ANNUAL FINANCIAL REPORT

AT 31 DECEMBER 2017

Disclaimer

This Annual Financial Report 2017 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.

CONTENTS

BOARDS AND COMMITTEES 7

REPORT ON OPERATIONS AT 31 DECEMBER 2017 8

- Group results and financial position 8
- *Other performance indicators* 19
- *"Non-GAAP" alternative performance indicators* 20
- Effects of the new IFRS15 accounting standard "Revenue Recognition" 24
- Outlook 25
- Related party transactions 26
- Industrial and financial transactions 28
- Leonardo and the scenario 32
- Leonardo and risk management 43
- Leonardo and sustainability 50
- Share price 75
- Corporate Governance 77
- Performance of the Parent Company 82
- The Parent Company's offices 85
- Reconciliation of net profit and shareholders'equity of the Group Parent with the consolidated figures at 31 December 2017 86
- Proposal to the Shareholders' Meeting 87

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017 88

- Consolidated accounting statements 89

  Consolidated separate income statement 89

  Consolidated statement of comprehensive income 90

Consolidated statement of financial position 91

Consolidated statement of cash flows 92

Consolidated statement of changes in equity 93

- Notes to the consolidated financial statements at 31 December 2017 94

1. General information 94

2. Form, Content and applicable accounting standards 94

3. Accounting Policies Adopted 95

4. Significant issues and critical estimates by mangement....114

5. Effects of changes in accounting policies adopted....117

6. Significant non-recurring events or transactions....117

7. Significant post balance sheet events 118

8. Segment information 118

9. Intangible assets....120

10. Property, plant and equipment....125

11. Equity investments and share of profits (losses) of equity-accounted investees 126

12. Receivables and other non-current assets....130

13. Business combinations 131

14. Inventories....131

15. Contract work in progress and progress payments and advances from customers 132

16. Trade and financial receivables....132

17. Other current assets 133

18. Cash and cash equivalents 133

19. Equity 134

20. Loans and Borrowings 135

21. Provisions for risks and charges and contingent liabilities 139

22. Employee benefit obligations 150

23. Current and non-current liabilities *154*

24. Trade payables *154*

25. Guarantees and other commitments *154*

26. Revenue *155*

27. Other operating income (expenses) *156*

28. Purchases and personnel expenses *156*

29. Amortisation, depreciation and impairment losses *157*

30. Financial income and expense *158*

31. Income taxes *159*

32. Assets held for sale and discontinued operations *160*

33. Earnings per share *160*

34. Cash flows from operating activities *161*

35. Related party transactions *161*

36. Financial risk management *166*

37. Remuneration to key management personnel *173*

38. Share Base payments *174*

- Attachment: Scope of consolidation 176
- Statement on the consolidated financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended 180
- Independent Auditor's Report on the consolidated 181
- financial statements at 31 December 2017 181

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017 LEONARDO - SOCIETÀ PER AZIONI 182

- Accounting statements to the separate financial statements as at 31 December 2017 183

  Separate income statement 184

  Statement of comprehensive income 184

Statement of financial position 185

Statement of cash flows 186

Statement of changes in equity 187

- Notes to the separate financial statements at 31 December 2017 188

1. General Information....188

2. Form, content and applicable accounting standards....188

3. Accounting Principles 189

4. Effects of changes in accounting policies adopted....189

5. Significant non-recurring events on transactions 190

6. Significant post-balance sheet events....191

7. Segment reporting 191

8. Intangible assets....192

9. Property, plant and equipment and investment property 196

10. Equity investments....197

11. Receivables and other non current assets 198

12. Inventories....199

13. Contract work in progress and progress payments and advances from customers 199

14. Trade and financial receivables....200

15. Income tax receivables and payables....200

16. Other assets....201

17. Cash and Cash equivalents 202

18. Non current assets held for sale....202

19. Equity 202

20. Loans and Borrowings 203

21. Provisions for risks and charges and contingent liabilities....207

22. Employee benefit obligations 214

23.Other non current and current liabilities *215*

24.Trade payables *215*

25.Guarantees and other commitments *216*

26.Revenue *217*

27.Other operating income (expenses) *217*

28.Purchase and personnel expense *218*

29.Amortisation, depreciation and impairment losses *219*

30.Financial income and expense *219*

31.Income taxes *220*

32.Cash flows from operating activities *221*

33.Financial transactions with related parties *222*

34.Financial risk management *228*

35.Remuneration to key management personnel *233*

36.Share-based payments *233*

- Appendices 235
- Statement on the separate financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended 244
- Indipendent Auditors' Report on the separate financial statements as at 31 December 2017 245

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING 246

INFORMATION PURSUANT TO ARTICLE 149. DUODECIES OF THE ISSUER REGULATION 247

Boards and Committees

BOARD OF DIRECTORS *
(for the three-year period 2017 - 2019)

GIOVANNI DE GENNARO
Chairman

ALESSANDRO PROFUMO
Chief Executive Officer

GUIDO ALPA
Director (a, c)

LUCA BADER
Director (a, d)

MARINA ELVIRA CALDERONE
Director (b, c)

PAOLO CANTARELLA
Director (a, c)

MARTA DASSU'
Director (c, d)

DARIO FRIGERIO
Director (b, c)

FABRIZIO LANDI
Director (a, d)

SILVIA MERLO
Director (a, d)

MARINA RUBINI
Director (b, c)

ANTONINO TURICCHI
Director (b, c)

****

LUCIANO ACCIARI
Secretary of the Board of Directors

BOARD OF STATUTORY AUDITORS
(for the three-year period 2015 - 2017)

Regular Statutory Auditors

RICCARDO RAUL BAUER
Chairman

NICCOLÒ ABRIANI

LUIGI CORSI

FRANCESCO PERRINI

DANIELA SAVI

Alternate Statutory Auditors
MARIA TERESA CUOMO
STEFANO FIORINI

INDEPENDENT LEGAL AUDITORS
KPMG S.p.A.
(for the period 2012 - 2020)

---

* The previously serving Board of Directors, the term of office of which expired at the Shareholders' Meeting held on 16 May 2017, was composed as follows: Giovanni De Gennaro (Chairman), Mauro Moretti (Chief Executive Officer and General Manager), Guido Alpa, Marina Elvira Calderone, Paolo Cantarella, Marta Dassù, Alessandro De Nicola, Dario Frigerio, Fabrizio Landi, Silvia Merlo and Marina Rubini.

---

a. Member of the Control and Risks Committee
b. Member of the Remuneration Committee
c. Member of the Nomination, Governance and Sustainability Committee
d. Member of the Analysis of International Scenarios Committee

Report on operations at 31 December 2017

Group results and financial position

Key performance indicator ("KPI")

	2017	2016	Change
New orders	11,595	19,951	(41.9%)
Order backlog	33,578	34,798	(3.5%)
Revenue	11,527	12,002	(4.0%)
EBITDA	1,588	1,907	(16.7%)
EBITA	1,066	1,252	(14.9%)
ROS	*9.2%*	*10.4%*	*(1.2) p.p.*
EBIT	833	982	(15.2%)
EBIT Margin	7.2%	8.2%	(1.0) p.p.
Net result before extraordinary transactions	274	545	(49.7%)
Net result	274	507	(46.0%)
Group Net Debt	2,579	2,845	(9.3%)
FOCF	537	706	(23.9%)
ROI	*14.9%*	*16.9%*	*(2.0) p.p.*
ROE	*6.2%*	*12.6%*	*(6.4) p.p.*
Workforce	45,134	45,631	(1.1%)

Please refer to the section entitled "Non-GAAP performance indicators" for definitions".

From 2014 the Group data no longer include the contribution given by the Joint Ventures invested in by the Group (which mainly include ATR in the Aeronautics sector, MBDA in the Electronics, Defence and Security Systems sector and JVs in the Space sector). The Group's business conducted through the JVs and their strategic and financial importance remain unchanged, while for reporting purposes the JV's contribution is only recognised at the level of profitability ratios (EBITA, EBIT and Net Result) as a result of the valuation at equity and, from a financial point of view, limited to the dividends collected. In 2017 the main Group's JVs recorded total revenues of €bil. 3.0 as concerns Leonardo's share: as a result, the Group's aggregate pro-forma revenues come to about €bil. 14.5.

In line with expectations and with the Guidance updated in November, the figures for the 2017 financial year are affected by certain difficulties encountered in the Helicopters sector with results declining compared with those posted in 2016. Understanding these critical issues and the corrective actions promptly taken in terms of changes in the Group's organisation, processes and governance will enable the Group to resume its path to growth based on the guiding lines set out in the 2018-2022 Industrial Plan, building on the stability and numerous strengths of the Group's various businesses, including and in particular in the sector of *Helicopters*.

Helicopters continue in fact to constitute a business of excellence, with a range of leading products on target markets, increasing shares in the most attractive market segments and growth prospects reflected in the Industrial Plan.

Leonardo may really exploit its favourable market positioning, as well as its sound order backlog (more than €bil. 33.5 at 31 December 2017) and the One Company organisational model to seize market opportunities, through a new business strategy, together with a strict control of costs and investments and an orderly financial strategy focused on cash generation, thus coming back to long-term and sustainable growth.

In particular, the following aspects must be noted in relation to the 2017 results:

- Orders equal to €bil. 11.6. The 2016 result included the non-recurring effect of the acquisition of the EFA Kuwait contract in an amount of €bil. 7.95, excluding which the amount of orders showed a slight decrease (-3%), which was mainly attributable to the abovementioned difficulties that affected the sector of *Helicopters* and to the decline recorded in the sector of *Electronics*, the results of which were also affected by the negative exchange rate effect, in particular on the pound sterling;
- Lower operating profits, with a decrease in ROS from 10.4% to 9.2%, due to the performance of the *Helicopters* sector;
- A net result before extraordinary transactions that showed a decrease compared to 2016, attributable to the decline in EBITA and higher net financial costs, as well as of foreign exchange differences and proceeds from fair value, from which financial costs had benefitted during the comparative period, and above all of costs arising from the repurchase of a portion of the Group's bond issues in 2017;
- A deterioration in cash flow compared to 2016 (-24%) which had benefitted from particularly low uses of net cash for investing activities;
- An improvement (9%) in the Group's Net Debt compared to 2016, despite the outlays arising from the acquisition of Daylight Solutions and of the additional stakes of Avio (for a total of €mil. 168), as well as of the payment of dividends (€mil. 81).

The primary changes that marked the Group's performance compared with that of the previous period are described below. A more thorough analysis can be found in the section covering the trends in each business segment.

December 2017	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	3,153	9,706	3,262	260	8.0%
Electronics, Defence & Security Systems	6,146	12,053	5,506	537	9.8%
Aeronautics	2,615	12,513	3,107	324	10.4%
Space	-	-	-	79	n.a.
Other activities	216	199	338	(134)	(39.6%)
Eliminations	*(535)*	*(893)*	*(686)*	-	*n.a.*
Total	**11,595**	**33,578**	**11,527**	**1,066**	**9.2%**
December 2016	**New orders**	**Order backlog**	**Revenues**	**EBITA**	**ROS %**
Helicopters	3,737	10,622	3,639	430	11.8%
Electronics, Defence & Security Systems	6,726	11,840	5,468	558	10.2%
Aeronautics	10,158	13,107	3,130	347	11.1%
Space	-	-	-	77	n.a.
Other activities	88	174	327	(160)	(48.9%)
Eliminations	*(758)*	*(945)*	*(562)*	-	*n.a.*
Total	**19,951**	**34,798**	**12,002**	**1,252**	**10.4%**
Change %	**New orders**	**Order backlog**	**Revenues**	**EBITA**	**ROS %**
Helicopters	(15.6%)	(8.6%)	(10.4%)	(39.5%)	(3.8) p.p.
Electronics, Defence & Security Systems	(8.6%)	1.8%	0.7%	(3.8%)	(0.4) p.p.
Aeronautics	(74.3%)	(4.5%)	(0.7%)	(6.6%)	(0.7) p.p.
Space	n.a.	n.a.	n.a.	2.6%	n.a.
Other activities	145.5%	14.4%	3.4%	16.3%	9.3 p.p.
Eliminations	*29.4%*	*5.5%*	*(22.1%)*	*n.a.*	*n.a.*
Total	**(41.9%)**	**(3.5%)**	**(4.0%)**	**(14.9%)**	**(1.2) p.p.**

Commercial performance

In 2017 **new orders**, net of the abovementioned contract for the EFA supply to Kuwait, which had been acquired in June 2016, showed a slight decrease (about 3%), which was also due to the effect of an unfavourable GBP/Euro exchange rate. The deterioration was attributable in particular to the sectors of *Helicopters* (-16% compared to 2016) and *Electronics* (in particular as a result of the significant acquisitions that had characterised 2016 in the segment of *airborne systems* on the Typhoon aircraft). On the contrary, the segment of *Aeronautics*, again net of the EFA contract, showed a significant improvement of 18%, as a result of the orders gained for support services to be provided to the fleet of EFA aircraft and on the B787 in the *Aerostructures* division.

The book-to-bill ratio was equal to 1, in line (excluding the effect of the EFA Kuwait contract) with 2016. The order backlog ensures coverage of production of just under 3 years (based on 2017 revenues).

* * * * * * * *

Business performance

Revenues recorded a slight decrease of 4% compared to 2016, also due to the effect of an unfavourable exchange rate arising from the conversion of revenues into GBP and, to a lesser extent, into USD (about €mil. 160 overall). Specifically, against a sharp reduction in the sector of Helicopters, which was affected by delayed production on some product lines, as well as by the abovementioned exchange rate effect, the sectors

of *Electronics* and *Aeronautics* (the latter began to benefit from revenues arising from the EFA Kuwait programme) posted revenues in line with 2016.

EBITA showed a decrease of 14.9% compared to 2016, with a decline of 1.2% in ROS, and was strongly affected by lower volumes and profits in the sector of *Helicopters*, as well as, to a lesser extent, by the results achieved in the sectors of *Aeronautics* and *Electronics,* against a lower loss recorded in the segment of *other activities* compared to 2016. The decline in EBITA was partly absorbed by a reduction in non-recurring costs and costs for restructuring (-€mil. 38), thus entailing a decrease of €mil. 149 in **EBIT** compared to 2016.

The **net result before extraordinary transactions** showed a decline compared to 2016, which was due to the performance of EBIT, as well as to higher financial costs. The deterioration of financial costs of €mil. 157 compared to 2016 was attributable to costs (€mil. 97) arising from the buy-back transactions on a portion of the Group's bond issues (these transactions are largely dealt with in the section on "*Financial transactions*"); on the contrary, the 2016 financial year benefitted from positive exchange differences which were also reflected in the fair values of the derivatives, with a delta of + €mil. 75 compared to 2017. The Group's tax burden was affected by the US taxation system reform launched by Trump's government, as a result of which deferred tax assets recorded in the United States of America were redetermined on the basis of the new federal tax rate (decreased from 35% to 21%), with a charge of about €mil. 50 accrued in the 2017 financial year. While excluding this effect, the tax rate showed an improvement in 2017, which was attributable to a reduction in the IRES (Corporate Income) tax rate from 27.5% to 24% in Italy.

The **net result** for the period was equal to the **net result before extraordinary transactions,** in the absence of extraordinary transactions (on the contrary, the 2016 financial year was affected by the effects arising from the transfer of operations carried out with Sukhoi on the Superjet programme in the *Aeronautics* sector and from the disposal of the Environmental business of Leonardo DRS ("DRS"), net of the capital gain from the disposal of FATA).

Below is shown the income statement for the two periods compared:

(€ millions)	Note	2017	2016	Change	% Change
Revenues		11,527	12,002	*(475)*	*(4.0%)*
Purchase and personnel expense	*(*)*	(10,093)	(10,396)		
Other net operating income/(expenses)	*(**)*	(117)	6		
Equity-accounted strategic JVs	*(***)*	271	295		
Amortisation, depreciation and impairment losses	*(****)*	(522)	(655)		
EBITA		**1,066**	**1,252**	***(186)***	***(14.9%)***
ROS		*9.2%*	*10.4%*	*(1.2) p.p.*	
Non-recurring income/(charges)		(79)	(71)		
Restructuring costs		(56)	(102)		
Amortisation of intangible assets acquired as part of business combinations		(98)	(97)		
EBIT		**833**	**982**	***(149)***	***(15.2%)***
EBIT Margin		*7.2%*	*8.2%*	*(1.0) p.p.*	
Net financial income/(expense)	*(*****)*	(436)	(279)		
Income taxes		(123)	(158)		
Net result before extraordinary transactions		**274**	**545**	***(271)***	***(49.7%)***
Net result related to discontinued operations and extraordinary transactions	*(******)*	-	(38)		
Net result		**274**	**507**	***(233)***	***(46.0%)***

Notes to the reconciliation between the reclassified income statement and the statutory income statement (for more details, reference should be made to the Note on "Non-GAAP alternative performance indicators"):

(*) Includes "Purchases and Personnel expense" (net of restructuring costs of non-recurring costs) and "Accruals (reversals) for final losses on orders".

(**) Includes the net amount of "Other operating income" and "Other operating expenses" (net of restructuring costs, impairment of goodwill, non-recurring income/(expense) and accruals (reversals) for final losses on orders).

(***) Includes the effects of the valuation, classified under the "Share of profits (losses) of equity-accounted investees", of strategic investments only.

(****) Includes "Amortisation, depreciation and impairment losses", net of the amortisation rates referable to intangible assets acquired as part of business combinations and of write-downs regarded as "Non-recurring costs".

(*****) Includes "Financial income", "Financial expense" (net of the gains (losses) relating to extraordinary transactions) and "Share of profits (losses) of equity-accounted investees" (net of the results of strategic joint ventures).

(******) Includes "Profit (loss) from discontinued operations" and "Gains (losses) relating to extraordinary transactions (key acquisitions and disposals)".

* * * * * *

Financial performance

FOCF posted a positive result of €mil. 537, showing a deterioration compared to 2016 (€mil. 706), which had benefitted from particularly low uses of net cash for investing activities.

Strategic transactions included the cash-out arising from the acquisition of Daylight Solutions (€mil. 123) and of the additional stakes of Avio (€mil. 45).

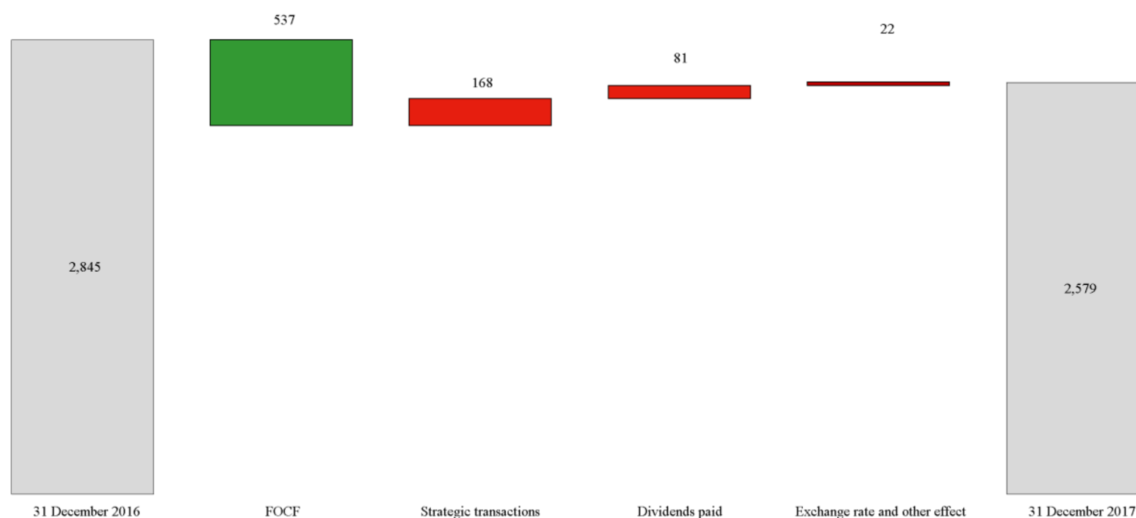
The negative change in loans and borrowings was attributable to the repayment of the debenture loan due December and to the repurchases of bonds made in 2017, net of the placement of new bonds of €mil. 600.

(€ millions)	Note	2017	2016	Change	% Change
Cash flows generated from operating activities	(*)	795	892	(97)	(10.9%)
Dividends received		295	241		
Cash flows from ordinary investing activities	(**)	(553)	(427)		
Free Operating Cash Flow (FOCF)		**537**	**706**	**(169)**	**(23.9%)**
Strategic transactions	(***)	(168)	-		
Change in other investing activities	(****)	12	(10)		
Treasury shares purchase		-	(35)		
Net change in loans and borrowings		(520)	(237)		
Dividends paid		(81)	(4)		
Net increase (decrease) in cash and cash equivalents		**(220)**	**420**		
Cash and cash equivalents at 1 January		2,167	1,771		
Exchange rate differences and other changes		(54)	(24)		
Cash and cash equivalents at 31 December		**1,893**	**2,167**		

Notes on the reconciliation between the reclassified cash flow and the statutory cash flow:

(*) *Includes "Cash flows used in operating activities", excluding debt payments pursuant to Law 808/1985.*
(**) *Includes "Cash flow generated from (used in) investing activities, net of debt payments pursuant to Law 808/1985 and dividends collected.*
(***) *Includes "Other investing activities" classified as "Strategic transactions".*
(****) *Includes "Other investing activities" (excluding dividends collected and the effect of operations classified as "Strategic transactions").*

This performance had a positive impact on the overall value of the **Group Net Debt**, which decreased by 9% compared to 31 December 2016, despite the cash-out arising from the abovementioned strategic transactions (€mil. 168) and the payment of dividends (€mil. 81). Compared to 31 December 2016, there were the following changes:



Net invested capital and fixed assets remained substantially in line with 2016, with a slight decrease arising from the translation of assets denominated in GBP, which also impacted on equity.

(€ millions)	Note	31 December 2017	31 December 2016
Non-current assets		11,694	12,119
Non-current liabilities		(2,972)	(3,373)
Capital assets	(*)	**8,722**	**8,746**
Inventories		4,381	4,014
Trade receivables	(**)	6,072	5,965
Trade payables	(***)	(10,169)	(9,295)
Working capital		284	684
Provisions for short-term risks and charges		(793)	(792)
Other net current assets (liabilities)	(****)	(1,152)	(1,434)
Net working capital		**(1,661)**	**(1,542)**
Net invested capital		**7,061**	**7,204**
Equity attributable to the Owners of the Parent		4,468	4,357
Equity attributable to non-controlling interests		16	16
Equity		**4,484**	**4,373**
Group Net Debt		**2,579**	**2,845**
Net (assets)/liabilities held for sale	(*****)	**(2)**	**(14)**

Notes to the reconciliation between the reclassified and the statutory statements of financial position (for more details, reference should be made to the Note on "Non-GAAP alternative performance indicators"):

(*) Includes all non-current assets and all non-current liabilities, net of "Non-current loans and borrowings" and of the main non-current financial receivables, respectively.
(**) Includes "Contract work in progress".
(***) Includes "Progress payments and advances from customers".
(****) Includes "Income tax receivables", "Other current assets" (excluding "Hedging derivatives in respect of debt items"), net of "Income tax payables" and "Other current liabilities" (excluding "Hedging derivatives in respect of debt items").
(*****) Includes the net amount of "Non-current assets held for sale" and "Liabilities associated with assets held for sale".

Group net financial debt breaks down as follows:

(€ millions)	31 December 2017	*of which current*	31 December 2016	*of which current*
Bonds	3,647	*599*	4,375	*638*
Bank debt	246	*60*	297	*59*
Cash and cash equivalents	(1,893)	*(1,893)*	(2,167)	*(2,167)*
Net bank debt and bonds	**2,000**		**2,505**	
Fair value of the residual portion in portfolio of Ansaldo Energia	-		(138)	
Securities	(3)	*(3)*	-	-
Current loans and receivables from related parties	(110)	*(110)*	(40)	*(40)*
Other current loans and receivables	(47)	*(47)*	(58)	*(58)*
Current loans and receivables and securities	**(160)**		**(236)**	
Non current financial receivables from Superjet	(48)	-	(65)	-
Hedging derivatives in respect of debt items	(2)	*(2)*	35	*35*
Related-party loans and borrowings	701	*701*	502	*502*
Other loans and borrowings	88	57	104	68
Group Net Debt	**2,579**		**2,845**	

The reconciliation with the net financial position required by CONSOB Communication no. DEM/6064293 of 28 July 2006 is provided in Note 20.

As noted above, "Bonds" reported a reduction as a result of the redemptions made in December and of the early repurchase of debentures (these transactions are largely dealt with in the section on "*Financial transactions*"), net of the placement of new bonds on the market for a nominal amount of €mil. 600.

During the period the remaining 15% held in Ansaldo Energia was sold to CDP Equity, which had already been the object of put&call option rights whereby the item had been taken as a reduction in the Group Net Debt (€mil. 138 at 31 December 2016).

In the course of the financial year the Group factored receivables without recourse for a total carrying value of approximately €mil. 1,306 (€mil. 1,586 in 2016).

To meet the financing needs for ordinary Group activities, at 31 December 2017 Leonardo had a revolving credit facility for a total amount of €mil. 2,000. The terms and conditions of this agreement are described in the section "Financial Transactions". At 31 December 2017, in the same way as at 31 December 2016, the credit line was entirely unused. This credit line has been replaced by a new Revolving Credit Facility negotiated in February 2018, as commented on in the section of "Financial Transactions".

Leonardo had additional unconfirmed short-term lines of credit of €mil. 735, which also were entirely unused at 31 December 2017, as well as unconfirmed, unsecured lines of credit of approximately €bil. 3.7 at such date.

* * * * * * * *

Below are the key performance indicators by sector:

Helicopters

The 2017 performance was strongly affected by uncertainty and the difficulties experienced by some target markets, as well as by poor flexibility in adapting production systems and planning processes to meet demand trends and requirements of reduced visibility on final configurations, in addition to, among other things, a limited industrial maturity of some new products. As a result, there was a fall in all indicators.

New orders. The reduction was mainly attributable to some delays in government export, which were heightened by, among others, the major contracts signed with the Italian and British Ministries of Defence during the last quarter of 2016. The orders gained in 2017 still reported a good performance of AW139, for a total of 81 helicopters, up compared to 2016.

Revenues. The decline was attributable to the delayed progress of work on some product lines for the reasons mentioned above, as well as to the expected completion of programmes on the AW159/Lynx and CH47 lines for the Italian Army and to the unfavourable exchange rate applicable to the conversion of the companies' accounts into a currency other than the Euro.

EBITA. The reduction was due to the effect of lower revenues and profits, which were affected by rework and inefficiencies due to the abovementioned production difficulties and specific problems on some programmes.

Outlook. In a market scenario that began to show signs of recovery, despite continuing to be characterised by some uncertainties, production volumes are expected to increase in 2018, thus progressively coping with the production difficulties encountered in 2017; this will allow the full exploitation of the potential of the Division's range of products, which are well placed in the most attractive segments. In line with the objective to move back to double-digit margins in 2020, profits are also expected to gradually improve during the year, benefitting from the review of the Group's processes and organisation, as well as from specific actions aimed at improving the industrial performance and competitiveness of its leading products.

Electronics, Defence & Security Systems

2017 was characterised by a good commercial performance, with a book-to-bill ratio that was still higher than 1, revenues in line with 2016 and profits that once again achieved good results, despite being affected by unfavourable exchange rates and a worse mix of work on activities.

New order. Despite a good performance, new orders were less than in 2016, when they had benefitted from major acquisitions in the segment of airborne systems, such as the contract for air support to the Typhoon aircraft for the British Ministry of Defence and the supply of systems for the Typhoon aircraft for Kuwait. Among the main acquisitions for 2017 we highlight the supply of combat systems and related logistic support for 7 naval units for the Qatar Navy within *Land&Naval Defence Electronics,* the Mode-5 contract for the upgrading of the identification systems with the UK Ministry of Defence for more than 350 British air, land and naval platforms in the *Airborn & Space Systems* Division and the order for further activities in the context of the MFoCS (*Mounted Family of Computing Systems*) contract related to the supply by DRS of computers and portable electronic devices for the Army of the United States and, within the *Security & Information Systems* division, the order relating to the package sorting systems at Zurich airports.

Revenues. These were substantially in line with 2016, despite the negative GBP/€ exchange rate effect and, to a lesser extent, USD/€ exchange rate. Lower revenues recorded in the *Airborne & Space Systems* and *Defence Systems* Divisions, which were mainly due to delays in the acquisition of some new orders, were offset by higher volumes of production on electro-optical and infra-red systems and in the businesses of Land & Naval Defence Electronics of DRS, as well as by an increasing contribution from the activities associated with the programmes acquired in previous years by the *Land&Naval Defence Electronics* and *Security & Information Systems* Divisions.

EBITA. There was a slight decrease compared to the same period of 2016 due to the negative exchange rate effect and the mix of activities, which was adversely affected by lower volumes recorded in the sectors of *Defence Systems* and *Airborne & Space Systems.* These results were largely offset by a recovery in the industrial profitability of DRS and within the *Security & Information Systems* Division, as well as by good profits still recorded by other Divisions.

Outlook. In 2018 it is expected that production volumes and profitability will remain substantially stable compared to 2017, thus confirming the upward trend in some business areas and the effects of efficiency improvement actions on industrial processes, capable of also offsetting (i) pressures on margins due to a reduced contribution from major profitable programmes being completed and to the growing contribution from programmes with high pass-through supply rates, and (ii) the challenges associated with contracts being performed, in a context characterised by fierce competition in the target markets.

The Key Performance Indicators of DRS are provided below in US dollars and €:

	New orders	Revenues	EBITA	ROS %
DRS ($mil.) December 2017	2,016	1,914	143	7.5%
DRS ($mil.) December 2016	1,923	1,753	128	7.3%
DRS (€mil.) December 2017	1,785	1,695	127	7.5%
DRS (€mil.) December 2016	1,737	1,584	116	7.3%

Average exchange rate €/USD: 1.1293 (2017) and 1.1069 (2016).

Aeronautics

The 2017 financial year recorded a good commercial performance both for the *Aircraft* and for the *Aerostructures* Divisions, with new orders higher than those reported in the previous year, excluding the impact of the major ca. €bil. 8 EFA Kuwait contract acquired in June 2016.

From a production point of view, in 2017 deliveries were made for 139 fuselage sections and 80 stabilisers for the B787 programme (compared to 121 fuselages and 88 stabilisers delivered in 2016), and 62 fuselages for the ATR programme (95 delivered in 2016), due to the reduced production rates and by some delays in testing operations. For the M-346 programme, 6 aircraft were delivered to the Italian Air Force and there was the completion of the supply of 8 aircraft ordered by the Polish Air Force.

New orders. Excluding the abovementioned EFA Kuwait contract, the increase was mainly attributable to the orders received from the Eurofighter Consortium for the capability maintenance and the supply of support engineering services for the EFA aircraft for the 2017-2021 period, as well as, in the *Aerostructures* Division, to those received from Boeing for the supply of 200 B787 fuselage sections. Among the other major orders acquired during 2017 we highlight:

- for the *Aircraft* Division, the order received from the Italian Air Force for the first 5 units of the new M-345 trainer aircraft, from Lockheed Martin for the F-35 programme, the sale of 3 C27J aircraft to an African country and contracts from various customers for logistic support activities for the C27J, C130J and B707 Awacs aircraft.
- for the *Aerostructures* Division those for the ATR programme related to the supply of 65 fuselages and those for the B767, A380, A321 and Bombardier CSeries.

Revenues. Business volumes remained in line with the final results recorded in 2016; the increase recorded by the *Aircraft* Division, in particular on the activities for the EFA-Kuwait contract, offset the decline in

revenues recorded by the *Aerostructures* Division, due to lower foreign pass-through supplies concerning the B787 programme and to the reduction in the production rates of the ATR and A380 programmes.

*EBITA***.** The decline was due to the lower result recorded by the GIE-ATR Consortium that was affected in particular by a change in the USD/€ exchange rate and that was partly offset by an improvement in the *Aircraft* Division, which benefitted from the abovementioned higher production volumes for the EFA programme. Despite the progress recorded in some areas, the industrial performance in the *Aerostructures* Division remained unsatisfactory as a whole, thus giving rise to results below expectations.

Outlook. In 2018 revenues are expected to remain substantially in line with 2017, with an increase in production volumes in the *Aircraft* Division especially due to the EFA Kuwait contract and to export programmes which would largely offset a decline in the volumes of operations on certain programmes in the *Aerostructures* Division, such as the A380 programme. 2018 profits are confirmed to be at the good levels recorded in 2017, supported by additional industrial efficiency improvement actions and by the good performance of the *Aircraft* Division, which would be able to set off the effect of a lower contribution from ATR and an industrial performance in the *Aerostructures* Division which is not yet satisfactory.

Space

The 2017 performance showed revenues and operating profits that remained substantially stable compared to 2016, in the segments of both manufacturing and satellite services. The results of operations showed a slight increase, mainly due to lower taxes recorded in the segment of satellite services.
As regards the latter segment, 2017 was marked by the launch, occurred in August, of the high resolution optical satellite Opsat 3000 for the Italian Ministry of Defence, for which Telespazio, as the prime contractor of the programme, created the control centre, in addition to the supply of the satellite and launch services. Among the other significant events of 2017, we highlight the beginning of the execution phase of the new contract for the operating management of Galileo, the European navigation satellite system. Within the Galileo programme, the creation of the global data distribution network was completed in July 2017.

In 2017 work also continued on the activities following the launch, which occurred on 5 December 2016, of the Turkish earth-observation satellite GÖKTÜRK-1 used by the Turkish Air Force, with the entry of the system into “pre-operation”, and the subsequent formalisation of the transfer of ownership to the customer for the assembly centre and satellite trials. The system qualification is expected during the first quarter of 2018.

Finally, of particular significance were the four launches carried out by Space X in 2017 for a total of 40 satellites of the Iridium Next constellation created by Thales Alenia Space, which will provide unparalleled capacity in mobile telecommunications, thus ensuring full coverage all over the world.

<u>Outlook</u>. Revenues and profits achieved in 2017 are expected to remain substantially stable in 2018.

* * * * * *

Other performance indicators

	2017	2016	Change
FFO	1,142	1,362	(16.2%)
Research and development expenses	1,539	1,373	12.1%
Net Interest	(263)	(268)	1.9%

Please refer to the section entitled "NON-GAAP alternative performance indicators" for definitions.

The section "Leonardo and sustainability" contains a more detailed description of Research and Development expenses.

* * * * * *

"Non-GAAP" alternative performance indicators

Leonardo's Management assesses the Group's performance and that of its business segments based on a number of indicators that are not envisaged by the IFRSs. Specifically, EBITA is used as the primary indicator of profitability, since it allows us to analyse the Group's marginality by eliminating the impacts of the volatility associated with non-recurring items or items unrelated to ordinary operations.

As required by CESR/05-178b Recommendation, below is a description of the components of each of these indicators:

- ***New orders:*** this includes contracts entered into with customers during the period that satisfy the contractual requirements for being recorded in the order book.
- ***Order backlog***: this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.
- ***EBITDA***: this is given by EBITA, as defined below, before amortisation (excluding amortisation of intangible assets from business combinations), depreciation and impairment losses (net of those relating to goodwill or classified among "non-recurring costs").
- ***EBITA:*** it is arrived at by eliminating from EBIT, as defined below, the following items:
  - any impairment in goodwill;
  - amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;
  - restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.);
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

  EBITA is then used to calculate return on sales (ROS) and return on investment (ROI).

  A reconciliation of Income before tax and financial expense, EBIT and EBITA is shown below (the reconciliation by segment is reported in Note 9):

(€ millions)	2017	2016
Income before tax and financial expenses	562	687
Equity-accounted strategic JVs	271	295
EBIT	**833**	**982**
Amortisation of intangible assets acquired as part of business combinations	98	97
Restructuring costs	56	102
Non-recurring (charges) expense	79	71
EBITA	**1,066**	**1,252**

Non-recurring costs are mainly related to write-downs reflecting management's estimates in respect of the Group's business exposure under pending lawsuits in countries considered at risks and, to a lesser extent, the effects deriving from the discontinuance of minor businesses. Similarly, 2016 costs were related to estimated legal expenses for certain contracts that are subject to ongoing disputes, as well as write-downs made in connection with the exposure in countries at risk. Restructuring costs largely refer to *Electronics, Defence and Security Systems* and *Other Activities*.

- ***Return on Sales (ROS)***: this is calculated as the ratio of EBITA to revenue.
- ***EBIT:*** this is obtained by adding to EBIT (defined as earnings before "financial income and expense", "share of profits (losses) of equity-accounted investees", "income taxes" and "result from discontinued operations") the Group's share of profit in the results of its strategic Joint Ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the "share of profits (losses) of equity-accounted investees".
- ***Net result before extraordinary transactions***: this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (key acquisitions and disposals). Below is the reconciliation:

(€ millions)	2017	2016
Net result	274	507
Effect on extraordinary transactions	-	38
Net result before extraordinary transactions	**274**	**545**

- ***Group Net Debt***: this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items, as well as the main non-current receivables. In particular, the Group Net Debt included the financial receivable (backed by bank guarantees) from SuperJet, recorded within non-current receivables starting from 2016, which will be repaid in 3 years based on the arrangements for the rescheduling of the Group's participation in this programme. Moreover, until 2016 the indicator included the measurement of the residual interest in Ansaldo Energia linked to the put & call rights. In July 2017 Leonardo exercised the put option collecting €mil. 144 from CDP Equity. The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is reported in Note 20 to the consolidated financial statements.

- ***Free Operating Cash-Flow (FOCF)***: this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Group Net Debt), the cash flows generated by (used in) ordinary investing activities (investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments") and dividends received. The calculation of FOCF is presented in the reclassified statement of cash flows shown in the section "Group results and financial position".
- ***Return on Investments (ROI):*** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.
- ***Return on Equity (ROE):*** this is calculated as the ratio of the net result before extraordinary transactions for the financial period to the average value of equity in the two comparative periods.
- ***Workforce:*** the number of employees recorded in the register on the last day of the period.
- ***Funds From Operations (FFO)***: this is cash flow generated by (used in) operating activities net of changes in working capital and the repayment of debts under Law 808/1998, included within "*Cash flow from ordinary investing activities*" in the reclassified statement of cash flows. The FFO also includes dividends received.
- ***Research and Development expenditure:*** the Group classifies under R&D all internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. The item includes:
  - development costs capitalised even if covered by grants;
  - research costs, whose activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, or development costs for which the accounting requirements for capitalisation do not obtain, are expensed as incurred;
  - research and development costs reimbursed by the customer as part of existing contracts (which fall under the scope of work in progress from an accounting viewpoint).
- ***Net interest:*** this is calculated as the sum of the items "Interest", "Premiums (paid) received on IRSs" and "Commissions on borrowings" (see the Note on "Financial income and expense" of the consolidated financial statements").

Below are also provided the reconciliation statements between the items in the reclassified tables reported in the Report on Operations and the Income Statement and Balance Sheet tables:

	Scheme	PPA amortis.	Restruct. costs.	Non-recurring	strategic JVs	Extraord. transactions.	Losses at completion	Reclassified scheme
Revenue	11,527							11,527
Purchase and personnel expense	(10,275)		39	6			137	(10,093)
Other operating income	569							
Other operating expenses	(583)							
Other net operating income/(expenses)	(14)		17	17			(137)	(117)
Equity-accounted strategic JVs					271			271
Amortisation, depreciation and impairment losses	(676)	98		56				(522)
EBITA								**1,066**
Non-recurring income/(charges)				(79)				(79)
Restructuring costs			(56)					(56)
Amortisation of intangible assets acquired as part of business combinations		(98)						(98)
EBIT								**833**
Financial income	235							
Financial expense	(688)							
Share of profits/(losses) of equity-accounted investees	288							
Net financial income/(expense)	(165)				(271)	-		(436)
Income taxes	(123)							(123)
Net result before extraordinary transactions								**274**
Profit (loss) from discontinued operations	-					-		-
Net result	**274**	-	-	-	-	-		**274**

	Scheme	Financial receivables and cash	Financial payables	Hedging derivatives on debt items	Reclassified scheme
Non-current assets	11,742	(48)			11,694
Non-current liabilities	(6,237)		3,265		(2,972)
Capital assets					**8,722**
Current assets	13,285	(2,053)		(2)	11,230
Current liabilities	(14,308)		1,417		(12,891)
Net working capital					**(1,661)**
Equity attributable to the Owners of the Parent	4,468				4,468
Equity attributable to non-controlling interests	16				16
Equity	**4,484**				**4,484**
Group Net Debt		(2,101)	4,682	(2)	**2,579**
Net (assets)/liabilities held for sale	**(2)**				**(2)**

Effects of the new IFRS15 accounting standard "Revenue Recognition"

Starting from 1 January 2018 Leonardo will apply the new IFRS 15 accounting standard "Revenues recognition", which replaces the previous IAS11 and IAS18 under which the financial statements at 31 December 2017 are prepared.

Considering the effective date of this new standard, the Group has launched a complex project to review the main contract types in order to determine the effects of the new standard and new rules of revenue recognition to be applied beginning from 2018.

Given the high complexity of the analysis, the activity is still underway.

The main impact areas deriving from the application of the new standard are:

- introduction of new criteria for revenue recognition during the execution of the contract; if those criteria are not met, then revenue is recognised solely at the completion of the contract. This required a review of the ongoing contracts, which are normally medium/long-term. Such analysis highlighted the necessity to change the margin recognition methods in relation to certain contracts (passing from the previous recognition of the margins of certain contracts "over time" to "at a point in time" and vice versa);
- new specific requirements to establish if goods and services included into contracts have to be recognised as a single performance obligation or as a separate performance obligation. In respect of certain contracts entered into by the Group it was necessary to unbundle the contracts into two or more performance obligations (so called bundling/unbundling);
- new criteria on contract cost recognition and related margin acquisition;
- more defined criteria to be applied to mass productions with the consequent remeasurement of the margins of this kind of productions;
- new and in-depth additional qualitative and quantitative information to disclose.

The Group will apply this standard as from 1 January 2018 with a restatement of the 2017 accounting balances for comparative purposes. However, at the current stage of analyses we can conclude that, subject to the conclusion of such analysis, the impact on the Group's main indicators is not material in size.

The following table shows the preliminary impacts on the 2017 Group KPIs:

€billion	**2017 Actual**	**IFRS15 effect**	**IFRS15 effect %**	***2017 Restated***
Revenues	11.5	0.2	2%	11.7
EBITA	1.07	0.01	1%	1.08
Net result	0.27	0.01	4%	0.28

Outlook

The new Industrial Plan approved by the Board of Directors in January is expected to deliver sustainable growth over the period 2018 – 2022. This reflects the Group's strong position in products and solutions for attractive market segments, a robust backlog and a new commercial strategy fully leveraging One Company model.

Actions taken to grow the business will be accompanied by a strict control of costs and investments, within a disciplined financial strategy to balance business growth and cash-generation.

Therefore, Leonardo expects to deliver for the full-year 2018 results in line with the guidance provided on 30 January 2018:

- Growing Orders, supported by significant export contracts, a return to growth in the Helicopter segment, and the first results of the commercial actions taken by new management;
- Stable revenue compared to full-year 2017;
- A lower FOCF, reflecting the EFA Kuwait contract cash profile – with a significant cash absorption due to the production ramp-up with the reversal of customer advances received in 2016 and 2017 – and other customer advances winding down. In 2018 cash flow will continue to be negatively affected by Aerostructure Division and by higher investments to support the growth.

Guidance for the full-year 2018 are as follows:

	2017 figures	***Outlook 2018*** (*)
Orders (€bil.)	11.6	12.5 – 13.0
Revenue (€bil.)	11.5	11.5 – 12.0
EBITA (€mil.)	1,066	1,075 – 1,125
FOCF (€mil.)	537	ca 100
Group Net Debt (€bil.)	2.6	ca. 2.6

(*) *Exchange rate assumptions: €/USD 1.2 and €/GBP 0.9*

* * * * * *

Related party transactions

Related parties have been identified in accordance with the provisions of the international accounting standards and of the relevant CONSOB (the Italian Commission for Listed Companies and the Stock Exchange) regulations.

The transactions, which are carried out and regulated at arm's length, relate to business (disposals and purchases of goods and services in the course of the Group's usual operations), financial (ordinary financing granted/obtained and the charging of related interest income or expense) and other relationships (including all residual activities, as well as contractually-governed transactions of a tax nature, for those companies participating in the national tax consolidation scheme).

It should be noted that in 2010 Leonardo adopted a specific "Procedure for Related Parties Transactions" (hereinafter referred to as the "Procedure"), which was mostly recently updated on 20 December 2016, pursuant to CONSOB Regulation no. 17221 of 12 March 2010, as amended and supplemented, containing provisions on "related party transactions" (hereinafter referred to as the "Regulation"), as well as in implementation of Article 2391-*bis* of the Italian Civil Code. The abovementioned Procedure is available on the Company's website (www.leonardocompany.com, under *Corporate Governance* section, Related Parties area).

Pursuant to Article 5.8 of the Regulation, the 2017 financial year saw the completion of the following transactions of greater importance, as defined by Article 4.1.a) of the Regulation and identified by the abovementioned Procedure pursuant to Annex 3 attached to the Regulation:

Related parties		**Nature of the relationship with the related party**	**Object of the transaction**	**Transaction payment**
Leonardo SpA	Leonardo MW Ltd	(100%) Subsidiary	Sale of investment in AgustaWestland Ltd from Leonardo SpA to Leonardo MW Ltd	€mil. 1,226
Leonardo SpA	Fincantieri SpA	Jointly-controlled companies	Contract for the supply of naval systems and sensors for ships intended for the Qatar Emiri Naval Force	About €mil. 500

The sale of the investment held in AgustaWestland Ltd (with effect from 1 January 2017) falls within the scope of the reorganisation of the Group' operations in the United Kingdom in a single company, Leonardo MW Ltd., which is directly and wholly owned by Leonardo. This transaction was carried out with a subsidiary: therefore, it benefitted from the exemption provided for in Article 14.2 of the Regulation, as well as in Article 11.2 e) of the abovementioned Procedure.

In compliance with Article 13.3.c.ii of the Regulation, it should be noted that the transaction between Leonardo and Fincantieri (the signature of a contract – within the scope of the intergovernmental agreement between the Italian and Qatari governments for the plan involving the modernisation of the Qatar Navy – providing for Leonardo to supply naval systems and sensors to Fincantieri, to be installed aboard seven new ships intended for the Qatar Navy, together with related logistics) was completed by making use of the exemption laid down, pursuant to Article 13.3.c., as well as Article 11.2 c of the Procedure, for the ordinary transactions completed at arm's length or standard conditions.

Finally, it should be noted that these transactions had no significant impact on the consolidated financial position and the results for the period under consideration and that no changes or developments took place in relation to the related party transactions described in the 2016 Report on Operations.

CONSOB Market Regulation n. 20249/2017, Article 15

In accordance with CONSOB provisions contained in the Market Regulation adopted by CONSOB Resolution no. 16191 of 29 October 2007, as amended by Resolution no. 18214 of 9 May 2012 and, finally, updated by Resolution no. 20249 of 28 December 2017, and with specific regard to Article 15, Leonardo S.p.A. performed the verifications on the Group subsidiaries that were incorporated and are governed under the laws of non-EU Member States and that, as a result, were deemed "material" based on the requirements under Article 151 of the Issuers' Regulations adopted with CONSOB Resolution 11971 of 14 May 1999, as amended by CONSOB Resolution no. 18214/2012 and, more recently, as updated by the amendments made by Resolution no. 20250 of 28 December 2017. As regards the non-EU foreign subsidiaries (Leonardo DRS Inc., Leonardo US Holding Inc., AgustaWestland Philadelphia Co.) identified based on the above regulations and in compliance with the provisions of local laws, these verifications revealed that the administrative and accounting system, which oversees the preparation of Financial Reports, falls within the scope of a control environment that is effectively operating and substantially suitable to the requirements envisaged in said Article 15. Therefore, it is not necessary to prepare an adaptation plan pursuant to the abovementioned article.

Information pursuant to articles 70 and 71 of Issuers' Regulations

By resolution of the Board of Directors on 23 January 2013, the Company adopted the simplification regime under Articles 70/8 and 71/1-*bis* of the Issuers' Regulations, adopted with CONSOB Resolution 11971/1999, as subsequently amended and supplemented. By this resolution, the Company chose the option to make exceptions to the obligation to issue the documents required by the law when transactions of greater importance (such as mergers, spin-offs, capital increases by means of the contribution of assets in kind, acquisitions or disposals) occur.

Industrial and financial transactions

Industrial transactions. In 2017 the following transactions were carried out:

- ***Acquisition of additional stakes of Avio***. 31 March 2017 marked the closing of the acquisition by Space2, Leonardo and In Orbit (a company held by certain managers of Avio) of the entire share capital of Avio not yet owned by Leonardo, with the subsequent merger into Space2 and concurrent listing of Avio on the Electronic Stock Market (MTA)/Star segment of the Italian Stock Exchange, which was finalised on 10 April 2017. The swap ratio was set at 0.0402 Space 2 shares for each Avio share, taking account of the Space 2's contribution of a capital endowment of about €mil. 64. As a result of this transaction and of subsequent minor acquisition transactions, Leonardo now holds about 26% in the company in respect of a payment, for the portion acquired in the period, of about €mil. 45;
- ***Acquisition of Daylight Solutions.*** On 23 June 2017 Leonardo completed, through the US subsidiary Leonardo DRS, the acquisition of Daylight Solutions, Inc., a leading company in the development of Quantum Cascade Laser Products. The payment for the purchase of the shares was equal to USDmil. 140 for the entire share capital of Daylight Solutions. In addition, the purchase contract envisaged an earn-out mechanism by virtue of which the payment will be increased by a further USDmil. 13 as a result of the achievement of certain financial and operating targets for the year 2017. This acquisition enabled the expansion of DRS' offer within the advanced solutions for the civil and military market;
- ***Put option exercised on Ansaldo Energia***. In July Leonardo exercised the put option on 15% of the interest in Ansaldo Energia, which was the remaining stake still held by the Group after the sale to Cassa Depositi e Prestiti which ended in 2013. The exercise of this option allowed Leonardo to collect an amount of €mil. 144 from CDP Equity. Such transaction did not affect the Group Net Debt, since the measurement of the put&call rights related to the residual portion of interest in Ansaldo Energia was already considered for the calculation of such indicator.

Financial transactions. On 7 June 2017, within the EMTN (Euro Medium Term Notes) Programme, which was renewed in April 2017, Leonardo placed new 7-year listed bonds, while leaving the maximum amount of €bil. 4 unchanged, on the Luxembourg Stock Exchange on the Euromarket in an amount of €mil. 600, with an annual coupon of 1.50%. In accordance with its financial strategy regulated and aimed at going back to the Investment Grade Credit Rating, the Company (which had already been obtained from Fitch on 25 October 2017), the Company has deemed it appropriate to take advantage of particularly favourable market conditions in order to meet its refinancing requirements and reduce the average cost of its own debt. The issue was reserved for Italian and international institutional investors only.

With reference to the bond issues in place, note the following transactions:

- In June Leonardo repurchased on the market a nominal amount of GBPmil. 30 in relation to the bond issue launched in 2009, due 2019, in an initial nominal amount of GBPmil. 400 (coupon of 8%), thus reducing the remaining nominal amount to GBPmil. 288. The total acquisition value was equal to 117% of the nominal value;

- In December Leonardo and its subsidiary Leonardo US Holding announced and successfully completed take-over bids on the market, concerning additional portions of bonds due 2039 and 2040 (with a coupon of 7.375% and 6.25%, respectively) in initial nominal amounts of USDmil. 300 and USDmil. 500 issued by Leonardo US Holding and guaranteed by Leonardo S.p.A.. The offer was successfully completed with a total nominal amount repurchased for USDmil. 300. The total average acquisition value was equal to 122.7% of the nominal value. Furthermore, again in December, Leonardo US Holding exercised the option for the full redemption of the entire remaining nominal amount of its bonds due 2019 (coupon of 6.25%), totalling USDmil. 434. The total acquisition value was equal to 106.17% of the nominal value. In both cases the bonds were cancelled.

  The overall cost of the abovementioned transactions, which was fully charged to the accounts of the 2017 financial year, was equal to €mil. 97. The transaction will allow the Group's future financial costs to be reduced by a total amount of about USDmil. 480, with a net present value (NPV) of about USDmil. 200, net of the transaction cost sustained in 2017. The restated nominal value of the issues involved in the transaction is reported in the table below:

Year of issue	Maturity	Currency	Nominal amount outstanding before buy back (mil.)	Annual coupon	Nominal amount outstanding after buy back (mil.)
2009	2019	GBP	318	8.000%	288
2009	2019	USD	434	6.250%	-
2009	2039	USD	275	7.375%	169
2009	2040	USD	457	6.25%	263

Finally, the bond issue launched in 2012 (coupon of 4.375) became due and was duly repaid in December for a residual amount of €mil. 520.

It should be noted that the Group's bonds are governed by rules with standard legal clauses for these types of corporate transactions on institutional markets that do not require any undertaking with regard to compliance with specific financial parameters (financial covenants) but they do require negative pledge and cross-default clauses. Based on negative pledge clauses, Group issuers, Leonardo and their "Material Subsidiaries" (companies in which Leonardo owns more than 50% of the share capital and the gross revenues and total assets of which represent at least 10% of Leonardo's consolidated gross revenues and total assets) are expressly prohibited from pledging collateral security or other obligations to secure their debt in the form of bonds or listed financial instruments or financial instruments that qualify for listing, unless these guarantees

are extended to all bondholders. Exceptions to this prohibition are securitisation and, starting from July 2006, the establishment of assets for the use indicated in Article 2447-bis et seq. of the Italian Civil Code. On the contrary, the cross-default clauses give the bondholders the right to request early redemption of the bonds in their possession in the event of default by the Group issuers and/or Leonardo and/or any “Material Subsidiary” that results in a failure to make payment beyond pre-set limits.

The €mil. 2,000 Revolving Credit Facility in place at 31 December 2017 contains financial covenants. More specifically, the covenants require Leonardo to comply with two Financial ratios: (the ratio of Group net debt - excluding payables to the joint ventures MBDA and Thales Alenia Space)/EBITDA must be no higher than 3.75 and the ratio of EBITDA to net interest must be no lower than 3.25, tested annually based upon the consolidated data at the end of the year. These covenants, in accordance with contractual provisions providing for this option, have also been extended to the EIB loan, currently outstanding in the amount of about €mil. 234, in addition to certain loans recently granted to DRS by US banks totalling USDmil. 75. In relation to this Annual Financial Report, there was full compliance with said covenants (the two ratios are 1.2 and 6.0, respectively).

Outstanding bond issues are given a medium/long-term financial credit rating by the three international rating agencies: Moody’s Investors Service (Moody’s), Standard & Poor’s and Fitch. At the date of presentation of this report, Leonardo’s credit ratings, compared to those preceding the last change, were as follows (it should be noted that Fitch upgraded Leonardo’s rating back to the Investment Grade level during the second half of 2017):

Agency	**Last update**	**Updated**		**Previous**	
		Credit Rating	*Outlook*	*Credit Rating*	*Outlook*
Moody's	May 2017	Ba1	positive	Ba1	stable
Standard&Poor's	April 2015	BB+	stable	BB+	negative
Fitch	October 2017	BBB-	stable	BB+	positive

With regard to the impact of positive or negative changes in Leonardo’s credit ratings, there are no default clauses linked to the credit ratings. The only possible effects deriving from further changes, if any, to the credit ratings refer to higher or lower finance costs on certain payables of the Group, especially with reference to the Revolving Credit Facility. The interest rates applied to the utilisations of such credit line, in fact, are based upon the EURIBOR plus a margin of 100 bps. This margin could be reduced down to a minimum of 50 bps if Leonardo returns to an investment grade rating or increased up to a maximum of 220 bps if Leonardo’s debt is given a rating below BB or if it is given no rating at all. Finally, it should be noted that the Funding Agreement between MBDA and its shareholders provides, *inter alia*, that any downgrade of the rating assigned to the shareholders will result in a gradual increase in the margins. Additionally, under a pre-set rating limit (for at least two out of three rating agencies: BB- from Standards & Poor's, BB- from Fitch and Ba3 from Moody’s) MBDA is entitled to determine the applicable margin each time. Finally, the agreement provides for rating limits the achievement of which allows MBDA to request the issue of a bank

guarantee of its own liking from its shareholders, without which MBDA can suspend the subsequent disbursement of funds.

Finally, it should be noted that in February 2018 Leonardo entered into a new Revolving Credit Facility (RCF) line with a pool of 26 Italian and foreign banks. The new RCF provides for the payment of a 75 bp spread over EURIBOR, lower by 25 bps than the 100 bp margin of the previous transaction completed in July 2015, with consequent lower financial costs. Furthermore, there was a reduction in the line to €bil. 1.8 from the €bil. 2 of the previous line, in order to align it to the Group’s cash requirements and the extension of the expiry date to February 2023, i.e. the year for which no repayment commitments are currently envisaged on financial markets. Furthermore, there was the confirmation of the financial covenants that are already provided for in the RCF which has been largely described above.

Leonardo and the scenario

Despite the decline of ISIS in Iraq and Syria, the slow and uncertain process of stabilisation and reconstruction in Libya, the persistence of conflicts in Syria and Yemen, the political situation in Turkey, the unclear social and political changes in the Gulf States and their reciprocal relations, the effects of the policy of the new US administration on the nuclear agreement with Iran and the role of Jerusalem as the capital of Israel have all contributed to perpetuating a high level of instability in the area of the Mediterranean and North Africa.

Among the consequences of this situation is the uncontrolled increase in migration flows and the lasting terrorist threat related to Islamic fundamentalism. Both these phenomena have given rise to enormous security problems.

The situation in Eastern Europe, where the Ukrainian crisis is still unresolved and where Russia is playing an increasingly active part in the international scenario, together with Moscow's evident policy of modernising its arsenal, also continues to be a cause for concern in the Western world.

Finally, North Korea's development of its nuclear programme and the ongoing confrontation with the United States has raised the alert level not only in the countries in the region but in all those potentially inside the range of Pyongyang's missiles.

Stimulated by the position taken up by the United States under the Trump Presidency and in preparation for the exit of the United Kingdom, the European Union has taken some vital steps forward on the front of common security and defence. After the publication of the European Union Global Strategy a year ago, the Union brought Permanent Structured Cooperation (PESCO) (participated in by all Member States except Denmark and Malta) into being in the sphere of Defence, an addition to the other two projects being developed: the Coordinated Annual Review on Defence (CARD, a system for the coordination of EU Defence Ministers to harmonise capability development) and the European Defence Fund (EDF, to finance military research and co-finance cooperative development and procurement).

In 2017 global GDP recorded an increase of 3.0%, driven by emerging countries and developing economies (+4.3%), while advanced economies grew at lower rates (+2.3%).

Growth in the Eurozone has resumed at pre-crisis levels (+2.7% in 2017), one of the reasons being the European Central Bank's perseverance in supporting the economy in its monetary policy. Doubts remain which arise from political uncertainties: the Italian elections, the line the new German Government will take, the separatist pressures in Spain and, more than anything else, the effects of the Brexit process, which is entering the hot phase of the negotiations without a predictable outcome. If there is a hard Brexit, growth in the Eurozone might slow down, coming to +2.2% in 2018, while a modest +1.1% (compared to +1.5% in 2017) is expected in the United Kingdom.

The United States started the year 2017 from a position of relative economic weakness but during the year, also thanks to the substantial tax cut announced by Trump during the election campaign which became law in December 2017, the US economy strengthened to the point that +2.5% growth is forecast in 2018 (higher than in 2017). This is in spite of the Administration's difficulty in having Congress approve a series of bills

covering areas from immigration to health which led, at the beginning of this year, to a temporary shutdown of federal business owing to the failure to approve the budget.
The stabilisation of the Chinese economy is tested by industrial overcapacity, the burden of public debt and the real estate bubble, all factors which give rise to the risk of causing growth to slow down in 2018 (+6.5% against +6.8% in 2017). Japan will continue to grow, even if slower than in 2017, also supported by a weak yen. India is on the road to recovery after the shock caused by demonetisation and the introduction of a tax on goods and services, while the countries in Asia with the healthiest economies are the Philippines, Indonesia, Malaysia and Vietnam.
On the currency markets forecasts swing between those who believe stable $/€ and $/£ rates are likely and those who think that the dollar should appreciate by a few percentage points driven by Fed policy and the effect of the tax cuts, which will increase investor confidence in the United States.
Finally, the solid economic growth forecast for 2018 should sustain a rise in demand for fossil fuels with a corresponding rise in oil prices to around $55 a barrel, even if this will be kept down by the availability of shale oil in the United States.
In the sector of Aerospace and Defence, global growth in revenues came to around 2.0%, with a flat performance for the commercial Aerospace segment (+0.3%) and a sharp increase in the segment of Defence (+3.2%).
With reference to the "**domestic markets**" in which Leonardo operates, the **United States** allocated a Defence budget of $bil. 207.2 for procurement and R&D in 2017. There will be a considerable increase in 2018, up to $bil. 218.9 billion (+6%), owing to the rise in defence spending by China and Russia, the potential nuclear threat from North Korea and Iran, the proliferation of ballistic missiles and arms of mass destruction and the heightening of the efforts being made to fight terrorism; it is expected that the values will remain stable in the period from 2018 to 2022, at around $bil. 219.5 billion in 2022, with a small reduction in R&D expenses (-0.3% p.a.) and a corresponding increase in procurement (+0.3% p.a.).
Above all, in order to bolster its position as the strongest military power in the world, the United States is commencing a programme of modernisation of its nuclear deterrent and anti-missile defence systems which will take up a sizeable part of the Defence budget. The long, costly wars in Afghanistan and Iraq have also consumed and drained military equipment and munitions so that massive investment is required to restore the operational capability of the military option, including M1 Abrams tanks and AH-64E Apache, UH-60 Blackhawk e CH-47 Chinook helicopters. Finally, the F-35 JSF production programme is continuing and new major projects are in the initial phase, while the naval building programme is moving faster.
In the **United Kingdom** procurement and R&D expenses for Defence totalled $bil. 12.6 in 2017. In 2018 this amount is expected to slightly increase up to $bil. 13.2 (+4.8%), while up to $bil. 14.1 (+1.4% p.a.) in the period from 2018 to 2022.
In accordance with the most recent Strategic Defence & Security Review, the UK Government will allocate an additional amount of GBPbil. 12 for military procurement in the next ten years. Investments will mainly

be made in replacing four nuclear submarines, security and intelligence equipment, an additional F-35 JSF squadron and the commencement of a programme for a new class of frigates with anti-submarine capability.
Clearly all this is to be placed in the scenario of Brexit, which is entering the heart of the process and could also have material effects on the Security and Defence sectors, both from an operational and an industrial point of view.
In **Poland** procurement and R&D budget for Defence amounted to $bil. 3.1 in 2017. Mainly owing to the perception of the Russian menace on the eastern borders, procurement and R&D expenses will rise to $bil. 3.3 (+4.5%) in 2018, with a significant increase throughout the five-year period, coming up to $bil. 4.2 in 2022 (+5.6% p.a.).
The 2013-2022 programme for the modernisation of the Polish Armed Forces holds a ten-year investment plan for procuring new, advanced military equipment for troops, armoured vehicles, artillery, aircraft, helicopters, tanks, patrol vessels and air and missile defence systems, in addition to the upgrading of command and control and cyber security systems.
In **Italy** procurement and R&D expenses in the sector of Defence came to €bil. 4.6 in 2017; they should increase up to €bil. 5.0 (+9.0%) in 2018, to come back to €bil. 4.6 in 2020 (-4.3% p.a.; official data for the last two years of the period from 2018 to 2022 are not available).
The modernisation of the military forces is proceeding in spite of these budget restraints, even if it does so at a slow pace. Procurement involves all sectors; in aeronautics the F-35 JSF and Eurofighter programmes stand out and in the naval sector Lupo and Maestrale class frigates are continuing to be replaced by the 10 FREMM (*FRegate Europea Multi-Missione*) multi-mission warships, which shall be delivered by 2022, while work has commenced on the construction of the new Offshore Patrol Vessels (OPVs); work continued on the Centauro II programme for the replacement of 136 armoured vehicles in the land defence sector.
The failure to convert the “White Book on International Security and Defence” into law, in particular as regards the rule governing the multi-year cycle of financing (6 years), and the failure to approve new legislation regarding G2G agreements hinder the modernisation of Italian Defence systems and the competitiveness of the country’s industry.

