Nil).

24. RELATED PARTIES

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

The Trustee Board was made up of eight Trustee Directors at the Scheme-Year end. Following a number of retirements post Scheme Year-end, at the time of signing these financial statements the Trustee Board is constituted of five Trustee Directors.

Five of the nine Trustee Directors who held office during the Scheme Year were contributing members of the Scheme. Their contributions were calculated and paid to the Scheme in accordance with the Scheme Rules.

Three of the Trustee Directors who held office at Scheme Year-end were 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 UK Ltd which is the Principal Employer. Costs of the governance service are agreed with Leonardo UK Ltd and are met by the Scheme. For 2022/23, these costs amounted to £160,000 (2021/22: £160,000).

At the year-end £40,704 was due to the Scheme from the Employer in respect of VAT reclaimed by the Employer on Scheme Administration expenses. (2022: £31,497).

Trustee Directors who are pensioner members of a Leonardo group pension scheme receive remuneration from Leonardo UK Ltd for governance services. Trustee remuneration for the 2022/23 Scheme Year totalled £38,270 (2021/22: £36,397).

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 2023 (2022: 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 the 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 other defined benefit pension Schemes. The issue will not affect the Scheme, as the Scheme does not provide any guaranteed minimum pension benefits.

LEONARDO ELECTRONICS PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE LEONARDO ELECTRONICS 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 44 in respect of the Scheme year ended 5 April 2023, to which this statement is attached.

In our opinion the contributions for the Scheme year ended 5 April 2023 as reported in the attached summary of contributions on page 44 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 18 December 2020.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 44 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 21 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

RSM UK Audit LLP

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

13 September 2023

Date:

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	13,200
Employer additional contributions	7,774
Employee normal contributions	<u>83</u>
Total contributions paid	<u>21,057</u>

Reconciliation to the financial statements:

Contributions paid under the Schedule of Contributions	21,057
Members' Additional Voluntary Contributions	<u>3,663</u>
Contributions receivable per the financial statements	<u>24,720</u>

This summary was approved by the Trustee on 13 September 2023.

Signed on behalf of the Trustee

Martin Flavell

Name: Martin Flavell

Trustee Director, Leonardo Electronics Pension Scheme (Trustee) Ltd

Martin Johnson

Name: Martin Johnson

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 2022 – 5 April 2023.

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 were carried out over Q2 2022 and included:

- increasing the benchmark allocations to global equity within the 'blend funds' in light of increasing levels of inflation;
- streamlining the Retirement Focus fund options from four down to three options including alignment of the default fund more closely with an income drawdown solution to reflect the way members on average are drawing their benefits;
- extending the period over which funds are switched into the Retirement Focus fund. The Retirement Focus fund is used as the final phase of the default switching process leading up to the Target Retirement Age (TRA), and a change was made to extend this period of switching from three years before TRA to five years before TRA to decrease risk on the approach to retirement.

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 18 May 2023 for the period ending 31 March 2023. The DC strategy was reviewed and no further changes were considered necessary. The next performance review as at 30 June 2023 is due to be considered at the September 2023 DC investment committee meeting.

You can find the DC SIP at www.lepensions.co.uk/compliance/.

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.

LEONARDO ELECTRONICS PENSION SCHEME

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

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 an average 97% of the reported tasks within the standards.

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

Charges paid by members 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 'self-select' options as at 31 March 2023 are set out in the table below:

	Fund	TER
Default Lifestyle Funds	Long Term Growth	0.35%
	Stable Growth Fund	0.40%
	Cautious Growth Fund	0.45%
	Retirement Focus Fund (Default)	0.32%
Self-Select Funds	Retirement Focus Fund (Income for Life)	0.13%
	Retirement Focus Fund (Take Your Pot as Cash)	0.15%
	Global Equity Fund	0.18%
	Corporate Bond Fund	0.15%
	Fixed Annuity Focus Fund	0.15%
	Inflation-Linked Annuity Focus Fund	0.15%
	Cash Fund	0.15%
	Islamic Global Equity Fund	0.39%
	ESG Equity Fund	0.30%

Source: Mobius Life, Schroders Calculations as at May 2023.

(*) TER: Total Expense Ratio

'Charges' means administration charges other than transaction costs (see below). Members bear charges that are deducted from the funds in which their benefits are invested. The charges differ between the investment funds that are available. The Trustee is required to calculate the charges and transaction costs paid by members during the assessment period and assess the extent to which these charges and transaction costs represent good value for members.

LEONARDO ELECTRONICS PENSION SCHEME

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

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**

Following a strategy review in early 2022, changes were made to the default. From a strategic perspective, the blended funds (Long Term Growth, Stable Growth and Cautious Growth) all retained their inflation- based objectives.

As part of Schroder's role as fiduciary manager to the Schemes, their ability to alter these underlying allocations is crucial in 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.

The costs associated with the blended funds are therefore reflected as part of the transaction cost details set out under "3. Frictional Costs" below.

However, more direct changes were made to the Retirement Focus Fund (Default), these are detailed below.

Retirement Focus Fund	Previous allocation	New allocation
Stable Growth	0%	10%
Cautious Growth	50%	50%
Annuity Focus	25%	25%
Cash	25%	15%

The transactions costs associated with these changes totalled £30¹.

In addition to this, the Retirement Focus Fund (Drawdown), available to members during the start of the Scheme Year, closed in April 2022. Assets invested in this fund were subsequently invested in the Retirement Focus Fund (Default), detailed above. The transactions costs associated with these changes totalled £101¹.

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. 0.48% (or 0.48p) in a worst case scenario. This equates to an average of 0.01% per annum, as at 31 March 2023.

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").

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 what is shown in the table below.

¹ Source: Mobius Life (transaction costs)

LEONARDO ELECTRONICS PENSION SCHEME

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

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 below 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	0.07%
Long Term Growth to Stable Growth	0.13%
Stable Growth to Cautious Growth	0.13%
Cautious Growth to Retirement Focus	0.11%
Sell Retirement Focus	0.04%
Total	0.48%
Total p.a.	0.01%

Source: Underlying fund managers. Schroders Solutions' calculations as at May 2023.

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 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

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

The table below sets out the total average transaction costs for each fund within the default and self-select range covering the period 06/04/2018 to 05/04/2023 unless otherwise stated.

	Fund	LEPS
Default Lifestyle Funds	Long Term Growth	0.087%
	Stable Growth Fund	0.124%
	Cautious Growth Fund	0.082%
	Retirement Focus Fund (Default)	0.059%
Self-Select Funds	Retirement Focus Fund (Income for Life)	-0.008 ²
	Retirement Focus Fund (Take Your Pot as Cash)	-0.010 ²
	Global Equity Fund	0.055%
	Corporate Bond Fund	-0.025%
	Fixed Annuity Focus Fund	0.074%
	Inflation-Linked Annuity Focus Fund	0.047%
	Cash Fund	-0.045%
	Islamic Global Equity Fund	0.013% ¹
	ESG Fund	0.063% ³

Source: Mobius Life. Underlying fund managers. Schroders calculations as at September 2023.

The Appendix to this report 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.

Where the ongoing transaction costs shown are negative, this indicates a gain. This is mainly as a result of anti-dilution offset (an adjustment made by the manager so that the cost of buying and selling fund units is met by those transacting), a negative 'slippage' cost when buying or selling securities (e.g. for an asset being bought, the arrival price being higher than the actual price paid), or both. Where these negative costs outweigh the other sources of transaction costs, this results in an overall gain for invested members.

