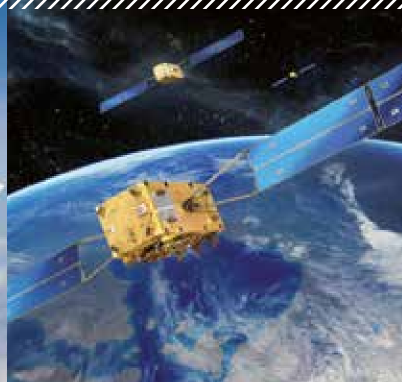
Annual Financial Report 2016

BEING LEONARDO

THE PATH TO GROWTH



LEONARDO
INGENUITY AT YOUR SERVICE

ANNUAL FINANCIAL REPORT 2016

How much we have changed
We moved forward in a new direction to be on the front line of global challenges. Always keeping our eyes on the path and knowing where we were headed.

Looking further
We are constantly fostering innovation, always aiming for excellence. Because the future we imagine is a place full of creativity, knowledge and technology.

A new journey has begun
We proved that we are ready. We have covered great distances and we are still going, confident that our best ideas and results lie ahead.

LEONARDO TODAY

Helicopters

Helicopters Division

Electronics, Defence & Security Systems

Land & Naval Defence Electronics Division
Airborne & Space Systems Division
Security & Information Systems Division
Defence Systems Division
DRS Technologies
MBDA (*)

Aeronautics

Aircraft Division
Aerostructures Division
ATR (*)

Space

Telespazio (*)
Thales Alenia Space (*)

(*) Joint Venture

FINANCIAL HIGHLIGHTS

(Group financial results 2016 € billions)

REVENUES

46% Electronics, Defence & Security Systems
30% Helicopters
26% Aeronautics
3% Other activities
-5% Eliminations

ORDER BACKLOG

38% Aeronautics
34% Electronics, Defence & Security Systems
31% Helicopters
0% Other activities
-3% Eliminations

NEW ORDERS

51% Aeronautics
34% Electronics, Defence & Security Systems
19% Helicopters
0% Other activities
-4% Eliminations

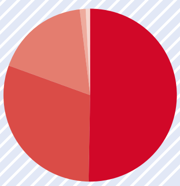
RESULTS 2016

(€ millions)

Revenues	12,002
New orders	19,951
Order backlog	34,798
Research and development	1,373
Workforce	45,631

TOTAL SHAREHOLDER COMPOSITION

50.4% Institutional investors
30.2% Ministry of Economy and Finance
17.7% Retail investors (Italy only)
1.0% Unidentified
0.7% Treasury shares



CONTENTS


Giovanni De Gennaro
CHAIRMAN


Mauro Moretti
CHIEF EXECUTIVE OFFICER
AND GENERAL MANAGER

LETTER TO SHAREHOLDERS

Dear Shareholders,

2016 was a key year for your Company, radically different from the past: more transparent, streamlined, focused, effective, efficient and with a more solid balance sheet. A Company that, thanks to the positive 2016 results, showing a material debt reduction, proposes again the distribution of dividends as a key element of the shareholders remuneration and a clear sign of a new normality and sustainability.

Results achieved, commercial and also economic and financial, confirm the effectiveness of the choices on which the Industrial Plan, prepared in 2014, is based which have made your Company more focused on "core business" and ultimately stronger, despite difficulties in some target markets, including civil helicopters.

Actions carried out in execution of such a plan have made it possible to successfully complete the first phase of the reorganisation and re-launching of the Group. A "new" Group, with a new brand, focused on its core business, with a more effective and efficient governance structure, characterised by an increasingly growing cash generation, and, consequently, by a debt level that is most appropriate to its size, as well as by positive financial results, in line with its main competitors, thanks to the benefits of cost reduction initiatives and the improvement of industrial processes.

From a commercial point of view, 2016 was characterised by a significant order growth (+61%) compared to 2015, thanks to important commercial successes, in line with the strict selectivity of new orders, like, for example, those in the Electronics, Defence & Security Systems, achieving a book-to-bill of more than 1.2 in both 2015 and 2016, and the contract for the supply of 28 Eurofighter Typhoon to the Kuwait Ministry of Defence for about €bil. 8, the most important order in the history of the Group.