Analysis by business Sector

Aeronautics.

- The **civil aviation** segment, which will be worth about €bil. 1,600 in the next ten years, will continue to show a growth trend at an average rate of 2.3%. The demand is especially driven by the countries in the areas of Asia and Middle East and is affected by some macro-economic and technological dynamics (i.e. a better financial stability of the major airlines furthered by low fuel costs, the gradual availability of aircraft that adopt new technological solutions and advanced materials, the need to replace less-efficient previous-generation aircraft). Commercial narrow- and wide-body aircraft accounts for more than 80% of the total market. The demand for narrow-body aircraft is mainly linked to the global economy performance and to the launch of re-engined versions A320 NEO and

B737 Max of the Airbus family, in expectation of the launch of new programmes which is not expected to occur before the next decade. The growth in wide-body aircraft is driven by the ramp-up of Airbus A350 and Boeing B787 programmes; demand for large-size four-engine aircraft (A380, B747) remained weak. In the next years the offer will be enriched with new models from the range of B787-10 and the family of B777X, for Boeing and of A350-1000 and, probably, of A380plus for Airbus. Sales showed a considerable recovery in 2017. Orders were made for a total of 2,019 aircraft (1,109 Airbus and 910 Boeing), with a higher than 120-seat capacity - a market segment in which all Airbus and Boeing models are in competition with each other – with an increase of 40% compared to 1,443 orders (775 Airbus and 668 Boeing) relating to 2016.

Production rates and deliveries also showed an increase (+3%) for both manufacturers. In 2017 there were total deliveries of 1,481 aircraft (718 Airbus and 763 Boeing) against 1,436 aircraft (688 Airbus and 748 Boeing) delivered in 2016. At the end of December 2017 the firm order backlog of Airbus and Boeing achieved 13,129 units (7,265 Airbus and 5,864 Boeing), recording an increase of 4% compared to 12,589 units relating to 2016.

As to regional aircraft, the highest value, most dynamic segment is that of reaction engine aircraft; however, the aircraft with turboprop engines, thanks to lower operating costs, maintain an important market niche. In 2017 there were 278 sales of regional aircraft, for a value of about $bil. 10.2 at list prices (regional jets with 132 net orders and turboprop aircraft with 146 net orders), in line with 279 sales made in 2016. A slight decline was recorded in deliveries (-1%): 274 regional aircraft, for a value of about $bil. 11.1 at list prices was delivered in 2017, against 277 deliveries in 2016. The ATR programme remained leader in the segment of turbo-prop aircraft, with 113 net orders (104 ATR72 and 1 cancellation of ATR42), while its direct competitor, Q400 of Bombardier, totalled 43 sales. In terms of deliveries too, there were considerably more ATRs (4 ATR42 and 74 ATR72) than Bombardiers (29 Q400). At the end of 2017 the regional aircraft backlog amounted to 1,559 units (1,279 Jets and 280 TP), for a value of about $bil. 82.1 at list prices, equal to about 5-6 years of production at current rates. In the future, it is expected that there will be an evolution of the current aircraft for regional transport aimed to reduce operating costs and enhance the competitive edge of the aircraft. From an industrial standpoint, more prudent policies are applied on the part of some prime contractors to outsource the design and production of structural components, particularly composites, but the market for outsourcing the supply of aerostructures is expected to maintain annual growth rates of around 2.1% in the next decade.

- The **defence aircraft** segment, in part due to delays on a number of important orders, presents an interesting growth trend over the next years (although they are highly cyclical), with an average growth rate of around 8%, for a value of about €bil. 660 in the next ten years. The most important segment, in terms of numbers of deliveries and related value, is that of combat aircraft, in which the programmes for (i) JSF F-35, which is in a phase of accelerating production, (ii) the export of Rafale and Eurofighter and, even to a lesser extent, (iii) the new Gripen E/F are very important. Finally, the

advanced training aircraft and tactical transport aircraft segments will also be characterised by interesting growth prospects, substantially liked to the development of armed versions.

Overall, around 50% of worldwide demand for military aircraft (manned and unmanned) will come from the United States and Western Europe, where the greatest technological and industrial capabilities continue to be present, although there is a gradual (but still limited) process under way of transferring technology to newly industrialised countries, which are increasingly interested in developing their own local offering. Specifically, many countries (South Korea, Turkey, Japan, China) are considering their own new fighter plane. Their national industries have often entered into an alliance with a partner (Lockheed Martin in the case of South Korea, while China has cooperated with Pakistan and Russia) or looked for a technological partner (the case with Turkey, which has chosen BAE Systems).

Over the medium/long term, interesting opportunities in Europe may arise in relation to the collaborative development of a new generation of unmanned vehicles (UAS – Unmanned Aerial Systems) for long-persistence strategic surveillance, protection and monitoring, and reconnaissance and combat applications. European projects in this segment mainly consist of: (i) the definition phase of the European MALE (Medium-Altitude Long-Endurance) RPAS (Remotely Piloted Air Systems), a joint Airbus Group, Dassault and Leonardo programme, and (ii) the FCAS Anglo-French feasibility study for a future unmanned fighter aircraft, in which BAE Systems and Dassault are involved with a major contribution of Leonardo and Thales in relation to on-board sensors and mission electronics. The extension of unmanned aircraft to the civil sector depends on the exact contents of the forthcoming regulations, which are being discussed at the present time, for safe navigation in non-segregated airspace; significant progress can be made thanks to the stimulus from the USA.

During 2017 436 defence aircraft was sold, for a value of about €bil. 38, showing a slight decrease compared to 2016 and 487 defence aircraft was delivered for a value of about €bil. 37, showing a slight increase compared to 2016.

At the end of the year the Qatari government signed a contract with BAE Systems, the leading company of the commercial campaign, for 24 Typhoon, for a value of €bil. 7, which will be divided among the partners of the Eurofighter consortium.

The year saw total orders of 12 F-35 from Australia (8 a/c), Italy (3 a/c) and UK (1 a/c). 3 additional F-35 aircraft were ordered from the Italian government in January 2018.

The first Italian F-35B aircraft was delivered to the Italian Navy at the end of 2017.

In March 2017 the Belgium government officially announced the start of the procurement procedure for 34 new multi-role fighters, to replace F-16 from 2023 onwards. In October 2017 the Belgium government announced that only two competitors were still in the tender, i.e. Eurofighter and Lockheed (F-35A). The new fighter will be selected by mid-2018.

Helicopters.

In the next years the market is expected to grow, even if still characterised by some uncertainty relating to the Military aircraft segment and to some applications in the Civil aircraft segment (in particular Oil&Gas). The overall market value in the next ten years (with reference to deliveries of new helicopters only) amounted to around €bil. 160. Demand for **Civil** aircraft will be mainly driven by rescue, emergency and disaster relief applications (EMS, SAR e Utility). Growth is expected in emerging countries above all and customers will continue to look for modern aircraft with advanced performances and pay the utmost attention to operating costs. In the **Military** aircraft segment demand is expected to record a temporary reduction, mainly due to the completion of ongoing programmes (mainly in the United States and Russia). The reduction of the budget and ever increasing attention to costs could favour dual use platforms. Above all towards the end of the next decade, new players will enter the helicopter sector as a result of rising demand in new emerging markets (South Korea, Turkey, India, China) and the need to develop a local production sector, above all for the Military aircraft segment. Even if technological barriers to entry are high, this situation must be monitored. The spread of new technologies will gain momentum: Fast Rotorcraft (Tilt Rotors, Compounds) and RUAV (Rotary Unmanned Air Vehicles). Leonardo is in step with the leading companies in this field, if not in the forefront, and will have to maintain the technological advantage it has acquired up to now.

In terms of acquisitions, there was a major consolidation with Lockheed Martin’s acquisition of Sikorsky in 2015. In turn Leonardo’s Helicopters Division acquired full control over Sistemi Dinamici S.p.A. at the end of 2016, thus strengthening its commitment to unmanned systems.

It should be pointed out that, over the medium/long term, the American JMR/FVL programme will become increasingly important, thus boosting the development of the Fast Rotorcraft concept. The JMR demonstrator of Bell Textron flew at the end of 2017, while the demonstrator of Sikorsky/Boeing will fly in 2018.

Electronics, Defence and Security Systems.

This market is worth about €bil. 2,900 with a CAGR of 3%. The main trends in the electronics sector are:

- **Airborne & Space Systems**: there was a growing demand for: (i) multi-mode radars for combat aircraft with AESA (Active Electronic Scanned Array) technology driven by new programmes (fifth-generation Fighters), mainly in the United States, Europe and Asia; (ii) surveillance radars for both Manned and Unmanned platforms dedicated to ISR (Intelligence, Surveillance and Reconnaissance) missions; (iii) infrared search and tracking systems (IRST) in relation to the increase in low probability of intercept (LPI) stealth platforms; (iv) integrated mission systems to satisfy the need for border control and surveillance (migration phenomena, terrorism, patrolling, natural disasters); integrated systems for the management of the electromagnetic spectrum, integrating electronic warfare (EW) and cyber warfare capability; (v) communication apparatus, including broadband equipment, to handle the growing volumes of data required by surveillance and combat missions;

(vi) integrated logistic support services (turnkey solutions and full service), including for the simulation and training segment.

- **Land & Naval Defence Electronics**: the **land** defence electronics market is characterised by a growing demand for: (i) integrated, interoperable solutions for the digitalisation of the battlefield; (ii) defence capacity against ballistic missiles; (iii) patrolling and protecting borders, including maritime surveillance; (iv) last-generation AESA (Active Electronic Scanned Array) radars; (v) defence capacity against Cyber-attacks; (vi) Software Defined Radio (SDR) and flexible communication networks interoperable with other platforms; (vii) Ultra-Wideband Wireless Communications and Counter-IED (Improvised Explosive Device) ; (viii) systems (including EO (Electro-optic)/IR (Infrared) systems) to counter against unmanned vehicles (C-UAS, Counter-Unmanned Aerial System).

  In the **naval** defence electronics market there is growing demand for (i) modular, scalable combat management systems to satisfy the demand for surface vessels with the ability to carry out many different types of missions; (ii) multifunction radars mounted on active electronic scanned arrays (AESA technology) for missile defence in airspace; (iii) turnkey solutions combining radar, communications and electronic warfare systems (i.e. Integrated Mast); (iv) SDR and (v) high-precision electro-optical scanning and locating systems.
- **Defence Systems** – The target market, which shows a total value of about €bil. 591 over ten years, with a growth rate of about 4%, will be supported by increased defence budgets, an extended operating life of the platforms (upgrading), new technology and the demand for multi-mission platforms. The segment of **land weapons** relating to military vehicles, in which the Division offers **turrets**, amounted to €bil. 315, with a good growth rate (CAGR equal to about 6%) during the period from 2017 to 2026. The business with the best growth trend was again that of tracked vehicles (CAGR equal to 7.3%) in response to the Armed Forces' present requirements, such as greater firepower, lower weight and stronger protection; wheeled vehicles (CAGR of 6.9%) followed, since there is a need for enhanced mobility. The segment of **guided munitions**, which showed an overall value of €bil. 15 and which has a high technological innovation content, is expected to grow steadily (CAGR higher than 10%); the segment of **naval weapons** (large, medium and small calibre) is growing more modestly (about €bil. 13) and is expected to show a stable performance. The segment of **underwater systems** shows a value of €bil. 32 over ten years and is expected to grow with a CAGR higher than 4%. Light torpedoes account for 40% of the total market of underwater systems.

  Finally, the **missile systems** market shows a slight increase, worth an estimated total of €bil. 216 over the ten years. The primary application segment relates to air defence systems, both land-based and on-board naval platforms, to counter conventional and/or missile air threats, including with nuclear warheads. The need to have new systems that provide greater versatility and interception precision and to also protect urban areas and high-value civilian and military infrastructures are the

main drivers in this market. The market for effectors to counter surface attacks, from both air and sea platforms, is another strong component of the market (25-30%) which is rising both in terms of demand for high-performing and/or flexible products and for more conventional systems which are required in big volumes and employed in large quantities in the current conflicts.

- **Security and Information Systems -**The market shows an overall value of about €bil. 1,400 over ten years, with a growth rate of about 4%. The main trends in the sector are: ***Security:*** (i) growing demand for the protection of vital infrastructures; (ii) solutions for monitoring borders and immigration; (iii) cyber security, which is becoming an element of strategy which pervades all business segments; ***Transportation*** : (i) growing demand for innovative, interoperable solutions to support the expansion of air transport and environmental sustainability; (ii) growing need to improve operational efficiency, security and the connectivity of transport infrastructures (Railway and Metro); ***Material Handling***. (i) Baggage Handling - growing demand for the modernisation and streamlining of airport operations; (ii) Parcel & Mail Handling –driven by e-commerce; ***Digitalization*** **:** (i) growing demand for digitalisation solutions to improve productivity, processes and to support innovation; (ii) growing demand for new-generation cyber security services, with specific application to the IoT (Internet of Thing) domain and mobile solutions.

Space.

The demand in the sector of space systems and services shows an overall value of €bil. 1,110 over ten years, about 52% of which consists of **space services** (satellite communications, geo-information services, satellite operation services); the remaining part accounts for **manufacturing** (satellites and probes, launch and space access systems, orbiting infrastructures). The development trend in the target market shows diversified growth rates of about 1% for manufacturing, supported by civil and military government investment programmes, and of about 7% for services. The industrial growth continues to mainly depend on institutional programmes that are promoted and operated by space agencies and civil and military governmental entities, both national and international. The development of aerospace capacity and infrastructures is still an objective of many countries, including emerging nations which now engage in space operations, the policies for which are directed at meeting defence and security needs and also at enhancing their technological expertise, by means of technology transfer projects necessary to create their own national industry. In manufacturing, private investment in the sector not only enables the assets of satellite companies in orbit to be replaced but are also being used to make innovative infrastructures, on the part of both already established players and new entrants to the sector. These projects are often proposals of new services with **new business models**, offered to capture continually rising demand. The tendency remains for offers of infrastructures and services of commercial origin to be made in segments which have normally been the preserve of institutional programmes, as in the sector of space transport. Demand from the institutions is also based on programmes for scientific, exploration, meteorological and navigation applications, which may be also based on the use of

mini-satellites. The component of demand for **services in the aerospace sector** is mainly generated from the commercial sector, in particular for telecommunications: satellite communications (for TV broadcasting services and Satellite Broadband Access, as an accompaniment to terrestrial telecommunications networks and above all for mobile communication services, especially at sea) are the commercial basis of the demand for services, to which must be added that arising from the defence segment. The continuity of secure strategic telecommunications systems, and, above all, of observation systems, is at the heart of demand for military equipment, which is satisfied both directly through the acquisition of dedicated infrastructures managed on one's own account and through the acquisition of services and applications from the private sector. In the space services segment, there has been growing verticalisation of telecommunication activities. Specifically, it is seen that satellite operators are supplementing their traditional work of providing satellite capacity by providing users with integrated systems which deliver end-to-end services. Demand in the **geo-information** segment is growing for applications services and solutions based on the collection and processing of data from various satellite and aerial sources and sensors; demand also arises from the desire to exploit the potential supply of information from the processing of **big data**, from higher growth rates and from the integration of diverse technologies (broadband satellite communications, hybrid communication networks, geo-localisation, etc.) which can be used as elements enabling new, innovative services to be designed.

Competitive positioning of Leonardo

With reference to the scenario described above, Leonardo sets itself to strengthen its positioning in the more attractive markets in which the portfolio of its products can benefit from its specific competitive advantage. An analysis of its present competitive position, based on these two dimensions (an attractive market and the portfolio's capacity of penetration), leads to the following considerations regarding the various business sectors.

Aeronautics.

In the military aircraft segment, the Eurofighter is strengthening its position in export markets, following the Kuwait and Qatar contracts and new developments (E-SCAN) which tend to contribute to an increase in operational capacity and performance, while the M346 aircraft is confirming its leading position in the trainer aircraft segment, thus supporting the launch of new versions and developments (Dual Role M346, M346 FA) and new models (M345 HET), as well as the evolution of supply towards complete training systems. In the tactical transport sector, note an optimisation of production activities to the benefit of more competitive costs, with interesting prospects of new developments, including in the dual use segment. In the civil aircraft segment, ATR strengthens its leading market position in the segment of regional transport aircraft, with the objective of strengthening the positioning with a continuous improvement in products and

customer support, while the aerostructures segment is marked by a good visibility of the medium/long-term volumes linked to more than ten years programmes.

Helicopters.

In the civil aircraft segment the Group is still the leader in the Intermediate class of civil/dual-use Helicopters and is also making progress in the Light Intermediate and Medium classes (in which Leonardo was not present) as a result of the completion of the concept of “product family” (AW169, AW139 and AW189). The new configuration of AW109 (Trekker) will also allow the market share to be strengthened in the Light segment. In the military aircraft segment a critical success factor is to enrich the product portfolio with the implementation of the dual-use concept, while completing military aircraft configuration variations based on civil aircraft models (AW169M, AW139M, AW149 and AW609). The development of unmanned aircraft (also through participation in the EU’s Ocean 2020 Preparatory Action programme, which Leonardo was awarded at the head of a team of industries, research centres and European end users) and optionally piloted aircraft, may constitute another strong point. In spite of a lack in major acquisition programmes on export markets, important commercial targets were successfully achieved on domestic markets, which are further strengthened by a complete range of services and training and by the development of the new exploration and escort helicopter for the Italian Army (AW 249 NEES), as well as by a potential upgrading of the fleet used by the Italian Army through the abovementioned “M” variations.

Electronics, Defence and Security Systems.

In the sector of Airborne & Space Systems, there was a general improvement in the positioning in the segments of Radars and Airborne Systems, thanks to increasingly attractive target markets, which can be utilised to maximise competitiveness and gain increasing market shares. In the segment of Naval Systems and Defence Systems Leonardo has benefitted from major developments linked to the Naval Law, which has entailed an extension and a considerable updating of the existing product portfolio and the overall system capability, thus improving the company’s positioning in the related market segments. In the Information Security Division Leonardo has strengthened its role as an international player in solutions concerning security inside and the protection of vital infrastructures, taking advantage of the Command and Control expertise and has also strengthened its position as a main operator in the Cyber Security sector, thus expanding this business through new services, such as analytics & intelligence, but also through the development of native cyber embedded solutions within its proprietary products.

Space.

The Space sector in the segment of services is present in markets in which satellite telecommunications and geo-information services on the whole are expanding, while the system operation segment is rising at a lower growth rate. In the segment of services Telespazio has consolidated its position as leader in the management

of the big European systems' operations, starting from activities carried out for national programmes, which was confirmed with the activities carried out in Europe as a Galileo System Operator (GSOp). In the telecommunications sector, the position is one in which there are opportunities for growth by offering a range of services based on high-capacity satellite systems and end-to-end services, in particular in the segments of defence and mobility. In the geo-information sector opportunities for growth come from the consolidation of its role as supplier of applications solutions for priority vertical markets, in particular the new applications for defence/security purposes, which are able to build on the capacity of the new-generation Cosmo constellation and, for commercial purposes, with the use and integration of data of various origins and from various sources, with the development of infrastructures and platforms that increase the possibility of accessing and using data.

Leonardo and risk management

Below are detailed the key risks applicable to Leonardo's business areas, together with the specific mitigation actions which have been put in place. It should be noted that starting from 2014 Leonardo's organisation has required a close cooperation of the Risk Management organisational unit with the competent functions in order set up a coordinated control over all risk areas, while ensuring that suitable methods to manage risks are designed and spread and supporting the top management with the control of risks associated with programmes.

RISKS		ACTIONS
The Group is strongly dependent on the level of expenditure of national governments and public institutions	The major customers of the Group are national governments or public institutions. Moreover, the Group takes part in numerous international programmes funded by the European Union or other intergovernmental organisations. Therefore, the Group is affected by the reduction in the expense policies of the public institutions, in addition to the medium/long-term plans of the countries that are considered individually and as a whole within common defence programmes. The expenditure programmes adopted by governments may be subject to delays, changes under way, annual reviews or cancellations, in particular in periods with high instability, due to, for example, oil price trends, which can lead to a growing complexity of the prospective scenario. The Group's industrial plans, as well as the financial resources necessary for their implementation, might be affected by significant changes, with impacts not only on volumes and results, but also on the Group debt, due to lower amounts received as advances on new orders.	In order to be less dependent on cuts that may be made by individual countries, the Group continues pursuing an international diversification policy, which places the same not only in its main markets (Italy, the UK and the US) but also in emerging markets marked by high growth rates, especially in the Aeronautics and Defence markets, even if within a scenario marked by growing competition. Moreover, under the Group strategy, performance in the major countries is constantly monitored in order to ensure a timely alignment of activities planned with customer needs and a strict selection of its investments, through assessment procedures of the potential returns and their strategic capacity. In addition, the organisation actions in which the Group is involved, should guarantee, against the reduction in the customers' budgets, an increased ability to compete in national and international markets.
Cuts in public budgets could affect grants from the Government for the Research and Development activities of the Group and, as a consequence, also the Group ability to successfully compete in global markets	The tensions on public budgets could further reduce public grants for R&D activities, for which the Group invested more than €bil. 1.5 in 2017, considering the unavoidable need to constantly improve its products portfolio. In particular, in Italy, grants for R&D expenses for the Aeronautics and Defence sectors, which are regulated by Law 808/1985, represent the indispensable funding for the research activities in the sector. A non-compliance of the granting levels with those of the other European competitors could negatively influence the Group capacity of being successfully competitive, due to a lower self-financing ability caused by the complex economic scenario; this would increase the risk of inadequate time-to-market of the products being developed.	The Group pursues a strict policy as regards the assessment and selection of the investments through which it focuses the resources available on the most efficient programmes with the highest potential of return. Moreover, the Group is focused on steadily strengthening synergies among the corporate functions involved in the development of new products, especially with reference to products marked by high levels of technology innovation.

	RISKS	*ACTIONS*
The Group also operates in civil sectors exposed to crisis	The Group is also potentially exposed to slowdowns in certain non-public markets, which could affect the spending capacity of certain customers. Delays or reductions in the acquisitions of new orders, or the acquisition of new orders on less favourable terms than in the past, including financially, contribute to a growing complexity of the prospective scenario characterised, however, by growing competition, and could reduce the profitability and increase the financial requirements of the Group during the performance of such orders.	The Group's goal is to improve its industrial efficiency and its ability to perform contracts, while reducing overhead costs with a view to enhance its competitive capacity and pursue appropriate actions to diversify the client base.
In the past certain Group companies were involved in judicial investigations	As more fully explained in paragraph "Provisions for risks and contingent liabilities" of the notes to the consolidated financial statements, in the past certain Group subsidiaries and the Parent Company itself were involved in judicial investigations, some of which are still underway. In this regard, the directors made provisions where necessary, on the basis of the stage of the legal proceedings and of the information obtained and the analyses performed to date. However, further developments presently unforeseeable and indefinable, together with the possible consequential impact on Leonardo's reputation, could significantly affect the Group's performance and financial position, as well as on its relationships with customers.	The Group has taken all steps necessary to more thoroughly examine any irregularities and to prevent employees, directors, suppliers and third parties from repeating inappropriate practices. All this has been done through specific actions, which consist in spreading a company culture founded on a set of values, rules of conduct and intangible principles hinged upon the "zero-tolerance" policy. Leonardo's management is constantly committed to spreading these messages at each and every level based on the "Tone and action from the Top" concept. Specific measures have been adopted also with reference to suppliers, by centralizing the process of qualification and management of supplier registers and the prompt identification of the indicators to be monitored for possible inhibition.
The Group operates significantly on long-term contracts at a given price	In order to recognise revenues and margins resulting from medium- and long-term contracts in the income statement of each period, the Group adopts the percentage-of-completion method, which requires: (i) an estimate of the costs necessary to carry out the contract, including risks for delays and additional actions to be undertaken to mitigate the risk of non-performance and (ii) checking the state of progress of the activities. Given their nature, these are both subject to management's estimates and, as a result, they depend on the ability to foresee the effects of future events. An unexpected increase in the costs incurred while performing the contracts or a	Leonardo's goal is to regulate within the Group the process of preparing and authorising major contracts by issuing a special Directive. In fact, starting with the business proposal stage, Leonardo controls the main performance and financial parameters including the Economic Value Added (EVA), which is one of the aggregates used to evaluate the major contracts of directly controlled and strategic companies. Moreover, the Group reviews the estimated costs of contracts regularly, at least quarterly. In order to identify, monitor and assess risks and uncertainties linked to the

	RISKS	ACTIONS
	slowdown in the plans to reduce manufacturing costs might determine a significant reduction in profitability or a loss, if these costs exceed the revenues deriving from the contract.	performance of the contracts, the Group adopted Lifecycle Management and Risk Management procedures, aimed at reducing the probability of occurrence or the negative consequences identified and at timely implementing the mitigation actions identified. Under these procedures, all significant risks must be identified from the offering stage and monitored while the programme is being carried out, by constantly comparing the physical progress and the accounting status of the programme. Top management, programme managers and the risk management quality, production and finance departments are all involved in making these assessments. The results are weighted in determining the costs necessary to complete the programme on an at least quarterly basis. The Group is also committed to improving its industrial efficiency and its ability to precisely perform to customer specifications.
During the current activity, the Leonardo Group is exposed to liability risks to customers or associated third parties in connection with the proper performance of contracts, also because of activities pertaining to sub-suppliers	As part of its activities, the Group may be held liable in connection with (i) the delay in or non-supply of the products or the services indicated in the contract (or offsetting obligations), (ii) the non-compliance of these products or services with the customer's requests, due to design and manufacturing defects of products and services, for example, and (iii) defaults and/or delays in marketing, rendering of after-sale services and maintenance and revision of products. These liabilities might arise from causes that are directly ascribable to Group companies or due to maintaining the specialist expertise of the company resources or causes that are ascribable to third parties outside the Group that act as suppliers or sub-suppliers for the Group.	The Group continuously monitors the performance of programmes using the aforementioned Lifecycle Management techniques. In connection with these programmes the Group is committed to improving its industrial efficiency and its ability to precisely perform to customer specifications, also through managing the development and succession of the core competencies. The Group also started a project aimed to improve the administration of the supply chains in some critical expenditure areas and/or categories.
The Group's debt shows high level and could have an impact on the Group's operational and financial strategies	At 31 December 2017, the Group Net Debt amounted to €bil. 2.6. Such debt level, beside impacting the Group's profitability as an effect of the related borrowing costs, could affect the Group's strategy, limiting its operational and strategic flexibility. Potential future liquidity crises could also restrict the Group's ability to repay its debts.	Leonardo seeks to continually reduce its debt by keeping a close eye on the generation of cash, which is employed to reduce, subject to market conditions, the outstanding debt. In February 2018 the Group renegotiated and signed a new revolving credit facility in place of the previous credit line, setting the total amount at €bil. 1.8. This credit line is

	RISKS	*ACTIONS*
		an important source of medium-term liquidity and, given its amount and that it is a revolving facility, it meets the Group's working capital requirements, in which collections are highly seasonal in nature. The amount of this credit facility is adequate and meets the Group's financial requirements.
The Group's credit rating is also linked to the opinions of the rating agencies	All Group bond issues are given a medium-term financial credit rating by the three international rating agencies: Moody's Investors Service (Moody's), Standard and Poor's and Fitch. At the presentation date of this Report Leonardo's credit ratings were: Ba1 with a positive outlook from Moody's, BB+ with a stable outlook from Standard and Poor's and BBB- with a stable outlook from Fitch. Overall, Fitch assigned Leonardo the "investment grade" rating status and Moody's and Standard and Poor's the "sub-investment grade" rating status. A further downgrade in the Group's credit rating, even with no effect on the existing loans, could severely limit its access to funding sources, as well as increase its borrowing costs for existing and future loans, which would have a negative impact on the Group's business prospects and its performance and financial results.	As noted previously, the Group is actively engaged in implementing actions identified under the industrial plan for reducing its debt. Moreover, the Group's financial policies and careful selection of investments and contracts involve being constantly alert to maintaining a balanced financial structure. In seeking out strategies to pursue, the Group always takes into account the potential impact such could have in the indicators used by the rating agencies.
The Group realises part of its revenues in currencies other than the currencies in which costs are incurred, exposing it to the risk of exchange-rate fluctuations. A part of consolidated assets are denominated in US dollars and pound sterling	The Group reports a significant portion of revenues in dollars and pounds, while costs can be denominated in other currencies (mainly euros). Accordingly, any negative changes in the reference exchange rate might have negative effects (transaction risk). Moreover, the Group made significant investments in the United Kingdom and in the United States. Since the reporting currency of the consolidated Group financial statements is the euro, negative changes in the exchange rates between the euro and the dollar and between the euro and the pound sterling might have a negative impact on the Group balance sheet and income statement due to the translation of the financial statements of foreign investees (translation risk).	The Group continuously applies an organised hedge policy to combat transaction risk for all contracts using the financial instruments available on the market. Changes in the dollar and pound sterling exchange rates also give rise to translation differences recognised in Group equity that are partially mitigated through the aforementioned pound and dollar bond issues. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the Group level.
The Group operates in some segments through joint ventures, in	The major joint ventures in the Aerospace, Defence and Security area are MBDA, held at 25% (with partners BAE Systems and Airbus	The Group constantly follows, including through the involvement of its own top management, the performance of these

RISKS		ACTIONS
which the control is shared with other partners	Group), Thales Alenia Space, held at 33%, and Telespazio, held at 67% (both with partner Thales) and GIE-ATR, held at 50% (with Airbus Group). The operations of the joint ventures are subject to management risks and uncertainties, mainly due to the possible arising of differences between the partners on the identification and the achievement of operating and strategic objectives, and the difficulties in resolving any conflicts that may arise between them in the ordinary course of business of the joint venture. In particular, the joint ventures in which the Group has an interest may be subject to decision deadlocks which may ultimately lead to the liquidation of the joint venture. In the case of liquidation of the joint venture or sale of the interest by the Group, it may have to share or transfer technological skills or know-how that were originally contributed to the joint venture.	activities, in order to timely identify and manage critical issues.
The Group is a sponsor of defined-benefit pension plans in the UK and the US and of other minor plans in Europe	Under the defined-benefit plans, the Group is required to ensure a specific future retirement benefit level for employees participating in the plan; in the UK and the USA the pension funds in which the Group participates invest resources in the plan assets (stocks, bonds, etc.) that might not be sufficient to cover the agreed-upon benefits. If the value of plan assets is less than the agreed-upon benefit level, the Group duly recognises the amount of the deficit among liabilities; at 31 December 2017, the value of liabilities of pension funds reporting deficits (i.e. with liabilities exceeding plan assets) amounted to €mil. 199 while in respect of plans reporting a net surplus the plan assets totalled €mil. 335. If the value of plan assets falls significantly, for example due to high volatility in the stock and bond markets, the Group must make good this loss to plan participants, which therefore has a negative effect on its own performance and financial position.	The Group keeps a close eye on plan deficits and investment strategies and takes immediate corrective action when necessary.
The Group operates in particularly complex markets, where disputes are settled after a considerable period of time and following	The Group is party to judicial, civil and administrative proceedings; for some of these, the Group has established a specific provision for risks and charges in the consolidated financial statements to cover any potential liabilities. Some of these proceedings in which the Leonardo Group is involved – for which a negative outcome is	The Group regularly monitors potential and existing disputes, taking the necessary corrective actions and adjusting its provisions for risks on a quarterly basis.

	RISKS	ACTIONS
extremely convoluted procedures.	unlikely or that cannot be quantified – are not covered by the provision.	
The Group also operates numerous industrial facilities and is therefore exposed to environmental risks or risks arising from the effects of the climate change, in addition to occupational health and safety risks.	The Group's business activities are subject to laws and regulations protecting the environment and human health that impose limits on air emissions and the release of waste into the water and the soil and that regulate the handling of chemicals (REACH Regulation), hazardous waste and the restoration of contaminated sites. Under current regulations, owners and operators of contaminated sites are responsible for pollution found on such sites and, therefore, may be required to bear the costs of environmental assessment and remediation, regardless of the source of the contamination. While carrying out its production activities, the Group is exposed to the risk of accidental contamination of the environment and may be required to bear the costs of restoring any sites that may be contaminated.	As to environmental risks or risks linked to unforeseeable climate events, the Group has established an environmental monitoring and assessment programme and has insurance coverage to limit the impact of any event. Occupational health and safety risks are managed through specific training and other work plans focused on a zero-tolerance policy, supported by an accurate system of delegated and other powers in relation to each relevant matter, with the aim of ensuring that action is aligned with corporate policies.
The Group operates in particularly complex markets which require compliance with specific regulations	The Group designs, develops and manufactures products in the Defence sector. These products are particularly important to the protection of national security interests and, therefore, their exportation is subject to the receipt of special authorisations from the relevant authorities. The prohibition, limitation or withdrawal, if any (in the case, for example, of embargoes or geopolitical conflicts), of the authorisation to export the products might have significant negative impacts on the Group's operations and financial situation. Moreover, non-compliance with these regulations could result in withdrawal of authorisations.	The Group monitors, through specific structures, the constant updating of the relevant regulations. Commercial actions are subject to regulatory restrictions and receipt of the necessary authorisations.
A significant portion of the consolidated assets relates to intangible assets, specifically goodwill	At 31 December 2017 the Group reported intangible assets of €bil. 6.5, of which €bil. 3.7 relate to goodwill (14.7% of total assets) and €bil. 2.1 to development costs. The recoverability of these amounts is linked to the realization of future plans of the reference businesses/products.	The Group constantly monitors performance against the expected plans, implementing the necessary corrective measures in the case of unfavourable trends. These updates are reflected, when the adequacy of the amounts posted is assessed, in the expected flows used for the impairment tests. Moreover, in the last three years, Leonardo implemented a policy aimed at carefully monitoring and reducing the amounts capitalised for intangible assets, especially with reference to development costs.

RISKS		ACTIONS
The Group operates in contexts requiring a proactive cyber security management	The increased digitalization and use of innovative technologies compel the company to cope with the risks linked to the IT security which may bring to leakage of sensitive data and information, endangering, *inter alia*, the company's image.	The Group manages cyber security through dedicated controls, training across all corporate staff, processes, procedures and specific detection technologies designed to detect and manage potential threats.

Leonardo and sustainability

Leonardo integrates Sustainability and Innovation into all business sectors to create long-term value and generate impacts in financial, social and environmental terms for the enterprise and all of its stakeholders. To achieve these objectives Leonardo transforms and enhances any financial, human, operating and technology resource in its hands through added-value processes. Specifically, the Group is committed on an ongoing basis to enhancing the skills and ability of its people, a key resource in a high technological intensity and high-end manufacturing sector, as well as to investing in R&D, the key driver of economic and social development in local areas, and searching for new solutions to reduce environmental impact of its operations and products.

Leonardo has identified the segments in which it can, as a global player in the sectors of Aerospace, Defence and Security, contribute to achieving the objectives laid down by the United Nations Organisation in the 2030 Agenda (Sustainable Development Goals, SDG): the dissemination of technical and scientific education and innovation culture, the creation of quality jobs and young employment, industrial and social development in local areas and fight against climate change.

To bear witness to its commitment to sustainability, Leonardo was confirmed in 2017 in the Dow Jones Sustainability Indices, the major international stock exchange indices for the valuation of corporate sustainability, the eligibility for inclusion process of which is managed by the rating agency RobecoSam. Furthermore CDP, which is a non-profit organisation that operates the largest platform for the publication of information about greenhouse gas emissions, assigned Leonardo a score equal to “A –“, (the highest level achievable: “A”).

The approach to Sustainability, as well as any action and initiative taken during the year, are described in the **Sustainability and Innovation Report 2017**, which also constitutes a non-financial Declaration pursuant to Legislative Decree no. 254 of 30 December 2016 and which is prepared on an annual basis, according to the guidelines of the Global Reporting Initiative (GRI) and of the framework of the International Integrated Reporting Council (IIRC) and assured by KPMG.

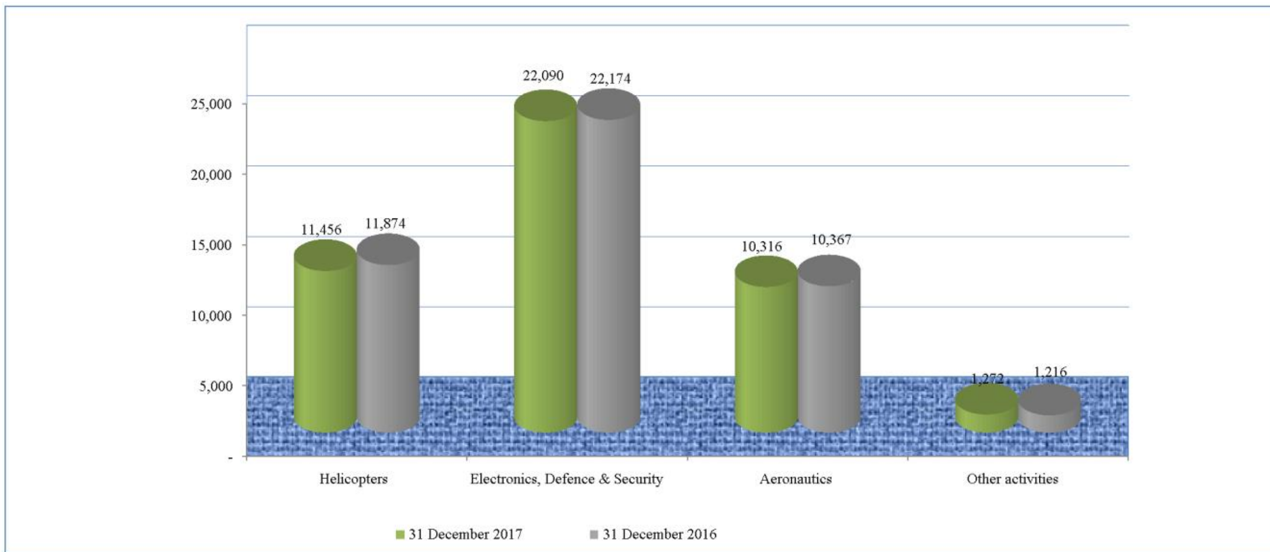
The following paragraphs report a description of the activities relating to human resources, environment and R&D.

Human resources

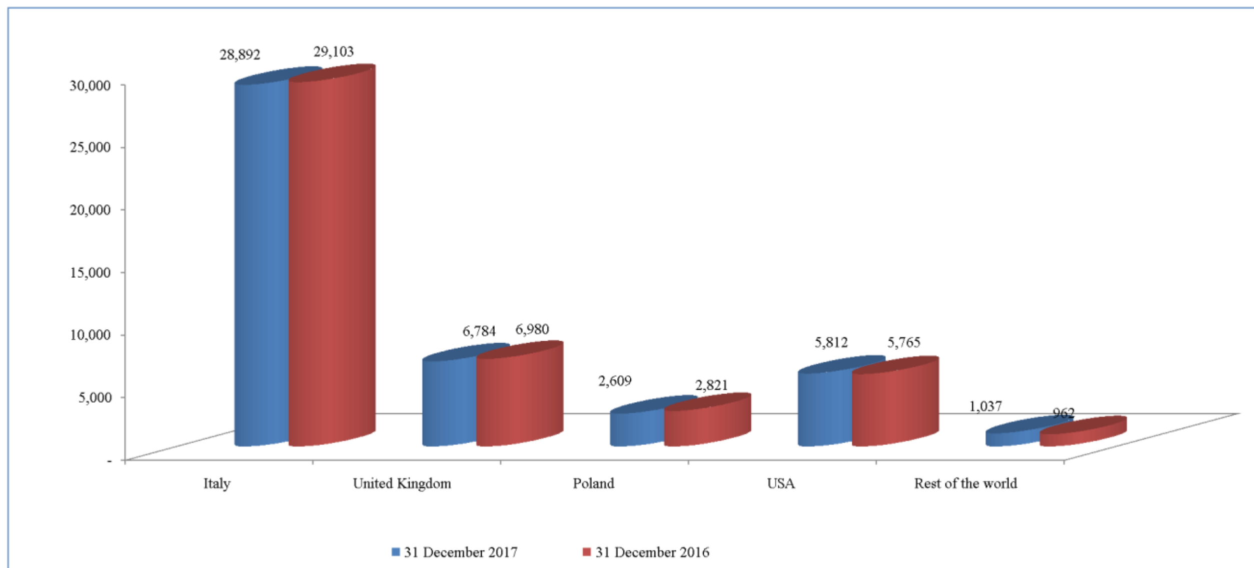
Employees

The Group’s workforce at 31 December 2017 was equal to 45,134 employees, 98% of which based in domestic markets (Italy, the UK, the USA and Poland).

Below is the breakdown of employees by sector:



Below is the geographical distribution of employees (about 64% of which working in Italy):



Organisation

The year 2017 was a very intense year as regards organisation, with focus on the One Company model.

Specifically, major first-level organisational changes were formalised in the divisions of *Helicopters*, *Aircraft, Land & Naval Defence Electronics* and *Defence Systems*, in addition to the definition of missions and key business areas/responsibilities of the new integrated corporate entity UK Leonardo MW Limited.

Following the Shareholders' Meeting that appointed the members of the new Board of Directors for the three-year period from 2017 to 2019, confirming Mr Giovanni De Gennaro as the Company's Chairman, Mr Alessandro Profumo was appointed Chief Executive Officer of Leonardo at the board meeting held on 16 May 2017.

The “package” of organisational instructions formalised during the second half-year made substantial changes to the One Company model in terms of variations to organisation and first-level responsibilities. In detail, the replacement of the Sectors and the re-allocation of their activities and resources were formalised, the International Relations organisational unit was established, the External Relations, Communication and Institutional Relations and Investor Relations and SRI (Sustainable Responsible Investors) organisational units were combined, the Executive Committee was established and the position of Chief of CEO Staff was created; organisational units were set up and responsibilities were allocated in some functions including Group Finance and the AFC units of the Land & Naval Defence Electronics (LNDE) and Security & Information Systems (SIS) Divisions. Further important changes were made to Leonardo’s macro-structure with the creation of the position of Chief Commercial Officer (afterwards divided into two closely connected lines of business development) and the creation of the innovative position of Chief People, Organisation and Transformation Officer, under whom were combined Human Resources and Organisation, ICT and Data Protection Officer units, which were combined with a new unit, Transformation Programs, a specialist centre for transformation, consulting and knowledge sharing initiatives supporting the Corporate area and the divisions and responsible for coordinating transformation projects whose aim is to bring a coherent, homogeneous Group model into being.

In September the appointments of two new Heads of Division (Gian Piero Cutillo for Helicopters and Manlio Cuccaro for LNDE) and of the new CFO, Alessandra Genco, were formalised with reference to the first divisional and Corporate area levels.

Work continued on the preparation and updating of regulatory documents, including the Protocols pursuant to Law no. 231 (guidelines, Directives, Procedures, Policy etc.) in 2017, including, among others, the Procedure on the system of internal rules, which was issued in March 2017. This Procedure, which is applicable within the Leonardo S.p.A. Group immediately, governs the new hierarchy of sources of regulations and the roles and responsibilities of the persons involved in the preparation, approval and circulation of documents of rules, methods of operation and monitoring systems, as well as the management of regulatory documents that concern Italian and foreign subsidiaries.

At the same time the Divisions continued their work to adopt the Guidelines pursuant to Law no. 231 issued at a central level, through the preparation of new divisional Procedures for the implementation or updating of those previously in force.

Management and Development of Human Resources

In 2017, on one hand the processes Leonardo put in place in 2016 to learn more about its human resources and to assess their value on the basis of homogeneous systems for the One Company project continued to be pursued, and on the other hand they were reviewed, as was necessary, in the light of the new management’s lines of strategy. One important development during the later months of the year was that a study

commenced with the aim of revising many HR processes with the intention of placing the "Person" increasingly at the centre. The processes were examined by inter-divisional working groups.

The main development processes which were built up in 2017, following on from the work put in hand the year before, are set out below:

My Profile – On the HRevolution platform the "My Profile" module is a tool which gives all employees the chance to consult the "public profiles" of all their colleagues to see their contact details and the main information regarding their organisational roles, and, above all, which gives the Company the most significant information regarding their professional career in terms of experience, skills and aspirations for the future by means of their "private profiles". This instrument, then, enables people to become better known and the Company to obtain an important, up-to-date set of information regarding the profiles of the resources they manage, which is a useful contribution to staff appraisal and the determination of individual professional growth paths. A new function was put into action in 2017 which allows resources to surf the Group's entire corporate structure, seeing the composition of the various work teams and all the chains of command between managers and other workers.

Performance & Development Management (PDM) **–** 2017 saw the implementation of the second edition of the annual process for the appraisal of the performance which, in a univocal, traceable and transparent manner, measured the results achieved by the employees involved. 24,070 resources were involved as a whole (in divisions and subsidiaries, Telespazio, Leonardo Global Solutions and Sogepa) among executives, middle managers, office workers and, for some foreign companies, blue collar workers, with a level of participation higher than 98% for the second consecutive year. All the employees were able to discuss their targets and the Company's expectations in terms of conduct and expected results with their managers. Furthermore, they were also given the chance to talk to their line manager about their aspirations and the opportunities for developing their careers.

Individual Appraisals – The appraisal informs the Company of how the resources concerned are positioned on the external labour market with respect to a pool of comparable professionals, while identifying their potential and to what extent the resources are ready to take on roles of greater responsibility. During 2017 142 resources were involved in an additional individual appraisal process, as an addition to and a more in-depth analysis of the PDM. "High-Potential" candidates put forward by Divisions/Companies underwent a special process (the HR Review), as were other persons of particular interest from an organisational and operational point of view.

HR Review **–** In 2017 the HR Review was implemented, which is a new process that gives the Company's top management a summary dashboard of the results of the various people appraisal processes and at the same time names the "High Potential" candidates to be brought into possible career development plans. The process has been standardised for all executives, middle managers and a selected pool of employees (a total of more than 5,000 resources); the data on the performance and potential obtained from the PDM process

and from certified appraisals. The HR Review manages corporate population targets of particular interest with personalised methods, initiatives and tools in the framework of general, standardised rules valid for all, as well as to acquire greater knowledge of some resources and obtain elements which will help it to make decisions regarding organisation and management and personal development.

Making the best use of human resources – All the appraisals that have been carried out supported and guided the operational and organisational methods for making the best use of human resources during the year, including the appointments of new Executives, the Salary Review policy and the Awards for excellence dedicated to Top Performers. Additionally, at the end of 2017 top management started a cycle of meetings with the most valued resources in order to listen to their point of view and involve them to a greater extent in the challenges facing the Group.

Succession Planning - After completing the plan for succession to the first-level organisational positions in Leonardo, in 2017 a similar process commenced in the Divisions, in Leonardo Global Solutions and Telespazio, for the second-level positions of greatest importance for business. The purpose was to ensure the continuity of business, starting from a study of the future challenges, the determination of the progressive replacement procedures and the consequent measures to take. The succession planning concerning second-level positions started to be made as a result of some research into the divisions' and companies' short- and medium-term strategies conducted with the holders of the positions themselves and the division manager/company Chief Executive Officer. The "profiles expected" of the potential successors were compiled on the basis of each position that had been identified and a shortlist of possible candidates to succession was drawn up. The results enabled the organisational risks arising from succession to the various positions to be assessed and the necessary corrective action to mitigate them to be determined.

Compensation systems – The Board of Directors' meeting held on 15 March 2017 approved, and then presented to the Shareholders' Meeting, the remuneration policy for 2017 and subsequent financial years, which is available in the Company's Remuneration Report that is summarised below. With regard to the short-term incentive system (MBO), its underlying rationales, general structure and operational mechanisms, aimed at ensuring a strict correlation between the incentives and "excellence" in operating performance, were confirmed for the 2017 financial year. As to the medium- to long-term incentive component, as early as in the 2015 financial year some guidelines were developed for the gradual review of the Group's remuneration system. Special distinctive features were added in support of Leonardo's new strategy, while at the same time ensuring that there will be increasingly better alignment with shareholders' expectations and the best market practices. Accordingly, in the implementation of the previous resolutions relating to the provision for medium- to long-term Incentive Plans for the Group's Management, the 2017 financial year saw the start of the third and last cycle approved for the Co-Investment Plan and the Long-Term Incentive Plan for the period from 2017 to 2019. These plans are based on the use of structured financial instruments in compliance with the essential principles of the Corporate Governance Code, specifically:

- **Co-Investment Plan**: this provides for voluntary deferment for three years of all or a part of the annual bonus earned in accordance with the MBO scheme, converting it into shares. At the end of the vesting period, subject to the person concerned having constantly passed through the MBO system performance gate, 1 matching share is assigned for each 3 shares held;
- **Long-Term Incentive Plan**: this is spread over recurring three-year cycles. Its aim is to encourage key personnel to improve the Group's medium- and long-term performance from the points of view of both economic and financial competitiveness and the creation of real value for its shareholders. The performance targets concern the Total Shareholder Return (TSR) of Leonardo compared to a panel of enterprises (50% of the bonus), the Group's Net Debt (25% of the bonus) and the Return On Sales (25% of the bonus) at the end of the three-year vesting period. The entitlement to incentive pays will accrue at the end of the three-year vesting period for all the beneficiaries who will still be working for the Group as at the date of payment (within 90 days from the approval of the financial statements of the last year of the relevant three-year period), except for a restriction on the availability of the shares to the Top Management for 12 months. At the end of the vesting period and after it has been seen that the objectives assigned have been attained, incentives consisting of components in cash and ordinary shares of Leonardo S.p.A. are expected to be given, in proportions which differ according to personnel's levels of responsibility, their contribution to the Company's results and their position in its organisation.
- **Incentive Plan for the Commercial Area (SSIP - Strategic Sales Incentive Plan):** the goal of this plan, which was approved in 2016, is to encourage front-end resources selected from teams for commercial campaigns referable to specific strategic and/or high-value programmes for the Leonardo Group. It gives the right to receive a cash bonus if set order acquisition objectives are attained. The bonus will be earned and paid to resources working on long-term contracts; during the vesting period, mechanisms may come into play which correct its value and it may even not be paid if there are fluctuations in the financial ratios of the order, if the contract is terminated or if penalties are imposed. 2017 saw the payment of the bonuses relating to the new programmes involved in the Plan.

These remuneration policies have been drawn up having regard to the Group's current organisational structure and their application will be constantly superintended, with regard to the gradual implementation of the Business Plan and the review of the organisation. For more details concerning the remuneration policy, reference should be made to the Company's Remuneration Report. The architecture of the Compensation Systems' structure for the 2018 financial year will be submitted to the attention of Leonardo's corporate bodies, which will be called upon to approve it for subsequent implementation in accordance with the procedure laid down in current corporate governance rules.

In 2017 the remuneration and incentive policies were mainly aimed at attracting and retaining resources with high professionalism and technical and management skills, paying them adequate salaries with respect to their duties, skills and behaviours. As a whole, the levels of remuneration were managed in accordance with

the principles of transparency and merit, so as to ensure the pay progression to reflect not only the complexity of the positions held and of the duties assigned, but also the outcome of the appraisal processes applied. The management of the fixed component was aimed at ensuring a uniform and consistent pay so as to guarantee the application of equity principles in internal practices and adequate competitiveness levels with respect to the market.

***Training and Change Management* -** In 2017 the integrated Training system, which enhances and develops the professional qualities and "key" skills required for business, was further cemented. The system rests on three pillars: (*i*) an IT platform, the Learning Management System (capable of managing the entire training system); (*ii*) Leonardo's job description structure (which sets down the skills required for each role); and (*iii*) a common framework with a standard process in which best practice is followed by all in the Group, putting Leonardo's know-how and expertise to use and regularly comparing them with the best and highest world standards. In 2017 the comprehensive list of Roles and Skills for Leonardo's Professional Families was completed, thus providing a general overview and enabling the system to be managed in an integrated manner. The main training schemes in 2017 were:

- Excellence in execution in Project Management, E2-PM. This was a modular programme launched for senior and junior Project Managers, Risk Managers and members of order teams with the goal of improving project management professionals' execution ability by adopting best practices within and outside the company and conducting themselves coherently. The programme involved more than 670 persons from 2015 to 2017. The last edition specifically focused on the management of projects and programmes for organisations that operate as prime contractors;
- Enterprise Risk Management Programme (ERM). There was the second edition of a Fondirigenti executive foundation funded training project, aimed at spreading a "corporate risk management culture" and giving all ERM process players training in risk management programmes. The final users were the Group executives in charge of business units and support functions and personnel responsible for Risk Management, who support the main phases of the ERM process (identifying and assessing corporate risk). The aims of the 2017 plan were to reinforce content and practices which had already been tried out in the previous year, but which needed to settle and be constantly monitored in order to achieve a homogeneous language and classification procedure across the board and at every corporate level, to adopt a risk management process with uniform methods and metrics and to standardise the reporting system. This in order to make it possible to present the main business risks and mitigation measures of the Leonardo Group, as well as of each Division and Subsidiary, synthetically and comprehensively.
- Initiative for the Group Internal Audit (GIA) Professional Family to support the centralised GIA function in performing its mission within the One Company, enhancing its expertise so that it has an efficient, flexible pool of resources. In 2017 the second-edition initiative specifically focused on the

data analysis strategy in relation to auditing activities in line with the strong digitalisation trend that is currently underway;

- Initiative for the Legal, Corporate Affairs and Compliance (LSC) Professional Family: the Compliance Council constitutes an opportunity for discussion and training regarding business and trade compliance issues. The Council is composed not only of persons working in Leonardo's Compliance professional area, but also of the first and second levels in the Organisational Units concerned with Compliance processes and themes, in addition to other human resources whose presence is considered essential with regard to this field. The Compliance Council sets itself the objectives, therefore, of (*i*) presenting the latest best practices and the most recent Italian and international tendencies in the matter through contributions from internationally known professionals who are experts in the sector; (*ii*) fostering discussions on the adequacy of the internal processes, also in the light of developments in Italian and foreign law and the line taken by the authorities responsible for the sector; (*iii*) agreeing on improvement measures and actions to be taken in order to strengthen the present internal control system and compliance safeguards, in terms of efficacy and efficiency;
- Contract management training: twenty series of courses have taken place for about 1,200 persons in all, with the support of outside lecturers, their aims being to teach staff how to manage the provision of works and services correctly, to foster a work or supply Contract Management culture and to explain the rules and proper conduct to providers of services. In 2017 two general instruction and refresher sessions were arranged, each lasting one day (including talks by the Chief Executive Officer, the Chairman and the Group General Counsel, in addition to external and in-house speakers dedicated to Business Compliance and Trade Compliance, respectively), in addition to specific (both business and trade) training lasting other three days; the contents varied according to the type of work the participants perform within their professional family;
- Certifications – Leonardo continued with its accreditation of its Project and Risk Managers, according to the *de facto* international standards PMI (Project Management Institute) and IPMA (International Project Management Association). Leonardo keeps up all the certifications by conducting *ad hoc* workshops with the support of the main certification bodies;
- Teambuilding for Professional Families/Divisions/Geographical Areas - activities with a strong dose of experience: this course adopts interactive methods and moments of team coaching, helps the participants to integrate and engage themselves full-heartedly in order to improve the operational effectiveness of their working groups. This course has been filled out and put in the catalogue, and has already been tried out with the Professional Families.

To complete these technical and specialist training schemes, in 2017 courses were delivered to some personnel who have been targeted as being key persons in the change to Leonardo. Among these courses are:

- *"Change in Action"* – In 2017 work continued on the training and change management project reserved for 50 Top Executives. The eight project ideas drawn up during the 2016 training sessions

were further worked out, put into the form of operational plans. Three of them, which top management found were priorities and of paramount importance, have been actually implemented and have helped to chart the guidelines for three themes: Integrated Leonardo Offer, Process Improvement and make-or-buy policy with respect to supply chain operations;

- *"One Company… One Change"* – the year saw the conclusion of the first international managerial training course in view of the change, which had been started in 2016 for the Middle Managers, whose purpose is to enhance their managerial skills and their capacity of execution, to spread knowledge of the new divisional organisational model, to foster the full awareness of the persons to whom the campaign is addressed of the current change and encourage conduct which ensures increasing efficiency and effectiveness in day-to-day practice. This project ended with, in all, 36 series in Italy, 8 in the UK and 1 in Poland, making a total of about 41,000 hours of training. It broadened the inter-divisional and inter-functional network.
- *Trainer Training* – the year also saw the conclusion of the "Train the Trainers" programme, which had been started in 2016, whose aim is to develop and enhance the abilities of designing, constructing and conveying training content and seeing that it is learned, both face-to-face and at a distance, while its eventual aim was to internalise Leonardo's expertise and management of know-how. Two editions of the course were held (one in Italy and one abroad), for about 25 members of staff from the various divisions and business functions, who had the opportunity of learning and applying classroom management techniques, including the management of virtual classrooms, and the methods necessary for running training courses well, including on social networks, in line with the new market trends in the field of training and digitalisation. Cultural and process change was brought about by means of special initiatives for the business targets who have most influence on the dynamics of change.

E-learning **–** More work was done on the single platform at corporate level of Leonardo's Learning Management System (LMS) in 2017. Now all training can be managed, scheduled and delivered directly (on line), monitored and reported, whether it is on line, face-to-face or blended. More offers were put on the employee training catalogue; *English for You* was added, a course for all Leonardo's Italian employees which can be utilised through an integrated e-learning platform developed in collaboration with a leading corporate language learning company. Courses were delivered for a total of slightly less than 40,000 hours.

Employer Branding – Among the steps that the Group took to improve its image in the labour market and young students and new graduates' perception of the brand, the following projects were carried out in 2017:

- *Job Meetings and Career Days* – Leonardo participated in numerous events that were held at the most important Italian and foreign universities. Hundreds of candidatures were received from older school pupils for some internship work experience and from undergraduates for opportunities to train while preparing for their degree theses or to gain useful points for their study programmes or in their choice of future profession;

- *Innovation Award* - Staff responded to the innovation challenge in great numbers again in 2017: over 700 projects were submitted. The initiative involved the worlds of school students, new graduates and persons preparing for doctorates in engineering, mathematics, physics, computer sciences and chemistry at all Italian universities, with the third edition of the “Young People’s Innovation Award”, recording more than 7,800 contacts on the dedicated website. The three best projects were awarded monetary prizes and granted the opportunity to do training apprenticeships in the Group.
- *Other awards* – Leonardo financed awards again in 2017 which seek to encourage young Italian talent with scholarships for undergraduates and new graduates in STEM (Science, Technology, Engineering and Mathematics) faculties, which submitted innovative projects relating to corporate business issues. Among these is the Bellisario Award, which is given every year to women who have distinguished themselves in their professions, management, science, economy and social affairs at domestic and international level, and the Leonardo Committee Award, an initiative which rewards every year the best theses on the outstanding quality of “Made in Italy”. In 2017 Leonardo went on with its commitment to foster industrial talent at local level and revive technical crafts in Italy through its participation in the ITS (*Istituti Tecnici Superiori*) secondary technical school project managed by the Ministry of Education, Universities and Research with the Ministry of Economic Development. At Leonardo ITS technical colleges in-house Group lecturers take turns in teaching classes during their two-year courses, transferring not only knowledge and skills but also their passion for their work.

Industrial Relations and Labour Regulations– In continuity with the previous financial year, during 2017 observation of labour law regulations – on a system basis at Group level – took the form of the normal monitoring of the production of Italian and EU laws, also taking account of the most recent case law rulings issued on the merits and by the Supreme Court, as well as of the preparation of guidelines for the application of the second-level supplementary One Company agreement. In the field of its industrial relations, Leonardo carried out its plan for consulting and informing the unions holding the customary annual Strategy Observatory and information meetings on the performance of the economy, technological and market scenarios and employment and investment trends. The following objectives were achieved in bargaining:

- In 2017 the general structure was confirmed for the Performance Bonus referred to in the One Company agreement and “proximity indicators” were set at Division/individual business unit level. Similarly, the Target Bonus system for “High Level Professionals” was confirmed;
- the Group and the unions signed an agreement which introduced a new supplementary health scheme for personnel up to Grade 7, wholly financed by the employer and covering the employee’s dependants for tax purposes. The objectives were on one hand to improve employees’ quality of life, safeguarding their psychological and physical well-being, and on the other hand to retain their loyalty.

Again in the field of labour negotiations, a package of corporate welfare goods and services (flexible benefits) was agreed related to the first tranche of Euro 100 granted for the year 2017 under the National Collective Labour Agreement (CCNL) for mechanical engineering workers. This is an addition to the goods

and services already offered by the Group. As regards Leonardo's activities in the institutional sphere, it continued with its commitments in employers' associations, on one hand by taking up the opportunities offered by the positions it had taken at various levels and on the other hand by participating in theme-based inter-company working groups whose aims were to examine new laws and the line which case law is taking in the matter and to pool any issues that emerge when laws are applied.

***Privacy - Data Protection Officer* –** During 2017 the Data Protection function finished adjusting Leonardo's new "One Company" corporate structure to the provisions of the Italian Data Protection Code (Legislative Decree no. 196/2003) by completing the "6P1" Project, commenced in November 2016, whereby all the personal data processing operations in the Italian companies were mapped, while extending the privacy governance and the OPM (Organisational Privacy Model) to all the Group Divisions, thus becoming ready, within the organisation, to comply with the European General Data Protection Regulation (GDPR), which entered into force on 25 May 2018. Additionally, as regards privacy governance, a divisional Data Protection Team (DPT) was formally constituted in support of the Data Protection Officer, with the purpose of correctly responding to and resolving all the data protection issues which the Group is to face. The Data Protection Team met periodically on a collective basis and assisted top management and the Privacy Committee in the various circumstances which arose during the year. Data protection compliance also expanded at international level with the launching of Hydaspes Project, whereby Leonardo MW Ltd. adjusted its rules to the GDPR in the United Kingdom. Work was also done on training and awareness measures, starting structured engagement with numerous national and international stakeholders on data protection themes. Training took the form of the creation of the first online course for all the Group's Italian personnel and the construction of the first "serious game", an interactive privacy situation simulator. This online course, built to the Group's particular sectoral requirements, was given to all Leonardo's employees between July and October and furnished them with the expertise necessary to comply with any legal obligation laid down in the regulations in force. The "serious game" will be launched and used during the first quarter of 2018.

Stakeholder engagement, on the other hand, took the form of the construction of a domestic and international network together with institutions, local governments, universities, research centres, businesses and consulting firms and culminated in participation in a European Privacy Cybersecurity PPP financing and grant programme, Data Protection and Digital Identities of Horizon 2020, with the presentation of Leonardo's first research project on Data Protection issues. In this context a European consortium was established between Leonardo Corporate Center, the Security & Information Systems Division and other foreign partners that submitted the DART project, a set of assessment and compliance tools to implement the new requirements set out in the GDPR in the field of cloud, mobile, IoT and Big Data technology. Pending the entry into force of the GDPR, preliminary studies have also begun of the amendments which the new provisions have made to the law order to ensure conformity within the prescribed deadline, in particular on the principles of: Privacy Impact Assessment, Data breach notification, Privacy by design and Privacy by

default, transfer of data to non-EU countries and Register of treatments and co-ownership of treatments within the Group.

The Environment

Environmental issues are a key managerial factor of utmost importance for an organization to conduct its business.

The multiplicity and complexity of Leonardo's activities require it to adopt a model for the identification, assessment, management and minimisation of environmental risks[1] which operates on various fronts and at various levels. For this reason risk management tools created at head office level, including the system for allocating responsibilities, are afterwards supported by additional technical and operational solutions conceived on the basis of the specific production processes carried out and the company structure in being on each site and the context of the locality in which it is situated (both natural and human, so that effective procedures can be laid down for responding to any emergencies which arise and consequently minimising their impact).