² Data covers the period 06/04/2021 to 05/04/2022.

³ Data covers the period 06/04/2020 to 05/04/2022.

LEONARDO ELECTRONICS PENSION SCHEME

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

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 regards value for members as a high priority and reviews it 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.

a) Value for members – self-assessment

The most recent self-assessment was conducted in May 2023 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 0.39% 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.
- 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%.

b) Value for members – independent assessment

The last independent assessment of value for members was conducted by Lane Clark and Peacock 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 Trustee is conducting a further independent review in Q3 2023. The review will be conducted by Lane Clark and Peacock. The outcome of which will be detailed in the next Governance Statement, for the Scheme year ending 5 April 2024.

LEONARDO ELECTRONICS PENSION SCHEME

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

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 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. Training is provided on a collective basis to address joint needs through the year, 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, the Trustee directors completed an average level of 19.09 training hours per Trustee Director. 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.

Martin Flavell

MARTIN FLAVELL
Chair of the Trustee

Date: 13 September 2023

LEONARDO ELECTRONICS PENSION SCHEME

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

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. This has been prepared taking account of all 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:

	Default strategy	
Years	Gross	Net
1	£3,000	£3,000
3	£8,900	£8,800
5	£15,400	£15,200
10	£34,700	£33,900
15	£58,200	£56,200
20	£86,300	£82,000
25	£120,400	£112,700
30	£159,800	£147,300
35	£204,400	£185,400
40	£250,200	£224,300

Projected pension pot for the Blend funds:

	Long Term Growth Fund		Stable Growth Fund		Cautious Growth Fund		Retirement Focus Fund (Default)	
Years	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1	£3,000	£3,000	£3,000	£3,000	£3,000	£2,900	£2,900	£2,900
3	£8,900	£8,800	£8,800	£8,700	£8,700	£8,700	£8,600	£8,500
5	£15,400	£15,200	£15,200	£15,000	£15,000	£14,800	£14,500	£14,400
10	£34,700	£33,900	£33,600	£32,700	£32,700	£31,900	£31,000	£30,400
15	£59,000	£57,100	£56,300	£54,100	£54,000	£51,900	£49,700	£48,300
20	£89,500	£85,600	£84,000	£79,600	£79,400	£75,300	£71,000	£68,400
25	£127,700	£120,500	£117,700	£109,900	£109,600	£102,500	£95,200	£90,900
30	£175,200	£163,300	£158,600	£145,900	£145,400	£134,000	£122,600	£115,900
35	£234,200	£215,400	£208,100	£188,500	£187,700	£170,400	£153,500	£143,700
40	£307,300	£278,600	£267,800	£238,800	£237,600	£212,500	£188,300	£174,700

LEONARDO ELECTRONICS PENSION SCHEME

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

Projected pension pot for self-select funds:

	Global Equity Fund		Corporate Bond Fund		Cash Fund	
Years	Gross	Net	Gross	Net	Gross	Net
1	£3,000	£3,000	£2,900	£2,900	£2,900	£2,900
3	£8,900	£8,900	£8,700	£8,600	£8,200	£8,200
5	£15,400	£15,400	£14,800	£14,700	£13,600	£13,600
10	£34,900	£34,500	£31,900	£31,700	£27,100	£27,000
15	£59,600	£58,500	£52,000	£51,500	£40,800	£40,500
20	£90,800	£88,600	£75,400	£74,500	£54,700	£54,200
25	£130,000	£126,000	£102,700	£101,100	£68,900	£68,100
30	£179,000	£172,400	£134,300	£131,800	£83,300	£82,100
35	£240,300	£229,700	£171,000	£167,200	£98,000	£96,400
40	£316,500	£300,300	£213,300	£207,800	£113,100	£111,000

	Fixed Annuity Focus Fund		Inflation-Linked Annuity Focus Fund		ESG Fund		Islamic Global Equity Fund	
Years	Gross	Net	Gross	Net	Gross	Net	Gross	Net
1	£2,900	£2,900	£2,900	£2,900	£3,000	£3,000	£3,000	£3,000
3	£8,600	£8,500	£8,500	£8,500	£8,900	£8,800	£8,900	£8,800
5	£14,500	£14,400	£14,300	£14,300	£15,400	£15,200	£15,400	£15,200
10	£30,600	£30,300	£30,100	£29,800	£34,500	£33,900	£34,500	£33,800
15	£48,900	£48,100	£47,500	£46,900	£58,600	£57,000	£58,600	£56,900
20	£69,500	£68,000	£66,900	£65,700	£88,800	£85,500	£88,800	£85,200
25	£92,600	£90,100	£88,400	£86,300	£126,400	£120,400	£126,400	£119,900
30	£118,600	£114,700	£112,100	£108,900	£173,000	£163,100	£173,000	£162,100
35	£147,700	£142,000	£138,300	£133,700	£230,700	£215,100	£230,700	£213,600
40	£180,200	£172,300	£167,100	£160,800	£301,900	£278,300	£301,900	£276,000

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

	Retirement Focus Fund (Income for Life)		Retirement Focus Fund (Take Your Pot as Cash)	
Years	Gross	Net	Gross	Net
1	£2,900	£2,900	£2,900	£2,900
3	£8,400	£8,400	£8,200	£8,200
5	£14,000	£13,900	£13,600	£13,500
10	£28,600	£28,400	£27,100	£26,900
15	£44,100	£43,700	£40,800	£40,400
20	£60,600	£59,900	£54,700	£54,000
25	£78,100	£76,900	£68,900	£67,800
30	£96,600	£94,900	£83,300	£81,700
35	£116,300	£114,000	£98,000	£95,900
40	£137,200	£134,000	£113,100	£110,300

LEONARDO ELECTRONICS PENSION SCHEME

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

Assumptions for the projected pension pots:

- Values shown are estimates and are not guaranteed;
- Frictional transaction costs used are an average per annum of those incurred over the 5 years to 31 March 2023;
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation;
- Assumes inflation of 2.5% per annum;
- Assumes charges in future years are equal to charges today (transaction costs are shown in the table above);
- Assumes a member is aged 25 years old now and stops contributing at age 65;
- Assumes an overall contribution rate of 9% of annual salary, the £ amount of which increases in line with assumed salary inflation;
- Assumes a member salary of £30,000 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 Lifestyle Funds	Long Term Growth	4.2%
	Stable Growth Fund	3.6%
	Cautious Growth Fund	3.0%
	Retirement Focus Fund (Default)	1.9%
Self-Select Funds	Retirement Focus Fund (Income for Life)	0.3%
	Retirement Focus Fund (Take Your Pot as Cash)	-0.8%
	Global Equity Fund	4.3%
	Corporate Bond Fund	2.5%
	Fixed Annuity Focus Fund	1.7%
	Inflation-Linked Annuity Focus Fund	1.3%
	Cash Fund	-0.8%
	Islamic Global Equity Fund	4.1%
	ESG Fund	4.1%

Source: Schroders Solutions' calculations as at May 2023

The above illustrations have been prepared with due regard to the Department for Work and Pensions' guidance ("Cost and charge reporting: guidance for trustees and managers of occupational schemes"), published in October 2022.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering the Leonardo Electronics Pension Scheme (the "Scheme") in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was amended once during the year ending 5 April 2023, although the only material change was to reference the updated Schroders Conflicts of Interest policy. This SIP came into force from 02 November 2022.