From an economic and financial point of view, 2016 was characterised by further growth in operating profitability due to improvements in all areas, including Helicopters which is experiencing challenges in some reference markets.
This increase has made it possible to achieve an EBIT, EBITA and EBITDA improvement compared to 2015, even on declining revenues, with a ROS increased from 9.3% to 10.4%. Net result before extraordinary transactions more than doubled compared to 2015, thanks to the improvement of EBITA, reduced EBITDA volatility, reduced financial charges and lower tax impact.
2016 was also characterised by a marked improvement in cash-flow performance, with a FOCF more than doubled (+130%) compared to 2015 also thanks to the effect of the first advance payment on the Kuwait Eurofighter contract, and the Group net debt reduction, due to better cash performance and despite significantly negative exchange rate differences. This improvement and a more solid financial structure allowed a further reduction in the debt-to-equity ratio to 0.65 in 2016, already below 1 from 2015.

Results achieved so far represent a solid foundation for the further development and growth of your Company, as outlined in the new 2017-2021 Industrial Plan, thanks to a more effective focus on markets, to be achieved through a unified presence and more competitive offerings, and to actions aimed at both organic and external growth of the core business, all supported by an increasing industrial efficiency.

Your Company is well placed to face future challenges of development and growth and to continue to be a key player in the global market with its own technologies and solutions. Targets and actions put in place by the Board of Directors for profitable growth are inspired by long-term business sustainability, also economic and financial, as the ability to build a solid and credible journey aimed at creating value for all domestic and international stakeholders, including shareholders, customers, employees to the entire industry.

The results we have achieved and those we set ourselves to pursue cannot be attained without the constant commitment of our management and of all those working in your Company, to whom the Board of Directors expresses its sincere appreciation for the efforts they have made up to this time.

For the Board of Directors

The Chairman
(**Giovanni De Gennaro**)

The Chief Executive Officer and General Manager
(**Mauro Moretti**)

BOARDS AND COMMITTEES

Board of Directors

(for the three-year period 2014-2016)

Giovanni De Gennaro
CHAIRMAN

Mauro Moretti
CHIEF EXECUTIVE OFFICER
AND GENERAL MANAGER

Guido Alpa
DIRECTOR (A,C)

Marina Elvira Calderone
DIRECTOR (B,C)

Paolo Cantarella
DIRECTOR (A)

Marta Dassù
DIRECTOR (C,D)

Alessandro De Nicola
DIRECTOR (B,D)

Dario Frigerio
DIRECTOR (B,C)

Fabrizio Landi
DIRECTOR (A,D)

Silvia Merlo
DIRECTOR (A,D)

Marina Rubini
DIRECTOR (B,C)

Luciano Acciari
SECRETARY OF THE BOARD
OF DIRECTORS

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.

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

Stefano Fiorini
Maria Teresa Cuomo

Independent Legal Auditors

(for the period 2012-2020)

KPMG SpA

Report on Operations at 31 December 2016

GROUP RESULTS AND FINANCIAL POSITION

Key performance indicators ("KPI")

€ millions	2016	2015	Change
New orders	19,951	12,371	61.3%
Order backlog	34,798	28,793	20.9%
Revenues	12,002	12,995	(7.6%)
EBITDA	1,907	1,866	2.2%
EBITDA margin	15.9%	14.4%	1.5 p.p.
EBITA	1,252	1,208	3.6%
ROS	10.4%	9.3%	1.1 p.p.
EBIT	982	884	11.1%
EBIT margin	8.2%	6.8%	1.4 p.p.
Net result before extraordinary transactions	545	253	115.4%
Net result	507	527	(3.8%)
Group net debt	2,845	3,278	(13.2%)
FOCF	706	307	130.0%
ROI	16.9%	15.7%	1.2 p.p.
ROE	12.6%	6.2%	6.4 p.p.
Workforce	45,631	47,156	(3.2%)

Please refer to the section entitled "'Non-GAAP' alternative 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 & 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 JVs' 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 2016 the main Group's JVs recorded total revenues of €bil. 2.9 as concerns Leonardo's share: as a result, the Group's aggregate pro-forma revenues came to about €bil. 14.9.