Leonardo's Organisational, Management and Control Model (Legislative Decree no. 231/2001, as amended and supplemented), conceived in order to ensure the protection of the environment in addition to compliance with its provisions, and the Health, Safety & Environment (HSE) Integrated Policy are the high-level instruments which lay down Leonardo's approach and strategy guidelines in environmental and health and safety matters. These instruments are made operational and applied by the Divisions and the Group Companies through Operational Procedures and Instructions. According to Leonardo's business model, operational responsibilities in these matters are entrusted directly to the Divisions, whose duties it is to lay down, on the basis of the particular nature of their processes and business activities, the best and most effective procedures for the operational management of environmental and health and safety issues and to put these procedures into practice. It is very common for Divisions voluntarily to adopt Environmental Management Systems (EMSs) and Occupational Health and Safety Management Systems (OHSMSs), which are certified according to the international standards ISO 14001 and OHSAS 18001, respectively, and which, on one hand are a fundamental instrument for the identification, management and minimisation of risks and on the other hand enable them to define and pursue improvement targets and monitor the extent to which these targets have been attained.

For manufacturing processes in which hazardous substances are used under controlled conditions but have a potential impact on the environment, the procedures for identifying, assessing and managing site-specific

[1] The concept of risk, with regard to the environment, involves the probability of causing harm to one or more environmental matrices (air, water, subsoil, flora, fauna, human beings and natural habitats) after exposure to a source of risk.

environmental risks are not only laid down and carried out using any Management Systems on site but are governed by current regulations:

- 11 Leonardo sites are subject to the Integrated Pollution Prevention & Control (IPPC[2]) Directive, which suggests the adoption of best available techniques (BATs) in designing, managing, servicing and decommissioning industrial processes. The Leonardo sites which are subject to the Directive adopt BATs in order to maintain a high level of protection of the environment and prevent pollution while ensuring a high standard of efficiency at the same time;
- 4 Leonardo sites are graded as Major Accident Hazard (MAH)[3] and must follow the proper management and operational protocols for reducing the risk of accidents to a minimum and managing any health and safety or environmental emergencies that arise.

Finally, environmental Audit Programmes are also drawn up and observed in the framework of the management and enhancement of Leonardo’s real estate assets. Their aims are to investigate and assess environmental risks and apply monitoring and control instruments.

In 2017 Leonardo Global Solutions conducted 33 environmental risk audits aimed at identifying and assessing any possible problems arising from either the past or present use of the areas on which the factories stand, both in compliance with current environmental laws and in order to prevent and manage environmental risk. Furthermore, 82 additional audits were performed through third-party entities to maintain certifications of management systems. The problems found were analysed and included in follow-up plans, containing actions to be taken to resolve them.

Relevant environmental issues

Leonardo handles key environmental issues in compliance with international, EU and Italian laws in the matter and, where applicable, by laying down and following specific Operational Procedures and Instructions to minimise the environmental impact generated and to reduce waste. Below are specific issues that are worthy of mention:

- **Waste**. As a result of the waste management policy adopted by the Group during 2017, the quantities of waste produced by Leonardo during the year were 9%[4] lower than in 2016, while the amount of recycled waste out of the total quantity was 55%. Identifying ways to reduce the amount of waste produced, making efforts to improve waste sorting procedures and increasing the amount of waste for recycling are among the objectives laid down in Leonardo’s Health, Safety & Environment (HSE) Integrated Policy;

[2] Sites falling within the scope of application of Directive 2008/1/EC and Directive 2010/75/EU.
[3] Directive 2012/18/EU (Seveso III), on the control of major-accident hazards involving dangerous substances.
[4] The value does not include: quantities of waste produced by JVs; quantities of waste arising from exceptional activities of site decommissioning and closure.

- **CO_2 Emissions**: Leonardo has been engaged for some time in a process of reducing its CO_2 emissions, which are collected, reported and analysed by means of the Carbon Management System, the system developed on a voluntary basis in line with the provisions laid down in the Greenhouse Gas Protocol. From a regulatory point of view:
    - no. 10 sites located throughout Italy covered by the application of the Emission Trading Directive (Directive 2003/87/EC), establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Directive 96/61/EC), the instrument for implementing the Kyoto Protocol for reducing greenhouse gas emissions;
    - no flight was carried out, falling within the scope of application of the Aviation Emission Trading Scheme (ETS) (Directive 2008/101/EC, amending Directive 2003/87/EC, so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community), which extends the European CO_2 emission trading system to certain flight activities.

  All the sites covered by the scheme received certification of their emissions by a body accredited by the Ministry for the Environment, Land and Sea.
- **Ozone-depleting substances and fluorinated greenhouse gases (F-gases):** ozone-depleting substances (ODS) and fluorinated greenhouse gases (F-gases), where they are present, are periodically monitored and investigated. The amount of ozone-depleting substances on Group sites is constantly falling owing to the removal and decommissioning programmes carried out by the Group, in line with the EU regulations.
- **Contaminated Sites**. From the point of view of operations, an actual example of the adoption of a responsible and sustainable approach to the environment is the management of contaminated sites (environmental surveys, securing sites, characterisation, risk analysis, reclamation and environmental remediation), which is directly carried out by the Divisions/subsidiaries of Leonardo or through LGS under specific contracts for the management of reclamation procedures and with the help of persons with specific knowledge and expertise who find the best technical and operational solutions. 21 reclamation procedures were in progress in the Leonardo Group in 2017; three of these procedures were formally ended during the period between the end of 2016 and 2017. In this context, Leonardo has not been found definitively liable for causing environmental damage and there have been no definitive penalties imposed on Leonardo for environmental violations.

Energy Management

Leonardo published its first Energy Policy in 2017, laying down uniform effective energy management principles for offices and factories by means of a process consistent with a new energy culture which all employees are to consider as their personal heritage. During 2018 the Energy Policy will be followed by

specific Guidelines for putting the new uniform processes on an operational footing and laying down long-term targets for the reduction of energy consumption.

Leonardo follows a structured procedure for measuring its energy impact by means of an integrated plan which operates in two macro areas:

- Procurement management, which uses a portfolio management model to diversify market volatility risk and to keep energy supply prices down. Through this area, Leonardo buys electricity produced indirectly from renewable sources thereby adhering to the Guarantee of Origin regime on a voluntary basis, and lays down the environmental criteria which help in the selection of Suppliers, whose bid scores also depend on initiatives such as the preparation of a Sustainability Report, inclusion in the Dow Jones Sustainability Index, participation in the Carbon Disclosure Project;
- Energy Efficiency, whose objective is, after the creation of the One Company, to strengthen the governance and coordination of the measures taken to hold consumption on production sites and their emissions in check.

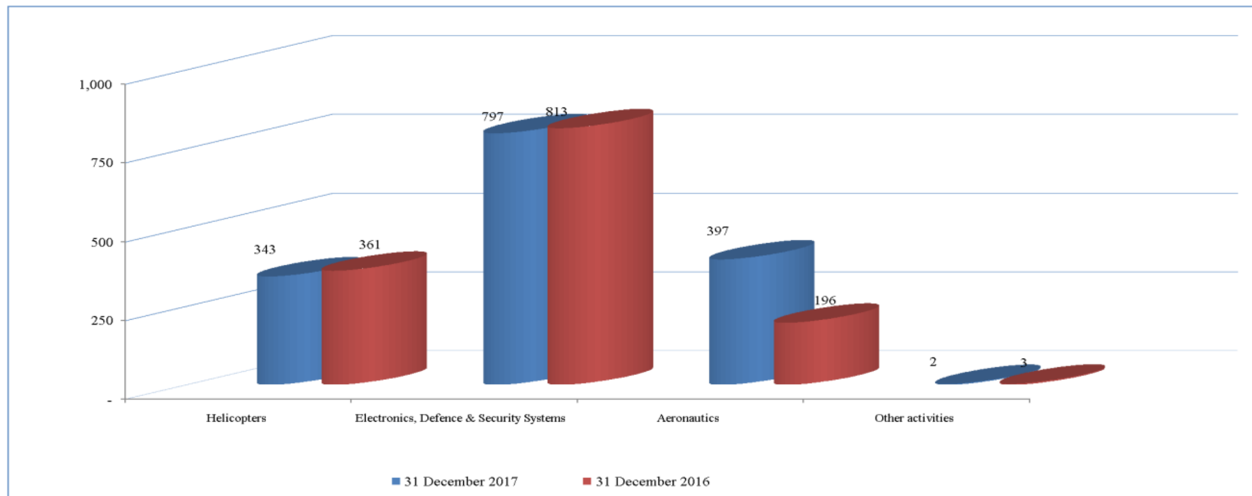
Among the work done in 2017 was the continuation of the Group’s Industrial LED Lighting Programme, which will cut Leonardo’s total electricity consumption down by 2% with reference to projects that have been already implemented, and the commencement of the “Energy-intensive site monitoring” programme, whose aim is to establish what operational measures can be taken, and put into practice, to cut down consumption without making the investments usually necessary for the purpose in the industrial sites which consume most energy.

Research and Development

In Leonardo R&D takes two directions: one to develop new products and improve existing products constantly and the other based on non-stop investments in strategic and innovative technology and skills with a time horizon which is not only short-term but also medium- and long-term.

The planning and balancing of these activities helps reduce the risks related to developments, thereby optimising the incorporation of new technologies into products, so that they may establish themselves on the market in a timely manner and/or remain competitive.

The breakdown of research and development costs by segment is as follows (data in €mil.):



Group Governance of Technologies and Products

In 2017 Leonardo again invested about 13% of its revenues in R&D (more than €bil. 1.5 in 2017 alone), involving about 10,000 highly qualified human resources from its engineering departments and the divisional facilities responsible for both technological and product innovation. R&D is carried out by engineering graduates, mostly in aeronautics, aerospace, electronics, mechanics, IT and telecommunications and physics, in addition to specialist technicians.

The culture of innovation is based on a continuous, integrated process of cooperation both inside the Group and outside with universities, research institutes and bodies, customers and suppliers and start-ups, and activities consist of supporting basic research and developing improvements in increasingly innovative technology, products, solutions and services responding to the new and more challenging requests from the market.

The Group's Innovation and Technology Governance is therefore an ongoing, centrally coordinated, process which, based on the "One Company" approach, is intended to improve the technology and product positioning and to make divisional engineering more effective and efficient by means of a set of shared tools.

The objectives pursued during 2017 were to make the instruments utilised after the Leonardo's transformation into the "One Company" more efficient and operational, while identifying innovative technology and products in which Leonardo shall invest in the next future.

The main tools used at a centralised level in support of this strategy were:

- the "Product and Technology Innovation Plans" as a process for the control and planning of the Divisions and the Group's technology development requirements, in terms of technology needs, future developments, collaborative activities, etc.. Particular attention was paid to measures of strategic consequence and cross-divisional opportunities;
- thanks to its "One Company" structure, Leonardo embarked on a new project in 2017, Engineering Processes and Technical Knowledge, common to all its Divisions, aimed at mapping information

relating to ICT methods and tools in support of Product Development. The objective is to attain a uniform set of methodologies for the various Divisions in the areas of the various disciplines: Systems Engineering, Mechanics, Electronics, Software, Configuration Management, etc.;

- the aims of the management of Leonardo's technological portfolio were to establish the technologies/core skills in each sector which distinguish the Groups' "in-house" heritage (mainly "Make"), are indispensable in order to compete in its markets successfully and require investments to maintain the state-of-the art position, and also to pinpoint the "critical" technologies which, according to their degree of importance, are constantly monitored to limit possible negative effects on business.

Funding programmes on Research and Innovation. The Group takes part in regional, domestic and European research and innovation initiatives and funding programmes. The regional and domestic initiatives include the Italian Technology Clusters (Leonardo is among the main promoters and is one of the founding partners of the "National Aerospace Technology Cluster") and the Regional Technology Districts. An important development in 2017 was that the Ministry for Education, Universities and Research formalised and enhanced, under a regulatory act, the role of business Clusters as prime institutional partners in setting Italian technological research priorities.

In 2017 Leonardo presented about fifty ideas for projects for co-financing to support Research into and Development of these proposals, equally distributed among European, national and regional tenders. With regard to European initiatives within the framework of Horizon 2020, which is a European Research and Innovation Funding programme, Leonardo submitted, and was awarded, a number of project proposals during 2017, mainly in the areas of: Security, Space, Transport (the Aeronautics sector is included under transport) and ICT.

Joint Technology Initiative. Leonardo's Divisions continued to participate in research and innovation efforts through the following joint technology initiatives (JTIs):

- *Clean Sky 2* (which focuses on the development of the most appropriate technologies to reduce the environmental impact of aircraft);
- *SESAR 2020* (focusing on the development of the new European ATM system, including the insertion of unmanned vehicles in non-segregated airspace);
- *ECSEL* (Electronic Components and Systems for European Leadership) for the development of new components and electronic sensor systems, including software and embedded systems.

Finally, Research and Innovation initiatives promoted within NATO, the European Defence Agency (EDA) and the Italian (ASI) and European (ESA) Space Agencies continued successfully.

Patents

In 2017, routine portfolio management activities continued through the monitoring of patents filed, the maintenance of patents, the patent protection, the supervision over patent activities of our leading competitors in the *Helicopters*, *Space*, *Aeronautics*, *Electronics, Defence & Security Systems* sectors, so as to protect the Group's know-how and freedom-to-operate, in key business and emerging technology sectors.

In 2017 Leonardo's Divisions applied to the Italian Revenue Agency for new rulings on access to the income tax concessions for the utilisation of intangible assets in the form of R&D investments, as provided for in the Italian regulations governing "Patent Box". Likewise, the same action was taken in accordance with law in the United Kingdom.

Leonardo's current patent portfolio is broken down as follows by sectors: 68% in *Electronics, Defence and Security Systems*, 14% in *Aeronautics*, 12% in *Helicopters*, 5% in *Space* and 1% in other activities.

Research and Development during the year

Following is a summary of the main activities conducted during the year:

Helicopters:

- More work was done on certification in the AW609 project, including tests in artificial ice conditions, the completion of low-speed wind tunnel trials and testing of the new version of the automatic pilot software. The construction of the AC4 prototype is in progress and that of the AC5 prototype has started. Ground tests for load survey of the AC1 prototype and the completion of engine certifications are also in progress;
- AW139: improvements were made to operational safety, including Category A and Main Gearbox emergency procedures; a new interior design was produced for the VIP configuration;
- AW169: new VIP interiors were designed, as was a new radar and DMC maintenance costs were reduced by 22%. Step 2 of the FAA (Federal Aviation Administration) certification was taken;
- AW249: the development of the new helicopter was started. The System Requirement Review (SRR) preparatory to the Program Design Review expected to be conducted in 2018 was completed;
- Unmanned Vehicle Programmes:
    - RUAV AW HERO (Rotary wing Unmanned Aerial Vehicle) platform: activities were performed for the production, assembly and flight tests of the prototype AW HERO 180 Kg within the scope of the National Military Research Programme, as were operations for the development of a naval variant with increased performance (AW HERO 205 kg);
    - OPV (Optionally Piloted Vehicles) SW-4 Solo platform: the trial campaign was conducted for remotely piloted flight without Safety Pilot on-board;

for the development of new technology:

- substantial progress was made on the development of both types of active rotor: Active Trailing Edge and Active Gurney Flap; the ground tests of the complete system of the first (ATE) have been brought to an end, while the assembly of the blades of the second (AGF) in their final configuration was completed;
- the COMFORT project has come to the end of its first phase with the preliminary design of a number of active and passive anti-vibration units and the approval of a new type of cabin panel with better damping and sound insulation characteristics. Phase II of the programme was commenced for the construction of the prototypes;
- as regards composites, work commenced in the framework of cooperation with the Bristol National Composites Centre (NCC) on activities such as the validation of the z-pinning concept for the reduction in the delamination of thick laminates, especially on rotor hubs.

Aeronautics:

- SESAR2020 programme continued in the context of Wave 1, in which the Aircraft Division is creating new avionics functions for approach in terminal areas and in support of flight crew in airport throughput; the development and validation of new functions for the integration of the RPAS (Remotely Piloted Aircraft Systems) in airspace; the integration of the processes of trajectory management and the validation of the exchange of non-safety critical information (meteorological for example) in both air-to-ground and ground-to-air directions;
- in the Clean Sky project, which closed in 2017, the targets for reducing the environmental impact of regional aircraft were met and various innovative technologies were developed and validated by means of demonstrations (on the ground and in the air). Among the most important were flight trials on the ATR 72 demonstrator aircraft of an innovative on-board energy management system and a new air-conditioning system, both completely electric, and a composite panel containing an innovative material which reduces weight and noise inside the fuselage;
- as regards the Clean Sky 2 project, work continued on the development of innovative technology and the design of full-scale demonstrators within the Regional Innovative Demonstration Platform (REG IADP), of which the Aircraft Division retains leadership, and within the Airframe Integrated Technology Demonstrator (Airframe ITD), in order to further reduce (with respect to Clean Sky1) the environmental impact and to make regional transport aircraft more competitive. These objectives will be pursued through innovations in materials and structures, advanced aerodynamics and solutions which electrify some aircraft systems;
- work continued on technological research into detect and avoid functionality and collaborative surveillance technologies for unmanned aircraft with a view to the insertion of the UAS (Unmanned Aircraft Systems) in non-segregated air space and of ATOL, AUTOTAXI and MISSION Planning/Replanning of the system;

- work continued on research into structural design and manufacturing processes relating to various aspects, including crashworthiness, liquid resin infusion processes and automatic layering of composite fibres, technological development with low-cost materials (thermoplastics, out-of-autoclave) and innovative solutions for surface treatments in compliance with the REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) Regulation, automated prevention techniques, checking for and repairing defects that might arise during the manufacturing and assembly of structural composite elements;
- in the C-27J programme, development of the new baseline configuration continued until the Critical Design Review of the configuration was concluded. The wing reinforcement systems were also modified in preparation for the installation of the winglet, which will become basic for the aircraft;
- in the M-346 programme, the certification of the Polish version of the M346 Advanced Jet Trainer (AJT) was completed:
    - a development plan was drawn up for the LFFA (Light Fighter Family of Aircraft) version starting from a new AJT version, set up for future operational configurations. The AIM-9L missile was launched for the assessment of separation trajectories and prototypes of underwing weapon stations were built and flown in an initial envelope, thus achieving the capacity of 7 external stations. Talks continued with the strategic Partner Elbit about the technical solution and related responsibilities for the LFFA Programme;
    - the Technical Proposal for the Performance of the T-100 aircraft was sent to the USAF (United States Air Force) with an assessment of comfort carried out thanks to the creation of a prototype of the cockpit. Work started on the preparation of environments for development and structural, technical and logistic layout in order to observe the first milestones in the programme should the contract be awarded to Leonardo.
- in the M-345 programme, the Aircraft's Critical Design Review was completed and the details of its structure and systems were drawn up. Rigs and test benches were designed and constructed both on suppliers' premises and in house and work started on integrating avionics systems and equipment. Pilot in the loop tests also commenced on the Ground Demonstrator Device simulator which reproduces the characteristics of the M345:
    - 40 flights were made with the re-engined X619 demonstrator plane, including the adjustment of the FTI nose boom air data system, engine stabilisation and handling, both assisted and windmilling engine restarting, characterisation of the vibration environment and flight quality;
    - the Certification Plan for T345A ItAF aircraft was developed and shared with the Certification Body (DAAA).
- the European MALE2020 project (European MALE RPAS as denominated within OCCAR (Organisation for Joint Armament Cooperation)) for the European unmanned Medium-Altitude Long-Endurance vehicle, in collaboration with Airbus Defence and Space and Dassault Aviation,

ended its first year of activity in September 2017 and reached its SRR (System Requirement Review) in December. The review was about two and a half months late owing to the countries' delay in deciding the type and number of engines; the choice fell on the twin turboprop. The requirement for the development contract was almost satisfied and was 90% agreed; indeed, OCCAR is starting to draw up the Invitation to Tender for the development phase, which is expected to be issued in mid-2018.

Defence and Security Electronics:

✓ Airborne & Space Systems

- Continuation of activities connected with the participation in large programmes, both National and International: Eurofighter Typhoon aircraft, Forza NEC (Network Enabled Capability) for the modernisation of the Italian Armed Forces and the NATO AGS (Alliance Ground Surveillance) programme;
- Continuation of activities for the development of new generation NGC cockpits to be fitted in various aircraft, including the M-345;
- Continuation of activities for the development of the new UAS FALCO 48 and of the ISTAR (Intelligence, Surveillance, Target, Acquisition & Reconnaissance) mission system integrated into Falco 48 platform;
- Continuation of development activities of space equipment (PCDUs, Solar panels, Atomic clock), attitude sensors (Star Tracker2.0), payloads (Spectrometers, imaging cameras) and robotics (lunar drill);
- In the segment of Infrared Countermeasures (IRCMs), improvement of the performances of Miysis and CIRCM (Common Infrared Countermeasures) systems, and technology advances in the field of laser sources and pointer/trackers;
- In the segment of airborne radars, advances in the development of the Grifo Evo radar;
- The main investments for the development of the product portfolio involved activities connected with: New Gen. Obstacle Warning System, Mission Management Systems, Airborne AESA (Active Electronically Scanned Array) radar, IFF (Identification Friend or Foe) Systems, Skyward IRST (Infra-red search and track), Radar Warning Receivers, Advanced RF ESM (Electronic Support Measures), Lasers, DIRCM Systems (Directional Infrared Counter Measures), Laser DEW (Directed Energy Weapons), Wide Band Data Links and Radio Comms with specific reference to Avionic SW Defined Radio.

✓ Land & Naval Defence Electronics

- Work started on rationalising the product portfolio in order to concentrate on products with a higher profit margin.

- Continuation of activities connected with the national Programme linked to the “Naval Law”; in particular note:
  - the results for the 128-element IFF CA Conformal Array, successfully installed on the *Martinengo*, a FREMM European Multi-purpose Frigate Programme ship, which passed its sea trials;
  - Advances relating to multi-purpose radar systems based on AESA (Active Electronically Scanned Array) technology in C-band and X-band and to IRST (Infrared Search and Track) “static” system based on non-rotating fixed sensors;
  - validation of the software of new-generation X- and Ka-band shooting radars (NA30S MK2);
- System specifications were completed for the integration of Digital Beamforming techniques in long-distance surveillance radar;
- Development was completed for a preliminary demonstrator of a C2 Command and Control system for Air and Missile Defence;
- As regards Communication, developments were being completed for SDR (Software Defined Radio), including Naval Radio Systems, and research continued, within the Galileo Geo-localisation programme, into an integrated receiver for PRS (Public Regulated Service) signals;
- In the Guardian family, development started of a new product (SCUDO), with reactive capacity and extension of frequencies for protection from RC-IEDs (Radio Controlled Improvised Explosive Devices)*;*
- In Optronics, the hyper-spectral Sphyder was approved, environmental qualification audits were conducted for LEOSS (Airborne EO) on the AW139 and the basic version of the Janus D (Land EO) was constructed; FAT (Factory Acceptance Tests) were conducted for Janus Dual Head (Naval EO) for LSS (Logistic Support Ship); the Nerio ULR (Ultra-Long Range) was upgraded to include dual interfaces HD-SDI (High Definition –Serial Digital Interface) interfaces;
- The integration was nearing completion of the DVB-T (Digital Video Broadcasting – Ground) band function into the Aulos passive radar system, supplementing the function already operational on the FM band, both being validated at the Pratica di Mare base;
- Development was completed for the new solid state Seeker and the Semi-Active laser was validated;
- On-site tests (Site Acceptance Tests and Harbour Acceptance tests) were completed for the new naval surface low-level scanning and surveillance X-band radar systems;
- Developments continued on innovative technologies, such as AESA (Active Electronically Scanned Array), on Gallium Nitride (GaN) to be used for new radar systems, on the Digital Array Radar, on command and control and quantum technologies.

✓ Security & Information System Division

- In the segment of Air Traffic Control (ATC), activities were performed for the optimisation of (recurring and non-recurring) production costs of primary and secondary radars (radar in S-and L-band). Developments continued for Air to Ground communication systems (new multi-frequency wideband datalink AeroMACS and the radio ATC was completed). Operating requirements were set out within the SESAR2020 project for the new generation of ATM (Air Traffic Management) centres and communications complying with the Single European Sky requirements;
- Design and first pilot projects of the secure Industrial IoT platform for the digitalisation of manufacturing processes and predictive maintenance. Work continued in the segment of Cyber Protection with further development of Managed Security Services, Attack Prevention and Reaction Services; functions were improved for Cyber Intelligence with extension of languages handled and multimedia streams;
- Evolution of Professional Communication Networks towards heterogeneous solutions which use a number of integrated 5G communication technologies;
- Construction of a prototype vertical baggage handling conveyor (MVS 2.0) for e-commerce applications;
- Work continued on the SC2 (Smart City Main Operation and Security Centre) platform for the security of critical infrastructures and airports and stadiums;
- Technology development activities focused on Big Data Analytics, Blockchain, Artificial Intelligence for facial recognition, multi-sensor technology and data processing;

✓ Defence Systems Division:

- The procedure was being completed for bench testing and approval and tests were being started at sea for the new battery for heavy torpedoes, and the discharge trial was carried out successfully (POWER project);
- Entry into service of the new battery for light torpedoes (ENERGY project), used in the test launches of the new SMG U212 submarines (ENERGY project);
- The architecture was completed for the new Black Arrow Light Torpedo and first prototype engine developed;
- VDS (Variable Depth Sonar) system architecture was completed and scale model made for hydrodynamic trials;
- The prototype was developed for the new 76mm above-deck cannon and preliminary tests and shooting range trials were started;
- Prototype approval started for ODLS (OTO Melara Decoy Launching System);
- 40 mm naval gun firing trials were conducted in tunnel;

- Work was being completed on the industrialisation and approval of guided ammunition Vulcano 127mm and 155mm, and developments continued for guided munition Vulcano 76mm;
- Work was completed on the industrialisation of the new Nuova Blindo Centauro2 tank and preliminary approval activities were started;
- Technological work mainly commenced on ballistic protection, UGVs (Unmanned Ground Vehicles) and new battery technologies.

✓ Leonardo DRS

- Investments continued in sensors for multi-domain awareness, including infrared sensors, thermal cameras and systems, both to wear and applicable to land, air and space platforms;
- Work continued on the development of C4ISR systems to improve information exchanges on the battlefield (battlespace awareness), including command and control system hardware, communication systems, electronic warfare systems and software for land vehicles, air and naval platforms;
- A continuing focus was maintained on next-generation naval components, including engines and drive components, as well as elements for on-board command and computational capacity.

<u>Space:</u>

- Extension of the VoIP platform to all connectivity services for solutions based on hybrid networks (satellites/ground wireless);
- Co-development and construction of innovative solid state amplifiers for TV uplinks, improving channel efficiency and operating costs;
- Design and development of application platforms (SEnSE, braINT, AssetWatch, agriGEO, ASKme!) in the service segments that are relevant to Geo-Information: agriculture, defence and security, territory management; asset management, crisis management, maritime surveillance, image intelligence;
- Development of integrated connectivity solutions for manned and unmanned transport vehicles (DESIRE-II project):
    - approval of satellite links for reliability, continuity and security (RLSP) for RPAS control channels and telemetry;
    - development and construction of a test bed at the Fucino Space Centre for emulation, characterisation and validation of mobile terminals (mainly for RPAS/aviation applications, but also for maritime and rail applications).
- Analysis, design and development of Satellite Navigation solutions/systems:
    - Development and entry into service of the PRS KPI Monitoring Tool at Galileo GMS- I for performance measurement and the validation of Galileo PRS Initial Services (GSoP project);

- Development of a portal to supply pre-operational services for Nowcasting and Forecasting of ionospheric effects on Navigation signals (Ionospheric Prevision Service project);
- Production engineering and first entry into service at the Fucino Space Station of the LCS (LoCation Server) based on the Navigation Gateway for tracking hazardous goods (CORE project);
- Development and demonstration of a prototype Apron Management service based on Navigation Gateway (e-AIRPORT project) in a typical environment.

Share price

Leonardo ordinary shares are traded on the Italian Electronic Stock Exchange (MTA) organised and managed by Borsa Italiana SpA and are identifiable by these codes:

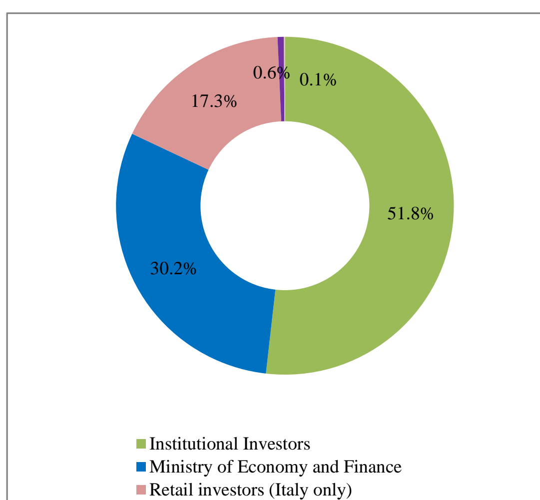
- *ISIN Code: IT0003856405;*
- *Nasdaq: LDO-MTAA;*
- *Bloomberg: LDO IM.*

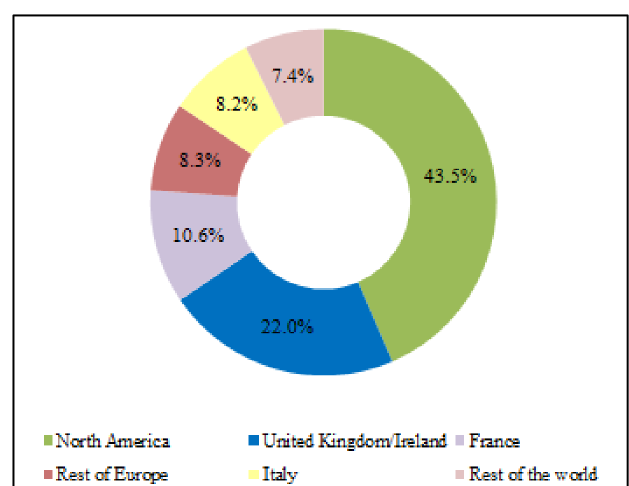
Leonardo has been adopting an Investor Relations organisational unit for some time, which is aimed at ensuring an ongoing and professional relationship with its shareholders and bondholders in general and with institutional investors, and which was integrated with other initiatives during the last two years to ensure greater monitoring of ESG - Environmental, Social and Governance - issues and to combine responsibilities relating to External Relations, Italian Institutional Affairs, Communication, Investor Relations and Sustainability, as well as to ensure an integrated communication of Leonardo's identity and positioning to all stakeholders.

More information is available in the Investors section of the Company's website (www.leonardocompany.com).

Major shareholders

Below is the last Shareholder Analysis performed in January 2018 showing the geographical distribution of the Leonardo's share capital and the total shareholder composition:

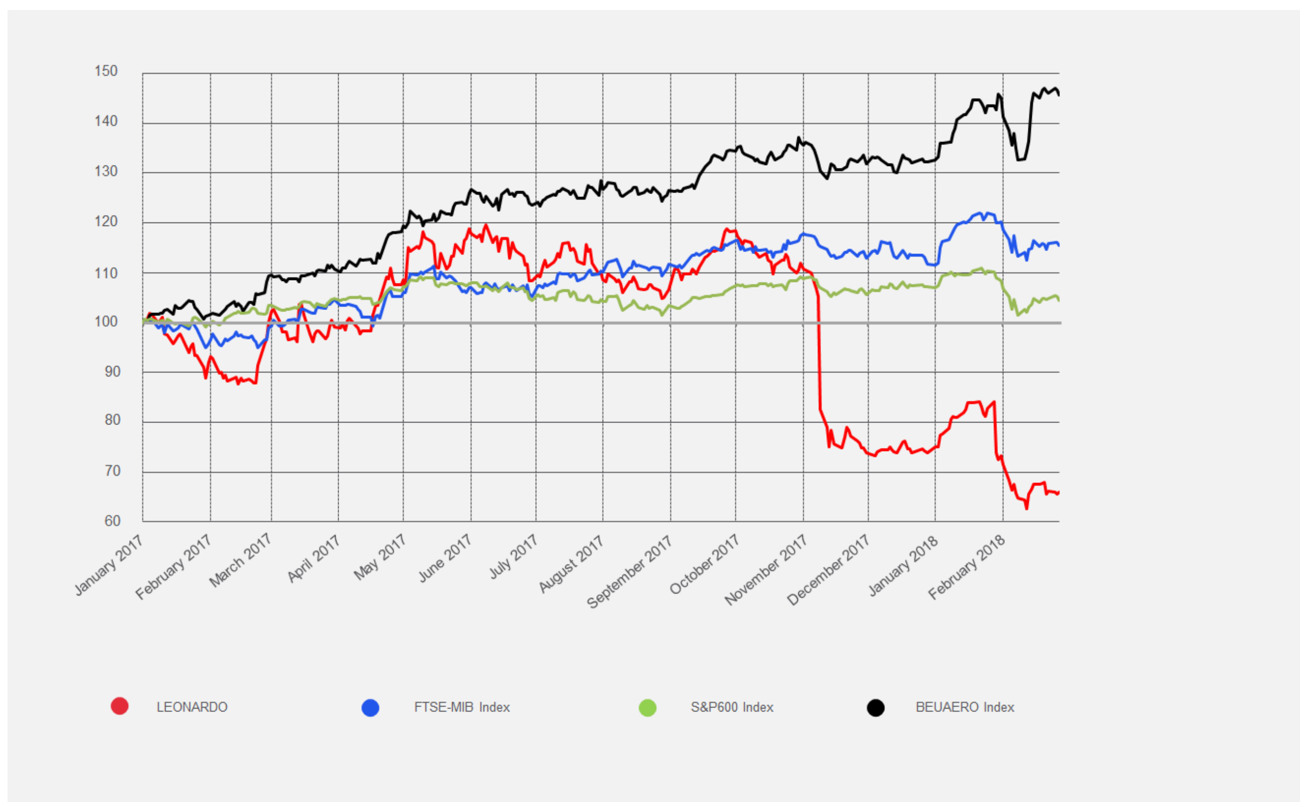




For more information, please refer to the page "Shareholding Structure" of Investors section at the institutional website (www.leonardocompany.com).

Performance of Leonardo stock in the Bloomberg EMEA Aerospace&Defense (BEUAERO) and the leading Italian and European indexes (28 February 2018 = 100)

Below is Leonardo's stock performance from the beginning of 2017 to 28 February 2018, compared with the Bloomberg EMEA Aerospace&Defense (BEUAERO), the index of the 40 major listings in the Milan Stock Exchange (FTSE-MIB) and the index composed of the 600 top listings in Europe (S&P600).



The performance of Leonardo stock was affected by the weak economic scenario in addition to the specific context of the Company, including the revision of the Guidance for financial year 2017 that was reviewed on 9 November 2017.

Corporate Governance

Corporate Governance means the set of rules and, more in general, the corporate governance system that regulate the Company's management and control.

The governance model adopted by Leonardo is in line with the application principles and criteria laid down in the Corporate Governance Code (finally updated in July 2015) the Company adheres to. This model is aimed at maximising value for shareholders, at controlling business risks and ensuring greater transparency to the market, as well as ensuring integrity and correctness of decision-making processes.

This model has been subject to subsequent changes, which have been aimed at adopting the guidelines provided from time to time by the Corporate Governance Code. These guidelines are incorporated in the "Rules of Procedure of the Board of Directors", which is regularly updated by the Board in order to bring it into line with the content of the Code and with the changes made to the organisational structure of the Company.

The Rules of Procedure are available in the Corporate Governance section of the Company's website (www.leonardocompany.com). The Corporate Governance Code is available on the website of the Corporate Governance Committee (http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm).

The Corporate Governance system of Leonardo and its compliance with the guidelines laid down in the Code are the object of periodic analytical reporting on the part of the Board of Directors in the specific "Report on Corporate Governance and Shareholder Structure", which is prepared on the occasion of the approval of the draft financial statements (in compliance with the provisions on the contents under paragraphs 1 and 2 of Article 123-bis of the Consolidated Law on Financial Intermediation and on the basis of the articles of the Corporate Governance Code) and published at the same time as this Annual Financial Report.

The Company's Governance structure is summarised below. For more information on the corporate governance structure of Leonardo, the main updates that took place in 2017, as well as on any decisions and organisational measures adopted by the Company in order to ensure the strictest compliance with the Corporate Governance Code, reference is made to the Report on Corporate Governance and Shareholder Structure that was approved by the Board of Directors at the same time as this Report and that is available in the Corporate Governance section of the Company's website (www.leonardocompany.com), as well as in the appropriate section prepared on the occasion of the Shareholders' Meeting called to approve the Financial Statements, reporting documents and information relating to the Shareholders' Meeting.

Corporate governance structure

The Company's Governance structure, based on the traditional organisational model, is consistent with the applicable regulations provided for listed issuers, as well as with the guidelines laid down in the Corporate Governance Code and is essentially as follows:

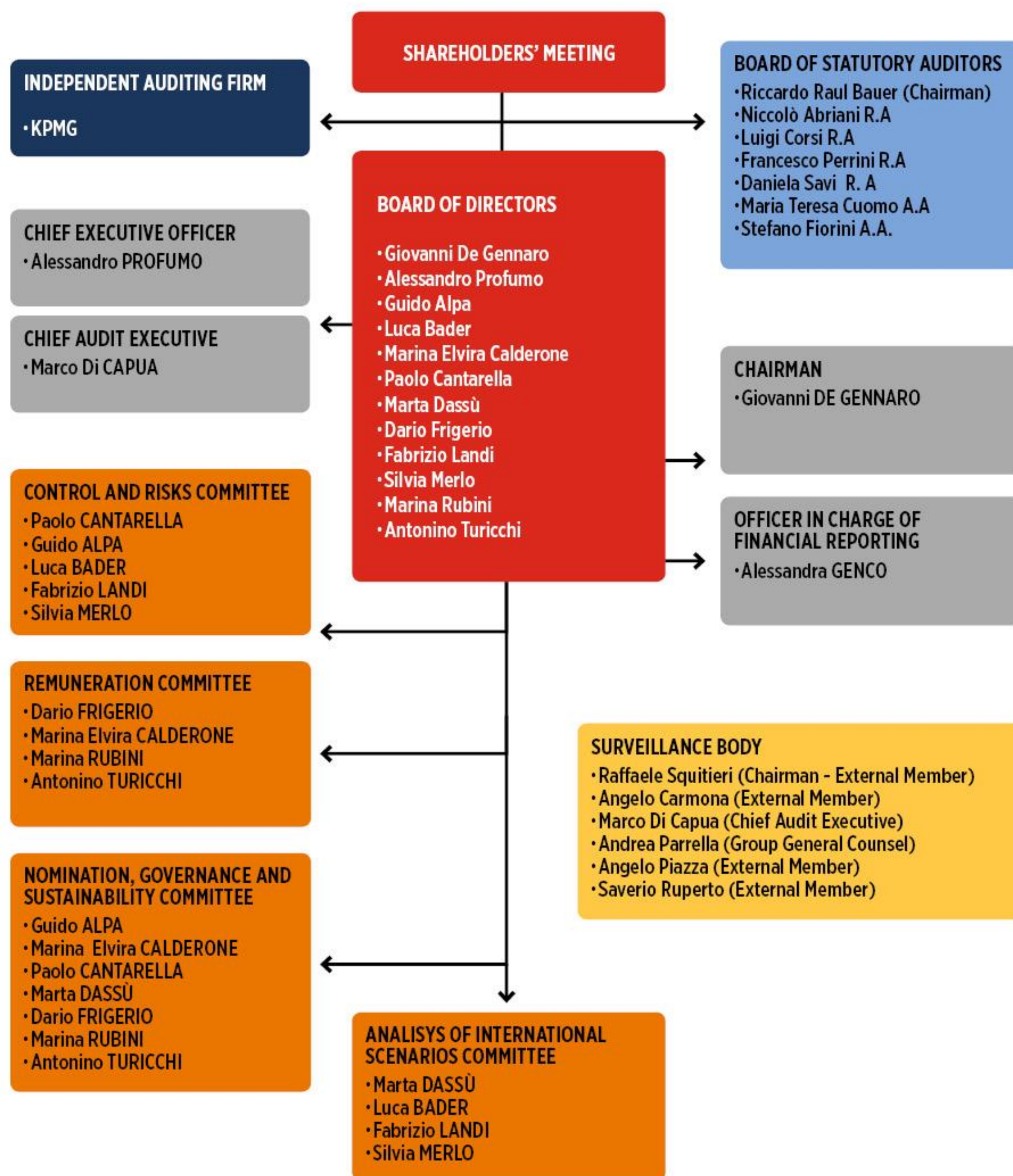
- **Shareholders' Meeting.** It passes resolutions in ordinary and extraordinary sessions in relation to such matters as are reserved for the same by law or the By-laws;
- **Board of Directors.** It is vested with the fullest powers for the administration of the Company, with the authority to perform any act it considers appropriate to the fulfilment of the Company's business purpose, except for those acts reserved to the Shareholders' Meeting by law or by the By-laws. The current Board of Directors was appointed by the Shareholders' Meeting on 16 May 2017 for the three-year period 2017-2019; the related mandate will expire at the time of the Shareholders' Meeting called to approve the 2019 Financial Statements;
- **Chairman of the Board of Directors.** On 16 May 2017, the Board of Directors granted Mr Giovanni De Gennaro, beside the powers relating to the Company's legal representation pursuant to law and to the By-laws and signatory powers, some powers concerning Institutional Relationships - to be exercised in coordination with the Chief Executive Officer - Group Safety and Group Internal Audit. On the same day the Board also assigned the Chairman the task of supervising the implementation of corporate governance rules regarding the integrity of corporate behaviours and the fight of corruption;
- **Chief Executive Officer**. The Board of Directors' meeting held on 16 May 2017 granted the Chief Executive Officer, Alessandro Profumo, without prejudice to any matters reserved for the Board itself, beside the powers relating to the Company's legal representation pursuant to law and to the By-laws, signatory powers and the power to implement the resolutions passed by the governing body (including resolutions adopted before his appointment on 16 May 2017), as well as any and all delegated powers and authority for the joint management of the Company, its business units and subsidiaries, and for the management of all equity interests in associated and investee companies, in accordance with the strategic guidelines identified by him and approved by the Board of Directors;
- **Lead Independent Director**. Following the renewal of the Board of Directors by the Shareholders' Meeting held on 16 May 2017, on this same date the Board of Directors appointed the Director Paolo Cantarella as Lead Independent Director with the task of coordinating the requests and contributions from non-executive Directors and in particular from independent Directors.

  In this respect, the Rules of Procedure provide, even in the absence of the specific situations contemplated in the Corporate Governance Code, for such power of appointment on the part of the Board, with the abstention of the executive Directors and in any case of the non-independent

Directors; in any case the Board shall make this appointment in the event of the Chairman being granted delegated operational powers. The Board granted no delegated operational powers to the Chairman; however, also considering the authority granted to the latter, the same Board was of the opinion to appoint the Lead Independent Director. The Lead Independent Director will serve throughout the term of office of the Board of Directors, that is, until the Shareholders' Meeting called to approve the 2019 Financial Statements;

- **Committees**. The Board of Directors of Leonardo has established the following internal Committees, with advisory and consulting functions: the Control and Risks Committee (which also perform duties as Committee for Transactions with Related Parties), the Remuneration Committee and the Nomination, Governance and Sustainability Committee (as provided for in the Corporate Governance Code), as well as the Analysis of International Scenarios Committee. The Committees' composition, duties and operation are set out and regulated by appropriate Rules approved by the Board of Directors itself, in accordance with the guidelines laid down in the Corporate Governance Code;
- **Board of Statutory Auditors**. The Board of Statutory Auditors has – inter alia - the task of monitoring: a) compliance with the law and by-laws and observance of the principles of proper business administration; b) the adequacy and effectiveness of the Company's organisational structure, internal control and risk management system, as well as the administrative and accounting system, and also the latter's reliability as a means of accurately reporting business operations; c) any procedures for the actual implementation of the corporate governance rules provided for in the Corporate Governance Code; d) the adequacy of the Company's instructions to subsidiaries with regard to disclosures prescribed by law. The current Board of Statutory Auditors was appointed by the Shareholders' Meeting on 11 May 2015 for the 2015-2017 term;
- **Independent Auditing Firm**. The Independent Auditors are the persons appointed to carry out the statutory audit of accounts. They are appointed by the Shareholders' Meeting, on a reasoned proposal by the Board of Statutory Auditors. The Shareholders' Meeting of 16 May 2012 appointed KPMG SpA to carry out the statutory audit of accounts for the period 2012-2020;
- **Officer in charge of financial reporting**. On 9 November 2017, pursuant to Article 154-bis of the Consolidated Law on Financial Intermediation and articles 25.4 and 25.5 of the Company's by-laws, the Board of Directors appointed Alessandra Genco (the Company's Chief Financial Officer) as the Officer in charge of financial reporting until the expiry of the term of office of the Board of Directors. She replaced Gian Paolo Cutillo, who was appointed Head of the Company's Helicopters Division.

Below is reported a chart summarising the Corporate Governance Structure of Leonardo.



Finally, the main Corporate Governance tools are reported below which have been adopted by the Company in accordance with the current provisions of law and regulations, as well as with the guidelines laid down in the Corporate Governance Code. The documents listed below are available to the public in the specific Corporate Governance and Ethics and Compliance sections of the Company' website (www.leonardocompany.com).

- By-Laws

- Code of Ethics
- Organisational, Management and Control Model pursuant to Legislative Decree 231/2001
- Shareholders' Meeting Regulations
- Rules of Procedure of the Board of Directors
- Rule of Procedure of the Control and Risks Committee
- Rules of Procedure of the Remuneration Committee
- Rules of Procedure of the Nomination, Governance and Sustainability Committee
- Rules of Analysis of International Scenarios Committee
- Procedure for Related Parties Transactions
- Code of Internal Dealing
- Procedure for Inside And Confidential Information.

Performance of the Parent Company

	2017	2016	Change
New orders	8,164	15,848	(48.5%)
Order backlog	26,173	26,551	(1.4%)
Revenue	7,861	7,925	(0.8%)
EBITDA	752	1,000	(24.8%)
EBITA	395	510	(22.5%)
ROS	*5.0%*	*6.4%*	*(1.4) p.p.*
EBIT	346	463	(25.3%)
EBIT Margin	*4.4%*	*5.8%*	(1.4) p.p.
Net result before extraordinary transactions	356	637	(44.1%)
Net result	356	609	(41.5%)
Net Debt	2,952	3,019	(2.2%)
FOCF	553	581	(4.8%)
ROI	*5.0%*	*7.4%*	(2.4) p.p.
ROE	*6.4%*	*13.4%*	(7.0) p.p.
Workforce	27,796	27,583	0.8%

The performance of Leonardo S.p.A.'s key indicators confirms the trends already analysed in the section dedicated to the consolidated financial statements, to which reference should be made.

Specifically:

- New orders gained in the period showed a decrease of 48%, attributable to the inclusion of the EFA Kuwait contract for €bil. 7.95 in comparative data;
- Revenues and, to a greater extent, EBITA reflect, in particular, the decline recorded in the Helicopters division, showing a decrease of 1% and 23%, respectively, with lower operating profits by 1.4%;
- Net result reflects the decrease in EBITA, as well as lower financial income, as a result of a lower contribution from investments compared to 2016 (the net effect between dividends and write-downs was positive for €mil. 361 in 2017, against €mil. 474 in 2016) and of positive exchange differences that were gained in 2016, which are also reflected in the fair value of derivatives.

Below is provided the performance of earnings:

(€ millions)	*Note*	*2017*	*2016*	*Change*	*% Change*
Revenues		7,861	7,925	(64)	(0.8%)
Purchase and personnel expense	*(*)*	(7,015)	(6,911)		
Other net operating income/(expenses)	*(**)*	(94)	(14)		
Amortisation, depreciation and impairment losses	*(***)*	(357)	(490)		
EBITA		**395**	**510**	**(115)**	**(22.5%)**
ROS		*5.0%*	*6.4%*	(1.4) p.p.	
Non-recurring income/(expenses)		(20)	-		
Restructuring costs		(25)	(43)		
Amortisation of intangible assets acquired as part of business combinations		(4)	(4)		
EBIT		**346**	**463**	**(117)**	**(25.3%)**
EBIT Margin		*4.4%*	*5.8%*	(1.4) p.p.	
Net financial income/(expense)	*(****)*	121	274		
Income taxes		(111)	(100)		
Net result before extraordinary transactions		**356**	**637**	**(281)**	**(44.1%)**
Net result related to discontinued operations and extraordinary transactions	*(*****)*	-	(28)		
Net result		**356**	**609**	**(253)**	**(41.5%)**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:

(*) Includes "Purchases and Personnel expense" (net of restructuring costs of non-recurring costs) and "Provisions (Reversals) for final losses on contracts".

(**) Includes the net amount of "Other operating income" and "Other operating expenses", net of restructuring costs, impairment of goodwill, non-recurring income (costs) and provisions (reversals) for final losses on contracts.

(***) Includes "Amortisation, depreciation and impairment losses", net of the portion of amortisation referable to intangible assets acquired as part of business combinations and of impairments considered as "Non-recurring costs".

(****) Includes "Financial income" and "Financial expense" (net of gains (losses) related to extraordinary transactions).

(*****) Includes "Profit (loss) from discontinued operations" and "Gains (losses) relating to extraordinary transactions (key acquisitions and disposals)"

The following table compares the balance sheets at 31 December 2017 and at 31 December 2016.

(€ millions)	*Note*	*31 December 2017*	*31 December 2016*
Non-current assets		12,321	10,589
Non-current liabilities		(1,970)	(2,091)
Capital assets	*(*)*	**10,351**	**8,498**
Inventories		3,496	2,920
Trade receivables	*(**)*	5,066	4,955
Trade payables	*(***)*	(8,750)	(7,523)
Working capital		**(188)**	**352**
Provisions for short-term risks and charges		(588)	(519)
Other net current assets (liabilities)	*(****)*	(840)	(1,138)
Net working capital		**(1,616)**	**(1,305)**
Net invested capital		**8,735**	**7,193**
Equity		5,783	5,325
Net Debt		**2,952**	**3,019**
Net (assets)/liabilities held for sale	*(*****)*	**-**	**1,151**

Notes on the reconciliation between the reclassified balance sheet and the statutory balance sheet:

(*) Includes all non-current assets and all non-current liabilities, net of "Non-current loans and borrowings" and of the main non-current financial receivables.
(**) Includes "Contract work in progress".
(***) Includes "Progress payments and advances from customers".
(****) Includes "Income tax receivables", "Other current assets" (excluding "Hedging derivatives in respect of debt items"), net of "Income tax payables" and "Other current liabilities" (excluding "Hedging derivatives in respect of debt items").
(*****) Includes the net amount of "Non-current assets held for sale" and "Liabilities associated with assets held for sale"

Capital assets showed an increase as a result of capitalisations made at investees Leonardo MW Ltd., within the scope of the creation of the One Company in the United Kingdom, and Leonardo US Holding Inc in the United States. Against this increase there was a decrease in "Assets held for sale", which mainly included the investment in AgustaWestland Ltd that was transferred to Leonardo MW Ltd in 2017.

Below is the breakdown of Net Debt in line with the previous year:

(€ millions)	***31 December 2017***	*of which current*	***31 December 2016***	*of which current*
Bonds	3,292	*585*	3,263	*603*
Bank debt	238	*52*	296	*58*
Cash and cash equivalents	(1,565)	*(1,565)*	(1,747)	*(1,747)*
Net bank debt and bonds	**1,965**		**1,812**	
Fair value of the residual portion in portfolio of Ansaldo Energia	-		(138)	
Current loans and receivables from related parties	(232)	*(232)*	(326)	*(326)*
Other current loans and receivables	(26)	*(26)*	(27)	*(27)*
Current loans and receivables and securities	**(258)**		**(491)**	
Non current financial receivables from Superjet	(48)		(65)	
Non current financial receivables from Group's consolidated entities	(452)		(15)	
Hedging derivatives in respect of debt items	(2)	*(2)*	35	*35*
Related-parties loans and borrowings	1,669	*1,669*	1,664	*1,664*
Other loans and borrowings	78	*52*	79	*46*
Net Debt	**2,952**		**3,019**	

The cash flow for the year is summarised below:

(€ millions)	*Note*	*2017*	*2016*	*Change*	*% Change*
Cash flows used from operating activities	*(*)*	688	675		
Dividends received		286	235		
Cash flows from ordinary investing activities	*(**)*	(421)	(329)		
Free Operating Cash Flow (FOCF)		**553**	**581**	**(28)**	**(4.8%)**
Strategic transactions	(***)	(45)	-		
Change in other investing activities	*(****)*	(387)	195		
Increase of share capital		-	(35)		
Net change in loans and borrowings		(212)	(387)		
Dividends paid		(80)	-		
Net increase (decrease) in cash and cash equivalents		**(171)**	**354**		
Cash and cash equivalents at 1 January		1,747	1,365		
Effect from Mergers/Demergers		3	56		
Exchange rate differences and other changes		(14)	(28)		
Cash and cash equivalents at 31 December		**1,565**	**1,747**		

Notes on the reconciliation between the reclassified cash flow and the statutory cash flow:
(*) Includes "Cash flows generated from (used in) operating activities", excluding payments pursuant to Law 808/1985 and dividends collected.
(**) Includes "Cash flow generated from (used in) investing activities, net of debt payments pursuant to Law 808/1985 and dividends collected.
(***) Includes the share of "Other investing activities" classified as "Strategic transactions".
(****) Includes "Other investing activities", excluding dividends collected and the effects of operations classified as "Strategic transactions".

The Parent Company's offices

The Parent Company's offices are:

- Registered Office: Rome, Piazza Monte Grappa, 4
- Secondary offices: Genoa, Corso Perrone, 118

Reconciliation of net profit and shareholders'equity of the Group Parent with the consolidated figures at 31 December 2017

(€ millions)	*2017*	
	Equity	**of which: Net profit (loss) for the year**
Group Parent equity and net profit (loss)	5.783	356
Excess of the carrying amounts of the equity investments in consolidated companies compared with shareholders' equities in the financial statements	(1.789)	431
Consolidation adjustments for:		
- difference between purchase price and corresponding book equity	1.314	(85)
- elimination of intercompany profits	(333)	(1)
- deferred tax assets and liabilities	(27)	32
- dividends from consolidated companies	-	(461)
- Translation differences	(480)	-
- other adjustments	-	-
Group equity and net profit (loss)	**4.468**	**272**
Non-controlling interests	16	2
Total consolidated equity and net profit (loss)	**4.484**	**274**

Proposal to the Shareholders' Meeting

Dear Shareholders,

The 2017 financial statements, which we submit for your approval, close with a net profit of € 356,115,445.38.
In light of the foregoing, we submit the following proposed resolution for your approval:

"The Ordinary Shareholders' Meeting of "LEONARDO - Società per azioni":

- considering the Report of the Board of Directors;
- considering the Report of the Board of Statutory Auditors;
- having examined the financial statements at 31 December 2017;
- having acknowledged the report of KPMG S.p.A.

resolves

- to approve the Directors' Report on operations and the financial statements of Leonardo - Società per azioni at 31 December 2017;
- to approve the proposal posed by the Board of Directors of allocating the 2017 net profit of Euro 356,115,445.38 as follows:
  - Euro 17,805,772.27 equal to 5% of the net profit, to legal reserve ;
  - Euro 0.14 as the dividend to be paid - before tax, if any – starting from 23 May 2018, with the ex-dividend date of coupon no. 9 falling on 21 May 2018 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to article 83-terdecies of Legislative Decree no. 58 of 24 February, 1998 and article 2.6.6, paragraph 2, of the Rules of the markets organised and managed by Borsa Italiana S.p.A.) falling on 22 May 2018; the foregoing is with reference to each ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, without prejudice to the regime of those actually assigned in the current financial year based on the incentive plans in force;
  - the residual as retained earnings."

For the Board of Directors
The Chairman
(Giovanni De Gennaro)

Consolidated financial statements at 31 December 2017

Consolidated accounting statements

Consolidated separate income statement

(€ millions)	*Note*	**2017**	*of which with related parties*	**2016**	*of which with related parties*
Revenue	*26*	11,527	*1,866*	12,002	*2,079*
Other operating income	*27*	569	*4*	742	*5*
Purchase and personnel expense	*28*	(10,275)	*(355)*	(10,549)	*(171)*
Amortisation, depreciation and impairment losses	*29*	(676)		(778)	
Other operating expenses	*27*	(583)	-	(730)	*(1)*
Income before tax and financial expenses		**562**		**687**	
Financial income	*30*	235	*10*	493	*33*
Financial expense	*30*	(688)	*(4)*	(815)	*(5)*
Share of profits/(losses) of equity-accounted investees	*11*	288		300	
Operating profit (loss) before income taxes and discontinued operations		**397**		**665**	
Income taxes	*31*	(123)		(158)	
Profit (loss) from discontinued operations	*32*	-		-	
Net profit/(loss) for the period attributable to:		**274**		**507**	
- owners of the parent		*272*		*505*	
- non-controlling interests		*2*		*2*	
Earnings/(losses) per share	*33*	*0.474*		*0.879*	
- basic and diluted from continuing operations		*0.474*		*0.879*	
- basic and diluted from discontinued operations		*n.a*		*n.a*	

Consolidated statement of comprehensive income

(€ millions)	***Note***	**2017**		**2016**	
Profit (loss) for the period			274		507
Other comprehensive income (expense):					
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:					
- Measurement of defined-benefit plans:	*19*		89		38
- revaluation		76		54	
- exchange rate gains (losses)		13		(16)	
- Tax effect	*19*		(17)		(7)
- Tax rate adjustment			(17)		-
			55		31
Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:					
- Changes in cash flow hedges:	*19*		86		(105)
- change generated in the period		93		(90)	
- transferred to the profit (loss) for the period		(7)		(16)	
- exchange rate gains (losses)		-		1	
- Translation differences	*19*		(243)		(300)
- change generated in the period		(243)		(300)	
- transferred to the profit (loss) for the period		-		-	
- Tax effect	*19*		(14)		23
			(171)		(382)
Current portion of "Other comprehensive income (expense)", equity-accounted investees			26		(48)
Total other comprehensive income (expense), net of tax:			**(90)**		**(399)**
Total comprehensive income (expense), attributable to:			184		108
- *Owners of the parent*			182		106
- *Non-controlling interests*			2		2
Total comprehensive income (expense), attributable to Owners of the parent			**182**		**106**
- from continuing operations			182		106
- from discontinued operations			-		-

Consolidated statement of financial position

(€ millions)	*Note*	31 December 2017	*of which with related parties*	31 December 2016	*of which with related parties*
Intangible assets	*9*	6,538		6,719	
Property, plant and equipment	*10*	2,233		2,375	
Investment property		61		48	
Investments accounted for under equity method	*11*	1,180		1,123	
Receivables	*12*	503	-	586	*1*
Deferred tax assets	*31*	1,067		1,231	
Other non-current assets	*12*	160	-	102	-
Non-current assets		***11,742***		***12,184***	
Inventories	*14*	4,381		4,014	
Contract work in progress	*15*	2,885		2,541	
Trade receivables	*16*	3,187	*569*	3,424	*667*
Income tax receivables		174		162	
Loans and receivables	*16*	157	*110*	98	*40*
Other assets	*17*	608	*5*	781	*4*
Cash and cash equivalents	*18*	1,893		2,167	
Current assets		***13,285***		***13,187***	
Non-current assets held for sale	*32*	2		14	
Total assets		**25,029**		**25,385**	
Share capital	*19*	2,491		2,491	
Other reserves		1,977		1,866	
Equity attributable to the owners of the parent		4,468		4,357	
Equity attributable to non-controlling interests		16		16	
Total equity		***4,484***		***4,373***	
Loans and borrowings (non-current)	*20*	3,265	-	4,011	-
Employee benefits	*22*	554		702	
Provisions for risks and charges	*21*	999		1,125	
Deferred tax liabilities	*31*	352		391	
Other non-current liabilities	*23*	1,067	-	1,155	-
Non-current liabilities		***6,237***		***7,384***	
Progress payments and advances from customers	*15*	7,214	-	6,457	-
Trade payables	*24*	2,955	*73*	2,838	*76*
Loans and borrowings (current)	*20*	1,417	*701*	1,267	*502*
Income tax payables		29		68	
Provisions for short-term risks and charges	*21*	793		792	
Other current liabilities	*23*	1,900	*134*	2,206	*166*
Current liabilities		***14,308***		***13,628***	
Total liabilities		**20,545**		**21,012**	
Total liabilities and equity		**25,029**		**25,385**	

Consolidated statement of cash flows

(€ millions)	*Note*	2017	*of which with related parties*	2016	*of which with related parties*
Gross cash flows from operating activities	*34*	1,589		1,691	
Change in trade receivables/payables, work in progress/progress payments and inventories	*34*	(52)	*84*	(229)	*(29)*
Change in other operating assets and liabilities and provisions for risks and charges	*34*	(423)	*(32)*	(345)	*(112)*
Interest paid		(289)	*(5)*	(222)	*53*
Income taxes paid		(103)	-	(70)	-
Cash flows generated (used) from operating activities		**722**		**825**	
Cash in from Avio		-		-	
Investments in property, plant and equipment and intangible assets		(483)		(391)	
Sales of property, plant and equipment and intangible assets		3		31	
Other investing activities		139	-	231	-
Cash flows generated (used) from investing activities		**(341)**		**(129)**	
Treasury shares purchase		-		(35)	
Bond issue		591		-	
Bond redemption		(1,172)		-	
Net change in other loans and borrowings		61	*146*	(237)	*90*
Dividends paid		(81)		(4)	
Cash flows generated (used) from financing activities		**(601)**		**(276)**	
Net increase (decrease) in cash and cash equivalents		(220)		420	
Exchange rate differences and other changes		(54)		(24)	
Cash and cash equivalents at 1 January		2,167		1,771	
Cash and cash equivalents at 31 December		**1,893**		**2,167**	

Consolidated statement of changes in equity

(€mil.)	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
1 January 2016	**2,522**	**1,960**	**(53)**	**(226)**	**77**	**4,280**	**22**	**4,302**
Profit (loss) for the period	-	505	-	-	-	505	2	507
Other comprehensive income (expense)	-	-	(88)	(21)	(290)	(399)	-	(399)
Total comprehensive income (expense)	**-**	**505**	**(88)**	**(21)**	**(290)**	**106**	**2**	**108**
Dividends resolved						-	(3)	(3)
Repurchase of treasury shares less shares sold	(31)					(31)		(31)
Total transactions with owners of the parent, recognised directly in equity	**(31)**	**-**	**-**	**-**	**-**	**(31)**	**(3)**	**(34)**
Other changes	-	6		(2)	(2)	2	(5)	(3)
31 December 2016	**2,491**	**2,471**	**(141)**	**(249)**	**(215)**	**4,357**	**16**	**4,373**
Profit (loss) for the period	-	272	-			272	2	274
Other comprehensive income (expense)	-	-	84	92	(266)	(90)		(90)
Total comprehensive income (expense)	**-**	**272**	**84**	**92**	**(266)**	**182**	**2**	**184**
Dividends resolved		(80)				(80)	(1)	(81)
Repurchase of treasury shares less shares sold						-		-
Total transactions with owners of the parent, recognised directly in equity	**-**	**(80)**	**-**	**-**	**-**	**(80)**	**(1)**	**(81)**
Other changes	-	9	-	(1)	1	9	(1)	8
31 December 2017	**2,491**	**2,672**	**(57)**	**(158)**	**(480)**	**4,468**	**16**	**4,484**

Notes to the consolidated financial statements at 31 December 2017

1. GENERAL INFORMATION

Leonardo S.p.a. (hereinafter "the Company") is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Italian Stock Exchange (FTSE MIB).
The Leonardo Group (hereinafter "the Group") is a major Italian high technology organization operating in the *Helicopters*, *Electronics*, *Defence and Security Systems, Aeronautics* and *Space* sectors.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002 and of Legislative Decree 38 of 28 February 2005, the consolidated financial statements of the Leonardo Group at 31 December 2017 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, pursuant to Regulation (EC) 1606/2002, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.
The general principle used in preparing these consolidated financial statements is the historical cost method, except for those items that, in accordance with IFRS, are obligatory recognised at fair value, as indicated in the valuation criteria of each item.
The consolidated financial statements are composed of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes to the financial statements.
Among the options permitted by IAS 1, the Group has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of its costs. Instead, the statement of cash flows was prepared using the indirect method.
The International Financial Reporting Standards (IFRS) used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2016, except for what indicated below (Note 5).
All figures are shown in millions of euros unless otherwise indicated.
Preparation of the consolidated financial statements under the going-concern assumption required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Note 4.