A copy of the current SIP signed and dated 08 November 2022 can be found here:

www.lepensions.co.uk/compliance

This Implementation Statement covers the Scheme year from 6 April 2022 to 5 April 2023 (the "Scheme Year"), although the information on engagement and voting statistics relates to the period from 1 April 2022 to 31 March 2023. It sets out:

- How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year; and
- The voting by or on behalf of the Trustee during the Scheme Year, including the most significant votes cast and any use of a proxy voter during the Scheme Year.

A new set of guidance ("the Guidance") from the Department for Work and Pensions ("DWP") has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustee of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme's SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Scheme, with the help of the Scheme's Fiduciary Manager, has complied with the new statutory guidance set by DWP.

A copy of this Implementation Statement is available on the following website:

www.lepensions.co.uk/compliance

2. How the Trustee's policies on exercising voting rights and engagement have been followed over the Scheme Year

The Trustee uses the Fiduciary Management service of **Schroders IS Limited** as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then. The Fiduciary Manager has the following credentials in ESG management:

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021
- Engagement Blueprint awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022

The Fiduciary Manager can appoint other investment managers in respect of underlying investments (these are referred to as "**Underlying Investment Managers**"). The Scheme invests in some assets with voting rights attached (e.g. equities) and with engagement possible in relation to most asset classes. Whilst the Trustee has delegated responsibility to the Fiduciary Manager and Underlying Managers for voting and engaging on its behalf, the Trustee regularly reviews the approach and stewardship policies of the Fiduciary Manager to ensure they are aligned with the Trustee's beliefs and objectives.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

A copy of the SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee's policies on corporate governance and other financially material considerations when providing Fiduciary Management services. However, given that the investments with the Underlying Investment Managers are generally made via pooled investment funds (where the Scheme's investments are pooled with those of other investors), the Fiduciary Manager does not have direct control over the voting or engaging with the companies that issue the underlying securities. This process lies with the Underlying Investment Manager, who may have different engagement priorities than the Trustee. Therefore, the Trustee requires the Fiduciary Manager to integrate stewardship activities such as voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, when choosing new or monitoring existing Underlying Investment Managers.

The Trustee believes it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement. Similarly, the Trustee has not sought to set their own voting policy, a position they do not intend to change at this time.

During the Scheme Year, the Trustee has received training on the latest DWP Guidance. To support the Trustee in meeting the new requirements, the Trustee also received training on Schroders' Engagement Blueprint, which sets out the six engagement themes the Scheme's Fiduciary Manager believes to be most financially material. These are the themes the Fiduciary Manager will align the majority of its own engagement of underlying managers with. To agree on which of these themes the Trustee prioritises in its own stewardship activities, the Trustee completed a survey selecting three engagement themes it will use for engagement and monitoring of the Fiduciary Manager's activities. As a result of the survey, the Trustee of the Scheme has determined their stewardship priorities to be Climate Change, Corporate Governance and Human Rights.

The Trustee believes these themes are issues material to the long-term value of the investments. These issues also reflect expectations and trends across a range of stakeholders, and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately should enhance the value added to the Scheme's investment and hence benefit the Scheme's members and beneficiaries. Therefore the Trustee believes that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Scheme.

On behalf of the Trustee, the Fiduciary Manager carried out regular investment and operational due diligence on the Underlying Investment Managers to monitor voting and engagement policies concerning the Scheme's investments. In addition, with the help of the Fiduciary Manager, the Trustee monitors the performance of the Underlying Investment Managers against the agreed performance objectives at quarterly ISC meetings held during the Scheme Year. Over the Scheme Year, the Fiduciary Manager provided the Trustee with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Trustee is satisfied with the Fiduciary Manager's activity in this area.

In addition, the Trustee also received other training on topics such as Climate Risk and ESG updates within the Fiduciary Management solutions. As part of ongoing monitoring of how the Fiduciary Manager has exercised the Trustee's stewardship policy over the Scheme Year, the Trustee reviewed the Fiduciary Manager's Annual ESG report in early 2023 and ensured it was satisfied with the actions taken on its behalf concerning ESG integration within the investments and stewardship activities.

Given the activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the DWP Guidance over the Scheme Year.

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

3. Voting and Engagement Summary

On behalf of the Trustee, the Fiduciary Manager exercises voting rights in relation to pooled funds managed by the Underlying Investment Managers, in line with its voting policy.

Most voting rights and engagement regarding the Scheme's investments relate to underlying securities within these pooled funds. At a general meeting of a company, the Underlying Investment Managers exercise voting rights and engage with the company issuing the security in line with their policies, which the Fiduciary Manager may have influenced. Nonetheless, the pooled funds themselves often confer certain rights around voting or policies, which the Fiduciary Manager exercises on behalf of the Trustee, and we cover these here.

Over the year to 31 March 2023, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients' pooled fund investments on 95 resolutions across 23 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 4.2% of total resolutions, and abstained on 4 resolutions (4.2% of the total resolutions). The engagement topics covered a range of areas, including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

Within the Scheme's portfolio, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking assets, with equity being the only asset class to hold voting rights. The Trustee reviewed the BNYM semi-annual proxy voting reports (links included in Appendix) and noted that BNYM prioritised stewardship with each of their underlying holdings on areas broadly in line with Schroders Solutions' engagement themes.

In relation to the liability hedging and structured equity mandate(s), the Trustee noted that the choice of counterparty (both in terms of the counterparties chosen to be part of the available roster and the choice of which counterparty of these to use when entering into derivative transactions) is driven by several factors including credit ratings which take into account ESG factors, and ESG scores for counterparties are regularly monitored.

The Trustee has considered the voting statistics and behaviour set out in this Implementation Statement, along with engagement activity that took place on their behalf during the Scheme Year within the growth asset portfolio, Buy and Maintain credit portfolio and the liability hedging portfolio, and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers, and some good progress has been achieved such that many of the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activities over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- In this Implementation Statement, the Trustee considered relevant examples in relation to its own stewardship priorities. Examples were provided in the appendix.
- As the Trustee has refined its stewardship priorities this year, it considers the most significant votes to be those that both relate to these priorities and are defined as significant by the Underlying Managers (of the most material holdings) based on their specific knowledge of the circumstances around each vote. The Trustee has communicated this with the Fiduciary Manager, and as per DWP guidance, all votes which meet these criteria have been reported below.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Voting by the Underlying Investment Managers on securities held on behalf of the Trustee

Most Significant Votes

Over the scheme year, 34 votes defined as 'Significant' by the Underlying Investment Managers aligned with the Trustee's stewardship priority themes, based on the data provided to Trustee. One such vote was in relation to Human Rights, which was as follows:

At the annual Microsoft Corporation meeting on 13 Dec 2022, Morgan Stanley voted for a shareholder proposal regarding a report on government use of Microsoft technology. This vote was considered "most significant" by the Underlying Manager as it was against management and by the Trustee - given the exposure to reputational and human rights-related risks – as it relates to the Human Rights stewardship priority. The vote failed, and Morgan Stanley intend to continue engaging with Microsoft on the topic.

The other 33 votes defined as 'Significant' by the Underlying Investment Managers aligned with the Trustee's stewardship priority theme of Corporate Governance. Of those votes, 48% were in relation to the board and management; 33% on executive remuneration; 15% regarding relationship with shareholders and 3% of the votes were on the topic of capital allocation.

There are c. 30 Underlying Managers; however, the equity holdings are the only asset class with voting rights. Below are the voting statistics for the most material equity funds held on behalf of the Trustee that had voting rights during the period.

Summary of voting statistics

	BNYM Global Equity Fund	Vanguard FTSE Developed Markets ETF	Vanguard FTSE Emerging Markets ETF	Morgan Stanley Global Brands	Ninety One Global Strategy Fund	Morant Wright Fuji Yield Japanese Fund	Fundsmith Equity Fund
Total meetings eligible to vote	926	2,354	4,534	32	26	60	26
Total resolutions eligible to vote	11,723	30,205	38,708	490	331	808	429
% of resolutions did you vote on for which you were eligible?	93%	98%	97%	100%	100%	100%	100%
% did vote with management?	93%	96%	90%	89%	94%	89%	91%
% vote against management?	7%	3%	9%	11%	4%	11%	9%
% abstained	0%	0%	2%	0%	2%	0%	1%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	0%	0%	0%	8%	Data not provided	N/A	N/A

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Note:

- BNYM, NinetyOne and Morgan Stanley uses Institutional Shareholder Services, "ISS", for proxy voting services.
- Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM have included votes abstained (in order to be in line with the PLSA template which other managers have used), although there are differences between votes withheld and votes abstained.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of "Abstain" is also considered a vote against management.

The Trustee is satisfied that the voting and engagement activity undertaken by the Fiduciary Manager and Underlying Investment Managers align with the stewardship priorities the Trustee has determined during the Scheme year.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Appendix 1 – Engagement examples

Engagement by the Fiduciary Manager (Schroders IS) in relation to underlying pooled funds held on behalf of the Trustee

In addition to the voting and engagement outlined in section 3 above, over the Scheme Year, the Fiduciary Manager also:

- engaged with the core credit manager, Neuberger Berman, regarding some particularly high emitting companies within the fund that was leading to higher than benchmark carbon footprint metrics;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager is not satisfied with the quality of data previously provided.
- engaged with the five managers who were rated 'red-engagement' on Schroders' ESG scoring matrix.

The engagement activities and outcomes are outlined in the table below:

Engagement		Progress over Scheme Year
Manager A – Equity	<ul style="list-style-type: none"> Engaged with the manager in Q4 following their decision to exit net zero asset manager initiative – engagement ongoing 	<ul style="list-style-type: none"> Overall rating and corporate pillar upgraded to green. Stewardship pillar upgraded to amber Introduction of staff ESG training programmes Evidenced a process to measure the success of their voting activities
Manager B – Alternatives	<ul style="list-style-type: none"> Calls and meetings through 2021/2022 to discuss what initial steps can be taken and where the manager sits relative to peers Provided guidance on institutional investors requirements of managers and the direction of travel Specific discussions on UN PRI and what other standards may be applicable to the manager 	<ul style="list-style-type: none"> Overall rating remains red engagement but in line with expectations Engagement with the manager has been positive and they are keen to understand where they rank relative to peers and what can be improved Formed an ESG committee which includes senior management
Manager C – Alternatives	<ul style="list-style-type: none"> Numerous meetings with senior management and ESG focused personnel to understand what changes the manager can implement Direct engagement on a number of current ESG issues including investment in Russian assets and exposures to cannabis Manager also specifically reached out to request discussion on expectations from institutional investors and best practices amongst peers 	<ul style="list-style-type: none"> Overall rating remains red engagement but corporate pillar upgraded to amber Improvements seen in both policies and procedures with a more formalised ESG committee with senior management/partner involvement New portfolio implementation mechanism designed with input from Schroders limiting exposures to specific assets.
Manager D – Alternatives	<ul style="list-style-type: none"> A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future Focus on D&I and how the manager has improved its processes and increased the effectiveness of its committee structure 	<ul style="list-style-type: none"> Improved scoring across all pillars and overall rating upgraded to amber The manager has become a signatory to UN PRI – the first mandatory reporting is due in May 2023 A formal ESG Investment Policy and a formalised approach to ESG across all portfolios
Manager E – Alternatives	<ul style="list-style-type: none"> A number of meetings with senior leaders in the business to understand what can be done to improve ESG integration at least within corporate functions 	<ul style="list-style-type: none"> Overall rating remains red engagement but in line with expectations given where the manager is in their ESG process Manager has launched an ESG statement (non-investment) with focus on DEI including an advisory council with senior business leaders involved to drive change Exploring the idea of having specific ESG resource at investment level

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Examples of voting and engagement carried out by the Underlying Managers

Engagement Theme	Manager	Examples
Climate change	T. Rowe Price	Health & Happiness
Human Rights	Morgan Stanley	Nike, Inc.
Corporate governance	Neuberger Berman	Boeing

Climate Change – Health & Happiness

T. Rowe Price, one of the credit managers, had three objectives for their engagement of Health and Happiness (H&H). One was to request more details on their decarbonisation journey, specifically a strategy for the firm to reduce the footprint of dairy cows in their supply chain. The Manager also wanted a timeline for full emission reporting, and lastly an update on progress towards achieving B-Corp Certification.

The following topics were discussed:

1. Continuous progress in decarbonisation – T. Rowe Price believes that H&H has made some good progress but still does not provide full disclosure on its group-wide scope 1-3 emissions and is still looking to set a net zero target.
2. B-Corp Certification – H&H is confident that they are on track to achieve Group-wide B-Corp Certification by the end of 2025 with clear plan and milestone set.
3. Annual investment to support farmers in France since 2013 – H&H has been doing this to ensure ongoing sustainable supply of dairy products and lower carbon impact.

As a result of the engagement, T. Rowe Price imparted their views on best practices and asked that within the next 2 years the company would disclose its group-wide scope 1-3 emissions data and set net zero targets; and continue to work towards achieving B-Corp Certification.

Human Rights – Nike, Inc.

This engagement example outlines Morgan Stanley's follow up to a shareholder proposal concerning supply chain issues that was tabled at Nike's 2021 AGM.

Morgan Stanley voted in favour of the shareholder proposal, against management and ISS recommendations. ISS (the Proxy Exchange platform used for the execution of Stanley's votes) suggested voting against the shareholder proposal as they felt the company provided sufficient disclosure related to its human rights policies and sustainable sourcing practices, and that the company was not lagging its peers in terms of human rights disclosure. However the Manager chose to support the proposal as they believed it was important to apply pressure on a subject that posed a large supply chain risk and where information was scarce. Morgan Stanley then engaged further on the subject with the company, pressing them for information on their cotton sourcing policy, and any progress they had made on the traceability of the cotton they used.

Nike stated their commitment to not sourcing from Xinjiang, and outlined the actions they had taken with their suppliers regarding sourcing. They shared that they were actively working on tools to verify suppliers' claims on sourcing, adding two senior positions within the firm. Morgan Stanley consider this evidence that the shareholder resolution on the social risks of cotton sourcing – despite not passing – has led to positive changes. The Manager strongly encouraged the company to look into working with a sustainable cotton NGO that offers traceability and a company providing a new technology helping verify the origin of raw materials. Since this engagement, Morgan Stanley have continued to follow up on the subject of supply chain management with the company.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Corporate Governance – Boeing

Neuberger Berman, one of the credit managers, have spent 4 years engaging with Boeing following MSCI assigned Boeing a Very Severe Controversy Flag which put the company in the manager's engagement priority list. Neuberger Berman communicated with the issuer on concerns related to product safety of its 737 Max aircraft following two disasters that resulted in the deaths of passengers and crew and engaged with the company on their internal risk controls, oversight procedures, and governance structure given the revelation of design flaws with the 737 Max and inadequate attempts by the company to address the issue.