The consolidated financial statements at 31 December 2017 of the Leonardo Group were approved by the Board of Directors on 14 March 2018 that authorised their distribution. Publication is scheduled for the same day.
The consolidated financial statements are subject to a statutory audit by KPMG SpA.

3. ACCOUNTING POLICIES ADOPTED

3.1 Standards and scope of consolidation

The consolidated financial statements include the statements at 31 December 2017 of the companies consolidated on a line-by-line basis, which have been prepared in accordance with the IFRSs adopted by the Leonardo Group. The consolidated entities and the respective shares held either directly or indirectly by the Group are reported in the attachment “Scope of consolidation”.

3.1.1 Subsidiaries

The entities over which Leonardo exercises a controlling power, either by directly or indirectly holding a majority of shares with voting rights or by exercising the right to earn the variable profits deriving from its relations with those same entities, impacting on such profits and exercising its power on the company, also regardless of the nature of the shareholding, have been consolidated on a line-by-line basis. With regard to the activities of the Group in the USA, it is noted that some of them are subject to specific governance rules (such as the Special Security Agreement and the Proxy Agreement), which were agreed with the Defense Security Service (DSS) of the US Department of Defense (in charge of the protection of information related to the national security or, however, subject to secrecy restrictions). In particular, the Leonardo DRS group is managed through a Proxy Agreement, which provides for the appointment by Leonardo US Holding (the parent company of Leonardo DRS) of at least 5 US Proxy Holders subject to the approval of the DSS. These 5 Proxy Holders (with US nationality and residence, security clearance and independent with respect to Leonardo DRS and the Leonardo Group), besides acting as the directors of the company (together with 2 Non Proxy Holders appointed by them), are entitled to vote (a prior right of Leonardo US Holding) in the context of a trust relationship with the latter on whose basis their activity is performed in the interest of the shareholders and of the US national security. The Proxy Holders cannot be discharged by the shareholder, except in case of fraud or gross negligence or, subject to the approval of the DDS, if their conduct infringes the principle of preservation of Leonardo DRS assets and the legitimate interests of the shareholders. Moreover, the Proxy Holders are committed to implementing specific governance procedures in order to guarantee shareholders their rights with the consent of the DSS and in compliance with the restrictions under the Proxy Agreement in relation to “classified” information. The shareholder is directly responsible for the

decisions on extraordinary transactions, the purchase/disposal of assets, the taking over of debts, the granting of guarantees and the transfer of intellectual property rights in the context of defense.

Not consolidated on a line-by-line basis are those entities which, because of the dynamics of their operations (e.g. consortia without shares and controlling interests in equity consortia which, by charging costs to their members, do not have their own financial results and the financial statements of which do not, net of intercompany assets and liabilities, have material balances) or their current status (e.g. companies that are no longer operational, have no assets or personnel, or for which the liquidation process appears to be essentially concluded), would be immaterial to the Group's situation in both quantitative and qualitative terms. These holdings have been consolidated using the equity method.

All controlled entities are consolidated at the date on which control was acquired by the Group. The entities are removed from the consolidated financial statements at the date on which the Group loses control.

Business combinations are recognised using the purchase method where the purchase cost is equal to the fair value, at the date of the purchase of assets sold, of liabilities incurred or assumed, as well as the capital instruments, if any, issued by the purchaser. The cost of the transaction is allocated recognising assets, liabilities and the identifiable contingent liabilities of the acquired company, at their related fair value at the purchase date. Any positive difference between the cost of the transaction and the fair value at the date of the purchase of the assets and liabilities is allocated to goodwill. In the event the process of allocating the purchase price should result in a negative difference, this difference is recorded in the income statement.

Additional charges related to the acquisition are recognised in the income statement at the date when services are rendered.

In the case of purchase of controlling stakes other than 100% stakes, goodwill is recognised only to the extent of the portion attributable to the Group Parent. The value of the non-controlling interests is determined in proportion to the non-controlling equity investments in the identifiable net assets of the acquired company.

In case the business combination is carried out through more than one phase, at the moment of the taking over the equity investments previously held are re-measured at their fair value and the difference (positive or negative), if any, is recognised in the income statement.

In the case of purchase of non-controlling stakes, after control is obtained, the positive difference between the acquisition cost and the book value of the non-controlling stakes acquired is recorded as a reduction of the net equity of the Group Parent. In the event of disposal of stakes while control is retained, the difference between the cashed consideration and the book value of the stakes sold is recorded directly as an increase of the net equity, without recording in the income statement.

Amounts resulting from transactions with consolidated entities have been eliminated, particularly where related to receivables and payables outstanding at the end of the period, as well as interest and other income

and expenses recorded on the income statements of these enterprises. Also eliminated are the net profits or losses posted between the consolidated entities along with their related tax adjustments.

The Group consolidated financial statements have been prepared based on the ending balances at 31 December.

3.1.2 Jointly controlled entities and other equity investments

Joint Arrangements, based on which joint control over an arrangement is assigned to two or more parties, are classified as either a Joint Operation (JO) or a Joint Venture (JV), on the basis of an analysis of the underlying contractual rights and obligations. In particular, a JV is a joint arrangement whereby the parties, whilst holding control over the main strategic and financial decisions through voting mechanisms requiring the unanimous consent on such decisions, do not hold legally significant rights to the individual assets and liabilities of the JV. In this case joint control regards the net assets of the joint ventures. This form of control is reflected in the financial statements using the equity method, as described below. A Joint Operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities. In this case, individual assets and liabilities and the related costs and revenues are recognised in the financial statements of the party to the arrangement on the basis of the rights and obligations to each asset and liability, regardless of the interest held. After initial recognition, the assets, liabilities and related costs are valued in accordance with the reference accounting standards applied to each type of asset/liability.

The Group's joint arrangements are all classified as joint ventures.

Entities over which significant influence is exercised, which generally corresponds to a holding of between 20% (10% if listed) and 50% (equity investments in associates), and Joint Ventures (as qualified above) are accounted for using the equity method. When the equity method is applied, the value of the investment is in line with shareholders' equity adjusted, when necessary, to reflect the application of IFRSs, and includes the recognition of goodwill (net of impairments) calculated at the time of purchase, and to account for the adjustments required by the standards governing the preparation of consolidated financial statements. Gains and losses realized among consolidated entities valued at equity and other Group entities consolidated on a line-by-line basis, are eliminated. In the event the Group has evidence of an impairment loss of the investment, in excess of the amount accounted for under the equity method, the Group will proceed with calculating the impairment to be recorded in the income statement which is determined as the difference between the recoverable amount and the carrying amount of the investment.

Any value losses in excess of book value are recorded in the provision for risks on equity investments, to the extent that there are legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity.

The fair value of equity investments, in the event this method applies, is calculated based on the bid price of the last trading day of the month for which the IFRS report was prepared, or based on financial valuation techniques for not listed instruments.

Investments available for sale, like those acquired with the sole purpose of being disposed within the subsequent twelve months, are classified separately within "Assets held for sale".applying the recognition criteria described in Note 3.10.4)..

3.2 Segment information

In accordance with the compliance model followed, management has adopted operating segments that corresponds to the business sectors in which the Group operates: (*Helicopters*, *Electronics*, *Defence and Security Systems*, *Aeronautics*, *Space* and *Other Activities*).

3.3 Currency translation

3.3.1 Identification of the functional currency

The balances of the financial statements of each Group entity are presented in the currency of the primary economy in which each enterprise operates (the functional currency). The consolidated financial statements for the Leonardo Group have been prepared in euros, which is the functional currency of the Group Parent.

3.3.1 Translation of transactions denominated in a foreign currency

Items expressed in a currency other than the functional currency, whether monetary (cash and cash equivalents, receivables or payables due in pre-set or measurable amounts, etc.) or non-monetary (advances to suppliers of goods and services, goodwill, intangible assets, etc.), are initially recognised at the exchange rate prevailing at the date on which the transaction takes place. Subsequently, the monetary items are translated into the functional currency based on the exchange rate at the reporting date, and any differences resulting from this conversion are recognised in the income statement. Non-monetary items continue to be carried at the exchange rate on the date of the transaction.

3.3.2 Translation of financial statements expressed in a currency other than the functional currency

The rules for translating financial statements expressed in a foreign currency into the functional currency (except where the currency is that of a hyper-inflationary economy, a situation not applicable to the Group) are as follows:

- the assets and liabilities presented are translated at the end-of-period exchange rate;
- costs and revenues, charges and income presented are translated at the average exchange rate for the period in question, or at the exchange rate on the date of the transaction in the event this is significantly different from the average rate;
- the "translation reserve" includes both the exchange rate differences generated by the translation of balances at a rate different from that at the close of the period and those that are generated by the translation of opening equity balances at a rate different from that at the close of the period. The translation reserve is reversed to the income statement upon the full or partial disposal of the equity investment that results in loss of control.

Goodwill and adjustments deriving from the fair value measurement of assets and liabilities related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the end-of-period exchange rate.

With reference to data comparability, the year 2017 has been marked by the following changes in the euro against the main currencies of interest for the Group.

	31 December 2017		31 December 2016		% Change	
	average	final	average	final	average	final
US dollar	1.1293	1.1993	1.1069	1.0541	2.0%	13.8%
Pound sterling	0.8762	0.8872	0.8195	0.8562	6.9%	3.6%

3.4 Intangible assets

Intangible assets are non-monetary items without physical form, but which can be clearly identified and generate future economic benefits for the company. They are carried at purchase and/or production cost, including directly related expenses allocated to them when preparing the asset for operations and net of accumulated amortisation (with the exception of intangibles with an indefinite useful life) and any impairments of value. Amortisation begins when the asset is available for use and is recognised systematically over its remaining useful life. In the period in which the intangible asset is recognised for the first time, the amortisation rate applied takes into account the period of actual use of the asset.

3.4.1 Industrial patent and intellectual property rights

Patents and intellectual property rights are carried at acquisition cost net of amortisation and accumulated impairment losses. Amortisation begins in the period in which the rights acquired are available for use and is calculated based on the shorter of the period of expected use and that of ownership of the rights. The useful life changes according to the business of the company and its range is between 3 and 15 years.

3.4.2 Concessions, licence and trademarks

This category includes: concessions, i.e. government measures that grant private parties the right to exclusive use of public assets or to manage public services under regulated conditions; licences that grant the right to use patents or other intangible assets for a determinate or determinable period of time; trademarks that establish the origin of the products of a given company; and licences for the know-how or software owned by others. The costs, including the direct and indirect costs incurred to obtain such rights, can be capitalised after receiving title to the rights themselves and are amortised systematically over the shorter of the period of expected use and that of ownership of the rights. The useful life changes according to the business of the company and its range is between 3 and 15 years.

3.4.3 Intangible assets acquired as a result of business combinations

The intangible assets acquired as a result of business combinations essentially refer to the order backlog and commercial positioning, customer portfolio and software/know-how; they are valued during the purchase price allocation. The assets' useful life changes according to the business of the acquired company and ranges as follows:

	Years
Customer backlog e commercial positioning	7-15
Backlog	10-30
Software/know how	3

3.4.4 Goodwill

Goodwill recognised as an intangible asset is associated with business combinations and represents the difference between the cost incurred to acquire a company or division and the sum of the fair values assigned at the purchase date, to the individual assets and liabilities of the given company or division. As it does not have a definite useful life, goodwill is not systematically amortised but is subject to impairment tests conducted at least once a year, according to a specific procedure approved each year by the Board of Directors, unless market and operational factors identified by the Group indicate that an impairment test is also necessary in the preparation of interim financial statements. In conducting an impairment test, goodwill acquired in a business combination is allocated to the individual Cash Generating Unit (CGU) or to groups of CGUs that are expected to benefit from the synergies of the combination, in line with the minimum level at

which such goodwill is monitored within the Group. Goodwill related to unconsolidated associates, joint ventures or subsidiaries is included in the value of investments.

3.5 Property, plant and equipment

Property, plant and equipment is measured at purchase or production cost net of accumulated depreciation and any impairment losses. The cost includes all direct costs incurred to prepare the assets for use, as well as any charges for dismantlement and disposal that will be incurred to return the site to its original condition.

Charges incurred for routine and/or cyclical maintenance and repairs are expensed in full in the period in which they are incurred. Costs related to the expansion, modernisation or improvement of owned or leased structural assets are only capitalised to the extent that such costs meet the requirements for being classified separately as an asset or part of an asset. Any public grants related to property, plant and equipment are recognised as a direct deduction from the asset to which they refer.

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the date in which the asset is ready for use. The estimated useful lives adopted by the Group for the various asset classes are as follows:

	Years
Land	Indefinite useful life
Buildings	20-33
Plant and machinery	5-10
Equipment	3-5
Other assets	5-8

The estimated useful life and the residual value are revised at least annually.

Depreciation ends when the asset is sold or reclassified as asset held for sale.

In the event the asset to be depreciated is composed of significant distinct elements with useful lives that are different from those of the other constituent parts, each individual part that makes up the asset is depreciated separately, in application of the component approach to depreciation.

This item also includes equipment intended for specific programmes (tooling), although it is depreciated, as with other non-recurring costs (Note 4.3), on the basis of units manufactured in relation to those expected to be produced.

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

3.6 Investment properties

Properties held to earn rentals or for capital appreciation are carried under “Investment properties”; they are valued at purchase or construction cost plus any related charges, net accumulated depreciation and impairment, if any.

3.7 Impairment of intangible assets and property, plant and equipment

Assets with indefinite useful lives are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value. The test is carried out at each interim reporting date as well, when there are internal and/or external indicators that an asset may be impaired.

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

The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use calculated on the basis of a model of discounted cash flows. The discount rate encompasses the risks peculiar to the asset which have not been considered in the expected cash flows.

Assets which do not generate independent cash flows are tested as Cash Generating Units.

If the reasons for such write-downs should cease to obtain, the asset’s book value is restored within the limits of the book value that would have resulted if no loss was recognised due to previous years’ loss of value. The write-back is also taken to the income statement. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

3.8 Inventories

Inventories are recorded at the lower of cost, calculated with reference to the weighted average cost, and net realisable value. They do not include financial costs and overheads. The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale.

3.9 Contract work in progress

Work in progress is recognised on the basis of progress (or percentage of completion), whereby costs, revenues and margins are recognised based on the progress of production. The state of completion is determined on the basis of the ratio between costs incurred at the measurement date and the total expected costs for the programme or based on the productions units delivered.

The valuation reflects the best estimate of the schedules prepared at the balance-sheet date. The assumptions upon which the estimates are made are periodically updated. Any impact on profit or loss is recognised in the period in which the updates are made.

In the event the completion of a contract is expected to result in a loss at the gross margin level, the loss is recognised in its entirety in the period in which it becomes reasonably foreseeable under "Other operating expenses". Vice versa, the reversal of such allocations is recognised under "Other operating income", if not referable to external costs, against which the provision for final losses is used.

Contract work in progress is recorded net of any write-downs of the losses to complete on orders, as well as pre-payments and advances related to the contract being performed.

This analysis is carried out contract by contract: in the event of positive differences (where the value of work in progress is greater than total pre-payments), the difference is recorded as an asset; negative differences, on the other hand, are recorded as a liability under "Advances from customers". If it has not been collected at the date of preparation of the annual or interim accounts, the amount recorded among advance payments will have a directly contra-item in trade receivables.

Contracts with payments in a currency other than the functional currency (the euro for the Group) are measured by converting the portion of payments due, calculated using the percentage-of-completion method, at the exchange rate prevailing at the close of the period in question. However, the Group's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically. In such cases, the recognition methods described in Note 4.3 below are applied.

3.10 Receivables and financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale.

Management classifies assets at the time they are first recognised.

3.10.1 Financial assets at fair value through profit and loss

This category includes financial assets acquired for the purpose of short-term trading transactions, derivatives, which are discussed in the next section, as well as assets designated as such upon initial recognition. The fair value of these instruments is determined with reference to their end-of-period bid price.

For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments in this category are recognised immediately in the income statement.

The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

3.10.2 Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially measured at fair value and subsequently at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the impairment losses calculated through impairment test are recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised. Loans and receivables are posted under current assets except for the portion falling due beyond 12 months, which is carried under non-current assets.

3.10.3 Financial assets held to maturity

These are non-derivative assets, valued at amortised cost and with fixed maturities, that the Group has the intention and ability to hold to maturity. Those maturing within 12 months are carried under current assets. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the impairment losses, calculated through impairment test, are recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

3.10.4 Financial assets available for sale

This category encompasses non-derivative financial assets specifically designated as available for sale or not classified in any of the previous items. They are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ("Reserve for assets available for sale"). The reserve is taken to the income statement only when the financial asset is effectively sold or, in cases of a loss of value, when it becomes evident that the significant and prolonged impairment in value already recognised in equity is unrecoverable. Classification as current or non-current depends on the intentions of management and the

effective marketability of the security itself. Assets that are expected to be sold within 12 months are carried under current assets.

Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset; reductions in value previously recognised in equity are reversed to profit or loss. If the reasons for the write-down should cease to obtain, the value of the asset is restored, applicable only to debt financial instruments.

3.11 Derivatives

Derivatives are still regarded as assets held for trading and stated at fair value through profit or loss unless they are deemed effective hedge for specific risk in respect of underlying assets, liabilities or commitments undertaken by the Group.

In particular, the Group uses derivatives as part of its hedging strategies to offset the risk of changes in the fair value of financial assets or liabilities on its balance sheet or the risk associated with contractual commitments (fair-value hedges) and the risk of changes in expected cash flows in contractually defined or highly probable operations (cash-flow hedges). For details regarding the methodology for recognising hedges of the exchange rate risk on long-term contracts, see Note 4.3.

The effectiveness of hedges is documented and tested both at the start of the operation and periodically thereafter (at least every time an annual or interim report is published) and measured by comparing changes in the fair value of the hedging instrument against changes in the hedged item ("dollar offset ratio"). For more complex instruments, the measurement involves statistical analysis based on the variation of the risk.

3.11.1 Fair value hedge

Changes in the fair value of derivatives that have been designated and qualify as fair-value hedges are recognised in profit or loss, in the same manner as the treatment of changes in the fair value of the hedged assets or liabilities that are attributable to the risk that has been covered with the hedge.

3.11.2 Cash flow hedge

Changes in the fair value of derivatives that have been designated and qualify as cash-flow hedges are recognised – with reference to the "effective" component of the hedge only – in the statement of comprehensive income through a specific equity reserve ("Cash-flow hedge reserve"), which is subsequently recognised in the income statement when the underlying transaction affects profit or loss. Changes in fair value attributable to the non-effective component are immediately recognised in the income statement for the period. If the occurrence of the underlying operation ceases to be highly probable, the relevant portion of the

cash-flow hedge reserve is immediately recognised in the income statement. If the derivative is sold, expires or ceases to function as an effective hedge against the risk for which it was originated, the relevant portion of the "Cash-flow hedge reserve" is kept recognised until the underlying contract shows its effect. The recognition of the cash-flow hedge is discontinued prospectively.

3.11.3 Determining fair value

The fair value of instruments quoted on public markets is determined with reference to the bid price for the instrument in question at the reference date. The fair value of unquoted instruments is determined with financial valuation techniques. Specifically, the fair value of interest-rate swaps is measured by discounting the expected cash flows, while the fair value of foreign exchange forwards is determined on the basis of the market exchange rate at the reference date and the expected rate differentials among the currencies involved.

Financial assets and liabilities valued at fair value are classified in the three hierarchical levels described below, on the basis of the materiality of inputs used in the fair value measurement. In particular:

- Level 1: financial assets and liabilities whose fair value is determined on the basis of the unadjusted quoted prices in an active market for identical assets and liabilities that Leonardo can access at the measurement date;
- Level 2: financial assets and liabilities whose fair value is determined on the basis of inputs other than the quoted prices as in Level 1, that are directly or indirectly observable;
- Level 3: financial assets and liabilities whose fair value is determined on the basis of unobservable inputs.

3.12 Cash and cash equivalents

The item includes cash, deposits with banks or other institutions providing current account services, post office accounts and other cash equivalents, as well as investments maturing in less than three months from the date of acquisition. Cash and cash equivalents are recognised at their fair value, which normally coincides with their nominal value.

3.13 Equity

3.13.1 Share capital

Share capital consists of the capital subscribed and paid up by the Group Parent. Costs directly associated with the issue of shares are recognised as a decrease in share capital when they are directly attributable to capital operations, net of the deferred tax effect.

3.13.2 Treasury shares

Treasury shares are recognised as a decrease in Group shareholders' equity. Gains or losses realised in the acquisition, sale, issue or cancellation of treasury shares are recognised directly in shareholders' equity.

3.14 Payables and other financial liabilities

Payables and other financial liabilities are initially recognised at fair value net of transaction costs. They are subsequently valued at their amortised cost using the effective interest-rate method.

Payables and other liabilities are defined as current liabilities unless the Group has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

3.15 Taxation

The Group's tax burden is made up of current and deferred taxes. If these taxes are related to income and expense recognised in equity in the statement of comprehensive income, a balancing entry is recorded under the same item.

Current taxes are calculated in accordance with the existing fiscal legislation applicable to those countries in which the Group operates and in force at the balance-sheet date. Any risks connected with a different interpretation of the positive and negative components of income, together with ongoing disputes with the tax authorities are regularly assessed, in order to adjust the provisions made.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the carrying amounts of assets and liabilities and their value for tax purposes, as well as on fiscal losses. Deferred tax assets and liabilities are calculated by applying the tax rate that is expected to be in force at the time the temporary differences will be reversed. The estimation is made based on tax laws in effect or substantially in effect at the reporting date. Deferred tax assets, including those deriving from tax losses, are recognised to the extent that, based on the company plans approved by the directors, it is probable the company will post future taxable income in respect of which such assets can be utilised.

3.16 Employee benefit obligations

3.16.1 Post-employment benefit plans

Group companies use several types of pension and supplementary benefit plans, which can be classified as follows:

- *Defined-contribution plans* in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have

sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;

- *Defined-benefit plans* in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method. Accordingly, the Group recognises a liability for the same amount arising from the actuarial estimation, and recognises actuarial gains and losses in the period in which they occur in the statement of comprehensive income through a special equity reserve (in the "Remeasurement reserve"). To determine the amount to be entered in the balance sheet, the fair value of the plan assets is deducted from the current value of the obligation for the defined-benefit plans. This fair value is calculated using the interest rate adopted for discounting back the obligation.

3.16.2 Other long-term benefits and post-employment benefits

Group companies grant employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined-benefit plans, using the projected unit credit method. However for "Other long-term benefits" net actuarial gains and losses are both recognised to profit or loss immediately and in full as they occur.

3.16.3 Benefits payable for the termination of employment and incentive plans

Termination benefits are recognised as liabilities and expenses when the enterprise is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The benefits payable to employees for the termination of employment do not bring any future economic benefit to the enterprise and are therefore recognised immediately as expenses.

3.16.4 Equity compensation benefits

In case the Group uses stock-option and stock-grant plans to compensate the senior management, the theoretical benefit attributable to the recipients is charged to the income statement in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring at the assignment date the fair value of the assigned instrument, using financial valuation techniques that take

account of market conditions and, at the date of each annual report, an updated estimate of the number of instruments expected to be distributed. Vice versa, the fair value initially calculated is not updated in the subsequent recognitions.

3.17 Provisions for risks and charges

Provisions for risks and charges are recognised when, at the reporting date, the entity has a present obligation (legal or constructive) to other parties as a result of a past event, and it is probable that, in order to settle the obligation, whose amount can be reliably estimated, an outflow of resources will be required.

The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability. Changes in the estimates are recognised in the income statement of the year in which the change occurs. With regard to some disputes, the information required by IAS 37 “Provisions, contingent liabilities and contingent assets” is not reported, in order to not jeopardize the Group position in the context of such disputes or negotiations.

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

3.18 Leasing

3.18.1 Group entities as lessees in a finance lease

At the date on which a lease is first recognised, the lessee records a non-current tangible asset and a financial liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the inception of the lease, using the implicit interest rate in the lease or the incremental borrowing rate. Subsequently, an amount equal to the depreciation expense for the asset and the finance charge separated from principal component of the lease payment made in the period is recognised in the income statement. Depreciation periods are indicated in Note 3.5.

3.18.2 Group entities as lessors in a finance lease

At the date on which a lease is first recognised, the value of the leased asset is eliminated from the balance sheet and a receivable equal to the net investment in the lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, financial income is recognised in the income statement for the duration of the contract in an amount providing a constant periodic rate of return on the lessor’s net investment.

The unsecured residual value is reviewed periodically for possible impairment.

3.18.3 Operating leases

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract on a straight-line basis.

3.19 Revenue

Revenue is recognised at the fair value of the amount received, inclusive of volume discounts and reductions. Revenue also includes the amount of consideration accrued in respect of invoices issued and to be issued (revenues from sales and services) as well as the portion of work performed for which there are not yet the conditions for billing (changes in work in process, the accounting policies for which reference is made to Note 3.9). For a description of the estimates related to the evaluation process of the long-term contracts, reference should be made to Note 4.4. Revenue generated from the sale of goods is recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer, and when the value of the revenues can be reliably determined.

Revenues from services are recognised on a percentage-of-completion method when they can be reliably estimated.

3.20 Government grants

Once formal authorisation for their assignment has been issued, grants are recognised on an accruals basis in direct correlation with the costs incurred. Specifically, set-up grants are taken to the income statement in direct relation to the depreciation of the relevant goods or projects, and are recognised as a direct reduction in the value of the depreciation expense. In balance sheet, grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to profit or loss. For the analysis of the aspects related to grants under Law 808/1985, reference should be made to Note 4.2.

3.21 Costs

Costs are recorded in compliance with the accrual principle.

3.22 Financial income and expense

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

Financial expenses attributable to the acquisition, construction or production of certain assets taking a substantial period of time to get ready for their intended use or sale (qualifying assets) are capitalised together with the related asset.

3.23 Dividends

Dividends are recognised in the income statement as soon as shareholders obtain the right to receive payment, which is normally when the shareholders' meeting approves the distribution of dividends.

Dividends distributed to Leonardo shareholders are reported as a change in the shareholders' equity and are recognised as liabilities for the period in which their distribution is approved by the Shareholders' Meeting.

3.24 Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use, are classified as held for sale and presented separately in the statement of financial position. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable within one year. If these conditions are met after the year-end, the non-current asset (or disposal group) is not classified as held for sale. However, if these conditions are met after the year-end but before the financial statements are approved for publication, appropriate information is provided in the explanatory notes thereto.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell; the corresponding values of the prior year balance sheet are not reclassified.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results of Discontinued Operations – whether they have been disposed of or classified as held for sale or under disposal – are presented separately in the income statement, less tax effects. The corresponding values of the prior year, if any, are reclassified and shown separately in the income statement, for comparative purposes, net of tax effect.

3.25 New IFRS and IFRIC interpretations

At the date of preparation of this report, the European Commission has endorsed certain standards and interpretations that are not compulsory which will be applied by the Group in the following financial periods. The main amendments and potential effects for the Group are summarised below:

IFRS – IFRIC Interpretation		**Effects for the Group**
IFRS 9	Financial instruments	The standard significantly amends the accounting treatment of financial instruments and will replace IAS 39. More specifically, IFRS 9 introduces a new classification for financial instruments based on the characteristics of the entity's business model and cash flows and provides for the application of a structured impairment model for financial assets based on lifetime expected credit losses. It also introduces new general hedge accounting criteria which enable a more flexible and integrated approach to risk management. At present this standard can be applied starting from 1 January 2018, except for the provisions regarding hedge accounting (for which a subsequent application is permitted); in respect of the latter it is possible not to apply the new provisions until the IASB concludes the macro-hedging project still underway. Considering the type of financial assets and liabilities of the Group, at the current stage of analysis we antcipate no particular criticalities arising from the new classification model of financial instruments. Overall, we consider that at the current stage of analysis the impact deriving from the adoption of IFRS 9, which is still under examination, has no significant effect on the main Group performance indicators. In particular, the following impact areas have been identified: • Treatment of the premium in points of hedging derivative instruments: the standard allows to accumulate the related economic effects in a reserve in equity pending the closing of the derivative that coincides with the moment in which the underlying hedged item is recognised in profit or loss (this alternative is under evaluation); • Definition of a new model of impairment of receivables (the other assets of the Group are not impacted by this amendment). In this respect, the Group is defining more suitable operating methods in order to come to an appropriate model, which takes into account the specific characteristics the Group's customer base. It is therefore believed that, beside the impacts that will obtain upon the transition to equity and that will be determined in the early months of 2018, this amendment has no significant impacts on the Group's KPIs. The Group will apply this standard as from 1 January 2018.

<table>
<tr><th colspan="2">IFRS – IFRIC Interpretation</th><th>Effects for the Group</th></tr>
<tr><td>IFRS 15</td><td>Revenue from contracts with customers</td><td>The standard replaces the previous IAS11 and IAS18 under which the financial statements at 31 December 2017 are prepared. This standard redefines how to account for revenue and requires additional disclosures.
The new revenue recognition model provides that, as a general rule, revenue is recognised when the control of goods and services is transferred to customers in place of the previous transfer of “risks and rewards”. Considering the effective date of this new standard (1 January 2018), the Group has launched a complex project to review the main contract types in order to determine the effects of the new standard and new rules of revenue recognition to be applied beginning from 2018.
Given the high complexity of the analysis, the activity is still underway. However, at the current stage of analyses we can conclude that, subject to the conclusion of such analysis, the impact on the Group’s main indicators is not material in size. As highlighted in paragraph “Effects of the new IFRS 15 accounting standard – Revenue Recognition” of the Report on operations, a preliminary estimate of the impact on revenue with reference to FY 2017 is about 2% (in terms of higher revenue), while that relating to EBITA is slightly higher than 1%. Overall, the transition to the new standard is likely to result, as analyses stand now, in a reduction in consolidated equity of approximately 5%.
The main impact areas deriving from the application of the new standard are:
introduction of new criteria for revenue recognition during the execution of the contract; if those criteria are not met, then revenue is recognised solely at the completion of the contract. This required a review of the contracts, which are normally medium/long-term. Such analysis highlighted the necessity to change the revenue and margin recognition methods in relation to certain contracts (passing from the previous recognition of the margins of certain contracts “over time” to “at a point in time” and vice versa);
new specific requirements to establish if goods and services of a series of supplies have to be recognised as a single performance obligation or as a separate performance obligation. In respect of certain contracts entered into by the Group it was necessary to unbundle the contracts into two or more performance obligations, with consequent effects on the remeasurement of the margins;
new criteria on contract cost recognition;
more defined criteria to be applied to mass productions with the consequent remeasurement of the margins of this kind of productions;
new and in-depth additional qualitative and quantitative information to disclose.
The Group will apply this standard as from 1 January 2018 with a restatement of the 2017 accounting balances for comparative purposes.</td></tr>
</table>

IFRS 16	Leases	This standard redefines the recognition methods for operating leases in the lessee's financial statements requiring a single lessee accounting method for all types of leases. A lessee is required to recognize in its financial statements tangible leased assets and a lease liability in respect of future lease payments. The Group will apply this standard as from 1 January 2019 and has started a project aimed to precisely determine the impact deriving from the new standard. Existing commitments on lease contracts according to the current accounting rules are provided in Note 25.

There are a number of standards or amendments to existing principles issued by the IASB or new interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for which the revision and approval project is still under way.

4. *SIGNIFICANT ISSUES AND CRITICAL ESTIMATES BY MANGEMENT*

4.1 Research and development costs

This account includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced (including higher set-up costs incurred compared to the costs of the asset once fully operating), prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. These costs are amortised according to the units-of-production method, over the period in which the future earnings are expected to be realised for the project itself. The useful life changes according to the business of the company and it exceeds 5 years on average. If such costs fall within the scope of costs defined by Group standards as "non-recurring costs", they are recognised in a specific item under intangible assets (Note 4.2).

The initial recognition and subsequent assessment of their recoverability through impairment testing require complex estimates by management which estimates are influenced by a number of factors, such as the time-line of the product business plans and the company's ability to anticipate the commercial success of the new technologies.

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

4.2 Non-recurring costs

The Group discloses as "non-recurring costs" under intangible assets the costs incurred in designing, prototyping, starting-up and upgrading to the technical and functional specifications of clearly identified potential clients – including higher set-up costs compared to costs for the asset once fully operating –, if they are financed, in particular under Law 808/1985 governing State aids to support the competitiveness of entities operating in the Aeronautics and Defence segments. These costs are shown excluding the benefits

collected or to be collected under Law 808/1985 for programmes qualified as functional to national security and similar. The aid under Law 808/1985 is deducted from capitalised costs, and the royalties to be given to the grantor are recognised as the requirements are met (sale of products embedding the technology for which the Law permits aids). For the programmes other than national security programmes, the funds received are recognised as “Other liabilities”, making a distinction between the current portion and the non-current portion, based on the date of repayment. In both cases, non-recurring costs are carried among intangible assets and are amortised within job orders on the units-of-production method.

These costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans, which in general are made for a period greater than 5 years, in light of the particularly long life of products under development.

The initial recognition and subsequent assessment of the recoverability of these costs require estimates, which are by their own nature complex and marked by a high level of uncertainty as they are influenced by a number of factors, such as the time-line of the product business plans and the company’s ability to anticipate the commercial success of the new technologies. These estimates therefore imply significant assessments by management which take into account the reasonable certainty that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

In the case of programmes that benefit from the provisions of Law 808/1985 and that are classified as functional to national security, the portion of non-recurring costs capitalised, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry, is shown separately under “other non-current assets”. The related amount is calculated based on an estimate made by management that reflects the reasonable certainty that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

4.3 Hedging long-term contracts against foreign exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Group enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment the commercial contracts are finalised, except where the award of the contracts is felt to be highly likely as a result of existing framework contracts. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts); in some cases, however, in order to protect the Group against the persistent adverse trend in the US dollar, we have entered into more highly structured operations that, while substantively hedging the positions, do not qualify for hedge accounting under IAS 39. In these cases, as in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the income statement as financial items, while the underlying is valued as if it were exposed

to exchange rate variations. The effects of this recognition policy are reported in Note 30. Hedges in the former case are reported as cash-flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

4.4 Estimate of revenue and final costs of long- term contracts

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis. Margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Estimating the expected overall costs of contracts in progress is marked by a high degree of uncertainty as they can be influenced by a number of factors such as the engineering complexity of the products, the ability to precisely fulfil specific technical requests made by customers and to meet the manufacturing time-frame provided for in the contract. Moreover, failure to comply with contractual terms and conditions such as the delivery times and the non-compliance of products and services with customers' specific requests may imply penalties and extra-costs of a remarkable amount to be considered in estimating total costs. In order to enhance support for management's estimates, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management's best estimate at the reporting date supported by said tools.

4.5 Liabilities from defined-benefit pension plans

The Group is sponsor to two UK defined-benefit pension plans and to various US and other minor European plans. It has the obligation to ensure a given level of benefits to the plan participants and carries the risk that the plan assets are not adequate to cover the benefits promised. In case these plans are in a deficit position, the trustee responsible for the management requests the Group to fund the plan.

The deficit resulting from the most updated actuarial valuations made by independent experts is recognised as a liability. It should be noted that these valuations stem from actuarial, demographic, statistical and financial assumptions that can vary over time.

4.6 Impairment of assets

Group assets are tested for impairment at least annually if their lives are indefinite, or more often if there are indications of impairment. Similarly, impairment tests are conducted on all the assets showing signs of impairment, even if the amortisation already commenced.

The recoverable amount is generally based on the value in use calculated according to the Discounted Cash-Flow method, which is characterized by a high level of complexity and the use of estimates, which are by their nature uncertain and subjective in relation with the expected cash flows and the financial parameters used to determine the discount rate.

For these valuations, the Group uses the estimated cash flows based on the plans that have been approved by corporate bodies and financial parameters that are in line with those resulting from the current performance of reference markets.

Details about the methods for the calculation of the impairment tests are reported in Note 9.

4.7 Disputes

The Group's operations regard sectors and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity. In case management deems it probable that following the litigation an outflow of resources, whose amount can be reliably estimated, will be required, this amount that has been discounted in order to consider the timeline for the disbursement, is included in the risk provision. The estimate for the developments of these disputes is particularly complex and requires significant estimates by the management. Disputes where a liability is deemed possible but not probable are shown in the relevant informative section on commitments and risks; against such disputes no allocation is made.

5. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

Starting from 1 January 2017 the Group has adopted the following amendments without any significant effect on this Annual Financial Report:

- Amendment to IAS 12 "Recognition of deferred tax assets for unrealised losses": this amendment clarifies the issue that the existence of deductible temporary differences must depend solely on a comparison of the carrying amount of an asset and its tax base at the reporting date;
- Amendments to IAS 7 "Disclosure initiative": these amendments consist in the request for additional disclosures with reference to changes in liabilities from financing activities.

6. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

No non-recurring events or transactions were reported during 2017 or in the comparative period.

7. SIGNIFICANT POST BALANCE SHEET EVENTS

No significant events occurred after the year-end.

8. SEGMENT INFORMATION

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: *Helicopters*, *Electronics, Defence and Security Systems, Aeronautics, Space* and *Other activities*.

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations.

The Group assesses the performance of its operating segments and the allocation of its financial resources on the basis of revenue and EBITA (see also the section "Non-GAAP performance indicators" in the Report on Operations).

For the purpose of a correct interpretation of the information provided we note that the results of the strategic Joint Ventures have been included within the EBITA of the sectors to which these JVs belong; conversely, these sectors do not reflect the relevant share of revenue of the JVs.

The results for the operating sectors at 31 December 2017, as compared with those of the same period of the previous year are as follows:

31 December 2017	**Helicopters**	**Electronics, Defence & Security Systems**	**Aeronautics**	**Space**	**Other Activities**	**Elimin-ations**	**Total**
Revenues	3,262	5,506	3,107	-	338	(686)	11,527
Inter-segment revenue (*)	(6)	(423)	(3)	-	(254)	686	-
Third party revenue	**3,256**	**5,083**	**3,104**	**-**	**84**	**-**	**11,527**
EBITA	260	537	324	79	(134)	-	1,066
Investments	136	173	127	-	29	-	465
Non-current assets (**)	3,154	3,505	1,435	-	738	-	8,832
31 December 2016	**Helicopters**	**Electronics, Defence & Security Systems**	**Aeronautics**	**Space**	**Other Activities**	**Elimin-ations**	**Total**
Revenues	3,639	5,468	3,130	-	327	(562)	12,002
Inter-segment revenue (*)	(11)	(326)	(3)	-	(222)	562	-
Third party revenue	**3,628**	**5,142**	**3,127**	**-**	**105**	**-**	**12,002**
EBITA	430	558	347	77	(160)	-	1,252
Investments	134	191	113	-	36	-	474
Non-current assets (**)	3,187	3,672	1,504	-	779	-	9,142

(*)Inter-segment revenue includes revenue among Group consolidated undertakings belonging to various business sectors.

(**) The portion of non-current assets relates to intangible assets and property, plant and equipment as well as to investment property.

The reconciliation of EBITA, EBIT and earnings before income taxes, financial income and expense and the share of results of equity-accounted investees for the periods concerned is shown below:

2017	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other Activities	Total
EBITA	**260**	**537**	**324**	**79**	**(134)**	**1,066**
Amortisation of intangible assets acquired as part of business combinations	(9)	(89)	-	-	-	(98)
Restructuring costs	(1)	(30)	-	-	(25)	(56)
Non-recurring income/charges	(55)	(5)	(19)	-	-	(79)
EBIT	**195**	**413**	**305**	**79**	**(159)**	**833**
Equity-accounted strategic JVs	-	(59)	(133)	(79)	-	(271)
Effect on extraordinary transactions	-	-	-	-	-	-
Income before tax and financial expenses	**195**	**354**	**172**	**-**	**(159)**	**562**

2016	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other Activities	Total
EBITA	**430**	**558**	**347**	**77**	**(160)**	**1,252**
Amortisation of intangible assets acquired as part of business combinations	(9)	(88)	-	-	-	(97)
Restructuring costs	(6)	(49)	(36)	-	(11)	(102)
Non-recurring income/charges	(26)	(45)	-	-	-	(71)
EBIT	389	376	311	77	(171)	982
Equity-accounted strategic JVs	-	(52)	(166)	(77)	-	(295)
Income before tax and financial expenses	**389**	**324**	**145**	**-**	**(171)**	**687**

Group revenue can also be broken down geographically as follows (based on the customer's home country), non-current assets, as defined above, are allocated on the basis of their location:

	Revenues		Non-current assets (*)	
	2017	**2016**	**31 December 2017**	**31 December 2016**
Italy	1,785	2,148	4,641	4,666
United Kingdom	1,335	1,541	1,357	1,441
Rest of Europe	2,910	3,251	845	826
North America	2,976	2,999	1,971	2,196
Rest of the world	2,521	2,063	18	13
	11,527	**12,002**	**8,832**	**9,142**

(*) The portion of non-current assets relates to intangible assets and property, plant and equipment as well as to investment property.

9. INTANGIBLE ASSETS

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2016							
Cost	5,868	1,231	1,913	421	1,246	766	**11,445**
Amortisation and impairment losses	(1,880)	(711)	(476)	(97)	(658)	(613)	**(4,435)**
Carrying amount	**3,988**	**520**	**1,437**	**324**	**588**	**153**	**7,010**
Investments	-	44	160	5	-	23	**232**
Sales	(8)	-	-	-	-	(1)	**(9)**
Amortisation	-	(62)	(113)	(14)	(97)	(49)	**(335)**
Impairment losses	-	(3)	(13)	-	-	-	**(16)**
Other changes	(157)	(9)	1	16	(26)	12	**(163)**
31 December 2016	**3,823**	**490**	**1,472**	**331**	**465**	**138**	**6,719**
broken down as follows:							
Cost	6,096	1,275	2,073	559	1,326	603	**11,932**
Amortisation and impairment losses	(2,273)	(785)	(601)	(228)	(861)	(465)	**(5,213)**
Carrying amount	**3,823**	**490**	**1,472**	**331**	**465**	**138**	**6,719**
Investments	-	43	195	3	-	13	**254**
Amortisation	-	(62)	(44)	(16)	(98)	(38)	**(258)**
Impairment losses	-	(6)	-	-	-	-	**(6)**
Increase for business combination	80	-	-	1	70	-	**151**
Other changes	(225)	(9)	9	(54)	(25)	(18)	**(322)**
31 December 2017	**3,678**	**456**	**1,632**	**265**	**412**	**95**	**6,538**
broken down as follows:							
Cost	5,747	1,100	2,078	627	1,283	429	**11,264**
Amortisation and impairment losses	(2,069)	(644)	(446)	(362)	(871)	(334)	**(4,726)**
Carrying amount	**3,678**	**456**	**1,632**	**265**	**412**	**95**	**6,538**
31 December 2016							
Gross value			4,774				
Grants			3,302				
31 December 2017							
Gross value			4,685				
Grants			3,053				

Overall investments were mainly made in the *Helicopters* (€mil. 98), *Aeronautics* (€mil. 80) and *Electronics, Defence and Security Systems* (€mil. 73) sectors.

Commitments are in place for the purchase of intangible assets for €mil. 7 (€mil. 5 at 31 December 2016).

Goodwill

Goodwill is allocated to the Cash Generating Units (CGUs) or groups of CGUs concerned, which are determined with reference to the Group's organisational, management and control structure at the reporting date coinciding, as is known, with the Group's four business segments.

A summary of goodwill by segment at 31 December 2017 and 2016 is as follows:

	31 December 2017		31 December 2016	
Helicopters		1,248		1,260
DRS	*1,393*		*1,504*	
Leonardo Divisions	*977*		*999*	
Electronics, Defence & Security Systems		2,370		2,503
Aeronautics		60		60
		3,678		**3,823**

The net decrease compared to 31 December 2016 refers to foreign currency translation differences on goodwill denominated in GBP and USD, solely partially offset by the increase in the goodwill deriving from the acquisition of Daylight Solutions performed through the subsidiary DRS (€mil. 80), as commented in Note 13. Goodwill is subject to impairment testing to determine any loss in value. This is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale. In practice, the Group has established an operational hierarchy between calculating the fair value net of transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group's five-year business plans prepared by the management of the CGUs and incorporated into the plan approved by Leonardo's Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates ("g-rate") no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial expense and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. The related underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected developments in the Group's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs:

- the risk-free rate was determined using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU;

- market premium equal to 5.1% in 2017 (5.7% in 2016);
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of debt applicable to the Group;
- the debt/equity ratio, determined using data pertaining to our major competitors in each sector.

The growth rates used to project the CGU's cash flows beyond the explicit term of the plan were estimated by making reference to the growth assumptions of the individual sectors in which said CGUs operate. These assumptions are based on the internal processing of external sources, making reference to a period of time that is usually ten years. The g-rates used for the purposes of the impairment test were equal to 2%, consistently with the actions taken in previous financial years, even in the presence of higher expected growth rates in some sectors.

The mostly important assumptions for the purposes of estimating the cash flows used in determining the value in use are summarised below:

	Helicopetsrs	**Electronics**	**Aeronautics**
WACC	X	X	X
g-rate	X	X	X
ROS as per the plan	X	X	X
Flat trend in real terms of the Defence budget in domestic markets	X	X	X

In estimating these basic assumptions, the management made reference, in the case of external variables, to internal information processed on the basis of external surveys, as well as on its knowledge of the markets and of the specific contractual situations.

The following WACCs (after taxes) and (nominal) growth rates were used at 31 December 2017 and 2016:

	31 December 2017		**31 December 2016**	
	Wacc	***g-rate***	**Wacc**	***g-rate***
Helicopters	7.3%	2.0%	7.6%	2.0%
DRS	7.6%	2.0%	7.6%	2.0%
Leonardo Divisions	5.3%	2.0%	5.5%	2.0%
Electronics, Defence & Security Systems				
Aeronautics	6.0%	2.0%	5.9%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom) also in relation to DRS, whose goodwill had been significantly impaired in 2011 and 2012 as a result of the cuts in the US defense budgets. Such cuts brought to lower headroom also in the subsequent periods compared to the other CGUs. At 31 December 2017, the headroom amount of DRS was considerably higher due to the changed macro-economic and industry context in the USA, in addition to the effects of the US fiscal reform (which decreased the tax rate from 35% to 21%). The significant decrease in the headroom

amount of *Helicopters* reflects, on the contrary, the difficulties of the sector, as amply discussed in the Report on Operations. However, as reported below, the sensitivity scenarios carried out highlighted that the recoverability of the carrying amount of goodwill of this CGU is not a risk based on the assumptions made during the preparation of the budget plan, also considering the significant margins achieved by the Division (EBITA equal to €mil. 260, ROS of 8%) even against a particularly complex market and specific backdrop.

Sensitivity analysis was conducted on the results of the tests, making reference to the assumptions for which it is reasonably possible that a change in the same may significantly modify the results of the test. The wide positive margins recorded for all operating sectors are such that they may not be significantly modified by any changes in the assumptions described above. For information purposes, below are reported the results of all the CGUs. The table below highlights the headroom in the base scenario, compared with the following sensitivity analyses for 2017 and 2016: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal.

31 December 2017	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	924	530	597	714
DRS (USD millions)	1,057	782	847	947
Leonardo Divisions	8,429	6,885	7,063	7,997
Electronics, Defence & Security Systems				
Aeronautics	10,034	9,051	9,180	9,698

31 December 2016	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	2,544	2,019	2,110	2,529
DRS (USD millions)	305	102	149	104
Leonardo Divisions	6,463	5,272	5,421	5,653
Electronics, Defence & Security Systems				
Aeronautics	12,178	10,893	11,047	10,601

Other intangible assets

Investments in "development costs" refer in particular to the *Electronics, Defence and Security Systems* (€mil. 28) and *Helicopters* (€mil. 15) sectors. Investments attributable to "*non-recurring costs*" are mainly related to the *Helicopters* (€mil. 83) and *Aeronautics* (€mil. 75) sectors. As regards programmes that benefit from the provisions of Law 808/85 and that are classified as functional to national security, the portion of capitalised non-recurring costs, pending the fulfilment of the legal requirements for the classification under receivables, is separately disclosed under other non-current assets (Note 12). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 27.

Total research and development costs, comprising also "development" and "non-recurring costs" just mentioned, are equal to €mil. 1,539, of which €mil. 164 expensed and the remainder included in sales contracts or covered by grants.

"Concessions, licences and trademarks" includes in particular the value of licenses acquired in previous years in the *Helicopters* segment. With regard to the full acquisition of the AW609 programme, this value also comprises the estimated variable fees due to Bell Helicopter on the basis of the commercial success of the programme (Nota 23). The change during the period is mainly attributable to the decline in amortisation during the period and the effect of foreign exchange transactions.

Intangible assets acquired in the course of business combinations mainly decreased as a result of the amortisation and of the foreign exchange rate effect that were only partly offset by the acquisition of Daylight Solutions through subsidiary Leonardo DRS.

Below is a breakdown of these assets:

	31 December 2017	**31 December 2016**
Know-how	104	63
Trademarks	46	44
Backlog and commercial positioning	262	358
	412	**465**

Specifically, "Backlog and commercial positioning" chiefly refers to the portion of the purchase price of DRS and the UK component related to the *Electronics, Defence and Security Systems* and *Helicopters* divisions allocated to this item during the purchase price allocation. The recognition of the effects deriving from the acquisition of Daylight mainly entailed the recording of new technology know-how.

"Other" mainly includes software and intangible assets in progress and advances.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2016					
Cost	1,788	1,586	1,923	1,370	**6,667**
Amortisation, depreciation and impairment losses	(820)	(1,094)	(1,134)	(989)	**(4,037)**
Carrying amount	**968**	**492**	**789**	**381**	**2,630**
Investments	8	18	54	123	**203**
Sales	(15)	(1)	(1)	(5)	**(22)**
Depreciation	(49)	(88)	(170)	(58)	**(365)**
Impairment losses	-	(4)	-	(1)	**(5)**
Other changes	4	52	(12)	(110)	**(66)**
31 December 2016	**916**	**469**	**660**	**330**	**2,375**
broken down as follows:					
Cost	1,545	1,602	2,080	1,222	**6,449**
Amortisation, depreciation and impairment losses	(629)	(1,133)	(1,420)	(892)	**(4,074)**
Carrying amount	**916**	**469**	**660**	**330**	**2,375**
Investments	14	19	39	139	**211**
Sales	-	-	(2)	(1)	**(3)**
Depreciation	(48)	(86)	(119)	(53)	**(306)**
Impairment losses	(2)	(3)	(3)	(3)	**(11)**
Increase for business combination	2	-	-	3	**5**
Other changes	(2)	27	26	(89)	**(38)**
31 December 2017	**880**	**426**	**601**	**326**	**2,233**
broken down as follows:					
Cost	1,542	1,609	2,117	1,240	**6,508**
Amortisation, depreciation and impairment losses	(662)	(1,183)	(1,516)	(914)	**(4,275)**
Carrying amount	**880**	**426**	**601**	**326**	**2,233**

This item decreases as a result of depreciation for the year and negative exchange differences, which are only partially offset by investments.

The most significant investments amounted to €mil. 101 for *Electronics, Defence and Security Systems,* €mil. 47 for *Aeronautics* (mainly for progress on the B787 programme), €mil. 38 for *Helicopters* and €mil. 25 for *Other Activities*.

"Other tangible assets" also include the value of tangible assets under construction (€mil. 134 at 31 December 2017 vs €mil. 121 at 31 December 2016).

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 49 (€mil. 79 at 31 December 2016).

11. EQUITY INVESTMENTS AND SHARE OF PROFITS (LOSSES) OF EQUITY-ACCOUNTED INVESTEES

	2017			2016		
	Equity investments	**Risk provisions**	**Total**	**Equity investments**	**Risk provisions**	**Total**
Material joint venture	962		962	947		947
Joint venture not individually material:	78	(2)	76	76	(2)	74
- Aviation Training Int. Ltd	*18*	*-*	*18*	*18*	*-*	*18*
- Rotorsim Srl	*32*	*-*	*32*	*28*	*-*	*28*
- Advanced Acoustic Concepts LLC	*21*	*-*	*21*	*22*	*-*	*22*
- Rotorsim USA LLC	*7*	*-*	*7*	*8*	*-*	*8*
- Closed Joint Stock Company Helivert	*-*	*(2)*	*(2)*	*-*	*(2)*	*(2)*
	1,040	(2)	1,038	1,023	(2)	1,021
Associates	140		140	100	-	100
	1,180	**(2)**	**1,178**	**1,123**	**(2)**	**1,121**

The Leonardo Group operates in certain sectors also through entities jointly controlled with third parties and valued under the equity method, since they qualify as joint ventures.

The increase in investments in associated companies mainly refers to the purchase of additional Avio shares (€mil. 45).

Below are reported the joint ventures considered material in terms of volumes and from a strategic viewpoint for the Group:

Company name	Nature of the relation	Main operating location	Registered office	% ownership
Telespazio Group	JV with Thales, among the main global providers of satellite services	Rome, Italy	Rome, Italy	67%
Thales Alenia Space Group	JV with Thales, among the main European leaders in the satellite systems and at the forefront of orbit infrastructures	Toulouse, France	Cannes, France	33%
GIE ATR	JV with Airbus Group, among the global leaders in regional turboprop aircraft with a capacity of between 50 and 70 seats	Toulouse, France	Toulouse, France	50%
MBDA Group	JV with Airbus Group and BAE Systems (through the parent AMSH BV), among the world leaders in missiles and missile systems	Paris, France	Paris, France	25%

In particular, as regards the companies falling under the so-called Space Alliance - Thales Alenia Space and Telespazio – the Company carried out for the purposes of the 2014 consolidated financial statements, during the first classification, an in-depth analysis of the existing arrangements, in order to verify whether situations of control (with reference to Telespazio) or of significant influence (with reference toThales Alenia Space) existed, both entities being considered by Leonardo as Joint Ventures. Specifically, the Space Alliance univocally regulates the governance of both companies, making reference to shareholders' agreements

prepared alike. With particular reference to Telespazio, in which the Group holds more than 50% of the stakes, the analyses performed led to deem that the company's governance is such that Telespazio can be regarded as a jointly controlled entity by virtue of the composition rules for the decision-making bodies - these rules being such that cannot be defined as merely "protective", as referred to in IFRS10 – and due to the expected unanimous consent of the shareholders on particularly significant matters for the company's management. Moreover, the substantive analysis, carried out taking into account the peculiarity of the businesses, highlighted that the methods to resolve deadlocks (i.e. when a stalemate in the decision-making process occurs and the shareholders have no possibility to jointly decide on matters about which they are required to make decisions through the unanimous consent mechanism) do not allow the majority venturer to impose its will. This is because, in case no decision can be reached, despite the complex escalation mechanism under the shareholders' agreements, the minority venturer has the right to dissolve the Joint Venture, recovering the assets originally assigned, through a call option or, solely if this option is not exercisable, to leave the Joint Venture through a put option. Finally, in the event of a decision-making deadlock, the joint venture might be eventually wound up or the minority venturer might sell its interest: in both of these cases, the venturers might be required to share or transfer part of the assets – with particular reference to technological expertise or know-how – originally assigned.

On the contrary, the analysis performed by the other venturer led to different conclusions with reference to Thales Alenia Space, which is fully consolidated by Thales in spite of the previously described governance structure. The application of such different conclusions on Leonardo, with the full consolidation of Telespazio into Leonardo, would have changed the Group's main indicators as follows:

	2017	2016
Revenues	+561	+569
EBITA	+32	+34
EBIT	+31	+32
Net Result (Non-controlling interests)	+5	+8
FOCF	+45	+12
Group Net Debt	+36	+19

We provide below a summary of the financial data of the aforementioned material joint ventures (the fair value of which is not available since they are not traded in any active market), as well as a reconciliation with the data included in these consolidated financial statements:

	31 December 2017					
	Telespazio	Thales Alenia Space	MBDA (throught AMSH BV)	GIE ATR	Other JV not individually material	**Total**
Non-current assets	283	1,879	2,325	172		
Current assets	331	1,404	4,944	959		
- of which cash and cash equivalent	*14*	*68*	*133*	*8*		
Non-current liabilities	43	300	952	128		
- of which non-current financial liabilities	-	-	*5*	*14*		
Current liabilities	286	1,264	5,695	658		
- of which current financial liabilities	*9*	*109*	*62*	-		
NCI net equity (100%)	15	-	1	-		
Group net equity (100%)	270	1,719	621	345		
Revenue (100%)	564	2,501	3,557	1,602		
Amortisation, depreciation and impairment losses (100%)	20	56	96	30		
Financial income (expense) (100%)	(1)	(10)	(16)	1		
Income taxes (100%)	(11)	(48)	(91)	(6)		
Profit (loss) from continuing operations (100%)	36	166	238	265		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expense) (100%)	-	(10)	187			
Total comprehensive income (expense) (100%)	**36**	**156**	**425**	**265**		
% Groups' interest in equity at 1 January	175	559	74	229	75	1,112
% Groups' interest in profit (loss) from continuing operations	23	56	59	133	8	279
% Groups' interest in profit (loss) from discontinued operations, net of taxes	-	-	-	-		-
% Groups' interest in other comprehensive income (expense)	-	(3)	47	-		44
% Groups' interest in total comprehensive income (expense)	**23**	**53**	**106**	**133**	**8**	**323**
Dividends received	(15)	(56)	(36)	(174)	(2)	(283)
Subscriptions and capital increases	-	-	-	-	-	-
Acquisitions	1	-	-	-	-	1
Disposals	(1)	(3)	-	-	-	(4)
Exchange differences	(2)	(1)	-	(12)	(4)	(19)
Other changes	-	14	(12)	(3)		(1)
% Groups' interest in equity at 31 December	**181**	**566**	**132**	**173**	**77**	**1,129**
Consolidation adjustments	8	(214)	116		1	(89)
Equity investments at 31 December	**189**	**352**	**248**	**173**	**78**	**1,040**
% Groups' interest in profit (loss)	23	56	59	133	8	279
Consolidation adjustments	-	-	-	-		-
Share of profits (losses) of equity-accounted investees	**23**	**56**	**59**	**133**	**8**	**279**
		271				

	31 December 2016					
	Telespazio	Thales Alenia Space	MBDA (throught AMSH BV)	GIE ATR	Other JV not individually material	**Total**
Non-current assets	297	1,875	2,336	168		
Current assets	359	1,497	4,372	1,091		
- of which cash and cash equivalent	16	11	130	7		
Non-current liabilities	45	281	1,281	112		
- of which non-current financial liabilities	2	-	117	5		
Current liabilities	335	1,395	5,131	691		
- of which current financial liabilities	9	25	29	-		
NCI net equity (100%)	15	-	1	-		
Group net equity (100%)	261	1,696	295	456		
Revenue (100%)	577	2,493	3,140	1,787		
Amortisation, depreciation and impairment losses (100%)	32	52	90	28		
Financial income (expense) (100%)	(4)	(13)	(21)	(3)		
Income taxes (100%)	(17)	(39)	(71)	(3)		
Profit (loss) from continuing operations (100%)	28	171	209	331		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expense) (100%)	-	(2)	(203)	-		
Total comprehensive income (expense) (100%)	**28**	**169**	**6**	**331**		
% Groups' interest in equity at 1 January	161	540	83	232	**78**	**1,094**
% Groups' interest in profit (loss) from continuing operations	19	56	52	166	(1)	292
% Groups' interest in profit (loss) from discontinued operations, net of taxes	-	-	-	-	-	-
% Groups' interest in other comprehensive income (expense)	-	(1)	(51)	-		(52)
% Groups' interest in total comprehensive income (expense)	**19**	**55**	**1**	**166**	**(1)**	**240**
Dividends received	(4)	(35)	(11)	(177)	(5)	(232)
Equity investments of Discontinued Operations	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Disposals	-	-	-	-	(1)	(1)
Exchange differences	-	-	-	8	(4)	4
Other changes	(1)	(1)	1	-	8	7
% Groups' interest in equity at 31 December	**175**	**559**	**74**	**229**	**75**	**1,112**
Consolidation adjustments	10	(216)	116	-	1	(89)
Equity investments at 31 December	**185**	**343**	**190**	**229**	**76**	**1,023**
% Groups' interest in profit (loss)	19	56	52	166	(1)	292
Consolidation adjustments		2	-	-	-	2
Share of profits (losses) of equity-accounted investees	**19**	**58**	**52**	**166**	**(1)**	**294**
		295				

Below is provided a summary of the aggregate financial data of the associates, inasmuch as there are no associates which are individually material for the Group:

	Associates not individually material	
	31 December 2017	**31 December 2016**
% Groups' interest in equity at 1 January	**100**	**112**
% Groups' interest in profit (loss) from continuing operations	9	4
% Groups' interest in profit (loss) from discontinued operations, net of taxes		
% Groups' interest in other comprehensive income (expense)		-
% Groups' interest in total comprehensive income (expense)	**9**	**4**
Dividends received	(11)	(6)
Equity investments of Discontinued Operations		-
Subscriptions and capital increases		-
Acquisitions	48	-
Disposals	(7)	(9)
Exchange differences	(2)	(4)
Other changes	(1)	(1)
% Groups' interest in equity at 31 December	**136**	**96**
Consolidation adjustments	4	4
Equity investments at 31 December	**140**	**100**
% Groups' interest in profit (loss)	9	4
Consolidation adjustments		
Share of profits (losses) of equity-accounted investees	**9**	**4**

12. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31 December 2017	*31 December 2016*
Financing to third parties	12	27
Non current financial receivables from Superjet	48	65
Guarantee deposits	9	9
Deferred grants under Law no. 808/85	40	58
Defined benefit plan assets, net (Note 22)	335	367
Related party receivables (Note 35)	-	1
Other non-current receivables	59	59
Non-current receivables	**503**	**586**
Prepayments - non-current portion	4	9
Equity investments at cost	20	18
Non-recurring costs pending under Law no. 808/1985	136	75
Non-current assets	**160**	**102**

The balance of non-current receivables was affected by the decrease in the net assets of defined-benefit plans and the decrease in the non-current receivables from Superjet, which were reclassified to current assets, due to the progress of the repayment plan. These receivables are related to the financial exposure, which can be collected after 12 months based on a 3-year repayment plan arranged with the acquirer within the rescheduling of Leonardo's participation in this programme occurred during 2016. Such amount was taken into account in calculating the KPI "*Group Net Debt*", as highlighted in Note 20.

13. BUSINESS COMBINATIONS

On 23 June 2017, the Leonardo Group acquired, through Leonardo DRS, 100% of the Daylight Solutions, Inc. group, a leading company in the development of quantum cascade laser products. The objective was to expand the offer by DRS of advanced solutions for the civil and military markets. The outlay to acquire the stake amounted to USDmil. 140, net of cash acquired, to which is to be added an additional earn-out of approx. USDmil. 13 to be paid within the first quarter of 2018.