The engagement process was led by credit analyst within the team and included 13 discussions over a period of 4 years with the senior management including the CFO, Treasurer, and Investor Relations team. The issues raised included Boeing's risk controls, lack of oversight and inadequate governance structure. While the initial actions taken by Boeing were not always adequate, through manager's continued engagements, Boeing has addressed our concerns regarding its governance and risk controls.

Neuberger Berman consider this engagement was a successful example as Boeing made the following changes:

- Boeing Improved its safety oversight standards through the creation of the independently managed "Aerospace Safety Committee" with responsibility to oversee and ensure the safe design, development, manufacture, production, operation, maintenance and delivery of aerospace products and services.
- Implemented an enterprise-wide Safety Management System "SMS" and established a Quality Management System "QMS" to fully embed safety and quality across total production process
- -Named a new chief aerospace safety officer with accountability to Boeing's Aerospace Safety Committee and created 4 operations councils overseeing all BA manufacturing, quality, supply chain and program management teams.
- Executive compensation changed with an increased focus on operational performance tied to product safety, employee safety, quality along with climate area.

Neuberger Berman will continue future engagements to address additional improvements that can and should strengthen BA's product safety and risk oversight systems. While the manager has and will continue to raise concerns regarding greater risk oversight procedures, ultimately the changes implemented by Boeing along with design improvements allowed the 737 Max to be recertified globally.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS PENSION SCHEME IMPLEMENTATION STATEMENT (continued)

Appendix 2 – ESG, Voting and Engagement Policies

Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	schroders-esg-policy.pdf https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html
Vanguard	https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf
Morant Wright	https://www.morantwright.co.uk/sites/default/files/policies/voting_policy_2023.pdf
Morgan Stanley	https://www.morganstanley.com/im/publication/resources/proxyvotingpolicy_msim_en.pdf?1615985960657
Ninety One	https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf
Fundsmith	https://www.fundsmith.co.uk/media/swxplrtk/responsible-investment-policy.pdf
Leadenhall	https://www.leadenhallcp.com/esg
Neuberger	https://www.nb.com/en/global/esg/engagement
CBRE	CBRE Global ESG policy: https://www.cbreim.com/-/media/project/cbre/bussectors/cbreim/cbreim-global-esg-policy.pdf
Insight	https://www.insightinvestment.com/investing-responsibly/

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT

1. Introduction

The Trustee is required to make publicly available online a statement ("the Implementation Statement") covering Leonardo Electronics 100+ Section Retirement Account Plan ("the Scheme") in relation to the Scheme's Statement of Investment Principles (the "SIP").

The SIP was updated over the Scheme year in September 2022. Changes made are detailed in the section below. A copy of the current SIP signed and dated September 2022 can be found at: www.lepensions.co.uk/compliance.

This Implementation Statement covers the Scheme year from 6 April 2022 to 5 April 2023. It sets out:

- Details of any review of and/or changes made to the SIP;
- How, including the extent to which, the Scheme's SIP has been followed over the year;
- How, including the extent to which, the Trustee's policies on exercising voting rights and engagement have been followed over the year; and
- The voting by or on behalf of the Trustee, including the most significant votes cast and any use of a proxy

A new set of guidance ("the Guidance") from the Department for Work and Pensions ("DWP") has been issued with a series of statutory & non-statutory guidance. They aim to encourage the Trustee of the Scheme to properly exercise their stewardship policy including both voting and engagement which is documented in the Scheme's SIP. This Implementation Statement has been prepared to provide the details on how the Trustee of the Scheme, with the help of the Scheme's Fiduciary Manager, has complied with the new statutory guidance set by DWP.

A copy of this Implementation Statement is available on the following website:
www.lepensions.co.uk/compliance

Given the activities carried out during the Scheme Year and by preparing this Implementation Statement, the Trustee believes that it has acted in accordance with the DWP Guidance over the Scheme Year.

2. Summary of changes to the SIP during the Scheme year

The SIP was last updated in 2022 with changes coming into effect in September 2022. As such, the Trustee has fulfilled its obligation to review the Scheme's SIP at least every three years. The changes were immaterial.

3. Implementation of the Trustee's policies during the Scheme year

The following wording sets out the actions taken by the Trustee over the year to 5 April 2023 in order to follow various policies within the SIP.

Investment governance

The Trustee has governed the Scheme in line with the SIP.

The Trustee has met four times over the year to discuss investment matters in relation to the 100+ Retirement Account Plan. This allowed the Trustee to make the important decisions on investment policy, while delegating the day-to-day aspects to the appointed Fiduciary Manager as appropriate. There have been no changes to the Scheme's investment governance policy over the Scheme year.

Over the Scheme year the Trustee received quarterly information on the performance of the investment strategy from the Fiduciary Manager. This information was formally reviewed by the Trustee and discussed with the Fiduciary Manager. During these discussions the Trustee ensured it was clear what the key portfolio activity was over the reporting period and the rationale for any portfolio changes, as well as the key contributors and detractors to investment performance over the period.

The quarterly investment governance reports the Trustee received from the Fiduciary Manager includes information on the default strategy's exposure to ESG, ethical and carbon risk factors. Based on this ongoing assessment the Trustee is comfortable with the default strategy's level of exposure to these risk factors.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the Fiduciary Manager. The self-select funds, which comprise passively managed funds, effectively tracked their respective benchmarks gross of fees.

The Trustee is required to review the SIP at least every three years. This was last undertaken in September 2022.

The Trustee is comfortable the investment strategy performed as expected during the Scheme year, given wider market conditions.

Corporate Governance and Stewardship

The SIP sets out how the Trustee delegates responsibility around corporate governance and stewardship to the Fiduciary Manager. The Trustee believes that the specific policies set out in the SIP have been complied with this year based on the details below.

The Trustee uses the Fiduciary Management service of **Schroders IS Limited** as their Investment Manager and Adviser (it is referred to as the "**Fiduciary Manager**" in the Implementation Statement). Schroders Group, a global asset manager, has a long history of engagement and active ownership, dating back to 1998 when it appointed its first governance resource, and has recorded and monitored ESG engagements since then. The Fiduciary Manager has the following credentials in ESG management:

- Signatory to the UK Stewardship code
- A+ rating for UN Principles for Responsible Investment
- A- rating for Carbon Disclosure Project
- Advanced ESG recognition from Morningstar
- Best Investor Engagement recognition from IR Society Best Practice Award for 2021
- Engagement Blueprint awarded ESG Engagement Initiative of the Year at Environmental Finance's Sustainable Investment Awards 2022

The Fiduciary Manager can appoint other investment managers in respect of underlying investments (these are referred to as "**Underlying Investment Managers**"). The Scheme invests in some assets with voting rights attached (e.g. equities) and with engagement possible in relation to most asset classes. Whilst the Trustee has delegated responsibility to the Fiduciary Manager and Underlying Managers for voting and engaging on its behalf, the Trustee regularly reviews the approach and stewardship policies of the Fiduciary Manager to ensure they are aligned with the Trustee's beliefs and objectives.