Below is shown the overall effect on the balance sheet (exchange rate ruling on the transaction date):

	Fair Value
Intangible assets from business combinations	70
Other net assets (liabilities)	(16)
Net assets acquired	**54**
Price paid	123
Earn-out and other amounts to be paid	11
Price	**134**
Godwill from acquisition	**80**

Specifically, the intangible assets from business combination relate to technology know-how in the amount of €mil. 53, Backlog and commercial positioning for €mil. 14 and trademarks in the amount of €mil. 3

The contribution of Daylight to these consolidated financial statements (for the six months after its acquisition) was equal to USDmil. 41 in terms of revenue and USDmil. 8 as EBITA. Had the Daylight group been consolidated over the entire financial year, its contribution would have amounted to USDmil. 64 and USDmil. 9 as revenue and EBITA, respectively.

14. INVENTORIES

	31 December 2017	*31 December 2016*
Raw materials, supplies and consumables	1,714	1,675
Work in progress and semi-finished goods	1,470	1,562
Finished goods and merchandise	57	72
Advances to suppliers	1,140	705
	4,381	**4,014**

Inventories are shown net of impairment charges of €mil. 757 (€mil. 750 at 31 December 2016). The increase in the year in advances to suppliers mainly related to the advances paid within the EFA Kuwait programme in the *Aeronautics* sector.

15. CONTRACT WORK IN PROGRESS AND PROGRESS PAYMENTS AND ADVANCES FROM CUSTOMERS

	31 December 2017	*31 December 2016*
Contract work in progress (gross)	4,141	3,923
Final losses (positive wip)	(35)	(51)
Progress payments and advances from customers	(1,221)	(1,331)
Contract work in progress (net)	**2,885**	**2,541**
Progress payments and advances from customers (gross)	7,256	6,406
Contract work in progress	(472)	(517)
Final losses negative wip)	430	568
Progress payments and advances from customers (net)	**7,214**	**6,457**
Net value	**(4,329)**	**(3,916)**

"Contract work in progress" is recognised as an asset net of the relative advances if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work in progress exceeds advances from customers. It is recognised as a liability if advances from customers exceed the relevant work in progress. This offsetting is performed only with regard to work in progress and not to inventories or other assets. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

Below is a breakdown of the net balance of contract work in progress and progress payments and advances from customers:

	31 December 2017	**31 December 2016**
Cost incurred and margins recognised, net of losses	4,148	3,821
Advances	(8,477)	(7,737)
Net value	**(4,329)**	**(3,916)**

16. TRADE AND FINANCIAL RECEIVABLES

	31 December 2017		**31 December 2016**	
	Trade	**Financial**	**Trade**	**Financial**
Receivables	3,077	64	3,240	76
Cumulative impairments	(459)	(17)	(483)	(18)
Related party current receivables (Note 35)	569	110	667	40
	3,187	**157**	**3,424**	**98**

Trade receivables include €mil. 18 (€mil. 38 at 31 December 2016) for receivables from Sukhoi and Superjet which can be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined upon the disposal of the Russian business of Superjet, and receivables from Piaggio Aeroindustries whose payment has been rescheduled (in the amount of €mil. 115) beyond 12 months as part of the financial restructuring plan started by the latter company.

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 36.

17. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Securities	3	-
Derivatives	184	165
Prepaid expenses - current portion	60	89
Receivables for grants	83	98
Receivables from employees and social security	54	56
Indirect tax receivables	89	79
Deferred receivables under Law no. 808/85	5	4
Other related party receivables (Note 35)	5	4
Fair value of the residual portion in portfolio of Ansaldo Energia	-	138
Other assets	125	148
	608	**781**

The decrease in this item is due to the exercise in July 2017 of the put option on 15% of the share capital of Ansaldo Energia whereby the interest in the latter was finally disposed of to CDP Equity for a consideration of €mil. 144.

The table below provides the fair values of the various derivatives in the portfolio:

	Fair value at					
	31 December 2017			**31 December 2016**		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Interest rate swaps						
Trading	1	(3)	(2)	2	(3)	(1)
Fair value hedge	-	-	-	-	-	-
Cash flow hedge	-	-	-	-	(1)	(1)
Currency forward/swap/option						
Trading	-	-	-	-	-	-
Fair value hedge	6	(4)	2	1	(36)	(35)
Cash flow hedge	172	(227)	(55)	153	(297)	(144)
Embedded derivative (trading)	5	-	5	9	-	9

18. CASH AND CASH EQUIVALENTS

The change in the year is shown in the statement of cash flows. Cash and cash equivalents at 31 December 2017 included €mil. 3 of term deposits (€mil. 6 at 31 December 2016).

19. EQUITY

Share capital

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Company Related Holdings	(3,738,696)	-	(34)	-	(34)
31 December 2016	**574,411,699**	**2,544**	**(34)**	**(19)**	**2,491**
Repurchase of treasury shares less shares sold	29,563	-		-	-
31 December 2017	**574,441,262**	**2,544**	**(34)**	**(19)**	**2,491**
broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Company Related Holdings	(3,709,133)	-	(34)	-	(34)

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of € 4.40 each, including 3,709,133 treasury shares.

At 31 December 2017 the Ministry of Economy and Finance owned around 30.204% of the share capital.

The statement of changes in other reserves and equity attributable to non-controlling interests is presented in the accounting statements section.

Cash-flow hedge reserve

This reserve includes changes in fair value of derivatives used by the Group to hedge its exposure to currency net of the effect of deferred taxes until the moment in which the “underlying position” is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Translation reserve

The reserve decreased as a consequence of the following changes:

	2017	2016
US dollar	(197)	63
Pound sterling	(71)	(360)
Other currencies	2	7
	(266)	**(290)**

Overall, the reserve is negative for €mil. 480, mainly for the translation differences on the components denominated in Pound sterling partially offset by the components denominated in US Dollar, in particular Leonardo DRS.

Tax effects on the gain and loss items recognised in equity

	Group - consolidated entities			Group - equity accounted investments		
	Amount before taxes	**Tax effect**	**Net amount**	**Amount before taxes**	**Tax effect**	**Net amount**
2017						
Revaluation of defined-benefit plans	89	(17)	72	45	(8)	37
Changes in cash-flow hedges	86	(14)	72	18	(6)	12
Foreign currency translation difference	(243)		(243)	(23)		(23)
Total	**(68)**	**(31)**	**(99)**	**40**	**(14)**	**26**
2016						
Revaluation of defined-benefit plans	38	(7)	31	(56)	4	(52)
Changes in cash-flow hedges	(105)	23	(82)	(6)	-	(6)
Foreign currency translation difference	(300)	-	(300)	10	-	10
Total	**(367)**	**16**	**(351)**	**(52)**	**4**	**(48)**

Ther are no tax effects on the gain and loss items recognised in equity of Non-controlling interests.

20. LOANS AND BORROWINGS

	31 December 2017			31 December 2016		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**
Bonds	3,048	599	3,647	3,737	638	4,375
Bank loans and borrowings	186	60	246	238	59	297
Related party loans and borrowings (Note 35)	-	701	701	0	502	502
Other loans and borrowings	31	57	88	36	68	104
	3,265	**1,417**	**4,682**	**4,011**	**1,267**	**5,278**

The main clauses that regulate the Group's payables are reported in the section "Financial Transactions" of the Report on Operations. Changes in loans and borrowings are as follows:

	1 January 2017	**Issues**	**Repayments/Payment of coupons**	**Other net increase (decrease)**	**Exchange differences and other movements**	***31 December 2017***
Bonds	4,375	591	(1,415)	241	(145)	**3,647**
Bank loans and borrowings	297	-	(54)	3	-	**246**
Related-party loans and borrowings	502	-	-	199	-	**701**
Other loans and borrowings	104	-	(25)	9	-	**88**
	5,278	**591**	**(1,494)**	**452**	**(145)**	**4,682**

	1 January 2016	Issues	Repayments/Payment of coupons	Other net increase (decrease)	Exchange differences and other movements	*31 December 2016*
Bonds	4,397	-	(243)	246	(25)	**4,375**
Bank loans and borrowings	389	-	(59)	(33)	-	**297**
Related-party loans and borrowings	401	-	-	101	-	**502**
Other loans and borrowings	119	-	(14)	1	(2)	**104**
	5,306	**-**	**(316)**	**315**	**(27)**	**5,278**

Net changes for current liabilities. The items also include changes resulting from the application of the effective interest-rate method, which may not correspond with actual cash movements.

Below is the reconciliation of the changes in loans and borrowings with the cash flows from financing activities for FY 2017:

Balance at 1 January 2017		**5,278**
Changes included in cash flows from financing activities of the statement of cash flows		**(449)**
- Bond issues	*591*	
- Repayment of bonds	*(1,172)*	
- Net change in other borrowings	*132*	
Non-monetary changes		**(147)**
- Exchange rate effect	*(145)*	
- Accrued interest	*(2)*	
Balance at 31 December 2017		**4,682**

The decrease in the period was related in particular to the reduction in bonds (as a net effect of the transactions commented on below) and in the amount repaid (€mil. 46) of the outstanding loan with the European Investment Bank (EIB) aimed at implementing development activities in the aeronautic segment, whose residual value, equal to €mil. 234 at 31 December 2017, is included in payables to banks.

Bonds

The decrease is affected by the buy-back transactions on the bond issues denominated in USD (nominal amount of USDmil. 734) and in GBP (nominal amount of GBPmil. 30), as set out in the "*Financial Transactions*" section of the Report on Operations, and by the repayment of the bond issue due in December; the effects were partially offset by the new bond issue of a nominal amount of €mil. 600 placed in June 2017 as part of the EMTN programme expiring in 2024 with a coupon of 1.50%.

Below is the detail of the bonds at 31 December 2017 which shows the bonds issued by Leonardo ("LDO") and Leonardo US Holding, Inc ("LH"):

Issuer		Year of issue	Maturity	Currency	Outstanding nominal amount (mil.) (*)	Annual coupon	Type of offer
LDO (originally Fin Fin)	*(**)*	2003	2018	€	500	5.750% (1)	European institutional
LDO	*(**)*	2005	2025	€	500	4.875%	European institutional
LDO (originally Fin Fin)	*(**)*	2009	2019	GBP	288	8.000% (2)	European institutional
LDO (originally Fin Fin)	*(**)*	2009	2022	€	556	5.250%	European institutional
LH	*(***)*	2009	2039	USD	169	7.375%	American institutional Rule 144A/Reg. S
LH	*(***)*	2009	2040	USD	263	6.250%	American institutional Rule 144A/Reg. S
LDO	*(**)*	2017	2024	€	600	1.500%	European institutional
LDO (originally Fin Fin)	*(**)*	2013	2021	€	739	4.500%	European institutional

(*) *Residual nominal amounts related to issues subject to the buy-back transactions*

(**) *Bonds listed on the Luxembourg Stock Exchange and issued as part of the EMTN programme for a maximum of €bil. 4. The transaction was authorised pursuant to Art. 129 of Legislative Decree 385/1993.*

(***) *Bonds issued under Rule 144A, Regulation S of the US Securities Act. The proceeds of this issue were entirely used by Leonardo US Holding Inc. to finance the purchase of the subsidiary Leonardo DRS replacing the dollar-issue bonds originally issued by the company. These bonds were redeemed early following Leonardo's purchase of Leonardo DRS. As a result, these issues were not hedged against exchange rate risk, and no interest-rate transactions on the issue were performed.*

(1) Rate derivative transactions were made on these bonds and led the effective cost of the loan to a fixed rate better than the coupon and corresponding to an average of some 5.6%.

(2) The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged

Movements in bonds are as follows:

	1 January 2017	**New borrowings**	**Interest**	**Repayments/ Repurchases**	**Payments of coupons**	**Effect of exchange rate**	***31 December 2017***	***Fair value***
€mil. 500 LDO 2018 *	501		29		(29)		**501**	500
€mil. 500 LDO 2025 *	516		25		(24)		**517**	500
GBPmil. 400 LDO 2019 *	369		28	(34)	(27)	(13)	**323**	324
€mil. 600 LDO 2022 *	581		29		(29)		**581**	556
USDmil. 500 LH 2019 *	422		22	(363)	(30)	(51)	**-**	
USDmil. 300 LH 2039 *	264		19	(90)	(20)	(31)	**142**	141
USDmil. 500 LH 2040 *	439		25	(164)	(28)	(50)	**222**	219
€mil. 600 LDO 2017 *	521		23	(521)	(23)		**-**	
€mil. 600 LDO 2024 *		591	6				**597**	600
€mil. 950 LDO 2021 *	762		35		(33)	-	**764**	739
	4,375	**591**	**241**	**(1,172)**	**(243)**	**(145)**	**3,647**	**3,579**

	1 January 2016	**New borrowings**	**Interest**	**Repayments /Repurchases**	**Payments of coupons**	**Effect of exchange rate**	***31 December 2016***	***Fair value***
€mil. 500 LDO 2018 *	500		30		(29)		**501**	500
€mil. 500 LDO 2025 *	516		25		(25)		**516**	500
GBPmil. 400 LDO 2019 *	434		34	(2)	(35)	(62)	**369**	372
€mil. 600 LDO 2022 *	579		29	-	(27)		**581**	556
USDmil. 500 LH 2019 *	408		26		(25)	13	**422**	412
USDmil. 300 LH 2039 *	255		18	-	(18)	9	**264**	261
USDmil. 500 LH 2040 *	426		25	-	(27)	15	**439**	433
€mil. 600 LDO 2017 *	519		24	-	(22)		**521**	521
€mil. 950 LDO 2021 *	760		35	-	(33)	-	**762**	739
	4,397	**-**	**246**	**(2)**	**(241)**	**(25)**	**4,375**	**4,294**

(*) Maturity date of bond.

The fair value of the bonds was determined on the basis of the quoted prices of the existing issues (Level 1 of the fair value hierarchy).

The Group's financial liabilities are subject to the following exposures to interest-rate risk:

	Bonds		**Bank loans and borrowings**		**Related party loans and borrowings**		**Other loans and borrowings**		**Total**	
31 December 2017	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	**Floating**	**Fixed**
Within 1 year	-	599	19	41	701	-	54	3	**774**	**643**
2 to 5 years		1,070	76	109		-	24	4	**100**	**1,183**
Beyond 5 years	-	1,978	-	1	-	-	3		**3**	**1,979**
Total	**-**	**3,647**	**95**	**151**	**701**	**-**	**81**	**7**	**877**	**3,805**

	Bonds		**Bank loans and borrowings**		**Related party loans and borrowings**		**Other loans and borrowings**		**Totale**	
31 December 2016	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	**Floating**	**Fixed**
Within 1 year	-	638	29	30	502	-	68		**599**	**668**
2 to 5 years		2,023	82	109	-	-	31	1	**113**	**2,133**
Beyond 5 years	-	1,714	20	27	-	-	4	-	**24**	**1,741**
Total	**-**	**4,375**	**131**	**166**	**502**	**-**	**103**	**1**	**736**	**4,542**

Below is the financial information required under CONSOB communication DEM/6064293 of 28 July 2006:

	31 December 2017	*of which with related parties*	***31 December 2016***	*of which with related parties*
Cash and cash equivalents	(1,893)		(2,167)	
Securities held for trading	(3)		-	
Liquidity	**(1,896)**		**(2,167)**	
Current loans and receivables	**(157)**	*(110)*	**(98)**	*(40)*
Current bank loans and borrowings	60		59	
Current portion of non-current loans and borrowings	599		638	
Other current loans and borrowings	758	*701*	570	*502*
Current financial debt	**1,417**		**1,267**	
Net current financial debt (funds)	**(636)**		**(998)**	
Non-current bank loans and borrowings	186		238	
Bonds issued	3,048		3,737	
Other non-current loans and borrowings	31	-	36	-
Non-current financial debt	**3,265**		**4,011**	
Net financial debt	**2,629**		**3,013**	

The reconciliation between Net Financial Debt and Group Net Debt, used as KPI, is as follows:

	Note	31 December 2017	31 December 2016
Net financial debt com. CONSOB n. DEM/6064293		**2,629**	**3,013**
Fair value of the residual portion in portfolio of Ansaldo Energia	*17*	-	(138)
Hedging derivatives in respect of debt items	*17*	(2)	35
Non current financial receivables from Superjet	*12*	(48)	(65)
Group net debt (KPI)		**2,579**	**2,845**

21. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2016						
Current	3	83	84	96	470	**736**
Non-current	278	124	297	119	645	**1,463**
	281	**207**	**381**	**215**	**1,115**	**2,199**
Allocations	3	59	27	69	227	**385**
Uses	(5)	(58)	(64)	(19)	(84)	**(230)**
Reversals	-	-	(19)	(45)	(155)	**(219)**
Other changes	7	(27)	(180)	(12)	(6)	**(218)**
31 December 2016	**286**	**181**	**145**	**208**	**1,097**	**1,917**
Broken down as follows:						
Current	111	74	19	94	494	**792**
Non-current	175	107	126	114	603	**1,125**
	286	**181**	**145**	**208**	**1,097**	**1,917**
Allocations	-	11	26	56	191	**284**
Uses	(18)	(57)	(7)	(20)	(36)	**(138)**
Reversals	-	(4)	(2)	(44)	(83)	**(133)**
Other changes	(19)	(12)	(25)	(10)	(72)	**(138)**
31 December 2017	**249**	**119**	**137**	**190**	**1,097**	**1,792**
Broken down as follows:						
Current	109	51	19	92	522	**793**
Non-current	140	68	118	98	575	**999**
	249	**119**	**137**	**190**	**1,097**	**1,792**

The "Other provisions for risks and charges" mainly include:

- the provision for tax risks of €mil. 132 (€mil. 133 at 31 December 2016);
- the provision for litigation with employees and former employees of €mil. 36 (€mil. 37 at 31 December 2016);
- the provision for litigation underway of €mil. 50 (€mil. 70 at 31 December 2016);
- other provisions mainly related to critical issues on contracts especially in the *Aeronautics* sector.

With regard to risks, below is a summary of the criminal proceedings that are currently underway against a number of subsidiary companies or Leonardo itself, as well as certain former directors and executives,

concerning acts committed during the performance of their duties at subsidiary companies or at Leonardo itself, with specific reference to the events that occurred in 2017 and in early 2018:

- criminal proceedings are pending before the Court of Rome against, among others, the former Commercial Director of Leonardo, for the crime under Articles 110, 319, 319-*bis*, 320, 321 and 322-*bis* of the Italian Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the Government of Panama. On 22 September 2017 the Court of Rome handed down a judgment for dismissal of charge pursuant to Article 531 of the Italian Code of Criminal Procedure. An appeal was then filed against the aforesaid judgment. In relation to this case, the Public Prosecutor's Office of Rome also brought proceedings against Leonardo for administrative violations pursuant to Article 25 of Legislative Decree 231/2001; following the request for committal for trial submitted by the Public Prosecutor, the pre-trial hearing was set for 21 September 2017. At the end of this hearing the Court handed down a judgment for dismissal of charge pursuant to Article 425 of the Italian Code of Criminal Procedure;
- criminal proceedings are pending before the Court of Rome against one former executive of Leonardo, three former Directors and an executive of the Company (in relation to the position as director held in the then Finmeccanica Finance SA) for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61 no.11 of the Italian Criminal Code in relation, among other things, to personal loans requested to the company in the period 2008-2014;
- with reference to the immediate trial before the Court of Busto Arsizio in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian Government, it should be noted that on 9 October 2014 the Court sentenced the former Chairman and Chief Executive Officer of Leonardo S.p.A. (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland S.p.A. for having committed crimes under Article 2 of Legislative Decree 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009 – June 2010 tax period, while also ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil. 3.4) be confiscated from AgustaWestland S.p.A., considered in determining the provisions for risks. In the same decision, the Court found the defendants not guilty of having committed the crimes under Articles 110, 112, paragraph 1, 319, 321 and 322-bis, paragraph 2(2) of the Italian Criminal Code (corruption of foreign public officials), due to lack of evidence. An appeal was filed against the decision.

  On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo, and the former Chief Executive Officer of AgustaWestland S.p.A., for crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000. Subsequently, on 16 December 2016 the Supreme

Court repealed the judgment appealed against and referred it to another division of the Milan Court of Appeal for consideration of new proceedings. On 8 January 2018 the Milan Court of Appeal acquitted the defendants of the charges, setting the time limit for filing the related reasons at ninety days. In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding groundless, following the conclusion of investigations, the Company's involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio – in granting the motions put forth by the companies – imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland S.p.A. and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5.
As regards the investigations started by the Indian Judicial Authority (CBI) in February 2013 for the same facts referred to above, it should be noted that on 2 February 2018 a notice was served on AgustaWestland International Ltd., whereby the latter was invited to appear at the hearing to be held on 30 May 2018 before the Patiala House Court in New Delhi within the criminal proceedings brought therein against the aforesaid company and other entities and persons, including Leonardo Spa. However, it should be noted that no notice was served upon Leonardo;

- criminal proceedings are pending with the Public Prosecutor's Office of Busto Arsizio, against two former chief executive officers of AgustaWestland S.p.A., for crimes under Article 2 of Legislative Decree 74/2000, Articles 81 and 110 of the Italian Criminal Code and Articles 322-*bis*, 81 and 110 of the Italian Criminal Code, as well as against a former executive of the company, for crimes under Article 2 of Legislative Decree 74/2000 and Articles 81 and 110 of the Italian Criminal Code, in relation to the contractual relationships maintained by AgustaWestland S.p.A. with a foreign company under the agreements entered into with the Algerian Ministry of Defence; on 11 December 2017 the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio ordered the dismissal of the case as to the crimes referred to in Articles 322-*bis*, 81 and 110 of the Italian Criminal Code. It should be noted that within these proceedings, the notice of conclusion of the preliminary investigations was served in April 2016, limited to the offence under Article 2 of Legislative Decree 74/2000, against two former chief executive officers and a former executive of AgustaWestland S.p.A.. Following the request for committal for trial submitted by the Public Prosecutor, the pre-trial hearing was set at 25 July 2017 and subsequently adjourned on 23 January

2018. At the end of this hearing the Court handed down a judgment for dismissal of charge pursuant to Article 425 of the Italian Code of Criminal Procedure;

- criminal proceedings are pending before the Court of Naples concerning contracts awarded to the then-Elsag Datamat (now Selex ES S.p.A.) and to another company for the development, respectively, of the integrated traffic monitoring system of the city of Naples and video-surveillance systems for a number of municipalities within the Province of Naples. Under the proceedings, an employee of the then-Elsag Datamat is charged with crimes under Articles 353 and 326 of the Italian Criminal Code, the former Chief Executive Officer and an employee of the then-Elsag Datamat are charged with crimes under Articles 326, 353 and 416 of the Italian Criminal Code, as well as Selex ES for having committed administrative offences under Article 24-*ter,* paragraph 2, of Legislative Decree 231/2001. Furthermore Selex ES, following service of civil summons issued by the Court at the request of the civil-action party, also entered appearance in the civil action. The proceedings are now in the trial phase;
- criminal proceedings are pending against a former employee of the then-Elsag Datamat (now Selex ES S.p.A.) for crimes under Articles 426 and 449 of the Italian Criminal Code, in relation to the overflow of the Chiaravagna River which took place in Genoa on 5 October 2010, within which Selex ES S.p.A. has entered appearance in the civil action. On 7 March 2017 the Court of Genoa found him not guilty;
- two criminal proceedings are pending in relation to the awarding of the contract for the construction and operation of the Control System for Waste Tracking (SISTRI).

  Immediate trial – Bringing of civil action (Selex Service Management)

  In the immediate trial before the Court of Naples against certain suppliers and sub-suppliers of Selex Service Management, at the hearing held on 7 November 2013 the company brought a civil action against the defendants. The proceedings are now in the trial phase.

  Abbreviated trial - Bringing of civil action (Selex Service Management)

  In the summary trial before the Court of Naples against, among others, the former Chief Executive Officer of Seles Service Management, for crimes under Article 416, paragraphs 1, 2 and 5, of the Italian Criminal Code and Articles 81-paragraph 2, 110, 319, 320 and 321 of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/2000, the company brought a civil action against the defendants at the hearing held on 21 November 2013.

  On 18 July 2014, the Court sentenced the former Chief Executive Officer of Selex Service Management, in relation to the crimes charged to him and ordered him to pay damages to Selex Service Management. The aforesaid judgment was appealed against. On 5 January 2018 the Naples Court of Appeal handed down a judgment for plaintiff against the former Chief Executive Officer of the company;

- with reference to the proceedings pending before the Court of Rome against the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati (now in liquidation), concerning the awarding of work contracts on the part of ENAV S.p.A., on 16 October 2015 the Court sentenced the defendants for the crime under Article 8 of Legislative Decree 74/2000, while acquitting them of the crime under Article 646 of the Italian Criminal Code. With the same decision the Court also ordered the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati to repay damages in favour of the company (the aggrieved party acting in criminal proceedings). The aforesaid judgment was appealed against. The proceedings are still pending before the Rome Court of Appeal;

- criminal proceedings are pending before the Court of Rome concerning the informal tender for awarding a contract in the ICT area for operational, contract management and procurement services launched by the Prime Minister's Office in 2010 and awarded to a temporary business combine (RTI, *Raggruppamento Temporaneo di Imprese*) established by Selex Service Management and a company outside the Leonardo Group. It should be noted that on 1 July 2015 the Judge for Preliminary Hearings (GUP, *Giudice dell'Udienza Preliminare*) ordered the committal for trial of the former Chairman and Chief Executive Officer of Leonardo, for crimes under Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code, and of the former Chief Executive Officer of Selex Service Management for crimes under Articles 110, 319 and 321 of the Italian Criminal Code and Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code, as well as of Selex Service Management itself for violations under Article 25 of Legislative Decree 231/2001. Leonardo brought a civil action as an aggrieved party. The proceedings are now in the trial phase.
  In relation to these proceedings, the former Chief Operations Officer of Selex Service Management and former External Relations Officer of Leonardo were also charged with crimes under Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code. The former COO was acquitted and the former External Relations Officer of Leonardo was found guilty pursuant to Article 444 and ff. of the Italian Code of Criminal Procedure;

- criminal proceedings are pending before the Court of Rome involving the Chief Executive Officer of the then-Selex Systems Integration GmbH (now Selex ES GmbH), with respect to crimes under Articles 110 and 223, paragraph 2(2), of the Italian Criminal Code, with regard to Articles 216 and 219, paragraphs 1 and 2(1), of Royal Decree no. 267/1942, in connection with the bankruptcy of a supplier. The proceedings are now in the trial phase;

- criminal proceedings are being conducted by the Turin Public Prosecutor's Office concerning the provision of helicopters to the armed forces, police and other government entities on the part of AgustaWestland, involving certain directors of Leonardo (serving from 1994 to 1998) and certain

directors/executives of AgustaWestland (serving from 1999 to 2014) with respect to crimes under Article 449 of the Italian Criminal Code for violation of the regulations on the use of asbestos;

- criminal proceedings are pending against certain directors of the then-Breda Termomeccanica S.p.A., subsequently Ansaldo S.p.A., who served during the period from 1973 to 1985, charged with having committed the crimes under Article 589, paragraphs 1, 2 and 3, Article 40, paragraph 2, Article 41, paragraph 1 of the Italian Criminal Code, Article 2087 of the Italian Civil Code and Article 590, paragraphs 1, 2, 3, 4 and 5, of the Italian Criminal Code, for violation of the rules governing the prevention of occupational diseases - within which Leonardo has entered appearance in the civil action - on 15 June 2017 the Court of Milan handed down an acquittal judgment. The aforesaid judgment was appealed against;
- criminal proceedings are pending with the Public Prosecutor's Office of Vercelli against three former employees of AgustaWestland S.p.A. (who are currently working for Leonardo – Helicopters Division) and an employee of AgustaWestland Philadelphia Corporation for the crime referred to in Article 449 of the Italian Criminal Code in relation to Articles 428 and 589 of the Italian Criminal Code, with reference to the accident that occurred in Santhià on 30 October 2015.

Based upon the information gathered and the results of the analysis carried out so far, the Directors of Leonardo did not allocate any specific provisions. Any negative developments - which cannot be foreseen, nor determined to date - arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

* * * * * * * *

With regard to the provisions for civil, tax and administrative disputes, it is underlined that the Leonardo Group companies' operations regard industries and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity. Pursuant to the IFRSs, provisions have only been set aside for risks that are probable and for which the amount can be determined. No specific provisions have been set aside for certain disputes in which the Group is defendant as these disputes are reasonably expected to be settled, based on current knowledge, satisfactorily and without significantly impacting the Group. Of particular note are the following disputes:

- The litigation brought by Reid against Leonardo and Alenia Space (then ALS S.p.A., now So.Ge.Pa. S.p.A.) before the Court of Texas in 2001, whereby Reid claimed that the former Finmeccanica-Space Division failed to meet its obligations under the contract for the implementation of the Gorizont satellite programme. The dispute was settled in favour of the Group due to the lack of jurisdiction of the Court appealed to. On 11 May 2007, Reid served a compliant on Leonardo and So.Ge.Pa.,

whereby it brought new proceedings before the Court of Chancery in Delaware. In the new proceedings Reid once again submitted the same claims for damages as those included in the papers of the previous case developed before the Court of Texas, without, however, quantifying the amount of the alleged damage.
In appearing before the Court, Leonardo filed a Motion to Dismiss, asserting that the case was time-barred, the statute of limitation had run out and the Court of Delaware did not have jurisdiction. On 27 March 2008, the Court issued an order which rejected the plaintiff's claim as the case was time-barred. The opposite party challenged this decision before the Supreme Court of Delaware, which issued a decision on 9 April 2009, granting the motion and referring the case to the Court of Chancery for a decision on the other objection raised by Leonardo and So.Ge.Pa. concerning the lack of jurisdiction of the Court of Delaware. On 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Leonardo and So.Ge.Pa.. Therefore preliminary investigations were conducted, at the end of which Leonardo and So.Ge.Pa. filed a Motion for summary judgment whereby the Companies once again submitted the issue relating to the lack of jurisdiction of the Court of Delaware, while asking the Court to reject the plaintiff's petition because it was unfounded as of fact and as of right. By a judgment dated 31 January 2018, the Court of Delaware handed down a final judgment and granted the Motion for summary judgment. This ruling has become final and, therefore, the proceedings have been concluded;

- the litigation brought before the Santa Maria Capua Vetere Court in February 2011 by G.M.R. S.p.A., as the sole shareholder of Firema Trasporti against Leonardo and AnsaldoBreda, was settled with a ruling stating the lack of jurisdiction in favour of the Court of Naples. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits prescribed by law. On 23 June 2015, GMR then served a new writ of summons before the Court of Naples, whereby it once again submitted the same claims as those brought in the previous proceedings. More specifically, according to the plaintiff company, during the period in which Leonardo held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of the company itself and in the sole interest of the Leonardo Group. Moreover, even after the sale of the investment by Leonardo, Firema Trasporti was allegedly *de facto* subjected to an abuse of economic dependence from the abovementioned Group in performing the various agreements existing with AnsaldoBreda. Leonardo and AnsaldoBreda appeared before the court requesting that, on the merits, the plaintiff's claims be dismissed as clearly groundless, as a result of the non-fulfilment of any and all conditions required by law as requirements to bring an action against directors pursuant to Article 2497 of the Italian Civil Code. Moreover, the aforesaid companies also asked the Court to preliminarily hand down a ruling based on the principle of *lis alibi pendens* (i.e. the suit was pending elsewhere and then the claim was precluded) within these

new proceedings with respect to the pending proceedings, between the same parties, before the Naples Court of Appeal. The proceedings described above are still underway.

It is also recalled that Giorgio and Gianfranco Fiore also brought a third-party action against Leonardo and AnsaldoBreda within the proceedings brought by Firema Trasporti under Extraordinary Administration before the Court of Naples, against the engineers themselves and a number of other defendants. By an order dated 18 November 2014, the Court of Naples declared that both the claims submitted by Giorgio and Gianfranco Fiore against Leonardo and AnsaldoBreda and those submitted by G.M.R. (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and G.M.R. be dropped from action. On 17 June 2015 the judge responsible for preliminary investigations, who had been replaced in the meantime, reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and ordered the resumption of the discussion of the case, which is still underway. Before being reversed, the order for dropping a party from action had been challenged before the Naples Court of Appeal by G.M.R and, on a cross-appeal basis, by Leonardo and AnsaldoBreda. On 16 June 2017 the Court declared, in the light of the reversal referred to above, that both appeals were inadmissible, due to the subsequent lack of interest. On 18 January 2018 Leonardo and AnsaldoBreda appealed against this order before the Supreme Court and the proceedings are currently underway;

- the proceedings brought before the Court of Rome on 4 March 2013 by Mr Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei S.r.l. and of Società Progetto Cina S.r.l. against Leonardo in order to ask the Court to rule the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (a company which was a subsidiary of Leonardo until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built.

  As stated by the plaintiffs in the writ of summons, the above-mentioned settlement agreement was concluded based on unfair conditions, thus taking advantage of the distress of Mr Deiana and of the economic dependence of the plaintiff companies with respect to Ansaldo Industria. The claim was submitted against Leonardo, invoking the latter's general liability arising from the control exercised by it on Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. On 25 September 2013 Leonardo appeared before the Court, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court rejects the plaintiffs' claims as they are entirely groundless in

fact and in law. A minority shareholder of Società Progetto Cina S.r.l. and a minority shareholder of Janua Dei Italia S.r.l. intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. The case was retained for decision at the hearing held on 22 November 2017 and we are waiting for the judgment to be handed down;

- In the context of the investigation started by the Public Prosecutor's Office of Milan, by a ruling of 20 September 2011 the Court of Milan sentenced Ansaldo Energia for having committed the crime under art. 25 of Legislative Decree 231/01 and ordered the confiscation of an equivalent amount of €mil. 98.7 imposing also administrative penalties of €150,000. This sentence was also confirmed by the Court of Appeal of Milan with a ruling of 24 October 2013. Against this ruling the Company lodged an appeal with the Supreme Court which quashed this previous ruling on 10 November 2015 referring the case to another division of the same Court of Appeal. The latter, by a ruling of 28 November 2017, acquitted Ansaldo Energia setting the time limit for the filing of the related reasons at ninety days. From the filing of the reasons, should the legal requirements obtain, there would be 45 days for challenging the ruling. In respect of the guarantee granted for the lawsuit at issue, at the time of the disposal of the investment, Leonardo recorded in previous financial years a risk provision covering the amount being confiscated in 2011 and the amount of the administrative penalties (€mil. 99). This provision has been maintained in the financial statements pending the outcome of the proceedings

* * * * * * * *

Moreover, given their complexity, their cutting-edge technological content and the nature of the customers, the Group's long-term contracts are sometimes affected by disputes with customers in relation to the compliance of works with customer specifications and product performances. The Group adjusts the estimated contract costs for foreseeable issues, also taking into account the possible developments in the relevant disputes. With regard to contracts in progress affected by uncertainties and issues under discussion with customers, there are:

- the Sistri five-year contract, signed between the Ministry for the Environment, Land and Sea and Selex Service Management in December 2009 in relation to the design, operation and maintenance of the System for Waste Tracking until 30 November 2014, subject to the criminal proceedings described above.

  The performance of the contract was affected by a number of legislative acts aimed at postponing the time at which it was to come into force, at a drastic reduction of the categories of persons under an obligation to adopt the system, at introducing simplification and/or optimisation measures of the system and at indefinitely postponing the applicable penalties. Such legislative acts had a significant impact on the financial stability of the contract, which was further impaired by the non-payment of a large part of the amounts due to the company.

Moreover, on 8 May 2014 the then Italian Public Contracts Regulator (*Autorità di Vigilanza dei Contratti Pubblici*) concluded the procedure that it had opened in July 2012 by resolution no. 10 whereby the Regulator ruled that the award of the Sistri contract did not comply with Article 17 of the Italian Code of Public Contracts in the matter of contracts subject to a secrecy classification and ordered the papers of the case to be sent to the Ministry and to the Court of Auditors, as well as to the DDA (*Direzione Distrettuale Antimafia*) organised crime unit at the Naples Public Prosecutor's Office. The company appealed against this Resolution before the Lazio Regional Administrative Court, challenging its lawfulness under various aspects and the related proceedings are still underway. In the wake of this resolution, the Ministry blocked a number of payments owed to the Company and asked the Government Lawyers (*Avvocatura dello Stato*) for an opinion on the matter. Partial payments were made in December 2014 in response, we assume, to the confirmation by the Government Lawyers that the contract is valid and legal.

On 21 July 2014 Selex Service Management informed the Ministry that it was not its intention to continue with the operation of the system beyond the time-limit of 30 November 2014 set in the contract, forewarning that it would take steps to protect its rights in order to recoup the capital invested and obtain compensation for damages.

Afterwards, Law 116 of 11 August 2014 as amended which converted Law Decree 91 of 24 June 2014, by introducing certain significant changes to the wording of Article 11 of Law Decree 101 of 31 August 2013 (which had provided, *inter alia*, (i) that the payment of the amounts due would be subject to an audit of the fairness of the final costs throughout 30 June 2013 and to the availability of the amounts paid by users at that date and (ii) a financial rebalancing of the contract, which was then not carried out), extended the ultimate effective date of the contract with Selex Service Management until 31 December 2015, granting Selex Service Management the compensation for the production costs calculated up until the aforesaid date, subject to the fairness assessment by the Agency for Digital Italy (*Agenzia per l'Italia digitale*), to the maximum extent of the fees paid by the operators.

Said Law provided that by 30 June 2015 the Ministry for the Environment, Land and Sea had to start the procedures for the award of the service under concession in accordance with the provisions and methods set out in the Italian Code of Public Contracts.

Decree Law no. 244 of 30 December 2016 extended again the ultimate effective date of the contract with Selex Service Management "*until the date of entry of the new concessionaire (…) and anyway with the time limit of 31 December 2017.*" Law no. 205 of 27 December 2017 once again extended the term of the SISTRI service operation on the part of Selex Service Management until 31 December 2018.

Following the refusal of jurisdiction of the arbitration panel served on the company on 19 February 2015 by the Government Lawyers, the Company brought a legal action against the said Ministry

before the Court of Rome – Division specialising in business law. This action aims at seeking a declaration that the contract had expired on 30 November 2014.

By an order dated 17 February 2016, the Court granted the claims submitted by Selex Service Management pursuant to Article 186-*ter* of the Italian Code of Civil Procedure and ordered the Ministry to pay the plaintiff company an amount of €mil. 12, plus interest and VAT. By virtue of the abovementioned order, on 12 December 2016 the Ministry paid Selex Service Management an amount of €mil 17. At the hearing held on 24 January 2018 the Parties specified their conclusions and the case was retained for decision.

- the supply contract for 12 helicopters signed between AgustaWestland International Ltd and the Indian Ministry of Defence in 2010, worth around €mil. 560 in total, which is the object of the above described criminal proceedings. On 15 February 2013 the Indian Ministry of Defence sent a Show Cause Notice asking the company to provide information on the bribery alleged to have occurred in violation of the contract and the Pre-Contract Integrity Pact. In the letter, in addition to notifying the company that it was suspending payments, the Indian government suggested that it could possibly cancel the contract if the company was unable to provide proof that it was not involved in the alleged corrupt conduct. The company promptly provided the information and documentation requested to the Indian authorities and also invited the Ministry to initiate bilateral discussions to settle the matter. Not having received any indication of interest on the part of the Indian Ministry in beginning a dialogue, on 4 October 2013 AgustaWestland International Ltd started arbitration proceedings provided for by the contract in New Delhi. On 21 October 2013, the Indian Ministry served the second Show Cause Notice requesting further documents and once again claiming violation of the Pre-Contract Integrity Pact. In a letter sent on that date, the Ministry also challenged the applicability of the arbitration clause contained in the contract. On 25 November 2013, the company appointed its own arbitrator, the Hon. Justice B. N. Srikrishna, a former justice of the Indian Supreme Court, inviting the Ministry to designate its own arbitrator within the next 60 days.

  On 1 January 2014, the Indian Ministry of Defence formally communicated its decision to cancel/terminate/rescind the contract, and simultaneously notified the company that it had taken steps to execute the guarantees and counter-guarantees given in relation to the aforesaid contract in the total amount of €mil. 306. On the same date, the Indian Ministry, altering its stance as expressed on 21 October 2013, appointed its own arbitrator, the Hon. Justice B.P. Jeevan Reddy, a former judge of the Supreme Court of India.

  On 7 August 2014 the International Chamber of Commerce of Paris appointed William W. Park, Professor of Law at the Boston University, to act as the third arbitrator.

  On 28 October 2014, the Indian Ministry of Defence filed a defence brief raising a number of preliminary objections challenging, among other things, whether the case could be referred to

arbitration. At the hearing of 5 April 2017, the Arbitration Board requested AgustaWestland International Ltd and the Indian Ministry to file their defence papers, reserving to hand down its decision on the preliminary exceptions raised. On 29 September 2017, the company filed its own Statement of Claim whereby it specified its claims restating the reasonableness of the same, also in light of the acquittal rulings handed down by the Court of Appeal of Milan on 8 January 2018 in the context of the trial against the former Chairman and Chief Executive Officer of Leonardo S.p.a. and against the former Chief Executive Officer of AgustaWestland S.p.A.. On 28 February 2018, the Indian Ministry filed its Statement of Defence whereby it requested the rejection of the plaintiff's claim and asked a as counterclaim that AgustaWestland International Ltd be ordered to pay damages quantified in €mil. 514.

It should be recalled that, on 23 May 2014, in the framework of the proceedings pursuant to Article 700 of the Italian Code of Civil Procedure brought by AgustaWestland S.p.A. and AgustaWestland International Ltd to prevent the enforcement of the guarantees, the Court of Milan - in partial acceptance of the complaint submitted by the Indian Ministry of Defence - partially amended the order it had previously handed down and revoked its injunction with regard to the whole amount of the Performance Bond equal to about €mil. 28 and up to an amount of about €mil. 200 as regards the Advance Bank Guarantees, as only about €mil. 50 of the guarantees cannot be enforced (corresponding to the reduction that, according to the contract, was to be made from the Advance Bank Guarantees after the customer accepted three of the helicopters).

As to the portion of the delivery already made (3 helicopters already delivered, plus spare parts and support), which is only partially covered by the advances received and not subject to the enforceability of the guarantees, the recoverability of the remaining balance as at 31 December 2017, as well as the recognition of any compensation to be paid or received, are dependent upon the settlement of the overall lawsuit.

22. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2017			31 December 2016		
	Liabilities	**Assets**	**Net**	**Liabilities**	**Assets**	**Net**
Severance pay provision	329	-	329	340	-	340
Defined-benefit plans	199	335	(136)	338	367	(29)
Defined contribution plans	26	-	26	24	-	24
	554	**335**	**219**	**702**	**367**	**335**

The net liabilities for defined-benefit retirement plans are broken down below:

	31 December 2017	31 December 2016
GBP area	(254)	(168)
Euro area	6	6
USD area	91	114
Other	21	19
	(136)	**(29)**

Below is a breakdown of defined-benefit plans and statistical information regarding the excess (deficit) of the plans:

	31 December 2017	31 December 2016
Present value of obligations	(2,783)	(2,802)
Fair value of plan assets	2,919	2,831
Plan deficit	**136**	**29**
of which, related to:		
- net liabilities	(199)	(338)
- net assets	335	367

Changes in the defined-benefit plans are shown below:

31 December 2017	**Present value of obligations**	***Fair value of plan assets***	**Net liability defined benefit plans**
Opening balance	2,802	2,831	(29)
Costs of benefits paid	53		53
Net interest expense	74	74	-
Remeasurement	53	133	(80)
Actuarial losses (gains) through equity - demographic assumption	*(43)*		*(43)*
Actuarial losses (gains) through equity - financial assumptions	*96*		*96*
Actuarial losses (gains) through equity resulting from adjustments based on the experience		*23*	*(23)*
Expected return on plan assets (no interest)		*110*	*(110)*
Curtailments	-	-	-
Contributions paid	(14)	57	(71)
Contributions from other plan participants	11	11	-
Exchange rate differences	(118)	(112)	(6)
Benefits paid	(76)	(75)	(1)
Other changes	(2)	-	(2)
Closing balance	**2,783**	**2,919**	**(136)**
of which, related to:			
- net liabilities	2,019	1,820	199
- net assets	764	1,099	(335)

31 December 2016	**Present value of obligations**	***Fair value of plan assets***	**Net liability defined benefit plans**
Opening balance	2,613	2,576	37
Costs of benefits paid	57	-	57
Net interest expense	86	85	1
Remeasurement	561	623	(62)
Actuarial losses (gains) through equity - demographic assumption	*(15)*	-	*(15)*
Actuarial losses (gains) through equity - financial assumptions	*600*	-	*600*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	*(23)*	*10*	*(33)*
Expected return on plan assets (no interest)	*(1)*	*613*	*(614)*
Curtailments	(122)	(106)	(16)
Contributions paid	-	68	(68)
Contributions from other plan participants	13	13	-
Exchange rate differences	(344)	(367)	23
Benefits paid	(62)	(61)	(1)
Other changes	-	-	-
Closing balance	**2,802**	**2,831**	**(29)**
of which, related to:			
- net liabilities	2,104	1,766	338
- net assets	698	1,065	(367)

The amount recognised in the income statement for defined-benefit plans (including severance pay) was calculated as follows:

	2017	**2016**
Current service costs	69	58
Past service costs	(15)	-
Curtailments and settlements	-	(16)
Costs booked as "personnel expenses "	**54**	**42**
Net interest expense	3	5
Costs booked as "financial expenses "	**3**	**5**
	57	**47**

Changes in severance pay provision are shown below:

	31 December 2017	***31 December 2016***
Opening balance	*340*	*360*
Costs of benefits paid	*1*	*1*
Net interest expense	*3*	*4*
Remeasurement	4	8
Actuarial losses (gains) through equity - demographic assumption	-	-
Actuarial losses (gains) through equity - financial assumptions	*5*	*8*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	*(1)*	-
Benefits paid	*(20)*	*(32)*
Other changes	*1*	*(1)*
Closing balance	**329**	**340**

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of severance pay provision that has maintained the nature of defined-benefit plan are as follows:

	Severance pay provision		Defined-benefit plans	
	31 December 2017	*31 December 2016*	*31 December 2017*	*31 December 2016*
Discount rate (annual)	0.9%	1.1%	2,5%-3,15%	2,7%-3,2%
Rate of salary increase	n.a.	n.a.	3,3%-3,5%	3,55%-4,3%
Inflation rate	1.5%	1.5%	2,2%-5%	2,2%-5%

The discount rate utilised to discount the defined benefits plans is determined with reference to expected returns of the AA-rated bonds.

The sensitivity analysis for each significant actuarial assumption, which shows the effects on bonds in absolute value, is as follows:

	Severance pay provision				Defined-benefit plans			
	31 December 2017		31 December 2016		31 December 2017		31 December 2016	
	-0.25%	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	5	(5)	6	(6)	98	(98)	109	(109)
Inflation rate	(4)	4	(3)	3	(69)	69	(79)	79

The average duration of the severance pay is 9 years while that of the other defined-benefit plans is 18 years.

The estimate of the contributions to be paid in 2018 related to defined-benefit plans is about €mil. 57.

As regards the strategies of correlation of assets and liabilities in defined-benefit plans, there is the prevalence of investing in diversified assets in order to limit the negative impact, if any, on the total return on the plan assets. In particular, there is the tendency to invest in shares, investment funds and bonds.

Assets of defined-benefit plans include:

	31 December 2017	31 December 2016
Cash and cash equivalents	159	118
Shares and investment funds	1,214	1,501
Debt instrument	1,331	1,115
Real properties	14	30
Derivatives	201	67
	2,919	**2,831**

23. CURRENT AND NON-CURRENT LIABILITIES

	31 December 2017		31 December 2016	
	Non-current	Current	Non-current	Current
Employee obligations	48	323	47	322
Deferred income	105	79	114	93
Amounts due to social security institutions	-	168	-	164
Payables to MED (Law no. 808/85)	262	109	307	106
Payables to MED for royalties (Law no. 808/85)	181	45	196	31
Other liabilities (Law no. 808/85)	222	-	190	-
Indirect tax liabilities	-	102	-	119
Derivatives	-	234	-	337
Other liabilities	249	706	301	868
Other payables to related parties (Note 35)	-	134	-	166
	1,067	**1,900**	**1,155**	**2,206**

The payables to the Ministry for Economic Development (MED) relate to monopoly costs accrued under Law 808/1985 on national security and similar projects, as well as payables for grants received from MED for the development of programmes not related to national security and similar projects eligible for benefits under Law 808/1985.

“Other liabilities (Law 808/1985)” include the difference between the monopoly costs charged for the national security programmes and the amount actually due based on agreed repayment ratios.

“Other payables” include, in particular, the non-current payable due to Bell Helicopter amounting to €mil. 257 (€mil. 275 at 31 December 2016), deriving from the acquisition of 100% of the AW609 programme. This amount also includes the reasonably estimated potential consideration due to Bell Helicopter based on the commercial success of the programme.

24. TRADE PAYABLES

	31 December 2017	31 December 2016
Suppliers	2,882	2,762
Trade payables to related parties (Note 35)	73	76
	2,955	**2,838**

25. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Group is party to a number of operating leases as both lessor and lessee primarily for the purposes of granting or acquiring the use of plant and equipment. Below are the non-cancellable minimum future payments and collections relating to operating lease contracts:

	31 December 2017		31 December 2016	
	Operat. lease as lessee	*Operat. lease as lessor*	*Operat. lease as lessee*	*Operat. lease as lessor*
Within 1 year	69	8	68	9
2 to 5 years	164	8	191	10
Beyond 5 years	104	1	141	4
	337	**17**	**400**	**23**

Guarantees

The Group had the following outstanding guarantees:

	31 December 2017	31 December 2016
Guarantees in favour of third parties	17,174	17,371
Other unsecured guarantees given to third parties	594	844
Unsecured guarantees given	**17,768**	**18,215**

The item mainly includes guarantees given to third parties, banks and insurance companies as well as commitments in favour of lenders, tax authorities and customers.

26. REVENUE

	2017	2016
Revenue from sales	6,540	6,752
Revenue from services	3,016	3,232
Change in work in progress	105	(61)
Revenue from related parties (Note 35)	1,866	2,079
	11,527	**12,002**

The trends in revenue by business segment are described in the section related to sectors' performance in the Report on Operations.

27. OTHER OPERATING INCOME (EXPENSES)

	2017			2016		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Grants for research and development costs (*)	24	-	24	25	-	25
Other operating grants	11	-	11	17	-	17
Gains/losses on sales of intangible asset, property, plant and equipment	1	-	1	10	(2)	8
Reversals (accruals) to provisions for risks, final losses on orders and impairment of receivables	317	(304)	13	440	(396)	44
Exchange rate difference on operating items	171	(174)	(3)	190	(178)	12
Insurance reimbursements	3	-	3	4	-	4
Restructuring costs	2	(14)	(12)	-	(37)	(37)
Indirect taxes	-	(36)	(36)	-	(34)	(34)
Other operating income (expenses)	36	(55)	(19)	51	(82)	(31)
Other operating income (expenses) from/to related parties (Note 35)	4	-	4	5	(1)	4
	569	**(583)**	**(14)**	**742**	**(730)**	**12**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil 5 (€mil. 65 at 31 December 2016), are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 13) equal to €mil. 83 (€mil. 58 at 31 December 2016).

Restructuring costs include both costs incurred and accruals to the "Restructuring provision". Costs and accruals relating to personnel are found under personnel expense (Note 28).

28. PURCHASES AND PERSONNEL EXPENSES

	2017	2016
Purchase of materials from third parties	3,843	3,869
Change in inventories of raw materials	(53)	228
Costs for purchases from related parties (Note 35)	16	63
Purchases	**3,806**	**4,160**
Services rendered by third parties	3,157	3,150
Costs of rents and operating leases	108	105
Royalties	6	8
Software fees	19	19
Rental fees	19	20
Services rendered by related parties (Note 35)	339	108
Services	**3,648**	**3,410**
Wages and salaries	2,324	2,391
Social security contributions	484	493
Costs related to defined-contribution plans	107	108
Costs related to severance pay provisionand other defined-benefit plans (Note 22)	54	42
Employee disputes	2	2
Restructuring costs - net	39	43
Other personnel expenses	101	79
Personnel expenses	**3,111**	**3,158**
Change in finished goods, work in progress and semi-finished products	***(1)***	***170***
Internal work capitalised	***(289)***	***(349)***
Total purchases and personnel expenses	**10,275**	**10,549**

Overall restructuring costs were equal to €mil. 56 (€mil. 102 in 2016), essentially in relation to the *Electronics, Defence & Security Systems* (€mil. 30) and *Other Activities* (€mil. 25).

In terms of personnel expense, this item decreased by €mil. 47 due to the impact related to the change in the average workforce and to the decrease in restructuring costs.

The average workforce in 2017 significantly decreased (no. 954 units) in comparison with FY 2016 mainly due to the *Helicopters* (no. 587 units, of which no. 137 units in Italy) and *Electronics, Defence and Security Systems* (no. 321 units, of which 101 in Italy).
The decrease was due to the streamlining and efficiency improvement processes, mainly attributable to the sectors of *Helicopters* (no. 418 units, of which no. 887 units in Italy) and *Electronics, Defence and Security Systems* (no. 84 units).

	Average Workforce			**Total Workforce**		
	31 December 2017	**31 December 2016**	**Change**	**31 December 2017**	**31 December 2016**	**Change**
Senior managers (*)	1,125	1,143	(18)	1,131	1,134	(3)
Middle managers	5,346	5,372	(26)	5,467	5,301	166
Clerical employees	26,188	26,680	(492)	26,489	26,915	(426)
Manual labourers (**)	12,196	12,614	(418)	12,047	12,281	(234)
	44,855	**45,809**	**(954)**	**45,134**	**45,631**	**(497)**

(*) Includes pilots

(**) Includes senior manual labourers

29. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2017		2016	
Amortisation of intangible assets		258		335
Development costs	*62*		*62*	
Non-recurring costs	*44*		*113*	
Acquired through business combinations	*98*		*97*	
Concessions, licences and trademarks	*16*		*14*	
Other intangible assets	*38*		*49*	
Depreciation of property, plant and equipment and investment properties		308		365
Impairment of goodwill		-		-
Impairment of operating receivables		95		57
Impairment of other assets		15		21
		676		**778**

The impairment of other assets refers to the writedown of development costs and of tangible assets mainly related to the *Helicopters* sector.

30. FINANCIAL INCOME AND EXPENSE

Below is a breakdown of financial income and expense:

	2017			2016		
	Income	Expenses	Net	Income	Expenses	Net
Interest	5	(252)	(247)	5	(259)	(254)
Premiums received (paid) on IRS	6	(8)	(2)	6	(6)	-
Commissions on borrowings	-	(14)	(14)	-	(14)	(14)
Other commissions	1	(5)	(4)	2	(9)	(7)
Income (expense) from equity investments and securities	-	(8)	(8)	14	(52)	(38)
Fair value gains (losses) through profit or loss	18	(22)	(4)	48	(11)	37
Premiums (paid) received on forwards	38	(52)	(14)	32	(44)	(12)
Exchange rate differences	141	(157)	(16)	336	(318)	18
Interest cost on defined-benefit plans (Note 22)	-	(3)	(3)	-	(5)	(5)
Financial income (expense) - related parties (Note 35)	10	(4)	6	33	(5)	28
Other financial income and expense	16	(163)	(147)	17	(92)	(75)
	235	**(688)**	**(453)**	**493**	**(815)**	**(322)**

The deterioration of net financial expense compared to 2016 is strongly affected by the costs associated with the buy-back of a part of the Group's bonds completed during 2017 (€mil. 97). The change is also due to the effect of the exchange rate gains of which the financial year 2016 had benefitted that are also reflected in the fair value of derivatives: the two items generate an overall deterioration €mil. 75. More specifically:

- net interest expenses decreased by €mil. 7. The item includes €mil. 240 (€mil. 246 in 2016) related to interest on bonds;
- the expenses arising from the application of fair value break down as follows:

	2017			2016		
	Income	Expenses	Net	Income	Expenses	Net
Exchange rate swap	-	(1)	(1)	1	-	1
Interest rate swaps	-	(1)	(1)	-	(1)	(1)
Ineffective portion of hedging swap	18	(17)	1	38	(10)	28
Embedded derivatives	-	(3)	(3)	9	-	9
	18	**(22)**	**(4)**	**48**	**(11)**	**37**

- costs from equity investments and securities are related to the capital loss arising from the disposal of the minority stake in Atitech. On the contrary, the comparative data included the net effect from the sale of certain businesses of Leonardo DRS and capital losses related to Superjet, net of the capital gain from the disposal of Fata;
- other net financial expenses include the above-mentioned charges deriving from the buy-back transactions. They also encompass the effect from the discount-back of non-current liabilities and assets.

31. INCOME TAXES

Income taxes can be broken down as follows:

	2017	2016
IRES (corporate income tax)	(7)	(14)
IRAP (reg. tax on production)	(17)	(23)
Other income taxes (foreign)	(44)	(65)
Tax related to previous periods	7	4
Provisions for tax disputes	(11)	(36)
Deferred tax - net	(51)	(24)
	(123)	**(158)**

The balance of deferred tax is adversely affected (€mil. 50) by the US tax reform as a result of which the amount of deferred tax assets recognised by the Group against tax losses and temporary differences in the USA was realigned based on the new tax rates, which were reduced in relation to federal taxes from 35% to 21%.

In 2017 the tax rate decreased as follows mainly as a result of the reduction in the *corporate tax rate* on income produced in Italy (from 27.5% to 24%).

	2017	2016	
Pre-tax resukt	**397**	**665**	***a***
Total taxes	123	158	
Accruals for tax litigation	(11)	(36)	
Previous years' taxes	7	4	
Effects of US *Tax reform*	(50)		
	69	**126**	***b***
Tax rate	**17.4%**	**18.9%**	***b/a***

Deferred taxes and related receivables and payables at 31 December 2017 were the result of the following temporary differences. In this regard, we point out that part of the deferred tax assets relate to tax losses valued on the basis of the taxable income envisaged in the companies' plans, in particular €mil. 131 is related to the tax consolidation mechanism (about €bil. 0.7 of unrecognised losses).

	2017	2016
Deferred tax assets on tax losses	(12)	12
Property, plant and equipment and intangible assets	23	31
Financial assets and liabilities	-	(3)
Severance and retirement benefits	(4)	(8)
Provision for risks and impairment	(27)	(47)
Effect of change in tax rate	(50)	(7)
Other	19	(2)
Deferred taxes recognised through profit or loss	**(51)**	**(24)**

	31 December 2017			31 December 2016		
	Balance sheet			Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	244	-	244	311	-	311
Property, plant and equipment and intangible assets	59	205	(146)	77	239	(162)
Severance and retirement benefits	8	24	(16)	8	27	(19)
Financial assets and liabilities	-	-	-	-	-	-
Provision for risks and impairment	593	-	593	646	-	646
Other	89	73	16	97	105	(8)
Offsetting	(5)	(5)	-	(38)	(38)	-
Deferred taxes recognised through balance sheet	**988**	**297**	**691**	**1,101**	**333**	**768**
Cash-flow hedge derivatives	20	3	17	31	1	30
On actuarial gains and losses	59	52	7	99	57	42
Deferred taxes recognised through equity	**79**	**55**	**24**	**130**	**58**	**72**
	1,067	**352**	**715**	**1,231**	**391**	**840**

32. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In 2017 and 2016 there were no discontinued operations.

The figure related to assets held for sale included at 31 December 2017 and at 31 December 2016 the value of the fixed assets owned by Leonardo Global Solutions, under disposal.

33. EARNINGS PER SHARE

Earnings (Losses) per share (hereinafter “earnings per share” or “EPS”) are calculated as follows:

- for basic EPS, by dividing net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period less treasury shares;
- for diluted EPS, by dividing net profit by the average number of ordinary shares and the average number of ordinary shares potentially deriving from the exercise of all the option rights for stock-option plans less treasury shares.

	2017	2016
Average shares outstanding during the reporting period (in thousands)	574,425	574,543
Earnings for the period (excluding non-controlling interests) (€ millions)	272	505
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	272	505
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	-	-
Basic and Diluted EPS (€)	**0.474**	**0.879**
Basic and Diluted EPS from continuing operations (€)	*0.474*	*0.879*
Basic and Diluted EPS from discontinued operations (€)	*n.a*	*n.a*

34. CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
Net result	274	507
Amortisation, depreciation and impairment losses	676	778
Share of profits/(losses) of equity-accounted investees	(288)	(300)
Income taxes	123	158
Cost of Severance pay provision and other defined-benefit plans	54	42
Net financial expense /(income)	453	322
Net allocations to the provisions for risks and inventory write-downs	255	191
Other non-monetary items	42	(7)
	1,589	**1,691**

Costs of pension plans include the portion of costs relating to defined-benefit pension plans that is recognised as a personnel expense (the portion of costs relating to interest is carried among net financial expense).

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and foreign currency translation differences, are as follows:

	2017	2016
Inventories	(485)	185
Contract work in progress and progress payments and advances from customers	371	191
Trade receivables and payables	62	(605)
Change in trade receivables/payables, work in progress/progress payments and inventories	**(52)**	**(229)**

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and foreign currency translation differences, are as follows:

	2017	2016
Payment of pension plans	(91)	(102)
Changes in provisions for risks and other operating items	(332)	(243)
Change in other operating assets and liabilities and provisions for risks and charges	**(423)**	**(345)**

35. RELATED PARTY TRANSACTIONS

Related party transactions are carried out at arm’s length, as is settlement of the interest-bearing receivables and payables when not governed by specific contractual conditions. The relevant financial statements amounts are shown below. The statement of cash flows presents the impact of related party transactions on cash flows.

RECEIVABLES at 31 December 2017	**Non-current loans and receivables**	**Other non-current receivables**	**Current loans and receivables**	**Trade receivables**	**Other current receivables**	**Total**
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10				2		2
Associates						
NH Industries SAS				183		183
Eurofighter Jagdflugzeug GmbH				62		62
Iveco - Oto Melara Scarl				12		12
Macchi Hurel Dubois SAS				12		12
AgustaWestland Aviation Services LLC				13		13
Advanced Air Traffic Systems SDH BHD				10		10
Other with unit amount lower than €mil. 10				15		15
Joint Venture						
GIE ATR				53		53
Joint Stock Company Helivert				38		38
MBDA SAS				21		21
Thales Alenia Space SAS			105	27		132
Telespazio S.p.A.				12		12
Rotorsim USA LLC						
Other with unit amount lower than €mil. 10			2	5	5	12
Consortiums						
Other with unit amount lower than €mil. 10			3	15		18
Companies subject to the control or considerable influence of the MEF						
ENAV S.p.A.				17		17
Fintecna S.p.A.				56		56
Other				16		16
Total	**-**	**-**	**110**	**569**	**5**	**684**
% against total for the period	***n.a.***	***n.a.***	***70.1%***	***17.9%***	***2.1%***	

RECEIVABLES at 31 December 2016	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10				10		10
Associates						
NH Industries SAS				198		198
Eurofighter Jagdflugzeug GmbH				76		76
Iveco - Oto Melara Scarl				36		36
Macchi Hurel Dubois SAS				20		20
Orizzonte - Sistemi Navali S.p.A.				23		23
Other with unit amount lower than €mil. 10			1	33	1	35
Joint Venture						
GIE ATR				61		61
Joint Stock Company Helivert				53		53
MBDA SAS				22	1	23
Thales Alenia Space SAS			34	21	1	56
Telespazio S.p.A.	1		2	12		15
Rotorsim USA LLC				10		10
Other with unit amount lower than €mil. 10				2	1	3
Consortiums						
Other with unit amount lower than €mil. 10			3	15		18
Companies subject to the control or considerable influence of the MEF						
ENAV S.p.A.				29		29
Poste Italiane S.p.A.				16		16
Fintecna S.p.A.				12		12
Other				18		18
Total	**1**	**0**	**40**	**667**	**4**	**712**
% against total for the period	**0.036**	**0**	**0.408**	**0.195**	**0.017**	

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

PAYABLES at 31 December 2017	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10				2		2	
Associates							
Eurofighter Jagdflugzeug GmbH			19	11		30	
Other with unit amount lower than €mil. 10			3	14	9	26	
Joint Venture							
MBDA SAS			648	2	2	652	47
GIE ATR				2	111	113	
Rotorsim Srl				14		14	
Telespazio S.p.A.			31	2	6	39	201
Other with unit amount lower than €mil. 10				6		6	
Consortiums							
Other with unit amount lower than €mil. 10				4		4	
Companies subject to the control or considerable influence of the MEF							
Enel S.p.A.				14		14	
Other				2	6	8	
Total	**-**	**-**	**701**	**73**	**134**	**908**	**248**
% against total for the period	***n.a.***	***n.a.***	***49.5%***	***2.5%***	***8.4%***		

PAYABLES at 31 December 2016	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10			4	5		9	
Associates							
Eurofighter Jagdflugzeug GmbH			38			38	
Other with unit amount lower than €mil. 10			4	25	5	34	
Joint Venture							
MBDA SAS			440	7	1	448	47
GIE ATR				2	148	150	
Rotorsim USA LLC				14		14	
Telespazio S.p.A.			14	1	5	20	228
Other with unit amount lower than €mil. 10				11		11	
Consortiums							
Other with unit amount lower than €mil. 10				2	1	3	
Companies subject to the control or considerable influence of the MEF							
Other			2	9	6	17	
Total	**-**	**-**	**502**	**76**	**166**	**744**	**275**
% against total for the period	***n.a.***	***n.a.***	***39.6%***	***2.7%***	***9.3%***		

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

Trade receivables are commented on later, along with revenue from related parties.