A copy of the SIP has been provided to the Fiduciary Manager, and the Fiduciary Manager is expected to follow the Trustee's policies on corporate governance and other financially material considerations when providing Fiduciary Management services. However, given that the investments with the Underlying Investment Managers are generally made via pooled investment funds (where the Scheme's investments are pooled with those of other investors), the Fiduciary Manager does not have direct control over the voting or engaging with the companies that issue the underlying securities. This process lies with the Underlying Investment Manager, who may have different engagement priorities than the Trustee. Therefore, the Trustee requires the Fiduciary Manager to integrate stewardship activities such as voting and engagement, and Environmental, Social and Governance (ESG) factors including climate change, when choosing new or monitoring existing Underlying Investment Managers.

The Trustee believes it is appropriate to delegate such decisions in order to achieve an integrated and joined up approach to ESG factors, voting and engagement. Similarly, the Trustee has not sought to set their own voting policy, a position they do not intend to change at this time.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

On behalf of the Trustee, the Fiduciary Manager carried out regular investment and operational due diligence on the Underlying Investment Managers to monitor voting and engagement policies concerning the Scheme's investments. In addition, with the help of the Fiduciary Manager, the Trustee monitors the performance of the

Underlying Investment Managers against the agreed performance objectives at quarterly ISC meetings held during the Scheme Year. Over the Scheme Year, the Fiduciary Manager provided the Trustee with monitoring of the ESG characteristics including TCFD ("Taskforce for climate-related financial disclosures") carbon metrics of the portfolio on a quarterly basis. The Trustee is satisfied with the Fiduciary Manager's activity in this area.

Financially material factors including ESG and climate change

The Trustee attributes appropriate weight to ESG factors (and stewardship) when considering changes to the investment strategy and in appointing and reviewing investment managers. The Trustee's expectations for any current or future investment manager depends on the asset class involved, the degree of discretion given to the investment manager, and the time horizon over which the Trustee expects to hold the investment.

The SIP was updated in 2019 and 2020 to reflect new regulatory requirements relating to financially material factors (including ESG and climate change). This section considers the actions taken and decisions made in connection with those changes.

The Fiduciary Manager, who takes investment decisions on behalf of the Trustee, is expected to follow the Trustee's SIP in respect of financially material factors specifically ESG and climate change. The Trustee receives and reviews quarterly monitoring reports which include a matrix of ESG scores of the Scheme's portfolio and details of carbon emissions.

During the Scheme Year, the Trustee has received training on the latest DWP Guidance. To support the Trustee in meeting the new requirements, the Trustee also received training on Schroders' Engagement Blueprint, which sets out the six engagement themes the Scheme's Fiduciary Manager believes to be most financially material. These are the themes the Fiduciary Manager will align the majority of its own engagement of underlying managers with. To agree on which of these themes the Trustee prioritises in its own stewardship activities, the Trustee completed a survey selecting three engagement themes it will use for engagement and monitoring of the Fiduciary Manager's activities. As a result of the survey, the Trustee of the Scheme has determined their stewardship priorities to be Climate Change, Corporate Governance and Human Rights.

The Trustee believes these themes are issues material to the long-term value of the investments. These issues also reflect expectations and trends across a range of stakeholders, and by strengthening relationships with these stakeholders, business models become more sustainable, which ultimately should enhance the value added to the Scheme's investment and hence benefit the Scheme's members and beneficiaries. Therefore the Trustee believes that companies that address those issues, when they are material and relevant, will drive improved financial performance for the Scheme.

When the Fiduciary Manager invests the Scheme's assets in equities, it typically uses a mandate where it can directly invest to take account of relevant factors such as ESG. For example, in its primary equity mandate with BNY Mellon, an Underlying Investment Manager, the Fiduciary Manager seeks to avoid investing in companies with poor or worsening ESG credentials, where ESG represents a risk to the value of the investment, and seeks to invest in those companies with good or improving ESG credentials, where ESG represents an opportunity for investment growth. The Trustee is satisfied that the policies in its SIP are being adhered to.

Where the Fiduciary Manager selects Underlying Investment Managers where it cannot directly influence ESG factors, how an Underlying Investment Manager evaluates ESG factors and mitigates ESG risks forms an important part of its evaluation at both investment and operational due-diligence stages. This may lead to the exclusion of potential Underlying Investment Managers.

In addition, the Trustee also received other training on topics such as Climate Risk and ESG updates within the Fiduciary Management solutions. As part of ongoing monitoring of how the Fiduciary Manager has exercised the Trustee's stewardship policy over the Scheme Year, the Trustee reviewed the Fiduciary Manager's Annual ESG report in early 2023 and ensured it was satisfied with the actions taken on its behalf concerning ESG integration within the investments and stewardship activities.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Monitoring

Over the year the Trustee monitored the performance of the underlying managers, and the strategy as a whole, on a quarterly basis. The market conditions over the Scheme year were particularly volatile when compared to recent years, with most of the major asset classes returning negatively. Whilst the 12 month returns have not kept pace with the long-term benchmark, the returns since inception have held up well. The Trustee is satisfied the strategy performed as expected during this period in the context of the market conditions, through mitigating the worst of the wider market falls, especially for those members closest to retirement.

Risk management

This section of the SIP sets out how risks are monitored and managed within the Scheme. Many of these aspects are also covered in various other parts of the SIP and hence in this section there may be some repetition from other parts of the Implementation Statement. The Trustee is satisfied that risks are monitored in line with the SIP on the basis set out below.

The Trustee sets investment guidelines for the Fiduciary Manager which cover a range of risks to manage which are mitigated by minimum or maximum amounts of diversification, liquidity and counterparties. The Fiduciary Manager has operated within these restrictions throughout the Scheme Year. The Trustee has monitored the Fiduciary Manager against the investment guidelines on a quarterly basis through quarterly monitoring reports and is satisfied that the guidelines have been adhered to on the basis of those reports.

The default arrangement's risk characteristics (volatility of returns) were within tolerances agreed with the Fiduciary Manager. The self-select funds, which comprise passively managed funds, effectively tracked their respective benchmarks gross of fees.

The Trustee maintains a risk register that gives consideration to the risks detailed in the SIP. Risks are assessed using a "treat, tolerate, transfer, terminate" control framework.

In identifying and evaluating all risks, the Trustee assesses both impact and likelihood (among other items). Mitigation of all risks identified is considered and applied where appropriate as part of the process.

In addition, risk identification is a standing agenda item in all quarterly Trustee meetings.

Non-financially material factors

In line with the SIP, The Trustee does not at present take into account non-financial matters (such as members' ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold.

Default Investment Strategy and Self-select range

The Trustee's objectives for the Scheme are:

- To provide members with a robust default solution which makes available vehicles designed to focus on members' needs by:
 - Optimising the value of members' assets at retirement;
 - Maintaining the purchasing power of members' savings; and
 - Protecting the value of accumulated assets as members approach retirement.
- To provide members with a range of investment options to enable them to tailor their investment strategy to their own needs, should they not wish to partake in the default solution.
- To avoid over-complexity in investment in order to keep administration costs and member understanding to a reasonable level.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

A review of the default strategy took place in Q1 2022, with a number of changes agreed:

- The strategic allocation targets were amended for all three blended funds to ensure they are better placed to continue to meet member objectives;
- The lifestyle period into Retirement Focus was extended from 3 to 5 years for both the default lifestyle and self-select lifestyle strategies;
- The member choice framework was partially consolidated by combining the Retirement Focus (Drawdown) and Retirement Focus (Default) options; and
- The Retirement Focus (Default) allocation was amended to reflect a more drawdown-focussed approach and provide greater alignment with members' typical post-retirement solution

At least once in each Scheme year, the Trustee reviews the suitability of the Scheme's self-select options. Following a Trustee training session and subsequent advice provided by their Fiduciary manager, the Trustee decided to maintain the previously agreed range of self-select funds.

The Trustee is comfortable the investment strategy reflects the needs of the Scheme's membership. In particular:

- a default strategy which gradually de-risks member's investments as they approach retirement, and reflects inflation-related investment return targets which are aligned to member's expected retirement income requirements; and
- a self-select fund range offering outside the default strategy that offers members a wide choice of asset classes and risk-based options, without the range being so large as to be overwhelming and hinder member decision-making. In addition, members can choose to invest in the alternative lifestyle funds, introduced in 2018.

Strategy implementation

The Trustee has chosen to incorporate active management within the default arrangement, through the Fiduciary Manager. This is aligned with the Trustee's investment belief that active management can add value by managing risk during adverse market conditions, and taking advantage of investment opportunities to generate return, subject to the agreed risk tolerances of the default arrangement's funds.

The Trustee has chosen to incorporate passive management within the self-select fund range (aside from the self-select lifestyle profiles, which mirror the default arrangement during the growth phase). The Trustee believes passive management offers low cost, effective access to the core range of asset classes offered within the range, for those members actively choosing to access those asset classes.

The policies set out above were unchanged during the Scheme year.

The Trustee receives quarterly reports from the Scheme's administrators that enable it to monitor the administration service and, in particular, that agreed service levels are being met in relation to the accuracy and timeliness of core financial transactions, including correct investment of ongoing contributions.

Further detail regarding the processing of core financial transactions over the year is set out in the DC governance statement ("Chair's Statement").

The Trustee delegates the day to day management of the assets to various investment managers, these managers are accessed through the Mobius Life platform.

Aspects of implementation related to administration, investment of contributions and transitions are reviewed annually by the Trustee in its Value for Members assessment. Details of this are set out in the Chair's Statement.

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

4. Voting and Engagement Summary

On behalf of the Trustee the Fiduciary Manager exercises voting rights in relation to pooled funds managed by the Underlying Investment Managers, in line with its voting policy.

Most voting rights and engagement regarding the Scheme's investments relate to underlying securities within these pooled funds. At a general meeting of a company, the Underlying Investment Managers exercise voting rights and engage with the company issuing the security in line with their policies, which the Fiduciary Manager may have influenced. Nonetheless, the pooled funds themselves often confer certain rights around voting or policies, which the Fiduciary Manager exercises on behalf of the Trustee, and we cover these here.

Over the year to 31 March 2023, the Fiduciary Manager engaged with Underlying Investment Managers regarding clients' pooled fund investments on 95 resolutions across 23 meetings. The Fiduciary Manager voted against management on 4 resolutions which was 4.2% of total resolutions, and abstained on 4 resolutions (4.2% of the total resolutions). The engagement topics covered a range of areas, including executive board composition, investment management processes, fund documentation, auditor tenure and fund costs.

Within the Scheme's portfolios, **BNYM Global Equity Fund** makes up the majority of the Scheme's investments in return-seeking assets, with equity being the only asset class to hold voting rights. The Trustee reviewed the BNYM semi-annual proxy voting reports (links included in Appendix) and noted that BNYM prioritised stewardship with each of their underlying holdings on areas broadly in line with Schroders Solutions' engagement themes.

The Trustee has considered the voting statistics and behaviour set out in this Implementation Statement, along with engagement activity that took place on their behalf during the Scheme Year within the Long Term growth, Stable Growth, Cautious Growth and Retirement Focus funds, and is pleased to report that the Fiduciary Manager and the Underlying Investment Managers have demonstrated high levels of voting and engagement in line with its stewardship policy.

Specifically, the Trustee noted that:

- The Fiduciary Manager has carried out a high level of engagement activities with the Underlying Investment Managers, and some good progress has been achieved such that many of the Underlying Investment Managers' ESG credentials have improved over the Scheme Year.
- Each manager demonstrated very high levels of voting rights being acted on, where voting is relevant. Where the voting was irrelevant, the Underlying Investment Managers showed they carried out a good level of engagement activities over the Scheme Year.
- Challenge to management was demonstrated through votes by the Underlying Investment Managers against management.
- In this Implementation Statement, the Trustee considered relevant examples in relation to its own stewardship priorities. Examples were provided in the appendix.
- As the Trustee has refined its stewardship priorities this year, it considers the most significant votes to be those that both relate to these priorities and are defined as significant by the Underlying Managers (of the most material holdings) based on their specific knowledge of the circumstances around each vote. The Trustee has communicated this with the Fiduciary Manager, and as per DWP guidance, all votes which meet these criteria have been reported below.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Voting by the Underlying Investment Managers on securities held on behalf of the Trustee

Most Significant Votes

Over the Scheme year, 15 votes were defined as 'Significant' by the Underlying Investment Managers, based on data provided to the Trustee. 'Significant' here is defined as votes that are:

- aligned with the Trustee's stewardship priority themes of Corporate Governance, Human rights, and Climate change, and;
- relating to a stock with an allocation greater than 0.15% of total assets within any of the DC blended funds

The Trustee will engage with the Fiduciary Manager to request that they engage with the Underlying Managers to provide more examples of votes in line with the Trustee's stewardship priorities.

Summary of voting statistics – of underlying Equity managers

The Fiduciary Manager uses c. 15 Underlying Managers; however, the equity holdings are the only asset class with voting rights. The voting statistics set out below for the most material equity funds held on behalf of the Trustee that had voting rights during the period.

	<u>BNYM Global Equity Fund</u>	<u>Legal & General World Equity Index - GBP Currency Hedged</u>	<u>Legal & General Europe ex UK Equity Index - GBP Currency Hedged</u>	<u>Vanguard S&P 500</u>
Total meetings eligible to vote	926	3,145	618	3,133
Total resolutions eligible to vote	11,723	38,823	10,391	27,807
% of resolutions did you vote on for which you were eligible?	93%	100%	100%	97%
% did vote with management?	93%	79%	81%	91%
% vote against management?	7%	20%	19%	8%
% abstained	0%	1%	1%	2%
% of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	926	14%	10%	0%

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Notes:

- BNYM uses Institutional Shareholder Services, "ISS", for proxy voting services.
- Vanguard Investment Stewardship uses the Institutional Shareholder Services (ISS) Proxy Exchange platform for the execution of their votes.
- BNYM uses Institutional Shareholder Services, "ISS", for proxy voting services
- The voting statistics provided may slightly differ depending on the exact composition the Scheme holds.
- BNYM have included votes abstained (in order to be in line with the PLSA template which other managers have used), although there are differences between votes withheld and votes abstained.
- Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted different ways, or a vote of "Abstain" is also considered a vote against management.