Current loans and receivables, trade payables and other current payables to related parties mainly refer to receivables and payables from/to joint ventures.

Loans and borrowings from related parties include in particular the amount of €mil. 648 (€mil. 440 at 31 December 2016) due by Group companies to the joint venture MBDA and payables of €mil. 19 (€mil. 38 at 31 December 2016) to Eurofighter, 21% owned. As regards the latter, under a cash pooling agreement its surplus cash and cash equivalents are distributed among the partners.

Income statement transactions at 31 December 2017	**Revenue**	**Other operating income**	**Costs**	**Other operating costs**	**Financial income**	**Financial expenses**
Unconsolidated subsidiaries						
Cardprize TWO Ltd			11			
Other with unit amount lower than €mil. 10			2			
Associates						
Eurofighter Jagdflugzeug GmbH	621		207			
NH Industries SAS	275					
Orizzonte - Sistemi Navali S.p.A.	176					
Iveco-Oto Melara Scarl	70					
Macchi Hurel Dubois SAS	53					
AgustaWestland Aviation Services LLC	14					
Advanced Air Traffic Systems SDH BHD	17					
Other with unit amount lower than €mil. 10	24		11			1
Joint Venture						
GIE ATR	236					
MBDA SAS	72					
Thales Alenia Space SAS	58					
Rotorsim Srl			22			
Other with unit amount lower than €mil. 10	10	4	25		1	3
Consortiums						
Consorzio G.e.i.e. Eurotorp	30					
Other with unit amount lower than €mil. 10	2		2			
Companies subject to the control or considerable influence of the MEF						
ENAV S.p.A.	31					
ENEL S.p.A.			74			
Fintecna S.p.A.	66					
Poste Italiane S.p.A.	32					
Cassa Depositi e prestiti Equity					9	
Other	79		1			
Total	**1866**	**4**	**355**	**0**	**10**	**4**
% against total for the period	***0.162***	***0.007***	***0.035***	***0***	***0.043***	***0.006***

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

Income statement transactions at 31 December 2016	Revenue	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Cardprize TWO Ltd			11			
Other with unit amount lower than €mil. 10	1		6			
Associates						
Eurofighter Jagdflugzeug GmbH	703					
NH Industries SAS	343					
Orizzonte - Sistemi Navali S.p.A.	206					
Iveco-Oto Melara Scarl	123					3
Macchi Hurel Dubois SAS	73					
AgustaWestland Aviation Services LLC	12					
Atitech Manufactoring Srl			16			
Altre di importo unitario inferiore a €Mil. 10	31		17	1		
Joint Venture						
GIE ATR	331		62			
MBDA SAS	51					2
Thales Alenia Space SAS	69					
Superjet International S.p.A.	21				2	
Telespazio S.p.A.					1	
Rotorsim Srl		3	16			
Other with unit amount lower than €mil. 10	11	1	16			
Consortiums						
Other with unit amount lower than €mil. 10	4		2			
Companies subject to the control or considerable influence of the MEF						
ENAV S.p.A.	37					
Poste Italiane S.p.A.	29					
Cassa Depositi e Prestiti Equity					30	
ENI S.p.A.			16			
Other	34	1	9			
Total	**2,079**	**5**	**171**	**1**	**33**	**5**
% against total for the period	***17.3%***	***0.7%***	***1.6%***	***0.1%***	***6.7%***	***0.6%***

(*) Consortia over which the Group exercises considerable influence

The most significant trade receivables and revenues, in addition to those from joint ventures, are related to:

- Eurofighter in the scope of the EFA aeronautical programme;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (VBM Freccia for the Italian Army);
- NHIndustries in the scope of the NH90 helicopter programme;
- Orizzonte - Sistemi Navali for the FREMM programme;
- Macchi Hurel Dubois for the commercialisation of nacelles.

36. FINANCIAL RISK MANAGEMENT

The Leonardo Group is exposed to financial risks associated with its operations, specifically related to these types of risks:

- interest-rate risks, related to the Group's financial exposure;

- exchange-rate risks, related to operations in currencies other than the reporting currency;
- liquidity risks, relating to the availability of financial resources and access to the credit market;
- credit risks, resulting from normal commercial transactions or financing activities.

Leonardo carefully and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Interest rate risk

The Leonardo Group is exposed to interest rate risk on borrowings. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related borrowing costs.

To that regard and with reference to borrowings equal to €mil. 4,682 at 31 December 2017 the fixed-rate percentage amounted to around 81%, while the floating-rate percentage is around 19%.

Therefore, at the date of these financial statements, the interest-rate risk exposure is moderate since the derivatives to hedge floating interest rates terminated or have been completed earlier.

At 31 December 2017, the outstanding transactions were the following:

- *interest-rate swap fixed/floating/fixed rate for €mil. 200* related to the issue due 2018 (totalling €mil. 500), which guarantees a fixed rate of 5.30% compared to the bond issue rate of 5.75%. Therefore, the average interest rate related to this issue is 5.57%;
- *options for €mil. 200* (CAP and Knock out at 4.20% in relation to the 6-month Euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost of the transaction, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group’s strategy providing for a return to the floating rate, or against an unfavourable floating-rate indebtedness.

The detail of the main interest-rate swaps at 31 December 2017 is as follows:

	Notional		Underlying (maturity)	*Fair value 01.01.2017*	Changes			*Fair value 31.12.2017*
	2017	**2016**			**Income**	**Expense**	**CFH Reserve**	
IRS fixed/floating/fixed	200	200	Bond 2018	3	-	-	-	3
Options	200	200	Bond 2025	(5)			-	(5)
Total notional	**400**	**400**		**(2)**	**-**	**-**	**-**	**(2)**

	Notional		Underlying (maturity)	*Fair value 01.01.2016*	Changes			*Fair value 31.12.2016*
	2016	**2015**			**Income**	**Expense**	**CFH Reserve**	
IRS fixed/floating/fixed	200	200	Bond 2018	3	-	-	-	3
Options	200	200	Bond 2025	(4)		(1)	-	(5)
Total notional	**400**	**400**		**(1)**	**-**	**(1)**	**-**	**(2)**

The table below shows the effects of the sensitivity analysis for 2017 and 2016 deriving from the 50-basis-point shift in the interest-rate at the reporting date:

Effect of shift of interest rate curve	**31 December 2017**		**31 December 2016**	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	5	(6)	3	(3)
Equity (*)	5	(6)	3	(3)

(*) Defined as sum of earnings and cash-flow hedge reserve

Exchange rate risk

<u>*Transaction risk*</u>

Due to its commercial operations, the Group’s companies are exposed to the risk of fluctuations in the currencies related to those cases in which orders, revenue and costs are expressed in currencies other than the functional one used in the financial statements (specifically, US dollars and, to a lesser extent, the pound sterling).

Exchange rate risk management is governed by the directive in force within the Group. The purpose of the directive is to standardise management criteria based on industrial-not-speculative strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency transaction positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralising the effects of exchange-rate fluctuations. As a result, contracts for purchases or sales denominated in a currency different from the functional currency are hedged using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position.

The effectiveness of the hedge is tested at least at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is recognised

through profit and loss according to accounting principles. In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash-flow hedge accounting method of recognition is adopted (Note 4.3).

Leonardo carries out these transactions with banks in its own interest and in the interest of the fully owned entities. These transactions are then matched with the companies of the Group, which reflect the relevant impacts in their balance sheet and income statement.

At 31 December 2017 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 6,201 (notional amount) (a decrease of around 8% over the year-earlier period), as reported in the table below. Overall, the average euro/US dollar exchange rate for hedging purposes is 1.940 on sales and about 1.248 on purchases relating in particular to the portfolio of the Aeronautics division, whose exposure represents about 79% of the Group's portfolio hedging transaction risk.

	Notional			Fair value 01.01.2017	Changes				*Fair value 31.12.2017*
	Sales	Purchases	Total		*Discontinued operation*	Income	Expense	CFH Reserve	
Swap and forward transactions	2,634	3,567	6,201	(170)		18	(21)	125	(48)

	Notional			Fair value 01.01.2016	Changes				*Fair value 31.12.2016*
	Sales	Purchases	Total		*Discontinued operation*	Income	Expense	CFH Reserve	
Swap and forward transactions	2,757	4,009	6,766	(150)	-	48	(10)	(58)	(170)

The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2017				31 December 2016			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges								
Within 1 year	1,250	262	624	1,303	1,370	62	547	1,365
2 to 3 years	544	3	137	578	732	9	317	323
4 to 9 years	39	-	73	-	65	-	136	382
Total	**1,833**	**265**	**834**	**1,881**	**2,167**	**71**	**1,000**	**2,070**
Hedging transactions which cannot be classified as hedging transactions	421	8	420	7	567	3	567	3
Total transactions	**2,254**	**273**	**1,254**	**1,888**	**2,734**	**74**	**1,567**	**2,073**

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the US dollar (USD) and the pound sterling (GBP) and, assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at

31 December 2017 (1.1993 and 0.8872 respectively), and 31 December 2016 (1.0541 and 0.8562 respectively).

	31 December 2017				31 December 2016			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	3	(3)	3	(3)	4	(1)	1	(5)
Equity (*)	(23)	25	28	(25)	(32)	39	30	(33)

(*) Defined as sum of earnings and cash-flow hedge reserve

Translation risk

The Group is also significantly exposed to "translation risk", i.e. the risk that assets and liabilities in consolidated companies whose reporting currency is not the euro (mainly USD and GBP) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named "Translation reserve" (Note 19). It should be noted that Leonardo does not hedge translation risk relating to its own equity investments, the most important of which are in the USA and in the UK.

The main equity holdings in the UK had an overall positive net financial position which is transferred to Leonardo through cash pooling arrangements. Leonardo systematically hedges this exposure through exchange-rate derivatives recognised as fair value hedges. As a result, even though the Group has no economic exposure, it is subject to balance-sheet volatility directly impacting the amount of Group net debt, which is affected by the realigning payables/receivables in foreign currency from third parties or, similarly, by the cash effects deriving from the renewal of hedges.

The effects on the equity of the Group, broken down by the main currencies, are reported in Note 19.

Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk of not being able to finance the prospective requirements deriving from its usual business and investment operations, as well as those connected with the volatility of the relevant commercial markets and with the effects of the current reorganisation of the Group, specifically with regard to the financial outlays relating to efficiency-improvement processes and to activities linked to business contracts at risk of renegotiation or termination. Furthermore, there is the risk of not being able to repay or refinance debts at the expiry dates.

In order to face the above-mentioned risks, the Group has adopted a series of instruments aimed at optimizing the management of financial resources through banking transactions and bonds. The average maturity of the bonded debt is about 6 years.

Leonardo is the issuer of all the bonds in Euro and GBP placed on the market related to the EMTN (Euro *Medium Term Program)* programme.
The EMTN programme, under which all the outstanding bonds of Leonardo have been issued, was used in the amount of about €mil. 3,218 at 31 December 2017 compared to the total amount of €mil. 4,000. To such amount the bonds issued on the US market by the subsidiary Leonardo US Holding Inc. must be added for a total gross value of USDmil. 432.

Furthermore, in order to finance its own ordinary and extraordinary operations, Leonardo can use the cash and cash equivalents of €mil. 1,893 generated at 31 December 2017 related to Leonardo S.p.a. (€mil. 1,565), to Group companies that, for different reasons, do not fall within the scope of the treasury centralization (€mil. 328) and for the remaining part, to cash amounts of the companies falling, directly or indirectly, within the scope of the treasury centralization (also as a result of collections made in the very last days of the period), and to deposits made for different reasons.

It should be also recalled that in order to meet the financing needs for ordinary Group activities, Leonardo obtained a Revolving Credit Facility (RCF) amounting to €mil. 2,000 with maturity date July 2020.

Finally, it should be noted that in February 2018 Leonardo entered into a new Revolving Credit Facility (RCF) line replacing the previous one with a pool of 26 Italian and foreign banks. The new RCF provides for the payment of a 75 bp spread over EURIBOR, lower by 25 bps than the 100 bp margin of the previous transaction completed in July 2015, with lower financial costs in case of use. Furthermore, there was a reduction in the line to €bil. 1.8 from the €bil. 2 of the previous line, in order to align it to the Group's cash requirements and the extension of the expiry date to February 2023, i.e. the year for which no repayment commitments are currently envisaged on financial markets.

Credit risk

The Group is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties.

Regarding commercial transactions, the most significant programmes are made with public sector contractors or contractors belonging to public institutions, mainly in the euro area, in the UK and the US. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to highlight and mitigate insolvency risks, if any. While solvency is guaranteed with public-entity customers, collection times are longer (in some countries they are significantly longer) than for other business sectors, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. When possible, the Group hedges against potential defaults of its customers by entering into insurance policies with leading Export Credit Agencies (ECAs) internationally and with major Italian agencies (eg. SACE).

Moreover, the types of contracts entered into by the Group provide for sizeable retention money withheld by customers, as well as back-to-back clauses in case of sub-supplies. All this inherently extends the times for collection of outstanding receivables.

Finally, the Group operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2017, we note the following relations with countries exposed to credit risk according to the international institutions:

€mil.	**Libia**	**Pakistan**	**Other countries**	**Total**
Assets	70	100	8	178
Liabilities	60	51	6	117
Net exposure	**10**	**49**	**2**	**61**

Finally, the receivables related to certain existing contracts, as reported in "Leonardo and risk management" in the Report on Operations, might not be paid, renegotiated or written off. With particular regard to this, we highlight receivables linked to the Sistri programme and to the supply to the Indian government – already described in Note 21 – as well as amounts receivable from Piaggio Aereo Industries being rescheduled (amounting to €mil. 115) and from Roma TPL Spa (net value of €mil. 25).

The table below summarises trade receivables at 31 December 2017 and 2016, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

(€ billions)	**31 December 2017**	**31 December 2016**
Portion due	1.7	1.7
- of which: for more than 12 months	*0.9*	*0.8*
Portion not yet due	1.5	1.7
Total trade receivables	**3.2**	**3.4**

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.

Receivables from financing activities, amounting to €mil. 169 (€mil. 126 at 31 December 2016) include €mil. 12 (€mil. 28 at 31 December 2016) classified as "non-current" and consequently excluded from the net financial position (vice versa, the non-current receivable from Superjet is included within the "Group Net Debt" indicator, as indicated in Note 20). Loans and receivables are broken down in the table below:

Loans and receivables

	31 December 2017	31 December 2016
Loans and receivables from related parties	-	1
Non current financial receivables from Superjet	48	65
Other loans and receivables	12	27
Non-current loans and receivables	**60**	**93**
Loans and receivables from related parties	110	40
Other loans and receivables	47	58
Current loans and receivables	**157**	**98**
Total loans and receivables	**217**	**191**

Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued on an aggregate basis, using historical series and statistical data.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy for the financial assets and liabilities of the Group measured at fair value. The fair value of derivatives (classified under other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called "Level 2"); the payable to Bell Helicopter (classified under other current and non-current liabilities) is determined on the basis of measurement techniques which do not consider directly observable market inputs (the so-called "Level 3"). The fair value of the payable to Bell Helicopter was determined by discounting back the estimate of the variable amounts payable on the basis of the success of the programme.

	31 December 2017			31 December 2016		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	-	-	-	-	-
Other current assets	184		184	165	138	303
Other non-current liabilities	-	257	257	-	275	275
Other current liabilities	234	-	234	337	-	337

37. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of Leonardo S.p.a. amounted to €mil. 20 (€mil. 8 at 31 December 2016). The increase is mainly due to termination incentives paid to previous top management who left the Company.

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 1 for 2017 and 2016. This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

38. SHARE BASE PAYMENTS

As largely reported in the section “Leonardo and Sustainability” of the report on operations, in order to implement an incentive and retention system for the Group’s employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2017 to €mil. 9 (€mil.6 in 2016).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group Net Debt for 25% and ROS for 25%) was equal to € 13.12, (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017), to €9.83 (value of Leonardo shares at the grant date of 31 July 2016) with reference to the second three-year cycle (2016-2018) and to €14.76 (value of Leonardo shares at the grant date of 31 July 2017) with reference to the third three-year cycle (2017-2019).

Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90 with reference to the first three-year cycle (2015-2017), to € 3.88 with reference to the second three-year cycle (2016-2018) and to €8.55 with reference to the third three-year cycle (2017-2019).

The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;
- the expected volatility of the price of Leonardo shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;
- correlation coefficients between Leonardo and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis.

With reference to the co-investment plan, in 2017 the requirements for the award of the rights were not yet fulfilled in respect of the bonus shares (“matching shares”).

For the Board of Directors
The Chairman
(Giovanni De Gennaro)

Attachment: Scope of consolidation

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	CAD	-		100	100
AGUSTA AEROSPACE SERVICES AAS SA	Grace Hollogne (Belgium)	EUR	500,000		100	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Sydney (Australia)	AUD	400,000	100		100
AGUSTAWESTLAND DO BRASIL LTDA	Sao Paulo (Brazil)	BRL	11,817,172		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	GBP	40,000	100		100
AGUSTAWESTLAND INDIA PRIVATE LTD	New Delhi (India)	INR	11,519,450		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Yeovil, Somerset (UK)	GBP	511,000		100	100
AGUSTAWESTLAND LTD	Yeovil, Somerset (UK)	GBP	1,520,304		100	100
AGUSTAWESTLAND MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	2,500,000		100	100
AGUSTAWESTLAND NORTH AMERICA INC	Wilmington, Delaware (USA)	USD	1		100	100
AGUSTAWESTLAND PHILADELPHIA CO	Wilmington, Delaware (USA)	USD	20,000,000	100		100
AGUSTAWESTLAND POLITECNICO ADVANCED ROTORCRAFT CENTER SC A RL (IN LIQ.)	Milan	EUR	400,000		80	80
AGUSTAWESTLAND PORTUGAL SA	Lisbon (Portugal)	EUR	100,000		100	100
AGUSTAWESTLAND SPA	Rome	EUR	702,537,000		100	100
ALENIA AERMACCHI SPA	Rome	EUR	250,000,000		100	100
ANSALDOBREDA SPA	Naples	EUR	55,839,139		100	100
BREDAMENARINIBUS SPA	Bologna	EUR	1,300,000		100	100
DAYLIGHT DEFENCE LLC	Wilmington, Delaware (USA)	USD	1		100	100
DAYLIGHT SOLUTIONS INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS ADVANCE ISR LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	USD	1		100	100
DRS CONSOLIDATED CONTROLS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS DEFENSE SOLUTIONS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS ENVIRONMENTAL SYSTEMS INC	Wilmington, Delaware (USA)	USD	2		100	100
DRS GLOBAL ENTERPRISE SOLUTIONS INC.	Baltimore, Maryland (USA)	USD	50		100	100
DRS HOMELAND SECURITY SOLUTIONS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS INTERNATIONAL INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS NETWORK & IMAGING SYSTEMS LLC	Wilmington, Delaware (USA)	USD	1		100	100
DRS POWER & CONTROL TECHNOLOGIES INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS POWER TECHNOLOGY INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS RADAR SYSTEMS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS SIGNAL SOLUTIONS INC	Wilmington, Delaware (USA)	USD	10		100	100
DRS SURVEILLANCE SUPPORT SYSTEMS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS SUSTAINMENT SYSTEMS INC	Wilmington, Delaware (USA)	USD	1,000		100	100
DRS SYSTEMS MANAGEMENT LLC	Wilmington, Delaware (USA)	USD	1		100	100
DRS SYSTEMS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS TECHNICAL SERVICES GMBH & CO KG	Stuttgart (Germany)	EUR	-		100	100
DRS TECHNOLOGIES CANADA INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS TECHNOLOGIES CANADA LTD	Kanata, Ontario (Canada)	CAD	100		100	100
DRS TECHNOLOGIES SAUDI ARABIA LLC	Riyadh (Saudi Arabia)	SAR	2,000,000		49	100
DRS TECHNOLOGIES UK LIMITED	Farnham, Surrey (UK)	GBP	14,676,000		100	100
DRS TECHNOLOGIES VERWALTUNGS GMBH	Baden-Wurttemberg (Germany)	EUR	25,000		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee (USA)	USD	510		100	100
DRS TSI INTERNATIONAL LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS UNMANNED TECHNOLOGIES INC	Wilmington, Delaware (USA)	USD	1		100	100
ENGINEERED COIL COMPANY	Jefferson City (USA)	USD	1,000		100	100
ENGINEERED SUPPORT SYSTEMS INC	Jefferson City (USA)	USD	1		100	100
ESSI RESOURCES LLC	Frankfort (USA)	USD	-		100	100
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)	EUR	100,000		100	100
GLOBAL NETWORK SERVICES LLC	Wilmington, Delaware (USA)	USD	1		100	100
LARIMART SPA	Rome	EUR	2,500,000	60		60
LASERTEL INC	Tucson, Arizona (USA)	USD	10		100	100
LAUREL TECHNOLOGIES PARTNERSHIP	Wilmington, Delaware (USA)	USD	-		100	100
LEONARDO GLOBAL SOLUTIONS SPA	Rome	EUR	49,945,983	100		100
LEONARDO DRS INC ex DRS TECHNOLOGIES INC	Wilmington, Delaware (USA)	USD	1		100	100
LEONARDO MW LTD	Basildon, Essex (UK)	GBP	270,000,100	100		100
LEONARDO US AIRCRAFT, INC. ex ALENIA AERMACCHI NORTH AMERICA INC.	Wilmington, Delaware (USA)	USD	44		100	100
LEONARDO US HOLDING, INC ex MECCANICA HOLDINGS USA INC.	Wilmington, Delaware (USA)	USD	10	100		100
OTO MELARA IBERICA SAU	Loriguilla, Valencia (Spain)	EUR	120,000	100		100
OTO MELARA NORTH AMERICA LLC	Wilmington, Delaware (USA)	USD	10,000		100	100
PARTECH SYSTEMS PTY LTD	Yerriyong (Australia)	AUD	330,00		60	60
PIVOTAL POWER INC	Halifax, Nova Scotia (Canada)	CAD	-		100	100
REGIONALNY PARK PRZEMYSLOWY SWIDNIK SP Z OO	Mechaniczna 13 - U1, Swidnik (Poland)	PLN	7,072,000		74	73
S.C. ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)	RON	10,847,960		100	100
SELEX ELSAG LTD	Basildon, Essex (UK)	GBP	25,800,100		100	100
SELEX ES AUSTRALIA PTY LTD	Canberra (Australia)	AUD	2		100	100
SELEX ES DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	5,686,457	0	100	100
SELEX ES ELEKTRONIK TURKEY AS	Ankara (Turkey)	TRY	79,557,009	0.00	100	100
SELEX ES GMBH	Neuss (Germany)	EUR	2,500,000		100	100
SELEX ES INC	Wilmington, Delaware (USA)	USD	1		100	100
SELEX ES INDIA PRIVATE LTD	New Delhi (India)	INR	30,100,000		100	100
SELEX ES INTERNATIONAL LTD	Basildon, Essex (UK)	GBP	60,000,000	100		100
SELEX ES LTD	Basildon, Essex (UK)	GBP	71,500,001		100	100
SELEX ES MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	500,000		100	100
SELEX ES SPA	Rome	EUR	1,000,000		100	100
SELEX ES SAUDI ARABIA LTD	Riyadh (Saudi Arabia)	SAR	500,000		100	100
SELEX ES TECHNOLOGIES LTD	Nairobi (Kenya)	KES	109,600,000	4.11	95.89	100
SELEX GALILEO INC	Wilmington, Delaware (USA)	USD	17,750,000		100	100
SELEX SERVICE MANAGEMENT SPA (IN LIQ.)	Rome	EUR	3,600,000		100	100
SISTEMI DINAMICI SPA	Pisa	EUR	200,000	100		100
SO.GE.PA. - SOCIETA` GENERALE DI PARTECIPAZIONI SPA	Rome	EUR	1,000,000	100		100
T - S HOLDING CORPORATION	Austin, Texas (USA)	USD	280,000		100	100
TECH-SYM LLC	Reno, Nevada (USA)	USD	10		100	100
TTI TACTICAL TECNOLOGIES INC	Ottawa (Canada)	CAD	2,500,001		100	100
VEGA CONSULTING SERVICES LTD	Welwyn Garden City, Herts (UK)	GBP	1,098,839		100	100
VEGA DEUTSCHLAND GMBH	Cologne (Germany)	EUR	25,700		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (UK)	GBP	5,000		100	100
WORLD'S WING SA	Geneva (Switzerland)	CHF	120,100,000	100.00		100
WYTWORNIA SPRZETU KOMUNIKACYJNEGO ``PZL-SWIDNIK`` SPOLKA AKCYJNA	Aleja Lotnikow, Swidnik (Poland)	PLN	86,006,050	99		99
ZAKLAD OBROBKI PLASTYCZNEJ SP Z OO	Kuznicza 13 - U1, Swidnik (Poland)	PLN	3,800,000		100	99

List of subsidiaries and associates valued at cost (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
ADVANCED MALE AIRCRAFT LLC	Al Ain, Muwaiji (United Arab Emirates)	AED	200,000	49.00		49.00
ANSALDOBREDA FRANCE SAS (IN LIQ)	Marseille (France)	EUR	200,000		100	100
CCRT SISTEMI SPA (IN FALL)	Milan	EUR	697,217		30	30
CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP.CO.LTD	Chongqing (China)	CNY	50,000,000		50.00	50.00
EARTHLAB LUXEMBOURG S.A.	Luxembourg (Luxembourg)	EUR	5.375.000		54.40	34.17
ELSACOM - UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	UAH	7,945,000		49.00	49.00
INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (AMM.STR.)	Genoa	EUR	103,567	30.98		30.98
INMOVE ITALIA SRL	Naples	EUR	120,000		100.00	100.00
PCA ELECTRONIC TEST LTD	Grantham, Lincolnshire (UK)	GBP	1		100	100

List of companies consolidated using the equity method (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
A4ESSOR SAS	Neuilly Sur Seine (France)	EUR	100,000	23.10		23.10
ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	USD	-		51.00	51.00
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Kuala Lumpur (Malaysia)	MYR	5,000,000		30.00	30.00
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	AED	10,000	30.00		30.00
ALENIA NORTH AMERICA-CANADA CO	Halifax, Nova Scotia (Canada)	CAD	1	100.00		100.00
AMSH BV	Rotterdam (the Netherlands)	EUR	36,296,316	50.00		50.00
AVIATION TRAINING INTERNATIONAL LTD	Sherborne (UK)	GBP	550,000		50	50
AVIO SPA	Rome	EUR	90,761,670	28.00		28.00
C-27J AVIATION SERVICES INC.	Ottawa (Canada)	CAD	10,000		30.00	30.00
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	GBP	1		100.00	100.00
CONSORZIO ATR GIE	Toulouse (France)	USD	-		50.00	50.00
CONSORZIO TELAER (IN LIQ.)	Rome	EUR	103,291		100.00	67.52
DISTRETTO TECNOLOGICO AEROSPAZIALE SC A RL	Brindisi	EUR	150,000	24.00		24.00
E - GEOS SPA	Matera	EUR	5,000,000		80.00	53.60
ELETTRONICA SPA	Rome	EUR	9,000,000	31.33		31.33
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH (IN LIQ.)	Hallbergmoos (Germany)	EUR	127,823	21.00		21.00
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	EUR	2,556,459	21		21
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	EUR	260,000	24		24
EUROMIDS SAS	Paris (France)	EUR	40,500	25.00		25.00
EUROSYSNAV SAS (IN LIQ.)	Paris (France)	EUR	40,000	50.00		50.00
EUROTECH SPA	Amaro (Udine)	EUR	8,878,946	11.08		11.08
FINMECCANICA UK LTD	Yeovil, Somerset (UK)	GBP	1,000		100.00	100.00
GAF AG	Munich (Germany)	EUR	256,000		100.00	53.60
GULF SYSTEMS LOGISTICS SERVICES COMPANY WLL	Kuwait City (Kuwait)	KWD	75,000		40.00	40.00
IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Mestre (Venice)	EUR	208,000	25.00		25.00
ICARUS SCPA (IN LIQ.)	Turin	EUR	10,268,400		53.06	53.06
IVECO - OTO MELARA SC A RL	Rome	EUR	40,000	50.00		50.00
JIANGXI CHANGHE AGUSTA HELICOPTER CO LTD	Zone Jiangxi Province (China)	USD	6,000,000	40		40
JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	RUR	10,000	50		50
LEONARDO AEROSPACE DEFENSE & SECURITY INDIA PRIVATE LTD	New Delhi (India)	INR	30,000,000	99.90	0.10	100.00
LEONARDO DO BRASIL LTDA ex FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	BRL	1,203,200	100.00	0.00	100.00
LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE) LTD ex SELEX PENS. SCH. (TRUS.) LTD	Basildon, Essex (UK)	GBP	100		100.00	100.00
LEONARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD ex AW. UK PENS. SCH. (TRUS.) LTD	Yeovil, Somerset (UK)	GBP	1		100.00	100.00
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Libya)	EUR	8,000,000	25.00	25.00	50.00
MACCHI HUREL DUBOIS SAS	Versailles (France)	EUR	100,000	50.00		50.00
MBDA SAS	Paris (France)	EUR	53,824,000		50	25.00
NHINDUSTRIES (SAS)	Aix en Provence (France)	EUR	306,000	32.00		32.00
ORIZZONTE - SISTEMI NAVALI SPA	Genoa	EUR	20,000,000	49.00		49.00
OTO MELARA DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	1,500,000	100	0	100
RARTEL SA	Bucharest (Romania)	RON	468,500		61	41
ROTORSIM SRL	Sesto Calende (Varese)	EUR	9,800,000	50		50
ROTORSIM USA LLC	Wilmington, Delaware (USA)	USD	12.607.452		50	50
SAPHIRE INTERNATIONAL AVIATION & ATC ENGINEERING CO LTD	Beijing (China)	USD	800,000		65	65
SELEX ES FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES LTD	Kuwait City (Kuwait)	KWD	807,000		93	93.00
SELEX ES (PROJECTS) LTD	Basildon, Essex (UK)	GBP	100		100	100.00
SPACEOPAL GMBH	Munich (Germany)	EUR	500,000		50.00	33.50
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	ARS	9,900,000		100.00	66.96
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	BRL	58,724,000		99	66
TELESPAZIO FRANCE SAS	Toulouse (France)	EUR	33,670,000		100.00	67.00
TELESPAZIO IBERICA SL	Barcelona (Spain)	EUR	2,230,262		100	67
TELESPAZIO LATIN AMERICA LTDA	Rio de Janeiro (Brazil)	BRL	56,444,390		100.00	67.00
TELESPAZIO NORTH AMERICA INC. (IN LIQ.)	Dover, Delaware (USA)	USD	10		100.00	67.00
TELESPAZIO SPA	Rome	EUR	50,000,000	67.00		67.00
TELESPAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	EUR	44,150		100.00	67.00
TELESPAZIO VEGA UK LTD	Luton (UK)	GBP	30,000,100		100	67
TELESPAZIO VEGA UK SL	Madrid (Spain)	EUR	3,100		100	67
THALES ALENIA SPACE SAS	Cannes La Bocca (France)	EUR	979,240,000	33		33
WIN BLUEWATER SERVICES PRIVATE LIMITED	New Delhi (India)	INR	12,000,000	100.00	0	100
ZAO ARTETRA	Moscow (Russia)	RUB	353,000		51	51

Below are the main changes in the scope of consolidation at 31 December 2017 in comparison with 31 December 2016:

COMPANY	EVENT	MONTH
Companies which entered the scope of consolidation:		
Partech Systems PTY Ltd	acquired	March 2017
Gruppo Daylight	acquired	June 2017
Leonardo Aerospace Defense & Security India Private Ltd	newly established	October 2017
Companies which left the scope of consolidation:		
Ed Contact Srl	sold	February 2017
Electron Italia Srl	sold	March 2017
WING NED B.V.	sold	March 2017
Eurofighter International Ltd (in liq.)	deconsolidated	May 2017
Ansaldo E.M.I.T. S.C.R.L. (in liq.)	deconsolidated	November 2017
Telespazio Hungary Satellite Telecommunications Ltd (in liq.)	deconsolidated	June 2017
Atitech Spa	sold	October 2017
Atitech Manufactoring Srl	sold	October 2017
Abu Dhabi Systems Integration LLC	sold	November 2017

Merged companies:

Merged company	Merging company	Month
Sirio Panel SpA	Leonardo Spa	January 2017

Companies which changed their ccorporate name:

Old name	New name	Month
AgustaWestland UK Pension Scheme (Trustee) Limited	Leonardo Helicopters Pension Scheme (Trustee) Limited	January 2017
Alenia Aermacchi North America Inc.	Leonardo US Aircraft Inc.	March 2017
Meccanica Holdings USA Inc.	Leonardo US Holding Inc.	March 2017
Finmeccanica Do Brasil LTDA	Leonardo Do Brasil LTDA	March 2017
DRS Technology Inc.	Leonardo DRS Inc.	July 2017

Statement on the consolidated financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. The undersigned Alessandro Profumo as the Chief Executive Officer and Alessandra Genco as the Officer in charge of Financial Reporting for Leonardo S.p.a., certify, in accordance with Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2017.

2. In this respect it is noted that no significant matters arose.

3. It is also certified that:

   3.1 The consolidated financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation.

   3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 14 March 2018

Chief Executive Officer	Officer in charge of financial reporting
(Alessandro Profumo)	(Alessandra Genco)

Independent Auditor's Report on the consolidated financial statements at 31 December 2017

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Leonardo S.p.a.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Leonardo Group (the "group"), which comprise the statement of financial position as at 31 December 2017, the separate income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Leonardo Group as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Leonardo S.p.a. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero

Ancona Aosta Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.150.950,00 i.v.
Registro Imprese Milano e
Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Recognition of contract revenue and losses

Notes to the consolidated financial statements: notes n. 3.9 "Contract work in progress", n. 3.19 "Revenue", n. 4.4 "Estimate of revenue and final costs of long-term contracts" and n. 15 "Contract work in progress and progress payments and advances from customers"

Key audit matter	Audit procedures addressing the key audit matter
A significant portion of the group's revenue from construction contracts is recognised using the percentage of completion method based on the cost-to-cost model. Estimating the total expected contract costs, which is necessary to calculate the stage of completion, is, by its very nature, complex. It also entails a high degree of uncertainty as it may be affected by many factors, including the products' design complexity and the ability to duly meet the technical specifications of its customers and the working time contractually agreed. Moreover, any failure to comply with the contractual provisions, such as, for example, those relating to delivery times and products' and services' compliance with the customers' specific requests, may give rise to material penalties and extra-costs which shall be considered in estimating total contract costs. Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses. Accordingly, we believe that the recognition of contract revenue and losses is a key audit matter.	Our audit procedures included: — updating our understanding of the process for the recognition of contract revenue and losses; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of contracts deemed material for the purposes of our audit: – examining the contracts signed with the customers in order to check whether their main provisions had been duly considered in management estimates; – assessing the assumptions underlying the estimated contract costs, based on (i) discussions with the relevant internal departments and (ii) any communications with customers; – analysing the most significant discrepancies between past years' estimates and actual figures, in order to assess the accuracy of the forecasting process; – agreeing the costs incurred during the year and their allocation to contract work in progress; – for certain types of production, obtaining evidence of the physical stage of completion through a physical count; – assessing the accuracy of the calculation of the percentage of completion and the related recognition of contract revenue and expected losses, if any; – assessing the appropriateness of the presentation and adequacy of disclosures in the consolidated financial statements in connection with contract revenues and losses.

Recoverability of goodwill

Notes to the consolidated financial statements: notes n. 3.4.4 "Goodwill", n. 4.6 "Impairment of assets" and n. 9 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2017 include goodwill of €3,678 million. The directors tested the year-end carrying amount of the cash-generating units (CGU) to which goodwill is allocated for impairment, in order to identify possible impairment losses in respect of the CGU's recoverable amount. Such recoverable amount is based on value in use that is the present value of the future expected cash flows (discounted cash flows method). This method is characterised by a high degree of complexity and the use of estimates which are by their very nature, uncertain and subjective, about: — the expected cash flows, determined on the basis of the general and sector trends, the actual cash flows for the last few years and the projected growth rates; — the inputs used to determine the discount rate. The 2018-22 business plan (the "plan") that the parent's directors approved on 30 January 2018 which is the basis for the cash flow estimates, is not only affected by the uncertainties inherent in forecasting, but also by the spending programmes of governments and public agencies, which are subject to delays, changes when work is in progress or cancellations. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the impairment testing procedure approved by the parent's board of directors on 28 February 2018; — updating our understanding of the process used to draft the plan; — challenging the criteria used to identify the CGU and tracing the amount of the CGU assets and liabilities to the relevant carrying amounts in the consolidated financial statements; — comparing the cash flows used for impairment testing to the cash flows included in the plan; — analysing the main assumptions used by the directors in drafting the plan for reasonableness; — analysing the most significant discrepancies between data included in the past years' plans and actual figures, in order to assess the accuracy of the forecasting process; — involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the sensitivity analysis included in the notes to the consolidated financial statements with reference to the key assumptions used in the impairment test; — assessing the appropriateness of the presentation and adequacy of disclosures in the consolidated financial statements in connection with goodwill and impairment test.

Recognition and measurement of non-recurring costs and development costs

Notes to the consolidated financial statements: notes n. 4.1 "Research and Development costs", n. 4.2 "Non-recurring costs", n. 4.6 "Impairment of assets" and n. 9 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter

As at 31 December 2017 the group has recognised non-recurring costs and development costs relating to the design, prototyping, start-up and technical and functional specification adjustments of its products totalling €2,088 million under intangible assets.
 	
The initial recognition and subsequent measurement of their recoverability through impairment test requires complex estimates with a high degree of uncertainty, since they are affected by many factors, including the horizon of the product business plans and management's ability to forecast the commercial success of new technologies. Accordingly, these estimates require a significant level of judgement by directors.
 	
For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.
	Our audit procedures included:
	— updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs;
	— assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;
	— for a sample of development projects deemed material for the purposes of our audit:
	  – examining the main internal and external costs recognised during the year on the basis, *inter alia*, of inquiries of the relevant internal departments and documentary evidence provided by management;
	  – challenging the reasonableness of the assumptions underlying the product business plans;
	  – involving our own specialists to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information;
	— assessing the appropriateness of the presentation and adequacy of disclosures in the consolidated financial statements in connection with non-recurring costs and development costs.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Leonardo S.p.a. for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, in accordance with the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISA Italia 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 consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material

uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 16 May 2012, the parent's shareholders engaged us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 were not provided and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Leonardo S.p.a. are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31

December 2017 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2017 and their compliance with the applicable law and to express a statement on any material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Leonardo Group at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the group and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Leonardo S.p.a. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 16/16, we attested the compliance of the non-financial statement separately.

Rome, 21 March 2018

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit

Separate financial statements at 31 December 2017 Leonardo - Società per Azioni

Accounting statements to the separate financial statements as at 31 December 2017

Separate income statement

Euro	*Note*	**2017**	*of which with related parties*	**2016**	*of which with related parties*
Revenue	*26*	7,860,898,606	*2,254,631,447*	7,924,605,965	*2,531,398,441*
Other operating income	*27*	411,881,732	*13,167,640*	448,384,841	*14,721,020*
Purchase and personnel expense	*28*	(7,148,829,760)	*(1,114,980,896)*	(6,996,992,151)	*(911,875,189)*
Amortisation, depreciation and impairment losses	*29*	(360,786,459)		(494,384,862)	
Other operating expenses	*27*	(417,208,902)	*(662,787)*	(418,347,207)	*(2,891,679)*
Income before tax and financial expenses		**345,955,217**		**463,266,586**	
Financial income	*30*	708,948,494	*35,182,182*	1,124,364,439	*51,872,821*
Financial expense	*30*	(588,323,280)	*(8,277,305)*	(878,648,904)	*(14,815,120)*
Operating profit (loss) before income taxes and discontinued operations		**466,580,431**		**708,982,121**	
Income taxes	*31*	(110,464,986)		(99,870,941)	
Net profit/(loss) for the period		**356,115,445**		**609,111,180**	

Statement of comprehensive income

Euro		***2017***		***2016***
Profit (loss) for the period		**356,115,445**		**609,111,180**
Other comprehensive income (expense):				
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:				
- Measurement of defined-benefit plans:		(3,597,368)		(8,766,182)
- revaluation	(3,597,368)		(8,766,182)	
- Tax effect		1,555,633		170,334
		(2,041,735)		(8,595,848)
Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:				
- Changes in cash flow hedges:		49,514,177		(94,620,763)
- change generated in the period	55,026,189		(80,726,178)	
- transferred to the profit (loss) for the period	(5,512,012)		(13,894,585)	
- Others		-		4,298,116
- Tax effect		(7,009,174)		21,301,472
		42,505,003		(69,021,175)
Total other comprehensive income (expense), net of tax:		**40,463,268**		**(77,617,023)**
Total comprehensive income		**396,578,713**		**531,494,157**

Statement of financial position

Euro	*Note*	***31 December 2017***	*of which with related parties*	***31 December 2016***	*of which with related parties*
Intangible assets	*8*	2,813,829,208		2,730,894,303	
Property, plant and equipment	*9*	1,282,582,672		1,359,942,104	
Investment property	*9*	6,665,167		7,309,338	
Equity investments	*10*	7,345,090,773		5,640,547,044	
Receivables	*11*	601,880,358	*502,074,875*	196,232,261	*68,130,640*
Deferred tax assets	*31*	632,002,378		669,583,597	
Other non current assets	*11*	138,739,692	-	83,026,120	-
Non-current assets		**12,820,790,248**		**10,687,534,767**	
Inventories	*12*	3,496,194,656		2,919,809,439	
Contract work in progress	*13*	2,269,693,845	-	2,067,194,010	-
Trade receivables	*14*	2,797,637,774	*1,087,458,868*	2,836,516,644	*1,225,728,387*
Income tax receivables	*15*	122,229,301		100,472,708	
Loans and receivables	*14*	258,008,476	*231,649,852*	353,318,000	*325,549,328*
Other assets	*16*	525,934,976	*53,896,696*	636,940,939	*50,685,177*
Cash and cash equivalents	*17*	1,565,042,218		1,747,407,118	
Current assets		**11,034,741,246**		**10,661,658,858**	
Non-current assets held for sale	*18*	-		1,150,936,866	
Total assets		**23,855,531,494**		**22,500,130,491**	
Share capital		2,491,155,064		2,490,883,940	
Other reserves		3,291,550,570		2,834,228,314	
Total equity	*19*	**5,782,705,634**		**5,325,112,254**	
Loans and borrowings (non current)	*20*	2,918,488,000	-	2,931,102,770	-
Employee benefits	*22*	341,710,013		346,476,698	
Provisions for risks and charges	*21*	717,324,101		809,352,442	
Deferred tax liabilities	*31*	90,855,626		91,846,295	
Other non-current liabilities	*23*	819,575,864	*14,260*	877,086,201	*14,260*
Non-current liabilities		**4,887,953,604**		**5,055,864,406**	
Progress payments and advances from customers	*13*	5,945,468,784	-	4,944,188,578	-
Trade payables	*24*	2,805,321,877	*680,384,659*	2,566,516,347	*613,235,343*
Loans and borrowings (current)	*20*	2,358,268,488	*1,668,720,508*	2,371,351,769	*1,664,041,165*
Income tax payables	*15*	10,381,325		33,099,052	
Provisions for short-term risks and charges	*21*	587,948,032		518,536,172	
Other current liabilities	*23*	1,477,483,750	*323,893,822*	1,685,165,147	*390,956,455*
Current liabilities		**13,184,872,256**		**12,118,857,065**	
Liabilities associated with assets held for sale		-		296,766	
Total liabilities		**18,072,825,860**		**17,175,018,237**	
Total liabilities and equity		**23,855,531,494**		**22,500,130,491**	

Statement of cash flows

Euro	*Note*	*2017*	*of which with related parties*	*2016*	*of which with related parties*
Gross cash flows from operating activities	*32*	936,285,451		1,115,217,667	
Change in working capital	*32*	297,979,882	*190,955,975*	(315,654,244)	*(68,041,246)*
Change in other operating assets and liabilities and provisions for risks and charges	*32*	(383,512,120)	*(113,560,060)*	(45,547,832)	*(148,965,324)*
Interest paid		(179,394,951)	*16,733,151*	(146,933,244)	*56,711,568*
Income taxes paid		(56,132,232)		1,406,410	-
Cash flows generated used)in operating activities		**615,226,030**		**608,488,757**	
Investments in property, plant and equipment and intangible assets		(352,201,880)		(263,409,034)	
Sales of property, plant and equipment and intangible assets		4,210,951		1,431,419	
Dividends received		462,714,549		665,115,421	
Other investing activities		(608,664,768)		(234,757,840)	
Cash flows generated (used) in investing activities		**(493,941,148)**		**168,379,966**	
Increase of share capital		-		(34,811,754)	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Bond issue		591,272,770		-	
Bond buy back		(555,319,966)		-	
Net change in other loans and borrowings		(201,738,134)	*(320,249,875)*	(341,113,209)	*(195,252,754)*
Dividends paid		(80,411,106)		-	
Cash flows generated (used) from financing activities		**(292,516,782)**		**(422,245,309)**	
Net increase (decrease) in cash and cash equivalents		(171,231,900)		354,623,414	
Exchange rate differences and other changes		(14,204,261)		(27,789,310)	
Cash and cash equivalents at 1 January		1,747,407,118		1,364,696,937	
Effect from Mergers/Demergers		3,071,261		55,876,077	
Cash and cash equivalents at 31 December		**1,565,042,218**		**1,747,407,118**	

Statement of changes in equity

Euro	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Merger surplus	Other reserves	Total equity
1 January 2016	**2,522,470,761**	**1,657,594,431**	**-**	**217,432**	**-**	**-**	**4,180,282,624**
Profit (loss) for the period	-	609,111,180	-	-	-	-	609,111,180
Other comprehensive income (expense)	-	4,298,116	(73,319,291)	(8,595,848)	-	-	(77,617,023)
Total comprehensive income (expense)	**-**	**613,409,296**	**(73,319,291)**	**(8,595,848)**	**-**	**-**	**531,494,157**
Dividends resolved	-	-	-	-	-	-	-
Repurchase of treasury shares less sold shares	(31,586,821)	-	-	-	-	-	(31,586,821)
Total transactions with owners of the parent, recognised directly in equity	**(31,586,821)**	**-**	**-**	**-**	**-**	**-**	**(31,586,821)**
Effect from Mergers/Demergers	-	1,930,233	(30,449,797)	(50,024,743)	721,777,748	-	643,233,441
Stock option/grant plans - performance's value	-	1,688,853	-	-	-	-	1,688,853
Other changes							-
31 December 2016	**2,490,883,940**	**2,274,622,813**	**(103,769,088)**	**(58,403,159)**	**721,777,748**	**-**	**5,325,112,254**
1 January 2017	**2,490,883,940**	**2,274,622,813**	**(103,769,088)**	**(58,403,159)**	**721,777,748**	**-**	**5,325,112,254**
Profit (loss) for the period	-	356,115,445	-	-	-	-	356,115,445
Other comprehensive income (expense)	-	-	42,505,003	(2,041,735)	-	-	40,463,268
Total comprehensive income (expense)	**-**	**356,115,445**	**42,505,003**	**(2,041,735)**	**-**	**-**	**396,578,713**
Repurchase of treasury shares less sold shares	271,124	-	-	-	-	-	271,124
Dividends resolved	-	(80,417,638)	-	-	-	-	(80,417,638)
Total transactions with owners of the parent, recognised directly in equity	**271,124**	**(80,417,638)**	**-**	**-**	**-**	**-**	**(80,146,514)**
Effect from Mergers/Demergers	-	20,032	-	(120,155)	903,521		803,398
Stock option/grant plans - performance's value	-	7,440,354	-	-	-	-	7,440,354
Other changes	-	132,917,429	-	-	-	-	132,917,429
31 December 2017	**2,491,155,064**	**2,690,698,435**	**(61,264,085)**	**(60,565,049)**	**722,681,269**	**-**	**5,782,705,634**

Notes to the separate financial statements at 31 December 2017

1. GENERAL INFORMATION

Leonardo is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Italian Stock Exchange (FTSE MIB).

The Company is a major Italian high technology organization operating in the *Helicopters*, *Electronics*, *Defence and Security Systems* and *Aeronautics* sectors.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2017 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

The general principle used in preparing these separate financial statements is the historical cost method, except for those items that, in accordance with IFRS, are obligatory recognised at fair value, as indicated in the valuation criteria of each item.

The separate financial statements are composed of the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes to the financial statements.

In consideration of the significant values, the figures in these notes are shown in millions of euros unless otherwise indicated. Among the options permitted by IAS 1, the Company has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the costs. Instead, the statement of cash flows was prepared using the indirect method.

The International Financial Reporting Standards (IFRS) used for preparing these separate financial statements, drawn up under the going-concern assumption, are the same that were used in the preparation of the separate financial statements at 31 December 2016 except for what indicated below (Note 4). Preparation of the separate financial statements required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Note 4 to the Consolidated Financial Statements, to which reference is made.

The Board of Directors of 14 March 2018 resolved to submit to shareholders the draft financial statements at 31 December 2017, authorizing their circulation and convened the Ordinary Shareholders' Meeting for the approval thereof for 10 and 15 May 2018, on first and second call, respectively.

The separate financial statements were prepared in accordance with IFRS and are subject to a statutory audit by KPMG S.p.A.

3. ACCOUNTING PRINCIPLES

The accounting policies and criteria are the same adopted for the annual consolidated financial statements, to which reference is made, except for the recognition and measurement of equity investment in subsidiaries, jointly controlled companies and associates recognised at their purchase or incorporation cost. In case of any impairment losses their recoverability is verified through the comparison between their carrying amount and the higher of their value in use that is determined by discounting prospective cash flows, where applicable, of the equity investment and the assumed sales value which is determined on the basis of recent transactions or market multiples. The portion of losses exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the Company states the existence of legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity. If the impaired investee shows a subsequent improvement in performance which leads to believe that the reasons for the impairment cease to exist, the equity investments are revalued to the extent of the impairment losses recognised in previous periods under "Adjustments to equity investments". Dividends from subsidiaries and associates are recognised in the income statement in the year in which they are resolved.

Finally, with reference to transactions between entities under common control, which are not governed by IFRS, either from the point of view of the purchaser/assignee or from that of the seller/assignor, Leonardo, considering this, recognises such transactions recognising directly in equity any gain on the transfer or sale of its subsidiaries.

4. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

Starting from 1 January 2017 the Group has adopted the following amendments without any significant effect on this Annual Financial Report:

- Amendment to IAS 12 "Recognition of deferred tax assets for unrealised losses": this amendment clarifies the issue that the existence of deductible temporary differences must depend solely on a comparison of the carrying amount of an asset and its tax base at the reporting date;

- Amendments to IAS 7 "Disclosure initiative": these amendments consist in the request for additional disclosures with reference to changes in liabilities from financing activities.

At the date of preparation of this report, the European Commission has endorsed certain standards and interpretations that are not compulsory which will be applied by the Group in the following financial periods. Below are the main amendments and potential effects for the Company.

For a description of the main effects deriving from the application of the new standards reference is made to Note 3.25 of the Consolidated Financial Statements.

With reference to the effects described therein deriving from the adoption of IFRS 15, we point out that, according to the current analyses and subject to their subsequent developments, the effects on the 2017 main performance indicators of Leonardo SpA are: higher revenue of about 2%; higher EBITA equal to about 6%. Furthermore, based on the current development of the analyses, a reduction of about 4% in the equity is also expected.

According to the current analyses, it is deemed that the effects deriving from the adoption of IFRS 9 do not significantly affect the main performance indicators. However, the detailed evaluation of such effects is still underway.

5. SIGNIFICANT NON-RECURRING EVENTS ON TRANSACTIONS

On 1 January 2017 the merger of Sirio Panel S.p.A., which was previously wholly owned, by incorporation into Leonardo S.p.a. became fully effective, in legal, accounting and tax terms. The transaction generated a merger surplus of €mil. 1.

At the beginning of 2017 Leonardo transferred its equity investment in AgustaWestland Ltd (classified under "*Non-current assets held for sale*" in the financial statements at 31 December 2016) to Leonardo MW Ltd, within the scope of the combination process of the operations conducted by Leonardo in the United Kingdom into a single legal entity. Furthermore, the equity investments in Agusta Aerospace Services SA, AgustaWestland do Brasil, AgustaWestland Malaysia and AgustaWestland Portugal (classified under "*Non-current assets held for sale*" in the financial statements at 31 December 2016) were transferred to Agustawestland Holding Ltd. These transactions generated a capital gain for a total of €mil. 131, recognised directly in the equity without being charged to the income statement.

During the year Selex ES Spa, AgustaWestland Spa and Alenia Aermacchi Spa were sold to So.Ge.Pa. Spa for a total amount of €mil. 73 (value at 31 december 2016).

During July Leonardo exercised a put option on 15% of the equity investment in Ansaldo Energia, a residual portion pertaining to the Group within the disposal to Cassa Depositi e Prestiti terminated in 2013.

Exercising such option allowed Leonardo to collect €mil. 144 from CDP Equity. This transaction did not affect the net debt, inasmuch as the measurement of the put&call rights related to the residual interest in Ansaldo Energia had been already considered for the purposes of such indicator.

6. SIGNIFICANT POST-BALANCE SHEET EVENTS

No significant events occurred after the year-end.

7. SEGMENT REPORTING

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: *Helicopters*, *Electronics, Defence and Security Systems* and *Aeronautics*.

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations.

8. INTANGIBLE ASSETS

	Intangible assets						
	Goodwill	**Development costs**	**Non-recurring costs**	**Concessions, licences and trademarks**	**Acquired through business combinations**	**Other intangible assets**	**Total**
1 January 2016							
Cost	-	-	-	15	-	11	**26**
Amortisation, depreciation and impairment losses	-	-	-	(14)	-	(8)	**(22)**
Carrying amount	**-**	**-**	**-**	**1**	**-**	**3**	**4**
Effect from Mergers/Demergers	707	438	1,335	88	61	126	**2,755**
Investments	-	23	143	4	-	15	**185**
Depreciation	-	(50)	(111)	(26)	(4)	(29)	**(220)**
Impairment losses	-	(3)	(13)	-	-	-	**(16)**
Other changes	-	-	14	26	-	(17)	**23**
31 December 2016	**707**	**408**	**1,368**	**93**	**57**	**98**	**2,731**
broken down as follows:							
Cost	985	1,090	1,958	481	96	302	**4,912**
Amortisation, depreciation and impairment losses	(278)	(682)	(590)	(388)	(39)	(204)	**(2,181)**
Carrying amount	**707**	**408**	**1,368**	**93**	**57**	**98**	**2,731**
Effect from Mergers/Demergers	-	-	6	2	-	-	**8**
Investments	-	25	185	5	-	8	**223**
Depreciation	-	(56)	(42)	(19)	(4)	(28)	**(149)**
Other changes	-	(4)	4	2	-	(1)	**1**
31 December 2017	**707**	**373**	**1,521**	**83**	**53**	**77**	**2,814**
broken down as follows:							
Cost	985	906	1,961	492	96	310	**4,750**
Amortisation, depreciation and impairment losses	(278)	(533)	(440)	(409)	(43)	(233)	**(1,936)**
Carrying amount	**707**	**373**	**1,521**	**83**	**53**	**77**	**2,814**
31 December 2016							
Gross value			4,631				
Grants			3,263				
31 December 2017							
Gross value			4,556				
Grants			3,035				

Commitments are in place for the purchase of intangible assets for €mil. 7 (€mil. 5 at 31 December 2016).

Goodwill

Goodwill is allocated to the Cash Generating Units (CGUs) or groups of CGUs concerned, which are determined with reference to the Group's organisational, management and control structure at the reporting date coinciding, as is known, with the Group's four business segments. At the recognition of the mergers and

demergers occurred in 2016 within the creation of the One Company, the goodwill was allocated, in accordance with the principle of "continuity of values", to the same CGUs as those in the Consolidated Financial Statements, differentiating the part of goodwill related to net assets recognised line-by-line from that related to foreign equity investments, for which goodwill was recognised on the basis of the investments' values.

The breakdown of goodwill recognised by segment at 31 December 2017 is as follows:

	31 December 2017	**31 December 2016**
Helicopters	459	459
Electronics, Defence & Security Systems	188	188
Aeronautics	60	60
	707	**707**

Goodwill is tested for impairment in order to determine any possible loss in value, making reference to the CGU as a whole, including, in accordance with the organisational and operational model, the foreign equity investments falling within the scope of consolidation, which are then included and tested in the same year as the impairment. Therefore, only the equity investments that are not tested together with goodwill are subject to an impairment test separately, if required. For the sake of representation only, the financial assumptions and ratios detailed below are also provided for the equity investments subject to separate tests (the most significant of which is Leonardo US Holding Inc., a company that holds, among other things, the investment in Leonardo DRS Inc.).

The test is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale. In practice, the Group has established an operational hierarchy between calculating the fair value net transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group's five-year business plans prepared by the management of the CGU and incorporated into the plan approved by Leonardo's Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates ("g-rate") no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial expense and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. The related underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans

were calculated by management based on past experience and expected developments in the Leonardo's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs:

- the risk-free rate was determined using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU;
- market premium equal to 5.1% in 2017 (5.7% in 2016);
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of debt applicable to the Group;
- the debt/equity ratio, determined using data pertaining to our major competitors in each sector.

On the contrary, the growth rates used to project the CGU's cash flows beyond the explicit term of the plan were estimated by making reference to the growth assumptions of the individual sectors in which said CGUs operate. These assumptions are based on the internal processing of external sources, making reference to a period of time that is usually ten years. The g-rates used for the purposes of the impairment test were equal to 2%, consistently with the actions taken in previous financial years, even in the presence of higher expected growth rates in some sectors.

The mostly important assumptions for the purposes of estimating the cash flows used in determining the value in use are summarised below:

	Helicopters	***Electronics***	**Aeronautics**
WACC	X	X	X
g-rate	X	X	X
ROS as per the plan	X	X	X
Flat trend of the Defence *budget*	X	X	X

In estimating these basic assumptions, the management made reference, in the case of external variables, to internal information processed on the basis of external surveys, as well as on its knowledge of the markets and of the specific contractual situations.

The following WACCs (after taxes) and (nominal) growth rates were used at 31 December 2017 and 2016:

	31 December 2017		**31 December 2016**	
	Wacc	***g-rate***	**Wacc**	***g-rate***
Helicopters	7.3%	2.0%	7.6%	2.0%
Electronics, Defence & Security Systems	5.3%	2.0%	5.5%	2.0%
Aeronautics	6.0%	2.0%	5.9%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom) also in relation to the equity investment in Leonardo US Holding (the parent company of DRS), whose goodwill had been significantly impaired in 2011 and 2012 as a result of the cuts in the US defense budgets. Such cuts brought to lower headroom also in the subsequent periods compared to the other CGUs. At 31 December 2017, the headroom amount of the equity investment in Leonardo US Holding, was considerably higher due to the changed macro-economic and industry context in the USA, in addition to the effects of the US fiscal reform (which decreased the tax rate from 35% to 21%). The significant decrease in the headroom amount of Helicopters reflects, on the contrary, the difficulties of the sector, as amply discussed in the Report on Operations. However, as reported below, the sensitivity scenarios carried out highlighted that the recoverability of the carrying amount of goodwill and of the investments of such Division is not a risk based on assumptions made during the preparation of the budget plan, also considering the significant margins achieved by the Division even against a particularly complex market and specific backdrop.

Sensitivity analysis was conducted on these results, making reference to the assumptions for which it is reasonably possible that a change in the same may significantly modify the results of the test. The wide positive margins recorded are such that they may not be significantly modified by any changes in the assumptions described above. For information purposes, below are reported the results. The table below highlights the headroom in the base scenario, with reference to the goodwill value, compared with the following sensitivity analyses for 2017 and 2016: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal.

31 December 2017	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	825	431	498	615
Electronics, Defence & Security Systems	7,572	6,028	6,206	7,140
Aeronautics	9,843	8,860	8,988	9,506

31 December 2016	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	3,872	3,346	3,437	3,856
Electronics, Defence & Security Systems	6,926	5,736	5,884	5,759
Aeronautics	12,401	11,116	11,270	10,824

Other intangible assets

The item “development costs” decreased mainly as a result of the amortization for the year, only partially offset by investments in the year regarding the *Helicopters* (€mil. 8) and *Electronics, Defence and Security*

Systems (€mil. 17) divisions. Investments for the year related to the item "*Non-recurring costs*" refer to the *Helicopters* division (€mil. 73), to programmes concerning aircraft (€mil. 75) and to programmes of the *Electronics* division (€mil. 37). As regards programmes that benefit from the provisions of Law 808/85 and that are classified as functional to national security, the portion of capitalised non-recurring costs, pending the fulfilment of the legal requirements for the classification under receivables, is separately disclosed under other non-current assets (Note 11). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 27.

Total research and development costs, including also "development" and "non-recurring costs" just mentioned, amount to €mil. 1,190 (€mil. 982 at 31 December 2016), of which €mil. 123 expensed (€mil.123 at 31 December 2016).

"Other" mainly includes software, intangible assets in progress and advances.

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Property, plant and equipment					
	Land and buildings	**Plant and machinery**	**Equipment**	**Other tangible assets**	**Total**	**Investment property**
1 January 2016						
Cost	95	7	-	17	**119**	**201**
Amortisation, depreciation and impairment losses	(55)	(5)	-	(12)	**(72)**	**(99)**
Carrying amount	**40**	**2**	**-**	**5**	**47**	**102**
Effect from Mergers/Demergers	133	353	660	218	**1,364**	**-**
Investments	2	8	47	54	**111**	**-**
Sales	-	-	(1)	(1)	**(2)**	**-**
Depreciation	(14)	(61)	(143)	(22)	**(240)**	**(1)**
Other changes	106	57	8	(91)	**80**	**(94)**
31 December 2016	**267**	**359**	**571**	**163**	**1,360**	**7**
broken down as follows:						
Cost	478	1,204	1,656	633	**3,971**	**23**
Amortisation, depreciation and impairment losses	(211)	(845)	(1,085)	(470)	**(2,611)**	**(16)**
Carrying amount	**267**	**359**	**571**	**163**	**1,360**	**7**
Effect from Mergers/Demergers	10	2	1	-	**13**	**-**
Investments	5	9	34	59	**107**	**-**
Sales	-	-	-	(3)	**(3)**	**-**
Depreciation	(10)	(61)	(96)	(23)	**(190)**	**(1)**
Impairment losses	-	-	(3)	-	**(3)**	**-**
Other changes	(16)	25	12	(22)	**(1)**	**1**
31 December 2017	**256**	**334**	**519**	**174**	**1,283**	**7**
broken down as follows:						
Cost	463	1,259	1,702	655	**4,079**	**23**
Amortisation, depreciation and impairment losses	(207)	(925)	(1,183)	(481)	**(2,796)**	**(16)**
Carrying amount	**256**	**334**	**519**	**174**	**1,283**	**7**

Property, plant and equipment decreased as a result of the depreciation for the period only partially offset by investments. The item "Investment Property" includes the value of leased land and civil and industrial buildings.