The Trustee is satisfied that the voting and engagement activities undertaken by both Fiduciary Manager and the Underlying Investment Managers align with the stewardship priorities the Trustee has determined during the Scheme Year. The Trustee is looking to update the SIP next year to include the enhanced stewardship policy it developed under DWP Guidance.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Appendix A – Voting and Engagement examples

Engagement by the Fiduciary Manager (Schroders IS) in relation to underlying pooled funds held on behalf of the Trustee

In addition to the voting and engagement outlined in section 3 below, over the Scheme Year, the Fiduciary Manager also:

- engaged with the core credit manager, Neuberger Berman, regarding some particularly high emitting companies within the fund that was leading to higher than benchmark carbon footprint metrics;
- engaged with significant Underlying Investment Managers (in particular, BNYM) on the quality of its voting and engagement as the Fiduciary Manager was not satisfied with the quality of data previously provided.
- engaged with the two managers who were rated 'red-engagement' on Schroders' ESG scoring matrix.

The engagement activities and outcomes are outlined in the table below:

Top engagement themes	
Manager A – Equity	<ul style="list-style-type: none"> ▪ Engaged with the manager in Q4 following their decision to exit net zero asset manager initiative – engagement ongoing ▪ Board independence and diversity ▪ Incorporating ESG into employee training and appraisals/remuneration ▪ Voting policy and engagement processes
Manager B – Alternatives	<ul style="list-style-type: none"> ▪ A number of engagements with various people in separate ESG functions across the business to understand what progress has already been made in the last 12m and what expectations are for the future ▪ Focus on D&I and how the manager has improved its processes and increased the effectiveness of its committee structure, Formalise diversity policy ▪ Formalise voting and engagement policy ▪ Formalise ESG investment policy

Examples of voting and engagement carried out by the Underlying Managers

Engagement Theme	Manager	Examples
Climate change	T. Rowe Price, PIMCO, Marshall Wace	Health & Happiness, British multinational banking and financial services organization, Stellantis, Sumitomo
Human Rights	LGIM	Amazon
Corporate governance	Neuberger Berman	Boeing

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Climate Change – Health & Happiness

T. Rowe Price, one of the credit managers, had three objectives for their engagement of Health and Happiness (H&H). One was to request more details on their decarbonisation journey, specifically a strategy for the firm to reduce the footprint of dairy cows in their supply chain. The Manager also wanted a timeline for full emission reporting, and lastly an update on progress towards achieving B-Corp Certification.

The following topics were discussed:

1. Continuous progress in decarbonisation – T. Rowe Price believes that H&H has made some good progress but still does not provide full disclosure on its group-wide scope 1-3 emissions and is still looking to set a net zero target.
2. B-Corp Certification – H&H is confident that they are on track to achieve Group-wide B-Corp Certification by the end of 2025 with clear plan and milestone set.
3. Annual investment to support farmers in France since 2013 – H&H has been doing this to ensure ongoing sustainable supply of dairy products and lower carbon impact.

As a result of the engagement, T. Rowe Price imparted their views on best practices and asked that within the next 2 years the company would disclose its group-wide scope 1-3 emissions data and set net zero targets; and continue to work towards achieving B-Corp Certification.

Human rights – Amazon

LGIM, manager of the World Equity Index voted against the management proposal to elect director Danial P Huttenlocher. LGIM pre-declared its vote intention for this resolution, demonstrating its significance. LGIM justified its voting direction on a human rights basis, as the director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings. The outcome of the vote was in favour of the management proposal.

Climate Change – Stellantis

Marshall Wace ("MW"), one of the alternative managers, has been engaging with Stellantis, a global automaker and provider of mobility solutions. Stellantis was born from the merger of the Italian American Fiat-Chrysler and the French Peugeot groups. The company is currently undergoing a transformation process to integrate the different businesses and to focus on electrification.

As part of their electrification and net zero strategy the company has established a target for 100% of passenger car sales in Europe and 50% of passenger car and light-duty truck sales in the US to be EVs by 2030. They have also designed a circular economy strategy, including setting up hubs to dismantle, repair and reuse auto parts.

- During their engagement process, Stellantis told MW that sustainability is not a separate business division and instead it's fully integrated into each department. This is a constructive approach. However, it's apparent to MW that the group would benefit from someone coordinating all the electrification and sustainability related initiatives.
- Whilst the company has set robust and ambitious targets, MW believe they will have to further communicate a clear and detailed plan on how they will reach these and also regularly report on progress made. The team at Stellantis initially engaged with MW as part of a broader outreach effort with top shareholders on the back of a negative reaction to the compensation vote at the 2022 AGM.
- MW state that Stellantis have taken on feedback from investors and made positive changes. MW encouraged the communications team to work on the MSCI score and disclosures via the CDP network.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Climate Change - British multinational banking and financial services organisation

PIMCO, one of the Schemes Credit managers, had an ongoing engagement with a British multinational bank. PIMCO held a 1x1 call with the investor relations team, focusing on climate change and human rights.

- During the meeting PIMCO discussed progress on sectoral target setting, financed emissions, client engagement on transition, clarifications on sector policy and grievance and remediation for human rights. PIMCO also discussed the issuer's gaps in their lending policies on natural capital and alignment with net zero and are reviewing the policy though unlikely to be updated in 2022. They encouraged the issuer to clarify their approach to assess and engage clients on transition progress, including clear criteria for assessing clients' transition progress (e.g. against 1.5C pathways, net zero framework by TPI or CA100+).
- PIMCO also recommended more explicit reference to net zero in sector policies, particularly setting out time-bound expectations for all carbon-intensive sectors to have a credible transition plan and/or net zero targets. Furthermore, PIMCO recommended the issuer to set clear criteria for assessing client transition progress, defining engagement strategy, outcomes and escalation process.
- The issuer recognized the room for improvement in strengthening human rights due diligence in lending and intend to improve over the coming years. The issuer is reviewing the lending policies, with updates expected through 2022.

LEONARDO ELECTRONICS PENSION SCHEME

LEONARDO ELECTRONICS 100+ SECTION RETIREMENT ACCOUNT PLAN ('SCHEME') IMPLEMENTATION STATEMENT (continued)

Appendix B – ESG, Voting and Engagement Policies

Links to the voting and engagement policies for both Investment Manager and Underlying Investment Managers can be found here:

Investment Manager & Underlying Investment Manager	Voting & Engagement Policy
Schroders Solutions	schroders-esg-policy.pdf https://www.schroders.com/en/sysglobalassets/about-us/schroders-engagement-blueprint-2022-1.pdf
Bank of New York Mellon	BNYM's voting and engagement policies are included in their annual Mellon proxy voting report which can be found in the link below: https://www.mellon.com/insights/insights-articles/2022-semi-annual-proxy-voting-report.html https://www.mellon.com/insights/insights-articles/proxy-voting-report-spring-2023.html
Vanguard	https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf
Legal and General (LGIM)	https://www.lgim.com/landg-assets/lgim/document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf
Ninety One	https://ninetyone.com/-/media/documents/stewardship/91-stewardship-policy-and-proxy-voting-guidelines-en.pdf
BlackRock	Investment Stewardship BlackRock
Neuberger	https://www.nb.com/en/global/esg/engagement
Marshall Wace	MW Sustainable Investing and Stewardship.pdf (mwam.com)
PIMCO	https://www.pimco.co.uk/en-gb/investments/esg-investing