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 46 (€mil. 72 at 31 December 2016).

10. EQUITY INVESTMENTS

	2017			2016		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	**5,641**	**(56)**	**5,585**	**7,387**	**(170)**	**7,217**
Acquisitions/subscriptions	1,920	52	**1,972**	43	170	**213**
Effect from Mergers/Demergers	(122)		**(122)**	(495)	(3)	**(498)**
Reclassifications in assets/liabilities held for sale	-	(5)	**(5)**	(1,151)	-	**(1,151)**
Impairment losses	(10)	(91)	**(101)**	(136)	(53)	**(189)**
Disposals	(84)	-	**(84)**	(5)	-	**(5)**
Other changes	-	-	**-**	(2)	-	**(2)**
31 December	**7,345**	**(100)**	**7,245**	**5,641**	**(56)**	**5,585**

Appendices no. 1 and 2 to these Notes provide, respectively, the changes that occurred in the year and detailed information on equity investments showing the total of assets and liabilities, as required by IFRS 12.

If the relevant conditions are fulfilled, the carrying amount of equity investments is tested for impairment in order to determine any possible loss in value. As mentioned, the carrying amount of equity investments is mainly tested by making reference to the relevant divisions as a whole; for any information on the procedures for the performance of tests and any related information, reference should then be made to Note 8.

Among the changes that occurred during the period were the following movements:

- The merger of Sirio Panel (the equity investment of which was recognised in the financial statements at 31 December 2016 for an amount of €mil. 122) into Leonardo Spa*;*
- Capital increases regarding the equity investments, equal to €mil. 1,920, mainly regarded Leonardo MW Ltd (€mil. 1,044) and Leonardo US Holding Inc. (€mil. 822);
- The acquisition of further equity investments in Avio Spa (€mil. 45); as a result of this transaction Leonardo now holds about 26% of the company;

- Disposals mainly concerned the sale to the subsidiary So.Ge.Pa.SpA of the three demerged companies (Selex ES Spa, AgustaWestland Spa and Alenia Aermacchi Spa) the operating business units of which were merged into Leonardo Spa starting from 1 January 2016 (total €mil. 73 at 31 December 2016) and Atitech (€mil. 6 at 31 December 2016) sold to third parties. Moreover, during the year, the equity investments in AgustaWestland Ltd were sold to Leonardo MW Ltd, within the creation process of the One Company in UK, and the equity investments in Agusta Aerospace Services SA, AgustaWestland do Brasil, AgustaWestland Malaysia and AgustaWestland Portugal were sold to Agustawestland Holdings Ltd, which were all classified under "*Non-current assets held for sale*" in the financial statements at 31 December 2016. These transactions generated a total capital gain of €mil. 131, directly recognised in the equity without being charged to the income statement;
- Write-downs for the period entirely refer to the write-down of So.Ge.Pa. Spa and include losses for the period (in consideration of the company's business, the value in use is equal to its equity).

Finally, below is presented a comparison of the book value and the average market price of the listed shares of Eurotech SpA and Avio SpA in December 2017:

Listed company	Number of shares held	Stock Exchange Value		Book Value		Diference	Difference
		Unit €	Total €mil.	Unit €	Total €mil.	Unit in €	Total in €mil.
Eurotech SpA	3.936.461	1,336	5	1,469	6	(0,133)	(1)
Avio Spa	6.820.832	13,644	93	10,339	71	3,305	22

11. RECEIVABLES AND OTHER NON CURRENT ASSETS

	31 December 2017	31 December 2016
Financing to third parties	1	1
Non current financial receivables from Superjet	48	65
Deferred grants under Law no. 808/85	40	52
Related parties receivables (Note 33)	502	68
Other non-current receivables	11	10
Non-current receivables	**602**	**196**
Prepayments - non-current portion	3	8
Non-recurring costs pending under Law no. 808/1985	136	75
Non-current assets	**139**	**83**

Non-current receivables increased by €mil. 406, mainly as a result of loans granted to Group's companies (Note 33) and in particular to So.Ge.Pa. Spa and Leonardo MW Ltd within the context of the transactions for corporate reorganisation described above.

Furthermore, non-current receivables include the residual amount due from Superjet S.p.A., amounting to €mil. 48 (€mil. 65 at 31 December 2016), arising from the 3-years repayment plan agreed with the acquirer within the context of the exit of Leonardo from this programme which decreased due to the reclassification among current assets in line with the progress of payments as per the aforesaid plan.

Non-current assets increased mainly for "*Non-recurring costs pending under Law no. 808/1985*".

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these Notes.

12. INVENTORIES

	31 December 2017	31 December 2016
Raw materials, supplies and consumables	1,286	1,254
Work in progress and semi-finished goods	1,055	990
Finished goods and merchandise	18	25
Advances to suppliers	1,137	651
	3,496	**2,920**

Advances to suppliers mainly related to programmes concerning aircraft (mainly C27J, B787, EFA and ATR) and, to a lesser extent, helicopters and *Electronics, Defence and Security Systems.* The increase in the period in advances to suppliers mainly refer to advances paid within the EFA Kuwait programme of the *Aeronautics*.

Provisions for write-down are entered against the various categories of inventories to cover any obsolescence, slow-moving items or if the entry value is higher than the net realisable value, for a total amount of €mil. 518 (€mil. 471 at 31 December 2016).

13. CONTRACT WORK IN PROGRESS AND PROGRESS PAYMENTS AND ADVANCES FROM CUSTOMERS

	31 December 2017	31 December 2016
Contract work in progress (gross)	3,218	3,191
Final losses (positive wip)	(25)	(40)
Progress payments and advances from customers	(924)	(1,084)
Contract work in progress (net)	**2,269**	**2,067**
Progress payments and advances from customers (gross)	6,058	4,614
Contract work in progress	(447)	(141)
Final losses (negative wip)	334	471
Progress payments and advances from customers (net)	**5,945**	**4,944**
Net value	**(3,676)**	**(2,877)**

Contract work in progress" is recognised as an asset net of the relative advances if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work in progress exceeds advances from

customers. It is recognised as a liability if advances from customers exceed the relevant work in progress. This offsetting is performed only with regard to work in progress and not to inventories or other assets. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

Below is a breakdown of the net balance of contract work in progress and progress payments and advances from customers:

	31 December 2017	31 December 2016
Cost incurred and margins recognised, net of losses	3,306	3,109
Advances	(6,982)	(5,986)
Net value	**(3,676)**	**(2,877)**

14. TRADE AND FINANCIAL RECEIVABLES

	31 December 2017		31 December 2016	
	Trade	Financial	Trade	Financial
Receivables	1,851	28	1,739	29
Cumulative impairments	(141)	(2)	(128)	(2)
Related parties current receivables (Note 33)	1,087	232	1,226	326
	2,797	**258**	**2,837**	**353**

Trade receivables include €mil. 18 (€mil. 38 at 31 December 2016) for receivables from Sukhoi and Superjet which can be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined upon the disposal of the Russian business of Superjet, and receivables from Piaggio Aeroindustries whose payment has been rescheduled (in the amount of €mil. 115) beyond 12 months as part of the financial restructuring plan started by the latter company.

The composition of assets by currency and geographical area is shown in Appendices nos. 5 and 6 to these Notes. The ageing of receivables together with an analysis of how the Company manages credit risk is reported under Note 34.

15. INCOME TAX RECEIVABLES AND PAYABLES

Receivables mainly relate to IRES receivables for which a request for refund has been claimed. The changes during the year and the composition of assets and liabilities by maturity, currency and geographical area are shown in Appendices nos. 5, 6, 9 and 10 to these Notes.

16. OTHER ASSETS

	31 December 2017	31 December 2016
Derivatives	158	152
Prepaid expenses - current portion	34	32
Receivables for grants	88	98
Receivables from employees and social security	51	50
Indirect tax receivables	45	32
Deferred receivables under Law no. 808/85	-	2
Other related parties receivables (Note 33)	54	51
Fair value of the residual portion in portfolio of Ansaldo Energia	-	138
Other assets	96	82
	526	**637**

The item mainly decreased for the put option right exercised on 15% of the equity investment in Ansaldo Energia during July, by virtue of which the residual investment pertaining to the Group within the sale to Cassa Depositi e Prestiti concluded in 2013, was sold to CDP *Equity*. Exercising such option allowed the collection of €mil. 144, including interest at a yearly 6% rate (book value of €mil. 138 at 31 December 2016).

"Indirect tax receivables", equal to €mil. 45 (€mil. 32 at 31 December 2016), mainly represent VAT receivables. The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 5 and 6 to these Notes.

The table below provides the breakdown of derivatives.

	Fair value at					
	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps						
Trading	1	(3)	**(2)**	2	(3)	**(1)**
Cash flow hedge	-	-	**-**	-	(1)	**(1)**
Currency forward/swap/option						
Trading	59	(59)	**-**	41	(41)	**-**
Fair value hedge	6	(4)	**2**	1	(37)	**(36)**
Cash flow hedge	92	(160)	**(68)**	109	(231)	**(122)**

The cash flow hedge is the forward instrument hedging trade items denominated in foreign currency.

Vice versa, the fair value hedge is the forward instrument hedging deposits and loans made in pound sterling and US dollars that fall under the Group's financial centralisation, with reference to financial activities for the companies not falling under the One Company scope: the changes in fair value directly offset the realignment of the exchange rates applicable to loans and deposits.

Finally, trading forward instruments refer to transactions carried out with banks acting in the interest of the fully owned subsidiaries; these transactions are transferred, on a mirror-like basis, to the Group companies which reflect the relevant impacts in their balance sheet and income statement.

The “interest rate swaps” with a total notional value of €mil. 400, classified as trading instruments, were placed into effect to pursue the management objectives of hedging part of the bonds issued by Leonardo and the Group companies. The impact on the income statement is described in the section on Financial Risk Management (Note 34).

The portion of the changes that had an impact on the income statement is described in Note 30.

17. CASH AND CASH EQUIVALENTS

The balance of “Cash and cash equivalents” at the end of the year, equal to €mil. 1,565 (€mil. 1,747 at 31 December 2016), was mainly the result of net cash flows realised by the Company’s Divisions during the year. Cash and cash equivalents at 31 December 2017 include €mil. 3 of term deposits (6 at 31 December 2016).

18. NON CURRENT ASSETS HELD FOR SALE

The balance at 31 December 2017 is equal to zero. This item included at 31 December 2016 the following equity investments: AgustaWestland Ltd (€mil. 1,109), Agusta Aerospace Services SA (€mil. 20), AgustaWestland do Brasil (€mil. 9) and AgustaWestland Malaysia (€mil. 13). The equity investment in AgustaWestland Ltd was sold at the beginning of 2017 to Leonardo MW Ltd within the One Company creation process in UK, while the other equity investments were jointly sold at the beginning of 2017 to AgustaWestland Holdings Ltd. These sales generated a total capital gain of €mil.131, directly recognised in equity.

19. EQUITY

The equity broken down by available and distributable reserves is shown in Appendix no. 7 to these Notes.

The composition of the share capital is as follows:

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544		(19)	2,525
Treasury shares	(3,738,696)		(34)		(34)
31 December 2016	**574,411,699**	**2,544**	**(34)**	**(19)**	**2,491**
Repurchase of treasury shares net of the portion sold	29,563			-	-
31 December 2017	**574,441,262**	**2,544**	**(34)**	**(19)**	**2,491**
Broken down as follows:					
Outstanding shares	578,150,395	2,544		(19)	2,525
Treasury shares	(3,709,133)		(34)		(34)

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of € 4.40 each, including no. 3,709,133 treasury shares.

At 31 December 2017 the Ministry of Economy and Finance owned around 30.204% of the share capital.

The cash flow hedge reserve includes changes in fair value of derivatives used by the Company to hedge its exposure to currency net of the effect of deferred taxes until the moment in which the "underlying position" is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

The revaluation reserve includes the effects of the valuation of actuarial gains and losses with reference to severance pay.

The proposal for the distribution of dividends for the period is included in the Report on Operations.

20. LOANS AND BORROWINGS

	31 December 2017			31 December 2016		
	Non current	Current	Total	Non current	Current	Total
Bonds	2,707	585	3,292	2,660	603	3,263
Bank loans and borrowings	186	52	238	238	58	296
Related parties loans and borrowings (Note 33)	-	1,669	1,669	-	1,664	1,664
Other loans and borrowings	25	52	77	33	46	79
	2,918	**2,358**	**5,276**	**2,931**	**2,371**	**5,302**

Bonds

Below are the bonded loans in place and listed on the Luxembourg Stock Exchange:

Year of issue	Maturity	Currency	*Outstanding* nominal amount (mil.) (*)	Annual Coupon		Type of offer
2003	2018	€	500	*5,750%*	(1)	European Istitutional
2005	2025	€	500	4,875%		European Istitutional
2009	2019	GBP	288	8,000%	(2)	European Istitutional
2009	2022	€	556	5,250%		European Istitutional
2013	2021	€	739	4,500%		European Istitutional
2017	2024	€	600	1,500%		European Istitutional

(1) Rate derivative transactions were made on these bonds and led the effective cost of the loan to a fixed rate better than the coupon and corresponding to an average of some 5.6%.

(2) The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged.

(*) Residual nominal amounts in case of issues subject to the buy-back transactions..

The item increased as a result of the issue of a nominal amount of €mil. 600 in June 2017 as a part of the EMTN programme expiring in 2024 and a coupon of 1.50%. The effect was almost entirely offset by the repayment of the bond issue due in December for a nominal amount of €mil. 520 and a buy-back of a nominal amount of GBPmil. 30 on the bond issued in 2009 expiring in 2019 (coupon 8%).

The main clauses that regulate the Group's payables are reported in the section "*Financial Transactions*" of the Report on Operations. Changes in loans and borrowings are as follows:

	1 January 2017	Issues	Repayments/Payment of coupons	Effect from Mergers/Demergers	Other net increase (decrease)	Exchange differences and other movements	31 December 2017
Bonds	3,263	591	(694)	-	173	(41)	**3,292**
Bank loans and borrowings	296	-	-	-	-	(58)	**238**
Related-parties loans and borrowings	1,664	-	-	-	-	5	**1,669**
Other loans and borrowings	79	-	-	-	-	(2)	**77**
	5,302	**591**	**(694)**	**-**	**173**	**(96)**	**5,276**

	1 January 2016	Issues	Repayments/Payment of coupons	Effect from Mergers/Demergers	Other net increase (decrease)	Exchange differences and other movements	31 December 2016
Bonds	3,325	-	(173)	-	173	(62)	3,263
Bank loans and borrowings	329	-	(48)	59	(44)	-	296
Related-parties loans and borrowings	2,983	-	-	(1,048)	(271)	-	1,664
Other loans and borrowings	-	-	-	93	(14)	-	79
	6,637	**-**	**(221)**	**(896)**	**(156)**	**(62)**	**5,302**

Below is the reconciliation of the movements in borrowings with the cash flows from financing activities in FY 2017.

Balance at 1 January 2017	**5,302**
Changes included in the cash flows from financing activities in the statements of cash flows	**(449)**
– Repayment of the EIB loan	*(46)*
– Bond issue	*591*
– Repayment of bonds	*(555)*
– Net change in other borrowings	*(9)*
Non-monetary changes	**(7)**
- Exchange rate effect	*(13)*
- Accrued interest	*6*
Balance at 31 December 2017	**5,276**

Bank loans and borrowings

The item mainly includes the 12-year loan signed with the European Investment Bank (EIB) in 2009 to finance development in the Aeronautics segment (€mil. 234 at 31 December 2017 compared to €mil. 280 at 31 December 2016). As provided in the loan agreement, €mil. 300 of the loan was originally used at a fixed rate of 3.45% and for €mil. 200 at a floating rate equal to the 6-month Euribor plus a margin of 79.4 basis points. The fixed-rate tranche is repaid in 11 annual instalments with a fixed principal repayment component, while the floating-rate tranche is repaid in 21 6-month instalments, also with a fixed principal repayment component. During the year €mil. 46 was repaid.

Related parties loans and borrowings

Related parties loans and borrowings remained substantially unchanged compared to the prior year. For their breakdown reference is made to Note 33.

Other borrowings

The item includes the residual balance of subsidised loans, related to programmes and projects of the companies and business units merged.

Exposure to changes in interest rates of the financial liabilities is as follows:

	Bonds		**Bank loans and borrowings**		**Related parties loans and borrowings**		**Other loans and borrowings**		**Total**	
31 December 2017	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	585	23	29	1,669	-	49	3	1,741	617
2 to 5 years	-	1,062	77	109	-	-	21	4	98	1,175
Beyond 5 years	-	1,645	-	-	-	-	-	-	-	1,645
Total	**-**	**3,292**	**100**	**138**	**1,669**	**-**	**70**	**7**	**1,839**	**3,437**

	Bonds		Bank loans and borrowings		Related parties loans and borrowings		Other loans and borrowings		Total	
31 December 2016	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	603	28	30	1,664	-	46	-	1,738	633
2 to 5 years	-	1,608	82	109	-	-	28	1	110	1,718
Beyond 5 years	-	1,052	20	27	-	-	4	-	24	1,079
Total	**-**	**3,263**	**130**	**166**	**1,664**	**-**	**78**	**1**	**1,872**	**3,430**

Below is the financial information required under CONSOB communication DEM/6064293 of 28 July 2006:

	31 December 2017	*of which with related parties*	**31 December 2016**	*of which with related parties*
Liquidity	**(1,565)**		**(1,747)**	
Current loans and receivables	**(258)**	*(232)*	**(353)**	*(326)*
Current bank loans and borrowings	52		58	
Current portion of non-current loans and borrowings	585		603	
Other current loans and borrowings	1,721	*1,669*	1,710	*1,664*
Current financial debt	**2,358**		**2,371**	
Net current financial debt (funds)	**535**		**271**	
Non-current bank loans and borrowings	186		238	
Bonds issued	2,707		2,660	
Other non-current loans and borrowings	25	-	33	-
Non-current financial debt	**2,918**		**2,931**	
Net financial debt	**3,453**		**3,202**	

The reconciliation between Net Financial Debt and Group Net Debt, used as KPI, is as follows:

	Note	**31 December 2017**	**31 December 2016**
Net financial debt com. CONSOB no. DEM/6064293		3,453	3,202
Fair value of the residual portion in portfolio of Ansaldo Energia	*16*	-	(138)
Hedging derivatives in respect of debt items	*16*	(1)	35
Non current financial receivables from Group's consolidated entities	*33*	(452)	(15)
Non current financial receivables from Superjet	*11*	(48)	(65)
Net debt (KPI)		**2,952**	**3,019**

The main clauses that regulate the Leonardo’s payables are reported in the section “*Financial Transactions*” of the Report on Operations.

21. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2016						
Current	-	-	-	-	226	**226**
Non current	123	2	-	-	24	**149**
	123	**2**	**-**	**-**	**250**	**375**
Effect from Mergers/Demergers	19	151	380	113	543	**1,206**
Allocations	1	21	27	39	211	**299**
Uses	(2)	(33)	(64)	(10)	(189)	**(298)**
Reversals	-	-	(19)	(22)	(102)	**(143)**
Other changes	(1)	(9)	(179)	-	78	**(111)**
31 December 2016	**140**	**132**	**145**	**120**	**791**	**1,328**
Broken down as follows:						
Current	99	47	19	57	297	**519**
Non current	41	85	126	63	494	**809**
	140	**132**	**145**	**120**	**791**	**1,328**
Effect from Mergers/Demergers	-	-	-	2	4	**6**
Allocations	-	3	26	38	246	**313**
Uses	(2)	(38)	(7)	(10)	(75)	**(132)**
Reversals	-	(4)	(2)	(27)	(63)	**(96)**
Other changes	(18)	(9)	(25)	-	(62)	**(114)**
31 December 2017	**120**	**84**	**137**	**123**	**841**	**1,305**
Broken down as follows:						
Current	98	34	19	65	372	**588**
Non current	22	50	118	58	469	**717**
	120	**84**	**137**	**123**	**841**	**1,305**

The “Other provisions for risks and charges” mainly include:

- the provision for risks on equity investments of €mil. 100 (€mil. 56 at 31 December 2016), which mainly includes the accruals for losses exceeding the carrying amounts of the equity investment in So.Ge.Pa.SpA;
- the provision for tax disputes of €mil. 46 (€mil. 40 at 31 December 2016);
- the provision for litigation with employees and former employees of €mil. 26 (€mil. 34 at 31 December 2016);
- the provision for litigation in progress of € mil. 8 (€mil. 6 at 31 December 2016);
- other provisions, mainly related to critical issues on contracts, in particular of the *Aeronautics* sector.

With regard to risks, below is a summary of the criminal proceedings that are currently underway against Leonardo, as well as certain former directors and executives, concerning acts committed during the performance of their duties, with specific reference to the events that occurred in 2017 and in early 2018:

- criminal proceedings are pending before the Court of Rome against, among others, the former Commercial Director of Leonardo, for the crime under Articles 110, 319, 319-*bis*, 320, 321 and 322-*bis* of the Italian Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland,

Selex Sistemi Integrati and Telespazio Argentina with the Government of Panama. On 22 September 2017 the Court of Rome handed down a judgment for dismissal of charge pursuant to Article 531 of the Italian Code of Criminal Procedure. An appeal was then filed against the aforesaid judgment. In relation to this case, the Public Prosecutor's Office of Rome also brought proceedings against Leonardo for administrative violations pursuant to Article 25 of Legislative Decree 231/2001; following the request for committal for trial submitted by the Public Prosecutor, the pre-trial hearing was set for 21 September 2017. At the end of this hearing the Court handed down a judgment for dismissal of charge pursuant to Article 425 of the Italian Code of Criminal Procedure;

- criminal proceedings are pending before the Court of Rome against one former executive of Leonardo, three former Directors and an executive of the Company (in relation to the position as director held in the then Finmeccanica Finance SA) for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61 no.11 of the Italian Criminal Code in relation, among other things, to personal loans requested to the company in the period 2008-2014;
- with reference to the immediate trial before the Court of Busto Arsizio in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian Government, it should be noted that on 9 October 2014 the Court sentenced the former Chairman and Chief Executive Officer of Leonardo S.p.A. (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland S.p.A. for having committed crimes under Article 2 of Legislative Decree 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009 – June 2010 tax period, while also ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil. 3.4) be confiscated from AgustaWestland S.p.A., considered in determining the provisions for risks. In the same decision, the Court found the defendants not guilty of having committed the crimes under Articles 110, 112, paragraph 1, 319, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code (corruption of foreign public officials), due to lack of evidence. An appeal was filed against the decision.

  On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo, and the former Chief Executive Officer of AgustaWestland S.p.A., for crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000. Subsequently, on 16 December 2016 the Supreme Court repealed the judgment appealed against and referred it to another division of the Milan Court of Appeal for consideration of new proceedings. On 8 January 2018 the Milan Court of Appeal acquitted the defendants of the charges, setting the time limit for filing the related reasons at ninety days. In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding

groundless, following the conclusion of investigations, the Company's involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio – in granting the motions put forth by the companies – imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland S.p.A. and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5.
As regards the investigations started by the Indian Judicial Authority (CBI) in February 2013 for the same facts referred to above, it should be noted that on 2 February 2018 a notice was served on AgustaWestland International Ltd., whereby the latter was invited to appear at the hearing to be held on 30 May 2018 before the Patiala House Court in New Delhi within the criminal proceedings brought therein against the aforesaid company and other entities and persons, including Leonardo Spa. However, it should be noted that no notice was served upon Leonardo;

- criminal proceedings are pending with the Public Prosecutor's Office of Busto Arsizio, against two former chief executive officers of AgustaWestland S.p.A., for crimes under Article 2 of Legislative Decree 74/2000, Articles 81 and 110 of the Italian Criminal Code and Articles 322-*bis*, 81 and 110 of the Italian Criminal Code, as well as against a former executive of the company, for crimes under Article 2 of Legislative Decree 74/2000 and Articles 81 and 110 of the Italian Criminal Code, in relation to the contractual relationships maintained by AgustaWestland S.p.A. with a foreign company under the agreements entered into with the Algerian Ministry of Defence; on 11 December 2017 the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio ordered the dismissal of the case as to the crimes referred to in Articles 322-*bis*, 81 and 110 of the Italian Criminal Code. It should be noted that within these proceedings, the notice of conclusion of the preliminary investigations was served in April 2016, limited to the offence under Article 2 of Legislative Decree 74/2000, against two former chief executive officers and a former executive of AgustaWestland S.p.A.. Following the request for committal for trial submitted by the Public Prosecutor, the pre-trial hearing was set at 25 July 2017 and subsequently adjourned on 23 January 2018. At the end of this hearing the Court handed down a judgment for dismissal of charge pursuant to Article 425 of the Italian Code of Criminal Procedure;
- criminal proceedings are pending before the Court of Naples concerning contracts awarded to the then-Elsag Datamat (now Selex ES S.p.A.) and to another company for the development, respectively, of the integrated traffic monitoring system of the city of Naples and video-surveillance systems for a

number of municipalities within the Province of Naples. Under the proceedings, an employee of the then-Elsag Datamat is charged with crimes under Articles 353 and 326 of the Italian Criminal Code, the former Chief Executive Officer and an employee of the then-Elsag Datamat are charged with crimes under Articles 326, 353 and 416 of the Italian Criminal Code, as well as Selex ES for having committed administrative offences under Article 24-*ter,* paragraph 2, of Legislative Decree 231/2001. Furthermore Selex ES, following service of civil summons issued by the Court at the request of the civil-action party, also entered appearance in the civil action. The proceedings are now in the trial phase;

- criminal proceedings are being conducted by the Turin Public Prosecutor's Office concerning the provision of helicopters to the armed forces, police and other government entities on the part of AgustaWestland, involving certain directors of Leonardo (serving from 1994 to 1998) and certain directors/executives of AgustaWestland (serving from 1999 to 2014) with respect to crimes under Article 449 of the Italian Criminal Code for violation of the regulations on the use of asbestos;
- criminal proceedings are pending against certain directors of the then-Breda Termomeccanica S.p.A., subsequently Ansaldo S.p.A., who served during the period from 1973 to 1985, charged with having committed the crimes under Article 589, paragraphs 1, 2 and 3, Article 40, paragraph 2, Article 41, paragraph 1 of the Italian Criminal Code, Article 2087 of the Italian Civil Code and Article 590, paragraphs 1, 2, 3, 4 and 5, of the Italian Criminal Code, for violation of the rules governing the prevention of occupational diseases - within which Leonardo has entered appearance in the civil action - on 15 June 2017 the Court of Milan handed down an acquittal judgment. The aforesaid judgment was appealed against.

Based upon the information gathered and the results of the analysis carried out so far, the Directors of Leonardo did not allocate any specific provisions. Any negative developments - which cannot be foreseen, nor determined to date - arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

* * * * * * * *

With regard to the provisions for civil, tax and administrative disputes, it is underlined that the Leonardo's operations regard industries and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity. Pursuant to the IFRSs, provisions have only been set aside for risks that are probable and for which the amount can be determined. No specific provisions have been set aside for certain disputes in which the Company is defendant as these disputes are reasonably expected to be settled, based on current knowledge, satisfactorily and without significantly impacting the Company. Of particular note are the following disputes:

- The litigation brought by Reid against Leonardo and Alenia Space (then ALS S.p.A., now So.Ge.Pa S.p.A.) before the Court of Texas in 2001, whereby Reid claimed that the former Finmeccanica-Space Division failed to meet its obligations under the contract for the implementation of the Gorizont satellite programme. The dispute was settled in favour of the Group due to the lack of jurisdiction of the Court appealed to. On 11 May 2007, Reid served a compliant on Leonardo and So.Ge.Pa, whereby it brought new proceedings before the Court of Chancery in Delaware. In the new proceedings Reid once again submitted the same claims for damages as those included in the papers of the previous case developed before the Court of Texas, without, however, quantifying the amount of the alleged damage.
  In appearing before the Court, Leonardo filed a Motion to Dismiss, asserting that the case was time-barred, the statute of limitation had run out and the Court of Delaware did not have jurisdiction. On 27 March 2008, the Court issued an order which rejected the plaintiff's claim as the case was time-barred. The opposite party challenged this decision before the Supreme Court of Delaware, which issued a decision on 9 April 2009, granting the motion and referring the case to the Court of Chancery for a decision on the other objection raised by Leonardo and So.Ge.Pa concerning the lack of jurisdiction of the Court of Delaware. On 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Leonardo and So.Ge.Pa. Therefore preliminary investigations were conducted, at the end of which Leonardo and So.Ge.Pa filed a Motion for summary judgment whereby the Companies once again submitted the issue relating to the lack of jurisdiction of the Court of Delaware, while asking the Court to reject the plaintiff's petition because it was unfounded as of fact and as of right. By a judgment dated 31 January 2018, the Court of Delaware handed down a final judgment and granted the Motion for summary judgment. This ruling has become final and, therefore, the proceedings have been concluded;
- the litigation brought before the Santa Maria Capua Vetere Court in February 2011 by G.M.R. S.p.A., as the sole shareholder of Firema Trasporti against Leonardo and AnsaldoBreda, was settled with a ruling stating the lack of jurisdiction in favour of the Court of Naples. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits prescribed by law. On 23 June 2015, GMR then served a new writ of summons before the Court of Naples, whereby it once again submitted the same claims as those brought in the previous proceedings. More specifically, according to the plaintiff company, during the period in which Leonardo held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of the company itself and in the sole interest of the Leonardo Group. Moreover, even after the sale of the investment by Leonardo, Firema Trasporti was allegedly *de facto* subjected to an abuse of economic dependence from the abovementioned Group in performing the various agreements existing with AnsaldoBreda. Leonardo and AnsaldoBreda

appeared before the court requesting that, on the merits, the plaintiff's claims be dismissed as clearly groundless, as a result of the non-fulfilment of any and all conditions required by law as requirements to bring an action against directors pursuant to Article 2497 of the Italian Civil Code. Moreover, the aforesaid companies also asked the Court to preliminarily hand down a ruling based on the principle of *lis alibi pendens* (i.e. the suit was pending elsewhere and then the claim was precluded) within these new proceedings with respect to the pending proceedings, between the same parties, before the Naples Court of Appeal. The proceedings described above are still underway.

It is also recalled that Giorgio and Gianfranco Fiore also brought a third-party action against Leonardo and AnsaldoBreda within the proceedings brought by Firema Trasporti under Extraordinary Administration before the Court of Naples, against the engineers themselves and a number of other defendants. By an order dated 18 November 2014, the Court of Naples declared that both the claims submitted by Giorgio and Gianfranco Fiore against Leonardo and AnsaldoBreda and those submitted by G.M.R. (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and G.M.R. be dropped from action. On 17 June 2015 the judge responsible for preliminary investigations, who had been replaced in the meantime, reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and ordered the resumption of the discussion of the case, which is still underway. Before being reversed, the order for dropping a party from action had been challenged before the Naples Court of Appeal by G.M.R and, on a cross-appeal basis, by Leonardo and AnsaldoBreda. On 16 June 2017 the Court declared, in the light of the reversal referred to above, that both appeals were inadmissible, due to the subsequent lack of interest. On 18 January 2018 Leonardo and AnsaldoBreda appealed against this order before the Supreme Court and the proceedings are currently underway.

- the proceedings brought before the Court of Rome on 4 March 2013 by Mr Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei S.r.l. and of Società Progetto Cina S.r.l. against Leonardo in order to ask the Court to rule the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (a company which was a subsidiary of Leonardo until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built.

  As stated by the plaintiffs in the writ of summons, the above-mentioned settlement agreement was concluded based on unfair conditions, thus taking advantage of the distress of Mr Deiana and of the economic dependence of the plaintiff companies with respect to Ansaldo Industria. The claim was

submitted against Leonardo, invoking the latter's general liability arising from the control exercised by it on Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. On 25 September 2013 Leonardo appeared before the Court, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court rejects the plaintiffs' claims as they are entirely groundless in fact and in law. A minority shareholder of Società Progetto Cina S.r.l. and a minority shareholder of Janua Dei Italia S.r.l. intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. The case was retained for decision at the hearing held on 22 November 2017 and we are waiting for the judgment to be handed down;

- In the context of the investigation started by the Public Prosecutor's Office of Milan, by a ruling of 20 September 2011 the Court of Milan sentenced Ansaldo Energia for having committed the crime under art. 25 of Legislative Decree 231/01 and ordered the confiscation of an equivalent amount of €mil. 98.7 imposing also administrative penalties of €150,000. This sentence was also confirmed by the Court of Appeal of Milan with a ruling of 24 October 2013. Against this ruling the Company lodged an appeal with the Supreme Court which quashed this previous ruling on 10 November 2015 referring the case to another division of the same Court of Appeal. The latter, by a ruling of 28 November 2017, acquitted Ansaldo Energia setting the time limit for the filing of the related reasons at ninety days. From the filing of the reasons, should the legal requirements obtain, there would be 45 days for challenging the ruling. In respect of the guarantee granted for the lawsuit at issue, at the time of the disposal of the investment, Leonardo recorded in previous financial years a risk provision covering the amount being confiscated in 2011 and the amount of the administrative penalties (€mil. 99). This provision has been maintained in the financial statements pending the outcome of the proceedings.

22. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2017	31 December 2016
Severance pay provision	317	326
Defined contribution plans	25	20
	342	**346**

The entire amount of the costs related to employee benefit obligations, which was recognised under financial expense, is equal to €mil. 3 and remained unchanged compared to 31 December 2016.

Below are the changes in the severance pay provision:

	31 December 2017	31 December 2016
Opening balance	326	3
Net interest expense	3	3
Remeasurement	3	8
Actuarial losses (gains) through equity - financial assumptions	*3*	*8*
Effect from Mergers/Demergers	2	338
Benefits paid	(17)	(26)
Closing balance	**317**	**326**

It should be noted that the portion of cost for the year relating to amounts transferred to pension funds or to a treasury fund managed by INPS is recognised according to the rules for defined-contribution plans, without any actuarial assessment.

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of the severance pay provision that has maintained the nature of defined-benefit plan are as follows:

	31 December 2017	31 December 2016
Discount rate (annual)	0.9%	0.9%
Inflation rate	1.5%	1.5%

The sensitivity analysis for each significant actuarial assumption, which shows the effects on bonds in absolute value, is as follows:

	31 December 2017		31 December 2016	
(€ thousands)	***-0.25%***	***+0.25%***	***-0.25%***	***+0.25%***
Discount rate (annual)	5	(5)	6	(6)
Inflation rate	(4)	4	(3)	3

The average duration of the severance pay is 9 years.

23. OTHER NON CURRENT AND CURRENT LIABILITIES

	31 December 2017		31 December 2016	
	Non current	Current	Non current	Current
Employee obligations	46	239	45	228
Deferred income	105	40	129	33
Amounts due to social security institutions	-	151	-	144
Payables to MED (Law no. 808/85)	262	109	307	106
Payables to MED for monopoly costs (Law no. 808/85)	181	45	193	31
Other liabilities (Law no. 808/85)	222	-	187	-
Indirect tax liabilities	-	53	5	58
Derivatives	-	226	-	313
Other liabilities	4	290	11	381
Other payables to related parties (Note 33)	-	324	-	391
	820	**1,477**	**877**	**1,685**

The payables to the Ministry for Economic Development (MED) relate to monopoly costs accrued under Law 808/1985 on national security and similar projects, as well as payables for grants received from MED for the development of programmes not related to national security and similar projects eligible for benefits under Law 808/1985.

“Other liabilities (Law 808/1985)” include the difference between the monopoly costs charged for the national security programmes and the amount actually due based on agreed repayment ratios.

Payables to subsidiaries mainly arise from the Group VAT mechanism.

“Deferred income” specifically includes subsequent years rentals already collected in past years in relation to the agreements for the sale of “Ansaldo” trademark.

“Other payables” include, in particular, down payments received from customers for €mil. 60, penalties on programmes for €mil. 69 and payables for royalties amounting to €mil. 11.

24. TRADE PAYABLES

	31 December 2017	31 December 2016
Suppliers	2,125	1,954
Trade payables to related parties (Note 33)	680	613
	2,805	**2,567**

25. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Company is party to a number of operating leases as both lessee for the purposes of acquiring the use of other assets and lessor primarily of plant and equipment. The non-cancellable minimum future payments relating to operating lease contracts and commitments taken (as lessor) with respect to financial leases are as follows:

	31 December 2017				31 December 2016			
	Operating lease		*Financial lease*		*Operating lease*		*Financial lease*	
	as lessee	**as lessor**	**as lessee**	**as lessor**	**as lessee**	**as lessor**	**as lessee**	**as lessor**
Within 1 year	88	7	16	-	43	7	8	-
2 to 5 years	266	2	1	-	126	7	5	-
Beyond 5 years	13	1	-	-	28	-	-	-
	367	**10**	**17**	**-**	**197**	**14**	**13**	**-**

With regard to operating leases in which the Company is a lessee, commitments amounted to €mil. 339 with respect to subsidiaries and to €mil. 28 in respect of other parties, mainly for the lease of office space. For those leases in which the Company acts as lessor, commitments amounted to €mil. 7 (€mil. 14 at 31 December 2016) in respect to subsidiaries.

Guarantees

	31 December 2017	31 December 2016
Guarantees in favour of related parties (Note 33)	4,461	5,266
Guarantees in favour of third parties	7,208	7,440
Guarantees given to third parties	2,143	2,906
Other guarantees for Leonardo Commitments	583	250
Unsecured guarantees given	**14,395**	**15,862**

Specifically, these consist of:

- counter-guarantees, totalling €mil. 8,444 (€mil. 8,589 at 31 December 2016), granted by Leonardo to third parties, banks and insurance institutions in its own interest for €mil. 203 (€mil. 52 at 31 December 2016), in the interest of related parties for €mil. 1,033 (€mil. 1,097 at 31 December 2016) and in the interest of other companies for €mil. 7,208 (€mil. 7,440 at 31 December 2016).
- direct commitments issued by Leonardo, amounting to €mil. 5,951 (€mil. 7,273 at 31 December 2016), in favour of lenders, tax authorities, customers and co-suppliers (Parent Company Guarantee), in its own interest for €mil. 380 (€mil. 199 at 31 December 2016), in favour of related parties for €mil. 3,428 (€mil. 4,168 at 31 December 2016) and in favour of other companies for €mil. 2,143 (€mil. 2,906 at 31 December2016).

In addition to the above commitments, the Company issued non-binding letters of patronage on behalf of subsidiaries and certain associates in support for their commercial activities.

26. REVENUE

	2017	2016
Revenue from sales	3,560	3,520
Revenue from services	1,951	1,936
Change in work in progress	95	(62)
Revenue from related parties (Note 33)	2,255	2,531
	7,861	**7,925**

The trends in revenue by business segment at a Group level are described in the Report on Operations.

Revenue was realised in the following geographical areas:

	2017	2016
Italy	1,771	2,044
United Kingdom	372	504
Rest of Europe	2,182	2,762
North America	1,179	1,288
Rest of the world	2,357	1,327
	7,861	**7,925**

27. OTHER OPERATING INCOME (EXPENSES)

	2017			2016		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	22	-	22	21	-	21
Other operating grants	1	-	1	2	-	2
Reversals (accruals) to provisions for risks and final losses on orders and reversal of impairment of receivables	209	(216)	(7)	224	(223)	1
Exchange rate difference on operating items	145	(140)	5	150	(137)	13
Insurance reimbursements	3	-	3	3	-	3
Restructuring costs	2	(1)	1	10	(15)	(5)
Indirect taxes	-	(12)	(12)	-	(13)	(13)
Other operating income (expenses)	17	(47)	(30)	23	(27)	(4)
Other operating income (expenses) from related parties (Note 33)	13	(1)	12	15	(3)	12
	412	**(417)**	**(5)**	**448**	**(418)**	**30**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil 5 (€mil.63 at 31 December 2016), are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 11) equal to €mil. 83 (€mil.58 at 31 December 2016).

28. PURCHASE AND PERSONNEL EXPENSE

	2017	2016
Purchase of materials from third parties	2,356	2,185
Change in inventories of raw materials	(28)	177
Costs for purchases from related parties (Note 33)	426	470
Purchases	***2,754***	***2,832***
Services rendered by third parties	1,968	1,913
Costs of rents and operating leases	122	120
Royalties	5	4
Software fees	27	21
Rental fees	7	9
Services rendered by related parties (Note 33)	689	442
Services	***2,818***	***2,509***
Wages and salaries	1,332	1,315
Social security contributions	384	382
Costs related to defined-contribution plans	90	87
Employee disputes	3	3
Restructuring costs - net	27	14
Other personnel expenses net of cost recovery	19	10
Personnel expenses	***1,855***	***1,811***
Change in finished goods, work in progress and semi-finished products	***(29)***	***143***
Internal work capitalised	***(249)***	***(298)***
Total purchases and personnel expenses	**7,149**	**6,997**

The average workforce is equal to no: 27,307 units; the average workforce compared with the 2016 data shows an increase (no.183 units) due to the merger of Sirio Panel for no. 304 units.

The figure of total workforce at 31 December 2017, compared to the data at 31 December 2016 increased (no. 213 units) as a result of the merger of Sirio Panel for no. 315 units.

The figure related to the average workforce, unlike that of the total workforce, is affected by the presence of part-time employees, personnel that took extended leave, redundant staff and employees with solidarity contracts.

The workforce breakdown is as follows:

	Average Workforce			Total Workforce		
	31 December 2017	31 December 2016	Change	31 December 2017	31 December 2016	Change
Senior managers (*)	710	706	4	729	707	22
Middle managers	3,184	3,178	6	3,258	3,153	105
Clerical employees	16,429	16,368	61	16,857	16,799	58
Manual labourers (**)	6,984	6,872	112	6,952	6,924	28
Total	**27,307**	**27,124**	**183**	**27,796**	**27,583**	**213**

(*) Includes pilots
(**) Includes senior manual labours

29. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2017		2016	
Amortisation of intangible assets		149		220
Development costs	*56*		*68*	
Non-recurring costs	*42*		*93*	
Acquired through business combinations	*4*		*4*	
Concessions, licences and trademarks	*19*		*26*	
Other intangible assets	*28*		*29*	
Depreciation of property, plant and equipment and investment properties (Note 9)		191		240
Impairment of operating receivables		18		18
Impairment of other assets		3		16
		361		**494**

30. FINANCIAL INCOME AND EXPENSE

	2017			2016		
	Income	Expenses	Net	Income	Expenses	Net
Interest to/from banks	1	(7)	(6)	1	(11)	(10)
Interest and other charges on bonds	-	(171)	(171)	-	(173)	(173)
Commissions	1	(18)	(17)	2	(22)	(20)
Dividends	463	-	463	663	-	663
Premiums (paid) received on IRS	6	(8)	(2)	6	(6)	-
Premiums (paid) received on forwards	38	(51)	(13)	31	(44)	(13)
Income and charges from equity investments and securities	-	(8)	(8)	2	(33)	(31)
Value adjustments on equity investments	-	(102)	(102)	-	(189)	(189)
Fair value gains (losses) through profit or loss	20	(13)	7	38	(11)	27
Exchange rate differences	128	(143)	(15)	314	(308)	6
Financial income (expense) - related parties (Note 33)	35	(8)	27	52	(15)	37
Other financial income and expense	17	(59)	(42)	15	(66)	(51)
	709	**(588)**	**121**	**1,124**	**(878)**	**246**

The deterioration of net financial income compared to 2016 (€mil. 125) is strongly affected by lower inflows deriving from the management of equity investments (as net balance between dividends and write-downs), positive for €mil. 474 in 2016 compared to €mil. 361 in 2017, as well as by the effect of positive exchange differences of which 2016 benefitted from, also impacting the fair value of derivatives (which generate a total deterioration of €mil. 41).

Value adjustments to equity investments are related to So.Ge.Pa Spa.

Fair value results through profit or loss are as follows:

	2017			2016		
	Income	Expenses	Net	Income	Expenses	Net
Exchange rate swap	-	(1)	(1)	1	-	1
Interest rate swaps	-	(1)	(1)	-	(1)	(1)
Ineffective portion of hedging swap	20	(11)	9	37	(10)	27
	20	**(13)**	**7**	**38**	**(11)**	**27**

31. INCOME TAXES

Income taxes can be broken down as follows:

	2017	2016
IRES (corporate income tax)	(54)	(35)
IRAP (reg. tax on production)	(14)	(19)
Tax related to previous periods	(1)	38
Provisions for tax disputes	(8)	(26)
Deferred tax - net	(30)	(58)
Other taxes	(4)	-
	(111)	**(100)**

Below is an analysis of the composition of the theoretical and effective tax rates for 2017 and 2016:

	2017	2016
Profit (loss) before income taxes	**467**	**709**
Tax rate	**(23.8%)**	**14.1%**
Theoretical tax	(112)	(195)
Permanent differences	(10)	(10)
Timing differences	-	(12)
Dividends	66	127
Impairment of equity investments	(24)	(52)
IRAP tax	(18)	(28)
Net deferred tax assets	-	58
Tax provision	(15)	(26)
Previous years' tax	2	38
Total tax through profit or loss	**(111)**	**(100)**
Theoretical tax	**(24.0%)**	**(27.5%)**
Permanent differences not to reverse in subsequent years	(2.1%)	(1.4%)
Timing differences to reverse in subsequent years	n.a.	(1.7%)
Total dividends from profit or loss	14.1%	17.9%
Revaluations of equity investments	n.a.	n.a.
IRAP tax	(5.1%)	(4.0%)
Gains on equity investments	(3.9%)	(7.3%)
Net deferred tax assets	n.a.	8.2%
Tax provision	(3.2%)	(3.7%)
Current taxes of previous years	0.4%	5.4%
Total tax	**(23.8%)**	**(14.1%)**

The effective tax rate went from 14.1% in 2016 to 23.8% in 2017.

Deferred taxes and related receivables and payables at 31 December 2017 were the result of the following temporary differences:

	2017	2016
Deferred tax assets on tax losses	(10)	(13)
Property, plant and equipment and intangible assets	(1)	3
Financial assets and liabilities	-	(2)
Severance and retirement benefits	-	(1)
Provision for risks and impairment	(42)	(34)
Effect of change in tax rate	-	(7)
Other	23	(4)
Deferred taxes recognised through profit or loss	**(30)**	**(58)**

	31 December 2017			31 December 2016		
	Financial statement			Financial statement		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	48	-	48	58	-	58
Property, plant and equipment and intangible assets	18	(71)	(53)	39	(53)	(14)
Severance and retirement benefits	4	(4)	-	9	(4)	5
Provision for risks and impairment	433	-	433	490	-	490
Other	102	(16)	86	40	(32)	8
Deferred taxes recognised through balance sheet	**605**	**(91)**	**514**	**636**	**(89)**	**547**
Cash-flow hedge derivatives	22	-	22	28	(1)	27
On actuarial gains and losses	5	-	5	5	(2)	3
Deferred taxes recognised through equity	**27**	**-**	**27**	**33**	**(3)**	**30**
	632	**(91)**	**541**	**669**	**(92)**	**577**

32. CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
Net result	356	609
Amortisation, depreciation and impairment losses	361	494
Income taxes	111	100
Net allocations to the provisions for risks and inventory write-downs	187	126
Net financial expense /(income)	(121)	(246)
Other non-monetary items	42	32
	936	**1,115**

The changes in other operating assets and liabilities are as follows:

	2017	2016
Payment of pension plans	(17)	(28)
Changes in provisions for risks and other operating items	(367)	(18)
Change in other operating assets and liabilities and provisions for risks and charges	**(384)**	**(46)**

	2017	2016
Inventories	(567)	130
Contract work in progress and progress payments and advances from customers	750	350
Trade receivables and payables	115	(796)
Change in trade receivables/payables, work in progress/progress payments and inventories	**298**	**(316)**

33. FINANCIAL TRANSACTIONS WITH RELATED PARTIES

Commercial and financial relations with related parties are carried out at arm's length, as is settlement of interest-bearing receivables and payables. Below are the balance sheet amounts of 2017 and 2016:

RECEIVABLES at 31 December 2017	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
Agustawestland Philadelphia Co			193			193
Agustawestland SpA			9	33	4	46
Agustawestland Holdings Ltd	14	9				23
W.S.K. PZL-Swidnik S.A.			17			17
Agustawestland Australia Pty Ltd		5	12			17
Agustawestland Malaysia SDN BHD			14			14
Selex ES SpA			17			17
Sistemi Dinamici SpA		12	1			13
Selex ES International Ltd		37	2			39
Leonardo MW Ltd	180	43	216			439
Leonardo Global Solutions SpA	50		3	3	7	63
So.Ge.Pa.Società Generale di Partecipazioni SpA	258	16	2			276
Other with unit amount lower than €mil. 10		2	46	3	1	52
Associates						
NHIndustries SAS			182			182
Eurofighter Jagdflugzeug Gmbh			59			59
Iveco - Oto Melara S.c.a.r.l.			11			11
Agustawestland Aviation Services LLC			13			13
Macchi Hurel Dubois SAS			12			12
Other with unit amount lower than €mil. 10			28			28
Joint Venture						
CONS. ATR GIE			53			53
MBDA SAS			16		1	17
Thales Alenia Space SAS		105	26		1	132
Joint Stock Company Helivert			39			39
Telespazio SpA		2	11			13
Other with unit amount lower than €mil. 10			1		1	2
Consortiums						
Other with unit amount lower than €mil. 10		1	6			7
Companies subject to the control or considerable influence of the MEF						
ENAV SpA			17			17
Fintecna SpA			56			56
Poste Italiane SpA			6			6
Other with unit amount lower than €mil. 10			9			9
Other related parties						
Other			10			10
Total	**502**	**232**	**1,087**	**39**	**15**	**1,875**
% against total for the period	***83.4%***	***89.9%***	***38.9%***	***7.4%***	***2.9%***	

RECEIVABLES at 31 December 2016	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
Agustawestland Philadelphia Co			209			209
Agustawestland SpA		92	9	32	2	135
Agustawestland Ltd			163			163
W.S.K. PZL-Swidnik S.A.	14	1	21			36
Agustawestland Australia Pty Ltd			19			19
Agustawestland Malaysia SDN BHD			17			17
Selex ES SpA		75	62			137
Selex ES Inc		12	3			15
Selex ES International Ltd		37	2			39
Leonardo MW Ltd			38			38
BredaMenarinibus SpA		50				50
Leonardo Global Solutions SpA	53		5	3	8	69
So.Ge.Pa.Società Generale di Partecipazioni SpA		13				13
Other with unit amount lower than €mil. 10		8	41	2	1	52
Associates						
NHIndustries SAS			197			197
Eurofighter Jagdflugzeug Gmbh			73			73
Iveco - Oto Melara S.c.a.r.l.			35			35
Orizzonte - Sistemi Navali SpA			23			23
Macchi Hurel Dubois SAS			20			20
Other with unit amount lower than €mil. 10			33			33
Joint Venture						
CONS. ATR GIE			61			61
MBDA SAS			18			18
Thales Alenia Space SAS		34	20		1	55
Joint Stock Company Helivert			53			53
Telespazio SpA	1	2	11		1	15
Altre di importo unitario inferiore a €mil. 10			3			3
Consortiums						
Other with unit amount lower than €mil. 10		2	8			10
Companies subject to the control or considerable influence of the MEF						
ENAV SpA			29			29
Fintecna SpA			12			12
Poste Italiane SpA			16			16
Other with unit amount lower than €mil. 10			16		1	17
Other related parties						
Other with unit amount lower than €mil. 10			9			9
Total	**68**	**326**	**1,226**	**37**	**14**	**1,671**
% against total for the period	***34.7%***	***92.4%***	***43.2%***	***5.8%***	***2.2%***	

PAYABLES at 31 December 2017	**Current loans and borrowings**	**Trade payables**	**Payables from consolidated tax mechanism**	**Other current payables**	**Total**	**Guarantees**
Subsidiaries						
Agustawestland Malaysia SDN BHD		18			**18**	
Agustawestland Philadelphia Co		178			**178**	117
Agustawestland SpA		16	2	11	**29**	137
Leonardo MW Ltd	888	185		7	**1,080**	1,645
Ansaldobreda SpA	1		46	89	**136**	799
Larimart SpA	1	16		1	**18**	
Gruppo DRS		13			**13**	605
Fata Logistic Systems SpA	7	38		1	**46**	4
Leonardo Global Solutions SpA	53	38		4	**95**	3
Leonardo US Aircraft, Inc		16			**16**	
Selex Service Management SpA (in liq.)		5	1	8	**14**	12
W.S.K. PZL-Swidnik S.A.		46			**46**	15
Selex ES SpA	11	11	1	1	**24**	3
Selex ES GmbH		1			**1**	114
Selex ES International Ltd					**-**	85
So.Ge.Pa.Società Generale di Partecipazioni SpA			5	5	**10**	1
Other with unit amount lower than €mil. 10	8	26	3	5	**42**	70
Associates						
Eurofighter Jagdflugzeug GmbH	20	11			**31**	
Other with unit amount lower than €mil. 10		17		9	**26**	
Joint Venture						
CONS. ATR GIE		2		111	**113**	
MBDA SAS	648	1		2	**651**	47
Telespazio SpA	30	1	1	6	**38**	201
Rotorsim Srl		14			**14**	
Other with unit amount lower than €mil. 10		1			**1**	
Consortiums						
Other with unit amount lower than €mil. 10		2			**2**	
Companies subject to the control or considerable influence of the MEF						
Enel SpA		14			**14**	
Cassa Depositi e Prestiti Spa				*5*	**5**	603
Other with unit amount lower than €mil. 10	1	2			**3**	
Other related parties						
Other		8			**8**	
Total	**1,669**	**680**	**59**	**265**	**2,672**	**4,461**
% against total for the period	***70.8%***	***24.2%***	***4.0%***	***26.6%***		***31.0%***

PAYABLES at 31 December 2016	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries						
Agustawestland Ltd	968	70			**1,038**	**1,388**
Agustawestland Philadelphia Co		220			**220**	**110**
Agustawestland SpA		16		12	**28**	**204**
Leonardo MW Ltd	66	27		5	**98**	**56**
Alenia Aermacchi SpA					**-**	**59**
Ansaldobreda SpA	53		18	118	**189**	**749**
BredaMenarinibus SpA					**-**	**12**
Larimart SpA		18	2		**20**	
Gruppo DRS		10			**10**	**175**
Fata Logistic Systems SpA	7	26		4	**37**	**4**
Leonardo Global Solutions SpA	23	49		3	**75**	**3**
Meccanica Holdings USA, Inc					**-**	**1,289**
W.S.K. PZL-Swidnik S.A.		18			**18**	**12**
Selex ES SpA	11	35	15	5	**66**	
Selex ES Saudi Arabia Ltd					**-**	**13**
Selex ES Malaysia SDN BHD					**-**	**35**
Selex ES Elektronik Turkey AS					**-**	**23**
Selex ES GmbH					**-**	**119**
Sirio Panel SpA	31	17		5	**53**	
So.Ge.Pa.Società Generale di Partecipazioni SpA	6		2	19	**27**	**7**
Other with unit amount lower than €mil. 10	4	51		21	**76**	**15**
Associates						
Eurofighter Jagdflugzeug Gmbh	39				**39**	
Other with unit amount lower than €mil. 10		24		7	**31**	
Joint Venture						
CONS. ATR GIE		2		148	**150**	
MBDA SAS	440	7		1	**448**	**47**
Telespazio SpA	14		1	4	**19**	**228**
Other with unit amount lower than €mil. 10		11			**11**	
Consortiums						
Other with unit amount lower than €mil. 10		1		1	**2**	
Companies subject to the control or considerable influence of the MEF						
Ansaldo Energia SpA						**718**
Other with unit amount lower than €mil. 10	2	10			**12**	
Other related parties						
Other		1			**1**	
Total	**1,664**	**613**	**38**	**353**	**2,668**	**5,266**
% against total for the period	***70.2%***	***23.9%***	***2.3%***	***20.9%***		***33.2%***

As regards the most important transactions we note that:

- Loans and borrowings from related parties include, in particular, the payable of 678 (€mil. 454 at 31 December 2016) to the Joint venture MBDA and Telespazio SpA. Other current loans and borrowings reflect the net cash inflows realised by the Group companies during the year, converged on Leonardo as a result of the centralisation of the Group treasury resources.
- Similarly, current loans and receivables of €mil. 232 (€mil. 326 at 31 December 2016) arise from financing activities conducted by Leonardo in favour of the Group companies, again as a result of this centralisation of Treasury resources;
- Other receivables and payables, which include amounts deriving from the Group tax consolidation mechanism (€mil. 39 and €mil. 59 respectively) and from the Group VAT mechanism (€mil. 119 of payables), are recognised by the Leonardo S.p.a., the party having a legal relationship with the Tax Authority, against payables and receivables recognised by the companies that adopt the national tax

consolidation and the Group VAT. Receivables and payables recognised by the Company did not have any impact on the income statement since these items were offset with balancing tax items in the balance sheet. Moreover, payables include debts to the subsidiaries in relation to the refund they are entitled to following the allowed deductibility of IRAP for IRES purposes (€mil. 16);

- Trade receivables equal to €mil. 1,087 (€mil. 1,226 at 31 December 2016), include in particular, receivables related to services rendered in the interests and in favour of the Group's companies, also consistently with the direction and coordination activity.

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these Notes.

Below are all income statement transactions with the Leonardo's related parties for the years 2017 and 2016:

Income statement transactions at 31 December 2017	Revenue	Other operating income e Other operating expenses	Services expenses	Purchase expenses	Financial income	Financial expenses
Subsidiaries						
Agustawestland Philadelphia Co	118	5	29	91		
Agustawestland Australia Pty Ltd	10		2			
Agusta Aerospace Services SA	12		5	6		
Agustawestland Malaysia SDN BHD	27		7	12		
Fata Logistic Systems SpA			75	1		
Leonardo Global Solutions SpA	1		167			
Leonardo MW Ltd	261	3	48	109	10	4
Larimart SpA			3	12		
W.S.K. PZL-Swidnik S.A.	27			143		
Other with unit amount lower than €mil. 10	30		24	35	15	1
Associates						
Eurofighter Jagdflugzeug GmbH	621		207			
NHIndustries SAS	275					
Orizzonte Sistemi Navali S.p.A.	176		1			
Iveco-Oto Melara Scarl	70		3			1
Macchi Hurel Dubois SAS	53					
Agustawestland Aviation Services LLC	14					
Advanced Air Traffic Syst. SHD BHD	17					
Other with unit amount lower than €mil. 10	26		10	4		
Joint Venture						
CONS. ATR GIE	236		4	3		
MBDA SAS	36		1	2		2
Telespazio SpA	2		1		1	
Thales Alenia Space France Sas	57		1	1		
Rotorsim Srl	2	3	22			
Other with unit amount lower than €mil. 10						
Consortiums						
Cons. G.e.i.e. Eurotorp	30					
Other with unit amount lower than €mil. 10	2		2			
Companies subject to the control or considerable influence of the MEF						
Enel SpA	3		74			
Fintecna SpA	66					
Enav SpA	31					
Poste Italiane SpA	32					
Other with unit amount lower than €mil. 10	10	1	1	1	9	
Other related parties						
Other	10		2	6		
Total	**2,255**	**12**	**689**	**426**	**35**	**8**
% against total for the period	***28.7%***	***n.a.***	***9.6%***	***6.0%***	***4.9%***	***1.4%***

Income statement transactions at 31 December 2016	Revenue	Other operating income e Other operating expenses	Services expenses	Purchase expenses	Financial income	Financial expenses
Subsidiaries						
Agustawestland Ltd	166		28	97	2	9
Agustawestland Philadelphia Co	133	4	19	117		
Agustawestland SpA	7			16	1	
Agusta Aerospace Services SA	12					
Agustawestland Malaysia SDN BHD	11			11		
Fata Logistic Systems SpA			65			
Selex Galileo Inc				11		
Leonardo Global Solutions SpA	1		167		1	
Leonardo MW Ltd	87	4	38	13	1	1
Larimart SpA				12		
W.S.K. PZL-Swidnik S.A.	22			84	1	
Sirio Panel SpA				29		
Other with unit amount lower than €mil. 10	35		49	19	13	
Associates						
Eurofighter Jagdflugzeug GmbH	703					
NHIndustries SAS	342					
Orizzonte Sistemi Navali S.p.A.	206					
Iveco-Oto Melara Scarl	123					3
Macchi Hurel Dubois SAS	73					
Agustawestland Aviation Services LLC	12					
Atitech Manufactoring Srl			16			
Other with unit amount lower than €mil. 10	36	1	14	3		
Joint Venture						
CONS. ATR GIE	331			57		
MBDA SAS	38					2
Superjet International SpA	20				2	
Thales Alenia Space France Sas	68					
Rotorsim Srl	1	2	16			
Other with unit amount lower than €mil. 10	2		5		1	
Consortiums						
Other with unit amount lower than €mil. 10	4		1			
Companies subject to the control or considerable influence of the MEF						
Eni SpA			16			
Cassa Depositi e Prestiti SpA					30	
Enav SpA	37					
Poste Italiane SpA	29					
Other with unit amount lower than €mil. 10	23	1	5			
Other related parties						
Other	9		3	1		
Total	**2,531**	**12**	**442**	**470**	**52**	**15**
% against total for the period	***31.9%***	***40.0%***	***6.3%***	***6.7%***	***4.6%***	***1.7%***

"Financial income (expense)" relates to interest on financial receivables and payables and commissions, mainly connected with the centralisation of the management of Group treasury resources within Leonardo. In carrying out its treasury management functions, the Company acts as the main counterparty, always at arm's length, for the financial assets and liabilities of the subsidiaries within the scope of such centralisation.

34. FINANCIAL RISK MANAGEMENT

Leonardo S.p.a. is exposed to financial risks associated with its operations, specifically related to these types of risks:

- *interest-rate risks*, related to exposure to financial instruments;
- *exchange-rate risks*, related to operations in currencies other than the reporting currency;
- *liquidity ris*ks, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from normal commercial transactions or financing activities.

The Company closely and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Below are the main information related to the abovementioned risks. However, for further details reference is made to the section on "*Financial risk management*" of the consolidated financial statements.

Interest rate risk

Leonardo is exposed to interest rate risk on borrowings. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related borrowing costs.

To that regard and with reference to loans and borrowings equal to €mil. 5,276 at 31 December 2017 the fixed-rate percentage amounted to around 65%, while the floating-rate percentage is around 35%.

At 31 December 2017, the outstanding transactions were the following:

- *interest-rate swap fixed/floating/fixed rate* for €mil. 200, related to the Finmeccanica Finance issue due 2018, totalling €mil. 500, (subsequently transferred to Leonardo) which guarantees a fixed rate of 5.30% compared to the bond issue rate of 5.75%. Therefore, the average interest rate related to this issue is 5.57%;
- *options* for €mil. 200 (CAP and Knock out at 4.20% in relation to the 6-month euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost of the transaction, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group's strategy providing for a return to the floating rate, or against an unfavourable floating-rate indebtedness.

The detail of the main derivative instruments in interest-rate swaps (IRS) at 31 December 2017 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2017	Changes			Fair value 31.12.2017
	2017	2016			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	2	-	-	-	2
Options	200	200	Bond 2025	(4)	-	-	-	(4)
Total notional	**400**	**400**		**(2)**	**-**	**-**	**-**	**(2)**

	Notional		Underlying (maturity)	Fair value 01.01.2016	Changes			Fair value 31.12.2016
	2016	2015			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	2	-	-	-	2
Options	200	200	Bond 2025	(3)	-	(1)	-	(4)
Total notional	**400**	**400**		**(1)**	**-**	**(1)**	**-**	**(2)**

The table below shows the effects of the sensitivity analysis for 2017 and 2016 on IRS at 31 December 2017 deriving from the 50-basis-point shift in the interest rate curve:

Effect of shift of interest rate curve	**31 December 2017**		**31 December 2016**	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	5	(5)	4	(4)
Equity (*)	4	(5)	4	(4)

(*): Defined as sum of earnings and cash-flow hedge reserve

Exchange rate risk

Exchange-rate risk management for the Group is governed by the directive issued by Leonardo S.p.a. The purpose of the directive is to standardise for all the Group companies the management criteria based on industrial-not speculative-strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions.

The Company hedges its own risks related to short-term financial payables and receivables denominated in currencies other than the euro and enters into foreign exchange transactions in the interest of other Group companies totalling €mil. 5,653 (notional amount) (substantially in line with the previous year), as detailed in the following table:

	Notional 2017			**Notional 2016**		
	Sales	**Purchases**	**Total**	**Sales**	**Purchases**	**Total**
Swap and forward transactions	2,326	3,327	5,653	2,512	3,913	6,425

As a result of the financial centralisation, the cash flows of the Group's foreign companies were recharged in several ways to Leonardo through intercompany transactions mainly denominated in GBP and USD. For this

type of risks, the income statement is hedged using mirror transactions of payables/receivables to/from third parties in the currency of intercompany items or through specific exchange-rate derivatives, classified as fair-value hedges. The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2017				**31 December 2016**			
	Notional Receipts		**Notional Payments**		**Notional Receipts**		**Notional Payments**	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges								
Within 1 year	1,071	262	570	1,295	1,140	62	518	1,357
2 to 3 years	417	3	92	579	593	9	310	323
4 to 9 years	31	-	63	-	52	-	125	382
Total	1,519	265	725	1,874	1,785	71	953	2,062
Hedging transactions which cannot be classified as hedging transactions	420	8	420	8	567	3	567	3
Total transactions	**1,939**	**273**	**1,145**	**1,882**	**2,352**	**74**	**1,520**	**2,065**

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the pound sterling and the US dollar, assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2017 (1.19930 and 0.88723, respectively) and at 31 December 2016 (1.0541 and 0.8562, respectively).

	31 December 2017				**31 December 2016**			
	Effect of change in the €/GBP rate		**Effect of change in the €/USD rate**		**Effect of change in the €/GBP rate**		**Effect of change in the €/USD rate**	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	2	(2)	4	(4)	4	(1)	1	(5)
Equity (*)	(26)	30	27	(24)	(31)	37	25	(28)

(*): Defined as sum of earnings and cash-flow hedge reserve

Liquidity risk

Leonardo is exposed to liquidity risk, i.e. the risk of not being able to efficiently finance its usual business and investment operations, as well as the requirements connected with the volatility of the relevant commercial markets and with the effects of the current reorganisation of the Group, specifically with regard to the financial outlays relating to efficiency-improvement processes and to activities linked to business contracts at risk of renegotiation. Furthermore, there is the risk of not being able to repay debts at the expiry dates.

In order to face the above-mentioned risks, Leonardo has adopted a series of instruments aimed at optimizing the management of financial resources.

During 2017, €mil. 46 was repaid of the principal portion of the EIB loan, which was signed by the Company in 2010. Furthermore, in order to finance its own ordinary and extraordinary operations, Leonardo used the €bil. 2.0 Revolving Credit Facility, whose maturity date was scheduled for 2020. We note that, as described in the industrial and financial transactions of the Consolidated Financial Statements, in February 2018 Leonardo entered into a new Revolving Credit Facility for a total of €bil. 1.8 expiring in February 2023.

Credit risk

The Company operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2017, we note the following relations with countries exposed to credit risk according to the international institutions:

€mil.	**Libya**	**Pakistan**	**Other countries**	**Total**
Assets	9	98	8	115
Liabilities	10	51	6	67
Net exposure	**(1)**	**47**	**2**	**48**

Finally the receivables related to these agreements, as reported in “Leonardo and risk management” in the Report on Operations, might not be paid, renegotiated or written off.

The table below summarises trade receivables at 31 December 2017 and 2016 (values in €bil.):

	31 December 2017	**31 December 2016**
Portion due	1.6	1.3
- of which: for more than 12 months	*0.8*	*0.4*
Portion not yet due	1.2	1.5
Total trade receivables	**2.8**	**2.8**

Both trade and financial receivables are impaired individually if they are significant.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy of financial assets and liabilities of Leonardo S.p.a. measured at fair value. The fair value of derivatives (classified in other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called “Level 2”). In particular, the inputs used for the fair value measurement are the foreign exchange rate and interest rate observable on the market (spot exchange rates and forwards) and, exclusively in relation to options, the volatility of these inputs.

	31 December 2017			31 December 2016		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other assets	158	-	158	152	138	290
Other current liabilities	226	-	226	273	-	273

35. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of Leonardo S.p.a. are reported in Note 37 to the Consolidated Financial Statements.

36. SHARE-BASED PAYMENTS

As largely reported in the section “Leonardo and Sustainability” of the report on operations, in order to implement an incentive and retention system for the Group’s employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2017 to €mil. 8 (€mil. 5 in 2016).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group Net Debt for 25% and ROS for 25%) was equal to € 13.12, (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017), to €9.83 (the value of Leonardo shares at the grant date of 31 July 2016) with reference to the second three-year cycle (2016-2018) and to € 14.76 (the value of Leonardo shares at the grant date of 31 July 2017) with reference to the third three-year cycle (2017-2019).

Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90 with reference to the first three-year cycle (2015-2017), to € 3.88 with reference to the second three-year cycle (2016-2018) and to € 8.55 with reference to the third three-year cycle (2017-2019).

The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;

- the expected volatility of the price of Leonardo shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;
- correlation coefficients between Leonardo and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis

With reference to the co-investment plan, during 2017, in respect of the bonus shares ("matching shares") the requirements for the award of the rights have not yet been fulfilled.

Appendices

Appendix no.1 (€ mil) - EQUITY INVESTMENTS

%		31.12.2016 Cost	31.12.2016 Impairment	31.12.2016 Carrying amount	Transfers/acquisition of business unit (a)	Acquis./Subscriptions/payments of capital	Disposal (b)	Reclass. (c)	Stock grant	Financial Revalut./Impairment	Capital replenishment	Other changes (d)	31.12.2017 Cost	31.12.2017 Impairment	31.12.2017 Carrying amount
%	**Equity investments in subsidiaries**														
100	AGUSTAWESTLAND HOLDINGS LTD	58	-	58	-	-	-	-	-	-	-	-	58	-	58
100	AGUSTAWESTLAND PHILADELPHIA CORP	217	-	217	-	-	-	-	-	-	-	-	217	-	217
100	AGUSTAWESTLAND SpA	3	(3)	-	-	-	(3)	-	-	-	3	-	-	-	-
100	ALENIA AERMACCHI SpA	12	(9)	3	-	-	(3)	-	-	-	-	-	-	-	-
100	ANSALDOBREDA SpA	509	(492)	17	-	-	-	-	-	-	-	-	509	(492)	17
100	BREDAMENARINIBUS SpA	48	(45)	3	-	-	(3)	-	-	-	-	-	-	-	-
60	LARIMART SpA	14	-	14	-	-	-	-	-	-	-	-	14	-	14
100	LEONARDO GLOBAL SOLUTIONS SpA	570	-	570	-	-	-	-	-	-	-	-	570	-	570
100	LEONARDO MW Ltd	1,760	-	1,760	-	1,044	-	-	-	-	-	-	2,804	-	2,804
100	LEONARDO US HOLDING, INC. (***)	2,412	(1,290)	1,122	-	822	-	-	-	-	-	-	3,234	(1,290)	1,944
100	OTO MELARA IBERICA S.A.U.	5	-	5	-	-	-	-	-	-	-	-	5	-	5
100	SELEX ES INTERNATIONAL LTD	131	-	131	-	-	-	-	-	-	-	-	131	-	131
100	SELEX ES SpA	120	(54)	66	-	-	(66)	-	-	-	-	-	-	-	-
100	SIRIO PANEL SpA	122	-	122	(122)	-	-	-	-	-	-	-	-	-	-
100	SO.GE.PA.- Società Generale di Partecipazioni SpA	28	(20)	8	-	-	-	-	-	(8)	-	-	28	(28)	-
67	TELESPAZIO SpA (*)	171	-	171	-	-	-	-	-	-	-	-	171	-	171
99	W.S.K. PZL-SWIDNIK S.A.	142	-	142	-	-	-	-	-	-	-	-	142	-	142
	Subsidiaries with unit amount lower than €mil. 1	-	-	-	-	-	-		-	-	-	1	1	-	1
		6,322	**(1,913)**	**4,409**	**(122)**	**1,866**	**(75)**	**-**	**-**	**(8)**	**3**	**1**	**7,884**	**(1,810)**	**6,074**
	Equity investments in associates														
43	ABU DHABI SYSTEMS INTEGRATION LLC	3	-	3	-	-	(3)	-	-	-	-	-	-	-	-
50	AMSH BV (*)	873	(392)	481	-	-	-	-	-	-	-	-	873	(392)	481
25	ATITECH SpA	7	(1)	6	-	-	(6)	-	-	-	-	-	-	-	-
26	AVIO SpA (**)	54	(31)	23	-	48	-	-	-	-	-	-	102	(31)	71
30	AW AVIATION SERVICES LLC	4	-	4	-	-	-	-	-	-	-	-	4	-	4
50	CONS. ATR GIE	232	-	232	-	-	-	-	-	-	-	-	232	-	232
31	ELETTRONICA SpA	54	(47)	7	-	-	-	-	-	-	-	-	54	(47)	7
21	EUROFIGHTER INTERNATIONAL LIMITED (in liq.)	1	-	1	-	-	-	-	-	-	-	(1)	-	-	-
21	EUROFIGHTER JAGDFLUGZEUG GMBH	9	-	9	-	-	-	-	-	-	-	-	9	-	9
24	EUROFIGHTER SIMULATION SYSTEMS GMBH	2	-	2	-	-	-	-	-	-	-	-	2	-	2
11	EUROTECH SpA	18	(12)	6	-	-	-	-	-	-	-	-	18	(12)	6
26	INDIAN ROTORCRAFT LTD	2	(2)	-	-	-	-	-	-	-	-	-	2	(2)	-
40	JIANGXI CHANGHE AGUSTA HELICOPTER CO	2	-	2	-	-	-	-	-	-	-	-	2	-	2
25	LIBYAN ITALIAN ADVANCED TECH. Co.	2	(2)	-	-	-	-	-	-	-	-	-	2	(2)	-
32	NH INDUSTRIES SAS	1	-	1	-	-	-	-	-	-	-	-	1	-	1
49	ORIZZONTE SISTEMI NAVALI SpA	16	-	16	-	-	-	-	-	-	-	-	16	-	16
50	ROTORSIM S.R.L.	28	-	28	-	-	-	-	-	-	-	-	28	-	28
33	THALES ALENIA SPACE SAS (*)	546	(145)	401	-	-	-	-	-	-	-	-	546	(145)	401
15	Other companies with unit amount lower than €mil. 1	-	-	-	-	1	-	-	-	-	-	1	2	-	2
		1,854	**(632)**	**1,222**	**-**	**49**	**(9)**	**-**	**-**	**-**	**-**	**-**	**1,893**	**(631)**	**1,262**
	Other companies														
99	CONS. CREO	1	-	1	-	-	-	-	-	(1)	-	-	1	(1)	-

12	INDUSTRIA ITALIANA AUTOBUS SpA	1	-	1	-	-	-	-	-	-	-	-	1	-	1
3	ISTITUTO DELLA ENCICLOPEDIA ITALIANA TRECCANI SpA	-	-	-	-	2	-	-	-	-	-	-	2	-	2
15	PANAVIA AIRCRAFT GMBH	4	-	4	-	-	-	-	-	-	-	(1)	3	-	3
1	VITROCISET SpA	1	-	1	-	-	-	-	-	-	-	-	2	(1)	1
	Other companies with unit amount lower than €mil. 1	3	-	3	-	-	-	-	-	(1)	-	-	2	-	2
		10	**-**	**10**	**-**	**2**	**-**	**-**	**-**	**(2)**	**-**	**(1)**	**11**	**(2)**	**9**
	TOTAL EQUITY INVESTMENTS	**8,186**	**(2,545)**	**5,641**	**(122)**	**1,917**	**(84)**	**-**	**-**	**(10)**	**3**	**-**	**9,788**	**(2,443)**	**7,345**
	Investments held for sale														
100	AGUSTAWESTLAND LTD	1,109	-	1,109	-	-	- 1,109	-	-	-	-	-	-	-	-
100	AGUSTAWESTLAND MALAYSIA	13	-	13	-	-	- 13	-	-	-	-	-	-	-	-
99	AGUSTA AEROSPACE SERVICES SA	20	-	20	-	-	- 20	-	-	-	-	-	-	-	-
99	AGUSTAWESTLAND DO BRASIL LTDA	9	-	9	-	-	- 9	-	-	-	-	-	-	-	-
	Total investments held for sale	**1,151**	**-**	**1,151**	**-**	**-**	**(1,151)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	Subsidiaries	Associates	Other companies
(a) of which			
Cost	122		
Impairment losses			
	122		
(b) of which			
Cost	182	11	
Impairment losses	108	1	
	74	10	
(c) of which			
Cost			
Impairment losses			
(d) of which			
Cost	1	1	(2)
Impairment losses			
	1	1	(2)

(*): joint control
(**): Merged by incorporation into SPACE 2 SpA, with simultaneous change of the company name to AVIO SpA
(***): company name changed from "MECCANICA HOLDINGS USA, INC." to LEONARDO US HOLDING, INC.

Appendix no.2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date	Share capital (total)	Currency	Equity	Total Assets	Total Liabilities	Prifit (loss)	Ownership	Net equity in financial statements	Carrying amount
Equity investments in subsidiaries											
AGUSTAWESTLAND HOLDING LTD	Yeovil - (Regno Unito)	31/12/17	500,000	GBP	45.0	67.0	22.0	11.0	100.0	45.0	58
AGUSTAWESTLAND PHILADELPHIA CORP	Philadelphia - (Stati Uniti)	31/12/17	121,200,000	USD	193.0	823.0	630.0	(18.0)	100.0	193.0	217
ALENIA NORTH AMERICA CANADA CO	Canada (Stati Uniti)	31/12/17	1	USD	0.0	0.3	0.3	0.0	100.0	0.0	0
ANSALDOBREDA SpA	Napoli (Italia)	31/12/17	10,000,000		43.0	331.0	288.0	26.0	100.0	43.0	17
LARIMART SpA	Roma (Italia)	31/12/17	2,500,000		21.5	35.0	13.5	3.6	60.0	12.9	14
LEONARDO AEROSpACE DEFENSE & SECURITY INDIA PL	New Delhi (India)	31/12/17	30,000,000	INR	0.0	0.0	0.0	0.0	100.0	0.0	0
LEONARDO DO BRASIL LTDA (*)	Brasilia (Brasile)	31/12/17	1,203,200	BRL	1.0	1.0	0.0	0.0	100.0	1.0	0
LEONARDO GLOBAL SOLUTIONS SpA	Roma (Italia)	31/12/17	49,945,983		600.0	766.0	166.0	7.0	100.0	600.0	570
LEONARDO MW LTD	Basildon (Regno Unito)	31/12/17	314,500,100	GBP	1,811.0	2,356.0	545.0	230.0	100.0	1,811.0	2,804
LEONARDO US HOLDING INC (**)	Wilmington (Stati Uniti)	31/12/17	10	USD	2,044.0	2,492.0	448.0	-53.0	100.00	2,044.0	1,944
OTO MELARA IBERICA S.A.U.	Valencia (Spagna)	31/12/17	1,938,000		5.0	9.0	9.0	(1.0)	100.0	5.0	5
SELEX INTERNATIONAL LTD	Essex, (Regno Unito)	31/12/17	60,000,000	GBP	53.0	92.0	39.0	1.3	100.00	53.0	131
SISTEMI DINAMICI SpA	Pisa (Italia)	31/12/17	200,000	EUR	0.0	16.0	16.0	0.0	100.0	0.0	0
SO.GE.PA.- Società Generale di Partecipazioni SpA	Roma (Italia)	31/12/17	1,000,000		(91.0)	332.0	422.0	(99.0)	100.0	(91.0)	0
TELESpAZIO SpA	Roma (Italia)	31/12/17	50,000,000		234.0	534.0	300.0	28.0	67.0	156.8	171
W.S.K. PZL-SWIDNIK SA	Swidnik (Polonia)	31/12/17	307,642,000	PLN	115.0	214.0	99.0	31.0	99.0	113.2	142
WIN BLUE WATER SERVICES PVT LTD	Nuova Delhi (India)	31/12/17	11,908,720	INR	0.2	n.d.	n.d.	n.d.	99.99	0.2	0
WORLD'S WING S.A..	Ginevra (Svizzera)	31/12/17	811,876	CHF	-134.8	0.2	135.0	0.0	94.94	(128.0)	0
											6,074
Equity investments in associates											
A4ESSOR SAS	Cedex (Francia)	31/12/16	100,000		0.0	0.0	0.0	0.0	23.10	0.0	**0**
ADVANCED MALE AIRCRAFT LLC	Al Ain (Emirati Arabi)	n.d.	200,000	SED	n.d.	n.d.	n.d.	n.d.	49.00	n.d.	**0**
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi City (Emirati Arabi)	31/12/17	58,010,000	AED	14.0	22.0	9.0	1.0	30.00	4.2	**4**
AMSH BV	Amsterdam (Olanda)	31/12/17	36,296,316		953.0	999.0	46.0	119.0	50.00	476.5	**481**
AVIO SpA	Torino (Italia)	31/12/16	40,000,000		287.0	791.0	504.0	1.0	25.88	74.3	**71**
ELETTRONICA SpA	Roma (Italia)	31/12/17	9,000,000		92.0	549.0	393.0	17.0	31.33	28.8	**7**
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH	Hallbergmoos (Germania)	31/12/16	127,823		0.0	0.0	0.0	0.0	21.00	0.0	**0**
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germania)	31/12/16	639,114		23.5	1,331.2	1,307.7	(26.8)	21.00	4.9	**9**
EUROFIGHTER SIMULATION SYSTEMS GMBH	Halbergmoos (Germania)	31/12/16	260,000.00		10.0	30.0	20.0	1.0	24.00	2.0	**2**
EUROMIDS SAS	Parigi (Francia)	31/12/16	40,500		3.0	36.0	33.0	0.0	25.00	1.0	**1**
EUROSYSNAV SAS (in Liq.)	Parigi (Francia)	31/12/15	40,000		4.0	7.0	3.0	0.0	50.00	2.0	**0**
EUROTECH SpA	Udine (Italia)	31/12/16	8,878,946		113.0	131.0	18.0	(1.0)	11.08	12.5	**6**
CONSORZIO ATR GIE	Tolosa (Francia)	31/12/16	n.d.		367.6	1,384.1	1,016.5	367.6	50.00	183.8	**232**
IND. A. E M. R. PIAGGIO SpA (Amm.strd)	Genova (Italia)	31/12/13	103,567		n.d.	n.d.	n.d.	n.d.	30.98	n.d.	**0**
JIANGXI CHANGHE AGUSTA HELICOPTERS CO	Jingdezhen (Cina)	31/12/17	48,403,000	CNY	5.0	6.0	1.0	0.0	40.00	2.0	**2**
INDIAN ROTORCRAFT LTD	Hyderabad (India)	31/12/15	514,174,981	INR	6.1	n.d.	n.d.	(0.4)	26.00	0.0	**0**
JOINT STOCK COMPANY HELIVERT	Mosca (Russia)	31/12/17	325,010,000	RUB	(7.0)	44.0	51.0	(1.0)	50.00	(3.5)	**0**
LIBYAN ITALIAN ADVANCED TECH. Co.	Tripoli (Libia)	31/12/11	13,568,000	LYD	5.0	28.0	24.0	(4.0)	25.00	1.3	**0**
MACCHI HUREL DUBOIS SAS	Plaisir (Francia)	31/12/16	100,000		0.4	40.0	40.0	0.0	50.00	0.2	**0**
NH INDUSTRIES SAS	Aix en Provence (Francia)	31/12/17	306,000		6.0	6,643.0	6,637.0	1.0	32.00	1.9	**1**
ORIZZONTE SISTEMI NAVALI SpA	Genova (Italia)	31/12/16	20,000,000		35.0	2,588.0	2,553.0	0.0	49.0	17.0	**16**
ROTORSIM SRL	Sesto Calende (Italia)	31/12/17	9,800,000		67.0	103.0	36.0	6.0	50.00	33.5	**28**
THALES ALENIA SpACE SAS	Parigi (Francia)	31/12/16	918,038,000		1,188.0	1,452.0	264.0	198.0	33.00	392.0	**401**

											1,262
Consortiums											
CONSORZIO DHITECH SCARL	Lecce (Italia)	31/12/15	231,800		0.9	34.0	33.1	0.0	2.8	0.0	0
CONSORZIO PER L'ENERGIA VARESE	Varese (Italia)	31/12/15	88,154		0.0	0.0	0.0	0.0	0.6	0.0	0
I.A.M.C.O.	Venezia (Italia)	31/12/16	208,000		0.9	8.9	8.0	0.3	25.0	0.2	0
CONS. CREO	L'Aquila (Italia)	31/12/17	774,685		0.0	3.0	2.0	0.0	99.0	0.0	0
CONSORZIO CALS ITALIA	Roma (Italia)	31/12/16	67,139		0.0	0.0	0.0	0.0	16.7		0
CONSORZIO CONSAER	Napoli (Italia)	31/12/15	275,600		0.2	1.8	1.6	0.0	23.0	0.1	0
CONSORZIO IMAST SCARL	Napoli (Italia)	31/12/15	689,000		1.0	12.5	11.5	0.0	3.2	0.0	0
CONSORZIO S3LOG	Roma (Italia)	31/12/15	600,000		1.0	8.0	8.0	0.0	60.0	1.0	1
CONSORZIO TECHNOVA SCARL	Napoli (Italia)	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	13.9	0.0	0
CONSORZIO TESSERA	Venezia (Italia)	31/12/15	40,000		0.0	0.0	0.0	0.0	90.0	0.0	0
CONSORZIO TOP IN C	Napoli (Italia)	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	11.4	0.0	0
EUROSLAT G.E.I.E.	Sophia Antipolis (Francia)	31/12/16	n.d.	n.d.	0.0	0.0	0.0	0.0	50.0	0.0	0
EUROTORP G.E.I.E	Sophia Antipolis (Francia)	31/12/16	n.d.	n.d.	0.0	0.0	0.0	1.4	50.0	0.0	0
ALTRI DI VALORE INFERIORE A €MIL 1											1
											2
Other companies											
BCV MANAGEMENT SA (in Liq.)	Lussemburgo (Lussemburgo)	31/12/16	36,470		0.0	0.0	0.0	0.0	15.0	0.0	0
CIRA SCPA	Capua (Italia)	31/12/16	985,224		109.0	154.0	45.0	(7.0)	11.7	13.5	0
DISTRETTO AEROSpAZIALE DELLA CAMPANIA SCARL	Capua (Italkia)	31/12/15	492,500		0.0	1.0	1.0	0.0	6.1	0.0	0
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCARL	La Spezia (Italia)	31/12/16	1,140,000		1.0	11.0	10.0	0.0	11.8	0.1	0
DISTRETTO TECNOLOGICO AEROSpAZIALE SCARL	Brindisi (Italia)	31/12/15	150,000		1.0	3.4	2.4	0.2	17.0	0.2	0
EMITTENTI TITOLI SpA (in Liq)	Milano (Italia)	31/12/16	4,264,000		12.0	12.0	0.0	1.0	3.7	0.4	0
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH (in Liq.)	Ottobrunn (Germania)	12/11/14	264,000		0.0	3.0	3.0	0.0	18.9	0.0	0
INDUSTRIA ITALIANA AUTOBUS SpA	Roma (Italia)	31/12/16	7,250,000		8.0	91.0	83.0	0.0	11.7	0.9	1
ISTITUTO DELLA ENCICLOPEDIA ITALIANA TRECCANI SpA	Roma (Italia)	31/12/17	62,724,105		n.d.	n.d.	n.d.	n.d.	3.3	n.d.	2
PANAVIA AIRCRAFT GMBH	Hallbergmoos (Germania)	31/12/15	6,437,165		51.6	246.0	194.4	7.0	15.0	7.7	3
SECBAT SARL	Saint - Cloud (Francia)	31/12/15	32,000		1.4	21.8	20.4	0.0	13.6	0.2	0
VITROCISET SpA	Roma (Italia)	31/12/16	24,500,000		100.0	100.0	269.0	169.0	0.0	0.0	1
											7
			TOTAL EQUITY INVESTMENTS								**7,345**

(*): company name changed from "FINMECCANICA DO BRASIL LTDA." to LEONARDO DO BRASIL LTDA

(**): company name changed from "MECCANICA HOLDINGS USA, INC." to LEONARDO US HOLDING, INC.

Appendix no.3 (€ mil.)- NON-CURRENT RECEIVABLES

	31.12.2016								31.12.2017		
	Residual nominal amount	Impairment	Carrying amount	Mergers/ demergers	Disbursement	Reclassifications	Reimbursements	Other changes	Residual nominal amount	Impairment	Carrying amount
Receivables	128		128	6	9	(32)	17	6	100		100
- Receivables from subsidiaries	68		68	-	464	(13)	17	-	502		502
Total receivables	**196**	**-**	**196**	**6**	**473**	**(45)**	**34**	**6**	**602**	**-**	**602**

Appendix no. 4 (€ mil.) - ASSETS BROKEN DOWN BY MATURITY

	31.12.2017 Amounts due			31.12.2016 Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	**Total**	from 2nd to 5th subsequent year	beyond 5th year	**Total**
Receivables	43	7	50	61	-	61
Other non current receivables from related parties	50	-	50	24	28	52
						-
Loans and receivables	50	-	50	67	-	67
Non-current loans and receivables from relates parties	452	-	452	16	-	16
Other non current assets	83	56	139	60	23	83
Total receivables and non-current assets	**678**	**63**	**741**	**228**	**51**	**279**

Appendix no.5 (€ mil.) - FOREIGN CURRENCY ASSETS

	31.12.2017			31.12.2016		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Receivables	1	49	50	-	61	61
Other non current receivables from related parties	-	50	50	-	52	52
Loans and receivables	-	50	50	-	67	67
Non-current loans and receivables from relates parties	194	258	452	15	1	16
Other non current assets	-	139	139	-	83	83
Total receivables and other non-current assets	195	546	741	15	264	279
Deferred tax assets	-	632	632	-	669	669
Total non-current assets	**195**	**1,178**	**1,373**	**15**	**933**	**948**
Loans and receivables	2	24	26	-	28	28
Loans and receivables form related parties	95	137	232	58	268	325
	97	161	258	58	296	353
Trade receivables	423	1,287	1,710	501	1,111	1,612
Trade receivables from related parties	414	673	1,087	438	787	1,225
	837	1,960	2,797	939	1,898	2,837
Other assets	11	461	472	26	560	586
Other receivables from related parties	-	54	54	1	50	51
	11	515	526	27	610	637
Income tax receivables	-	122	122	-	100	100
Cash and cash equivalents	204	1,361	1,565	76	1,671	1,747
Total current assets	**1,149**	**4,119**	**5,268**	**1,100**	**4,575**	**5,674**

Appendix no.6 (€ mil.) - ASSETS BY GEOGRAPHICAL AREA

	31.12.2017					**31.12.2016**				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Receivables	50	-	-	-	50	61	-	-	-	61
Other non current receivables from related parties	50	-	-	-	50	52	-	-	-	52
Loans and receivables	50	-	-	-	50	67	-	-	-	67
Non-current loans and receivables from relates parties	258	194	-	-	452	1	15	-	-	16
Other non current assets	139	-	-	-	139	83	-	-	-	83
Total receivables and other non-current assets	**547**	**194**	**-**	**-**	**741**	**264**	**15**	**-**	**-**	**279**
Deferred tax assets	632	-	-	-	632	669	-	-	-	669
Total non-current assets	**1,179**	**194**	**-**	**-**	**1,373**	**933**	**15**	**-**	**-**	**948**
Loans and receivables	22	-	-	4	26	28	-	-	-	28
Loans and receivables form related parties	33	192	1	6	232	236	71	12	6	325
	55	192	1	10	258	264	71	12	6	353
Trade receivables	678	404	105	523	1,710	628	346	198	440	1,612
Trade receivables from related parties	138	616	206	127	1,087	254	693	219	59	1,225
	816	1,020	311	650	2,797	882	1,039	417	499	2,837
Other assets	441	19	-	12	472	574	2	-	10	586
Other receivables from related parties	54	-	-	-	54	51	-	-	-	51
	495	19	-	12	526	625	2	-	10	637
Income tax receivables	122	-	-	-	122	100	-	-	-	100
Cash and cash equivalents	1,482	3	-	80	1,565	1,742	-	5	-	1,747
Total current assets	**2,970**	**1,234**	**312**	**752**	**5,268**	**3,613**	**1,112**	**434**	**515**	**5,674**

Appendix no.7 (€ mil.) - AVAILABLE AND DISTRIBUTABLE RESERVES

Nature/descriptiom	Amount	Possible use	Distributable portion
Share capital (*)	2,491		
Revenue reserves			
Legal reserve	267	B	
Extraordinary reserve	391	A,B,C	391
Reserve for actuarial gains (losses) in equity	(61)	B	
Cash flow hedge reserve	(61)	B	
Stock grant Reserve	19	B	
Reserve for merger and demerger surplus	723	A,B,C	723
Retained earnings and other reserve	1,658	A,B,C	1,511
Total	5,427		2,625
Net profit/(loss) for the period	356	A,B,C	338
Constraint ex art. 2426 paragraph 1 no. 5 Civil Code			(1,894)
Total equity	5,783		1,069

(*) less treasury shares for € mil. 34 and costs for capital increase for € mil. 19

Keys:
A: for capital increase
B: for loss coverage
C: for distribution to shareholders

Appendix no.8 (€ mil.) - LIABILITIES BROKEN DOWN BY MATURITY

	31.12.2017			**31.12.2016**		
	Amounts due			**Amounts due**		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Other non-current liabilities	512	308	820	417	460	877
	512	308	820	417	460	877
Loans and borrowings (non current)	1,270	1,648	2,918	1,827	1,104	2,931
	1,270	1,648	2,918	1,827	1,104	2,931
Total non-current liabilities	**1,782**	**1,956**	**3,738**	**2,244**	**1,564**	**3,808**

Appendix no.9 (€ mil.) - FOREIGN CURRENCY LIABILITIES

	31.12.2017			31.12.2016		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Loans and borrowings (non current)	324	2,594	2,918	371	2,560	2,931
Non-current loans and borrowings to related parties	-	-	-	-	-	-
	324	2,594	2,918	371	2,560	2,931
Deferred tax assets	-	91	91	-	92	92
Other non-current liabilities	-	820	820	-	877	877
Total non-current liabilities	**324**	**3,505**	**3,829**	**371**	**3,529**	**3,900**
Loans and Borrowings	4	685	689	1	706	707
Related-parties loans and borrowings	1,006	663	1,669	1,057	607	1,664
	1,010	1,348	2,358	1,058	1,313	2,371
Trade payables	494	1,631	2,125	480	1,473	1,953
Trade payables to related parties	390	290	680	225	388	613
	884	1,921	2,805	705	1,861	2,566
Other liabilities	39	1,114	1,153	44	1,250	1,294
Other payables to related parties	111	213	324	148	243	391
	150	1,327	1,477	192	1,493	1,685
Income tax payables	-	10	10	-	33	33
Total current liabilities	**2,044**	**4,606**	**6,650**	**1,955**	**4,700**	**6,655**

Appendix no. 10 (€ mil) - LIABILITIES BY GEOGRAPHICAL AREA

	31.12.2017					31.12.2016				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Loans and borrowings (non current)	2,733	185	-	-	2,918	2,699	232	-	-	2,931
	2,733	185	-	-	2,918	2,699	232	-	-	2,931
Deferred tax assets	91				91	92	-	-	-	92
Other non-current liabilities	813	7	-	-	820	869	8	-	-	877
Total non-current liabilities	**3,637**	**192**	**-**	**-**	**3,829**	**3,660**	**240**	**-**	**-**	**3,900**
Loans and Borrowings	641	48	-	-	689	658	49	-	-	707
Related-parties loans and borrowings	105	1,564	-	-	1,669	148	1,516	-	-	1,664
	746	1,612	-	-	2,358	806	1,565	-	-	2,371
Trade payables	1,285	364	259	217	2,125	1,350	263	266	74	1,953
Trade payables to related parties	178	262	217	23	680	209	135	251	18	613
	1,463	626	476	240	2,805	1,559	398	517	92	2,566
Other liabilities	999	80	9	65	1,153	1,153	77	15	49	1,294
Other payables to related parties	206	118	-	-	324	243	148	-	-	391
	1,205	198	9	65	1,477	1,396	225	15	49	1,685
Income tax payables	10	-	-	-	10	33	-	-	-	33
Total current liabilities	**3,424**	**2,436**	**485**	**305**	**6,650**	**3,794**	**2,188**	**532**	**141**	**6,655**

For the Board of Directors
The Chairman
(Giovanni De Gennaro)

Statement on the separate financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. The undersigned Alessandro Profumo Chief Executive Officer and Alessandra Genco as the Officer in charge of Financial Reporting for Leonardo S.p.a., certify, in accordance with Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the separate financial statements at 31 December 2017.

2. In this respect it is noted that no significant matters arose.

3. It is also certified that:
   3.1 The separate financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer.

   3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer, together with a description of the main risks and uncertainties it is exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 14 March 2018

Chief Executive Officer (Alessandro Profumo)	Officer in charge of Financial Reporting (Alessandra Genco)

Indipendent Auditors' Report on the separate financial statements as at 31 December 2017

KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Leonardo S.p.a.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Leonardo S.p.a. (the "company"), which comprise the statement of financial position as at 31 December 2017, the separate income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position Leonardo S.p.a. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of Leonardo S.p.a. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero

Ancona Aosta Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
Lecce Milano Napoli Novara
Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

Società per azioni
Capitale sociale
Euro 10.150.950,00 i.v.
Registro Imprese Milano e
Codice Fiscale N. 00709600159
R.E.A. Milano N. 512867
Partita IVA 00709600159
VAT number IT00709600159
Sede legale: Via Vittor Pisani, 25
20124 Milano MI ITALIA

Recognition of contract revenue and losses

Notes to the separate financial statements: notes n. 3 "Accounting principles", n. 13 "Contract work in progress and progress payments and advances from customers" and n. 26 "Revenue"

Key audit matter	Audit procedures addressing the key audit matter
A significant portion of the company's revenue from construction contracts is recognised using the percentage of completion method based on the cost-to-cost model. Estimating the total expected contract costs, which is necessary to calculate the stage of completion, is, by its very nature, complex. It also entails a high degree of uncertainty as it may be affected by many factors, including the products' design complexity and the ability to duly meet the technical specifications of its customers and the working time contractually agreed. Moreover, any failure to comply with the contractual provisions, such as, for example, those relating to delivery times and products' and services' compliance with the customers' specific requests, may give rise to material penalties and extra-costs which shall be considered in estimating total contract costs. Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses. Accordingly, we believe that the recognition of contract revenue and losses is a key audit matter.	Our audit procedures included: — updating our understanding of the process for the recognition of contract revenue and losses; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of contracts deemed material for the purposes of our audit: – examining the contracts signed with the customers in order to check whether their main provisions had been duly considered in management estimates; – assessing the assumptions underlying the estimated contract costs based on (i) discussions with the relevant internal departments and (ii) any communications with customers; – analysing the most significant discrepancies between past years' estimates and actual figures, in order to assess the accuracy of the forecasting process; – agreeing the costs incurred during the year and their allocation to contract work in progress; – for certain types of production, obtaining evidence of the physical stage of completion through a physical count; – assessing the accuracy of the calculation of the percentage of completion and the related recognition of contract revenue and expected losses, if any; – assessing the appropriateness of the presentation and adequacy of disclosures in the separate financial statements in connection with contract revenues and losses.

Recoverability of equity investments and goodwill

Notes to the separate financial statements: notes n. 3 "Accounting principles", n. 8 "Intangible assets" and n. 10 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2017 include equity investments of €7,345 million and goodwill of €707 million. The directors tested the year-end carrying amount of the cash-generating units (CGU) to which equity investments and goodwill relate for impairment, in order to identify possible impairment losses in respect of CGU's recoverable amount. Such recoverable amount is based on value in use that is the present value of the future expected cash flows (discounted cash flows method). This method is characterised by a high degree of complexity and, the use of estimates which are, by their very nature, uncertain and subjective, about: — the expected cash flows, determined on the basis of the general and sector trends, the actual cash flows for the last few years and the projected growth rates; — the inputs used to determine the discount rate. The 2018-22 business plan (the "plan") that the company's directors approved on 30 January 2018 which is the basis for the cash flow estimates is not only affected by the uncertainties inherent in forecasting, but also by the spending programmes of governments and public agencies, which are subject to delays, changes when work is in progress or cancellations. For the above reasons, we believe that the recoverability of equity investments and goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the impairment testing procedure approved by the parent's board of directors on 28 February 2018; — updating our understanding of the process used to draft the plan; — challenging the criteria used to identify the CGU and tracing the amount of the CGU assets and liabilities to the relevant carrying amounts in the separate financial statements; — comparing the cash flows used for impairment testing to the cash flows included in the plan; — analysing the main assumptions used by the directors in drafting the plan for reasonableness; — analysing the most significant discrepancies between data included in the past years' plans and actual figures, in order to assess the accuracy of the forecasting process; — involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the sensitivity analysis included in the notes to the consolidated financial statements with reference to the key assumptions used in the impairment test; — assessing the appropriateness of the presentation and adequacy of disclosures in the separate financial statements in connection with equity investments, goodwill and impairment test.

Recognition and measurement of non-recurring costs and development costs

Notes to the separate financial statements: notes n. 3 "Accounting principles" and n. 8 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
As at 31 December 2017 the company has recognised non-recurring costs and development costs relating to the design, prototyping, start-up and technical and functional specification adjustments of its products totalling €1,894 million under intangible assets. The initial recognition and subsequent measurement of their recoverability through impairment test requires complex estimates with a high degree of uncertainty, since they are affected by many factors, including the horizon of the product business plans and management's ability to forecast the commercial success of new technologies. Accordingly, these estimates require a significant level of judgement by directors. For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.	Our audit procedures included: — updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of development projects deemed material for the purposes of our audit: – examining the main internal and external costs recognised during the year on the basis, inter alia, of inquiries of the relevant internal departments and documentary evidence provided by management; – challenging the reasonableness of the assumptions underlying the product business plans; – involving our own specialists to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the appropriateness of the presentation and adequacy of disclosures in the separate financial statements in connection with non-recurring costs and development costs.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Leonardo S.p.a. for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, in accordance with the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISA Italia 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 separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 16 May 2012, the company's shareholders engaged us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 were not provided and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Leonardo S.p.a. are responsible for the preparation of the company's directors' report and report on corporate governance and ownership structure at 31 December 2017 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2017 and their compliance with the applicable law and to express a statement on any material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Leonardo S.p.a. at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the company and its environment obtained through our audit, we have nothing to report.

Rome, 21 March 2018

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit

Report of the Board of Statutory Auditors to the Shareholders' Meeting

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 153 OF LEGISLATIVE DECREE NO. 58/1998

To the Shareholders' Meeting of the company Leonardo S.p.a.
Registered Office: Piazza Monte Grappa no. 4 - 00195 Rome (Italy)

Shareholders,

the Board of Statutory Auditors of the company Leonardo S.p.a. (hereinafter also referred to as "the Company") hereby submits its report pursuant to Article 153 of T.U.F. (Testo Unico della Finanza, Consolidated Law on Financial Intermediation) to report on the activity performed.

The Board of Statutory Auditors was appointed by the Shareholders' Meeting on 11 May 2015 and therefore terminates its mandate with the next Shareholders' Meeting to approve the Financial Statements as at 31 December 2017.

In accordance with Legislative Decree 58/1998 and Legislative Decree 39/2010, the statutory auditing activity has been entrusted to the auditing company KPMG S.p.A. (hereinafter referred to as the "Auditing Firm"). The task was granted by the Shareholders' Meeting of 16 May 2012 for the period from 2012 to 2020.

During the financial year ended on 31 December 2017, the Board of Statutory Auditors carried out checks and other supervisory activities in compliance with the provisions of the laws and regulations in force on the subject, as well as the Governance Code for companies listed at the Italian Stock Exchange, of the Rules of behavior of the Board of Statutory Auditors of the listed companies issued by the National Board of Chartered Accountants and Accounting Experts and of the Communications issued by CONSOB concerning the company checks and the activities of the Board of Statutory Auditors. This report is prepared in accordance with the indications provided by Consob with DAC/RM/97001574 communication of 20 February 1997 and with DEM/1025564 communication of 6 April 2001, amended and supplemented by the DEM/3021582 communication of 4 April 2003 and DEM/6031329 communication of 7 April 2006.

The activities carried out by the Board of Statutory Auditors concerned the 2017 financial year, through regular periodic meetings whose results have been duly reported in the appropriate minutes.

The Board of Statutory Auditors periodically assessed the adequacy of the organizational and functional structure of the company and its evolutions through information flows and contacts with the individual heads of the various Organizational Units and Departments of the Company; relations with the resources of the Company were inspired by mutual collaboration in respect of the roles and areas of subjective competence and each corporate body or function fulfilled the information obligations required by the applicable standards.

The Board of Statutory Auditors has also carried out the self-assessment of the independence of its members, confirming that they meet the relevant requirements prescribed by the law and by the Governance Code; no statutory auditor had a vested interest, on his/her own account or on account of third parties, in any transaction whatsoever carried out by the Company during the financial year. The Board of Statutory Auditors has also assessed and given a favorable opinion about the independence of the members of the Board of Directors and the Auditing Firm, as specified below.

During 2017, the Board of Statutory Auditors initiated a self-assessment process aimed at gathering the opinions of the members of the Supervisory Board of Statutory Auditors regarding both the works and the composition of the Board of Statutory Auditors - taking into account the entire three-year mandate of the body in charge - also in consideration of the profound evolution of the role of the Board of Statutory Auditors due to the introduction, in recent years, of new supervisory tasks assigned by the current standards.

The outcomes, the assessments carried out and the conclusive indications of the Board of Statutory Auditors were discussed jointly and subsequently collected in the "Final Self-Assessment Report of the Board of Statutory Auditors ".

With regard to the works of the Board of Statutory Auditors, a general satisfaction emerged on the methods of work implemented and on the general contribution of the Statutory Auditors, also taking into account the new supervisory activities that the law assigned to the Board of Statutory Auditors and the significant corporate evolution that characterized the three-year period from 2015 to 2017, with a consequent significant expansion of the operating perimeter of the Company and of the functions and responsibilities of the same Board of Statutory Auditors.

Within the above-mentioned self-assessment process and pursuant to the new regulations complying with Legislative Decree no. 254/2016 and of the new provisions pursuant to art. 123-bis, paragraph 2, subpara. d-bis) of T.U.F. on the diversity of the Administrative and Supervisory Boards, the Board of Statutory Auditors approved the "Diversity Policy of the Board of Statutory Auditors of Leonardo" on 23 January 2018. Subsequently, the document was submitted to the Appointment, Governance and Sustainability Committee and to the Board of Directors of the Company, which have fully shared and implemented the related contents, whose results have been shown by the Company in the Corporate Governance Report.

The members of the Board of Statutory Auditors have complied with the accumulation of offices pursuant to art. 144-terdecies of the Issuers Regulation.

* * *

As part of the activities and tasks assigned to the Supervisory Board while implementing the relevant legislation, the Board of Statutory Auditors during 2017:

a) held seventeen meetings, carried out audits and gathered information from the heads of the different corporate functions, periodically meeting the top positions for an exchange of information on the performance of the corporate transactions, thus acquiring the knowledge necessary to monitor, pursuant to art. 149 of T.U.F., the compliance with the law and the deed of incorporation, the compliance with the principles of correct management and the adequacy of the organizational structure, the internal control system, the administrative-accounting system, as well as the implementation of the corporate governance rules from the codes of conduct and the adequacy of the instructions given to the subsidiaries, with no remarks;

b) attended all the Ordinary and Extraordinary Shareholder' meetings;

c) attended all the twelve meetings of the held by the Board of Directors, during which it was informed of the work done and of the main financial and of the most important economic, patrimonial and financial transactions carried out by the Company and its subsidiaries, thus obtaining adequate and timely information on their performance;

d) attended all the seven meetings held by the *Control and Risks Committee* and also attended, through its members, nine meetings held by the *Remuneration Committee* and the six meetings held by *Appointment, Governance and Sustainability Committee*, acknowledging that they have acted in compliance with the provisions of the Governance Code and its own regulations, as well as attended the four meetings of the *International Scenarios Analysis Committee* set up by the Company on a voluntary basis.

The collaboration with the *Control and Risk Committee* has been fruitful and effective and has, among other things, allowed to complete the analysis process of the Board of Statutory Auditors on risk control and management, thus acquiring further information with respect to that obtained autonomously through the constant contacts with the manager of the *Group Internal Audit* and the Risk Manager of the Company.

The Board of Statutory Auditors, in particular, acknowledges that during the meetings of the *Control and Risk Committee*, checks were carried out, as established by the Corporate Governance Code and the Committee's Rules, regularly presented to the Board of Statutory Auditors as Committee. for internal control and auditing (pursuant to Article 19 of Legislative Decree No. 39/2010). In particular, the Board of Statutory Auditors monitored the adequacy and effectiveness of the internal control and risk management system, with respect to the characteristics of the company and the risk profile taken, of the Work Plan prepared by the

Head of the *Group Internal Audit* Group's organizational unit, the adequacy of the resources assigned to it, as well as its organizational effectiveness and efficiency. Furthermore, the Board of Statutory Auditors acknowledged that the *Control and Risk Committee* expressed its favorable opinion on 13 March 2018 on the annual assessment of the adequacy of the Internal Control and Risk Management System.

e) As part of the periodic meetings with the Head of the *Group Internal Audit* organizational unit, it monitored the strengthening process in terms of human resources assigned to the organizational unit aimed at achieving a qualitative level fully adapted to the size of the Group and to the variety and complexity of the issues to be addressed, especially in terms of control and risk management, also following the "One Company" Model. In 2017 the *Group Internal Audit* obtained the Quality Certification, by an independent third party, which concludes the opinion in terms of "*general compliance*" or "*maximum positive assessment*" envisaged by the *Institute of Internal Auditors*;

f) took note of the assignment of powers by the Board of Directors to the new Chief Executive Officer, with whom it had a meeting in order to gain knowledge on the Group's future prospects and on the organizational and commercial transformation program;

g) met periodically the two Responsible Executives who took turns in office during the year; in this regard, the Board of Statutory Auditors has issued its opinion pursuant to Art. 154-bis of T.U.F. upon the appointment of the new Responsible Executive currently in office;

h) operated in constant connection, in compliance with the reciprocal functions, with the Supervisory Board pursuant to Legislative Decree no. 231/2001, with which it had regular meetings; in this regard, it acknowledges the full cooperation between the Board of Statutory Auditors and the Supervisory Board, as well as the timely compliance by the latter with the information obligations, with particular reference to the specific report that the Supervisory Board makes to the Board of Directors;

i) also participated with the Chairman of the Board of Statutory Auditors in the two meetings of the Coordination and Consultation Body for the Prevention of corruption, chaired by the Chairman of the Board of Directors and composed of the Chairman of the *Control and Risks Committee*, the Chairman of the Supervisory Board and the Chairman of the Board of Statutory Auditors;

j) in the performance of its duties, it promoted meetings aimed at obtaining all useful information regarding the main judicial initiatives involving the Company and the main Group companies, thus monitoring their performance during the financial year;

k) met periodically the representatives of the appointed Auditing Firm, which showed the Board of Statutory Auditors the review strategy, the areas of attention, the checks performed and the related outcomes, as well as the essential issues encountered while carrying out the activity, also in relation to the provisions of Art. 19 of Legislative Decree no. 39/2010 and Art. 11 of EU Regulation no. 537/2014.

With regard to the supervisory activity on the independence of the Auditing Firm, the Board of Statutory Auditors monitored the compliance with the procedure and the Leonardo's Directive for the assignment of tasks to the Group Auditing Firm, which envisages specific information and authorization flows and methods for granting these tasks aimed at allowing the Board of Statutory Auditors adequately performing its above-mentioned supervisory activity.

The exchange of information with the Auditor was also constant for the purposes of the fulfillment by the Board of Statutory Auditors of the functions assigned to it as the Committee for Internal Control and Auditing, pursuant to Art. 19 of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016.

From the set of information flows implemented, no reports of criticality or anomalies emerged that could affect the opinions expressed on the financial statements and the consolidated financial statements of the Company. The Auditing Firm released the reports pursuant to Art. 14 of Legislative Decree no. 39 of 27 January 2010 and Art. 10 and Art. 11 of the EU Regulation no. 537/2014; the aforementioned reports show that there are no findings or recalls of information, nor statements issued pursuant to subparas. e) and f) of Art. 14, second paragraph of Legislative Decree no. 39/2010;

l) verified the full observance of the obligations regarding information regulated, privileged or required by the Supervisory Authorities;

m) verified that the information flows between the Parent Company and the other Group companies took place in a timely manner and that the instructions given to the subsidiaries, pursuant to Art. 114, paragraph 2, of T.U.F., are adequate.

n) With reference to the provisions set forth in Articles 15 and subsequent ones of the Markets Regulation (as last amended by Consob Resolution No. 20249 of 28 December 2017), in relation to the subsidiaries established and governed by the laws of non-EU countries, adequate information was provided to the Board of Statutory Auditors by the *Group Internal Audit* on 9 March 2018, also brought to the attention of the Risk Control Committee, from which it emerged, for companies that are significant in accordance with the criteria set by the Issuers' Regulations, the existence of an administrative-accounting system that presides over the preparation of the Financial Reporting, suitable and substantially adequate to the requirements pursuant to Art. 15. It is therefore not necessary to prepare a specific adjustment plan;

o) The Report on Corporate Governance and Ownership Structures contains all the information required by Art. 123 bis of T.U.F. as well as other information provided in compliance with the standards governing the issuers listed on regulated markets;

p) The Board of Statutory Auditors - as regards the administrative accounting system and its suitability to correctly represent management events - took the necessary

information to confirm that in the current financial year the commitment to increase and improve the adequacy of the systems in place continued. In particular, from the perspective of the *One Company*, further actions were planned to achieve greater levels of effectiveness and efficiency of the information system;

q) in the same way, the Board of Statutory Auditors was informed of the changes in the organizational structure, overseeing in any case the compliance with the directives and the corporate procedures as a whole, their updating and their effective dissemination;

r) maintained constant attention to compliance activities with periodic meetings with the functions in charge;

s) maintained the information flows with the Boards of Statutory Auditors of the subsidiaries with particular attention to the operation of the company activity, the reliability of the internal control system and the company organization, to the relevant litigation - as required by Art. 151 of T.U.F. - and compliance with internal procedures issued by the parent company. In particular, the checks were aimed at acquiring information and evaluations on the administration and control systems of the subsidiaries: on these profiles, the Boards of Statutory Auditors of the Group companies did not represent critical issues worthy of mention. All the Boards of Statutory Auditors involved also expressed a positive opinion regarding the adequacy of the organizational, administrative and accounting systems of the respective companies; no violations of procedures qualified as significant, nor gaps or inadequacies of the internal control systems emerged;

t) finally, actively participated in all the meetings organized by the Company or Independent Directors within the "*Induction*" program proposed to the corporate bodies, in compliance with the Corporate Governance Code , in order to increase the skills and knowledge of the sectors of business in which the Company operates.

* * *

The Board of Statutory Auditors, also in compliance with the recommendations of DEM/1025564 Resolution of 6 April 2001, reports on the main supervisory activities carried out during 2017 financial year and up to date, namely:

a) among the significant events specified by the Company in the Report on Operations, in the Separate Financial Statements and in the Consolidated Financial Statements and occurred up to date, they should be noted the following major economic, financial and equity transactions carried out by the company in the reference financial year, also through subsidiaries:

   - *Purchase of further shares in the investee company Avio S.p.A.*: on 31 March 2017 the closing of the purchase transaction took place, by "Space2", "Leonardo" and "In Orbit" (a company held by some Avio managers), of the entire capital of Avio, with subsequent merger into Space2 and simultaneous listing of Avio on the MTA

market/Star segment of the Italian Stock Exchange, implemented on 10 April 2017. As a result of this transaction and subsequent minor purchase transactions, Leonardo currently holds about 26% of the company;

- *Bond issues*: on 7 June 2017 as part of the EMTN program renewed in April 2017, Leonardo placed new bonds listed on the Luxembourg Stock Exchange on the seven-year Euromarket for an amount of six hundred million EUR, with a annual coupon of 1.5%.

- *Acquisition of Daylight Solutions*: on 23 June 2017 Leonardo, through its US subsidiary Leonardo DRS, completed the acquisition of Daylight Solutions Inc., a leading company in the development of "quantum cascade technology" laser products. The consideration was equal to one hundred and forty million USD for 100% of the share capital. This acquisition has made it possible to expand the DRS offer of advanced solutions to the civil and military market;

- *Exercise of the put on Ansaldo Energia*: in July 2017 Leonardo exercised the put option on 15% of the investment in Ansaldo Energia, a residual portion held by the Group as part of the sale to Deposits and Loans Fund (Cassa Depositi e Prestiti) completed in 2013. The exercise of this option made it possible to collect one hundred forty-four million EUR.

- *Review of the guidelines*: on 9 November 2017, the Board of Directors decided to revise the Group Guidelines for the 2017 financial year;

- *Repurchase and bond issues*: in December 2017 Leonardo and its subsidiary Leonardo US Holding announced and successfully completed takeover bids on the market involving additional shares of bonds maturing in 2039 and 2040 for nominal values of USD three hundred million and USD five hundred million issued by the subsidiary Leonardo US Holding and guaranteed by Leonardo S.p.A. The offer ended positively with a total repurchased amount of USD three hundred million.

b) With reference to the most significant transactions having an impact on the overall operating model of the Company, it should be noted that the Board of Directors:

- on May 16, 2017 granted the powers to the new Chief Executive Officer;

- on 28 June 2017, upon the proposal of the new Chief Executive Officer, approved the new organizational structure, which confirms the division into the seven departments, thus overcoming the further division into sectors;

- on 21 September 2017 decided to set up two new central structures to strengthen the commercial commitment and customer support, as well as the process of organizational transformation of the company.

In this context, the Board of Statutory Auditors monitored, in close collaboration with the Independent Directors (and, in particular, with the Control and Risk Committee),

further initiatives aimed at completing the reinforcement of the *One Company* organizational and operational model.

The attention of the Board of Statutory Auditors was noted on the completion of the new Group Organizational and Operating Model, launched in 2016 with the transition from a plurality of autonomous legal entities to a divisional and unitary and, at the same time, decentralized structure for the purposes of greater accountability decision-making and operational centers.

This evolution, which resulted in a radical change in the nature of the company from *holding* to operating company, confirmed the new and greater responsibilities of the Board of Statutory Auditors, called to meet, in rotation and on a regular basis, the leaders of the Company and its departments, being so promptly informed about the evolution of the process and the issuing of the necessary directives for an adaptation of the organizational, procedural and regulatory structure.

There is a need to continue to oversee the process of integrating the company so as to enable it to operate increasingly effectively on the markets and, at the same time, ensuring the correct management of corporate risks and the operation of appropriate *governance, control and compliance mechanisms*, with particular regard to *Information Technology*.

For international and national companies not included in the divisional process, the Board of Statutory Auditors continued to monitor the management and coordination of the role of parent company and of joint venture partners. In particular for international companies, the supervision of the Board of Statutory Auditors developed with the collaboration of the *Group Internal Audit* organizational unit.

On the basis of the information provided by the company and of the data acquired in relation to the aforementioned transactions, the Board of Statutory Auditors ascertained its compliance with the law, the deed of incorporation and the principles of correct management, thus making sure that they were not manifestly imprudent or risky, nor in contrast with the resolutions passed by the Shareholders' Meeting or such as to compromise the Company's financial integrity. Furthermore, on the basis of the information thus taken by the Board of Statutory Auditors, these resolutions and transactions do not highlight any potential conflicts of interest with the Company.

c) The Board of Statutory Auditors did not recognize any atypical and/or unusual transactions that, due to their significance or relevance, the nature of the counterparties, the subject of the transaction and the modes to determine the transfer price and timing of the event may give rise to doubts regarding the correctness/completeness of the information on the balance sheet, the conflict of interest, the safeguarding of corporate assets, the protection of minority shareholders.

d) The Board of Statutory Auditors examined the Report of the Auditing Firm issued pursuant to Art. 14 of Legislative Decree 39/2010 and of Art. 10 of EU Reg. 537/2014 of 21 March 2018, with which it is certified that:

- the separate financial statements of the Company and the consolidated financial statements of the Group as at 31 December 2017 provide a true and correct representation of the balance sheet as at 31 December 2017, of the economic result and cash flows for the financial year ended on that date in accordance with International Financial Reporting Standards implemented by the European Union;
- the Report on Operations and some specific information contained in the Report on Corporate Governance and Ownership Structures indicated in Art. 123-bis, paragraph 4 of Legislative Decree 58/1998, are consistent and comply with the separate financial statements of the Company and with the consolidated financial statements of the Group and drawn up in compliance with the Law;
- the opinion on the separate financial statements and on the consolidated financial statements expressed in the aforementioned Reports is in line with that reported in the Additional Report prepared pursuant to Art. 11 of EU Reg. 537/2014.

e) The Board of Statutory Auditors did not find any omissions or reprehensible facts.

f) The Board of Statutory Auditors assessed, in application of its internal procedure, the complaints submitted, pursuant to Art. 2408 of the Italian Civil Code, by a shareholder, deeming them unfounded; no complaints were filed pursuant to Art. 2409 of the Italian Civil Code and Art. 152 of T.U.F.;

g) The Board of Statutory Auditors expressed its opinion in all cases provided for by law and, in particular, on the correct application of the criteria for assessing the independence of Directors, the appointment of the new manager in charge, the remuneration of the Chairman of the Board of Directors and the Chief Executive Officer, to the variable incentive assigned to the Head of the Internal Audit Group.

h) The Board of Statutory Auditors verified the methods of concrete implementation of the corporate governance rules, provided for by the Corporate Governance Code for companies listed in the Italian Stock Exchange which the company has adhered to, also with reference to their adaptation to the provisions introduced following the last revision of the Code.

The Board of Statutory Auditors also supervised the corporate documents and information on the market, in particular:

a) found that the Report on Operations for the 2017 financial year contains adequate information on transactions with related parties and verified, pursuant to Art. 4, sixth paragraph, of the Regulation approved by CONSOB with Resolution 17221 of 12 March 2010 and subsequent amendments, the compliance of the "*Procedure for Transactions with Related Parties*" implemented by the Company, to the principles set forth in the same Regulation, as well as full compliance with this procedure on the occasion of the individual transactions with related parties carried out during the financial year;

b) monitored the communications to the market, thus supervising the adjustment of the related procedures;

c) In compliance with the recommendations of the joint Bank of Italy-CONSOB-ISVAP document no. 4 of 3 March 2010, the Board of Statutory Auditors acknowledges that the *Impairment Test* procedure governed by IAS 36 received the favorable opinion of the Control and Risk Committee on 27 February 2018 and was approved by the Board of Directors on the following day.

d) verified that the Company has fulfilled its obligations under Legislative Decree 254/2016 and that, in particular, it has drafted the Consolidated Statement of a non-financial nature - prepared and approved by the Board of Directors - in compliance with the provisions to Art. 3 and Art. 4 of the same decree;

e) the aforementioned Statement was accompanied by the report of the Auditing Firm pursuant to Art. 3, paragraph 10 of Legislative Decree 254/2016, which certified the fact that the Directors made the declaration of a non-financial nature, in a separate form from the Report on Operations through the 2017 sustainability and innovation report, as well as by virtue of a specially appointed task; in this context, the Auditing Firm released a Limited Assurance certification, without any importance, regarding the compliance of the information provided in the Non-Financial Statement, with respect to the requirements of the aforementioned decree and with respect to the principles, modes and methods of drafting, as well as Art. 5 of the CONSOB Regulation implemented by Resolution of 18 January 2018, no. 20267.

f) The Board of Statutory Auditors took note of the preparation and approval by the Board of Directors of the Policy contained in First Section of the Remuneration Report, prepared pursuant to art. 123-ter of T.U.F. and Art. 84-ter of the Issuers Regulation, which the Company will submit to the non-binding vote of the Shareholders' Meeting.

During the supervisory activity performed by the Board of Statutory Auditors in accordance with the methods described above, on the basis of the information and data acquired, no facts emerged from which to infer that the law and the deed of establishment

were not complied with or justified the reports to the Supervisory Authority or the mention in this report.

* * *

The Board of Statutory Auditors carried out the activities pursuant to Art. 19 of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016, carried out pursuant to the provisions of EU Regulation no. 537/2014. In particular, the Board:

- ✓ examined the contents of the Supplementary Report pursuant to Art. 11 of the EU Reg. 537/2014 that will be sent to the Board of Directors, from the examination of which no aspects emerged that should be highlighted in this report;
- ✓ verified that the Auditing Firm, in relation to the non-audit services supplied in favor of the company under its control and its subsidiaries in the last three financial years, complied with the limits set forth in Art. 4, paragraph 2, of EU Regulation 537/2014. In particular, the Board obtained adequate information to be able to monitor the nature of non-audit services; verified from time to time the criteria set by the relevant legislation regarding the prohibited services referred to in art. 5 of EU Regulation no. 537/2014, as well as on the correct application of the internal procedure for non-audit services assigned to the appointed auditing firm, as well as to the entities belonging to its network, by the company and its subsidiaries. In fulfillment of the duties referred to in Art. 19 of Legislative Decree 39/2010, it declares that the fees for the aforementioned offices amount to a total of EUR 781,000 and are shown, pursuant to Art. 149-duodecies of the Issuers' Regulations, in the summary table attached to the Financial Statements.

* * *

On the basis of the activities carried out up to date, the Board of Statutory Auditors believes that it can renounce the terms established by Art. 2429, of the Italian Civil Code for the purpose of drafting and filing its own Report.

As regards the result for the 2017 financial year, which recorded an operating profit of EUR 356 million, the Board of Directors detailed the formation of the result and the events that generated it in the Report on Operations and in the Notes to the Accounts.

Considering the above and for what is within its competence, the Board of Statutory Auditors, pursuant to Article 153, paragraph 2, of T.U.F., states that there are no grounds for impeding the proposal to approve the financial statements for the year ended on 31

December 2017 or the proposed allocation of the related operating profit as formulated by the Board of Directors.

Rome, 21 March 2018

THE BOARD OF STATUTORY AUDITORS

Mr. Riccardo Raul Bauer (Chairman)

Mr. Niccolò Abriani

Mr. Luigi Corsi

Mr. Francesco Perrini

Mrs. Daniela Savi

Information pursuant to article 149. duodecies of the issuer regulation

The following statement reports the fees for the year 2017 for auditing and certification services and for tax and other services provided by the same auditing firm and entities belonging to the auditing firm's network.

	Entity providing the service	To	Fees for the year 2017 (€ thousands)
Auditing services	KPMG SpA	Parent Company	2,240
	KPMG SpA	Subsidiaries	586
	KPMG network	Subsidiaries	3,321
Assurance services	KPMG SpA	Parent Company	230
	KPMG SpA	Subsidiaries	10
	KPMG network	Subsidiaries	-
Tax consulting services	KPMG network	Parent Company	-
	KPMG network	Subsidiaries	-
	KPMG network	Subsidiaries	-
Other services	KPMG SpA	Parent Company	525
	KPMG SpA	Subsidiaries	-
	KPMG network	Subsidiaries	16
Total			**6,928**