The 2016 results, which were particularly significant from the point of view of both commercial and business and financial performance, confirm the validity of the guidelines set out in the Industrial Plan prepared during 2014, which have led the Leonardo Group to mostly focus on its core business and have made it definitely stronger, despite the difficult situation of some target markets, including the civil aviation segment of *Helicopters*. The actions taken in the implementation of this plan have allowed the successful completion of the first phase of the project involving the reorganisation and relaunch of the Group. Leonardo is now a "new" Group, with a new brand, which is focused on its core business, has adopted a more effective and efficient governance structure and is characterised by an increasingly growing cash generation capacity, and, consequently, by a debt level that is most appropriate to its size. Finally, the Group is now able to achieve financial results that are highly considerable, in line with the main competitors, thanks to the first significant benefits arising from the actions taken to reduce costs and improve industrial processes. These actions were accompanied by successful sales result, while continuing to be strictly selective in acquiring new orders, mainly in the *Electronics* sector, with a book-to-bill of higher than 1.2 during the two-year period from 2015 to 2016, and the EFA Kuwait contract, which is the largest order gained during the life of the Group.

These acquisitions, together with the full implementation of the actions taken during the three-year period from 2014 to 2016, represent a further step forward in the path to growth outlined in the new Industrial Plan covering the years from 2017 to 2021. The expectations are that Leonardo will continue to pursue its growth through an improved market coverage, based on a global footprint and a more competitive offer, and through actions targeted at its internal and external growth in its core businesses, with the support of an increasingly greater industrial efficiency.

Before analysing the results in more details, the main aspects of the EFA contract are described below, together with most significant events that occurred during the current financial year.

- **EFA Kuwait contract.** This contract includes the supply of the EFA aircraft in their most advanced configuration and equipped with the E-Scan electronic scanning radar system (developed by the European consortium EuroRADAR, led by Leonardo), as well as supplies in the sectors of logistics, operational support and training for flight crews and ground staff, which will be provided in collaboration with the Italian Air Force. The agreement also includes the upgrading of the infrastructures in Kuwait which are necessary for the operations of the aircraft. The contract is worth €bil. 7.95, with an economic impact that is negligible in 2016 and then gradually increasing and particularly significant starting from 2019 and is expected to be completed in about eight years. In financial terms, the effect arising from the collection of the contract advance entails an improvement of about €mil. 600 in the FOCF in the two-year period from 2016 to 2017, while the subsequent years will be affected by the absorption of this phenomenon associated with the working capital requirements arising from a peak in production activities. As a result of this acquisition, the Group updated its 2016 forecasts during the month of May, in terms of new orders, cash flows and net debt, which had been initially made at the time of the preparation of the 2015 financial statements.
- **The transition to the One Company.** On 1 January the transactions became effective in legal terms, which involved the concentration in Leonardo of the corporate business areas involved in the process of turning the companies into Divisions, with the full entry of Leonardo into operation as a One Company. The Group is now structured into seven Divisions (*Helicopters*, *Aircraft*, *Aerostructures*, *Airborne & Space Systems*, *Land & Naval Defence Electronics*, *Defence Systems*, *Security & Information Systems*), which have been provided with powers and resources so as to ensure a complete end-to-end management of the related scope of business, with consequent full responsibility of the relevant income statement, and which operate, together with DRS, subject to a Proxy regime, and the entities outside the One Company perimeter (mainly the JVs), within four sectors (*Helicopters, Aeronautics, Electronics, Defence & Security Systems, Space*) which are assigned coordination functions and tasks. To complete the well-known concentration of the Italian operations into Leonardo SpA, on 23 June 2016 the Board of Directors of Leonardo approved the plan involving the merger of Sirio Panel SpA (a directly and wholly owned subsidiary) by incorporation into Leonardo, which became effective on 1 January 2017. Finally, in accordance with the objective of concentrating its business in the United Kingdom as well, Leonardo's operations in the United Kingdom were combined into a single legal entity, named Leonardo MW Limited, between the end of 2016 and the beginning of 2017.
- **From Finmeccanica to Leonardo.** Consistently with the implementation of the new Organisational and Operational Model of the One Company and the simultaneous replacement of the previous financial holding model, the Shareholders' Meeting held on 28 April approved the change of the Company name to "Leonardo - Società per azioni" ("Leonardo SpA" in an abridged form). The new Company name became effective on 4 May 2016.

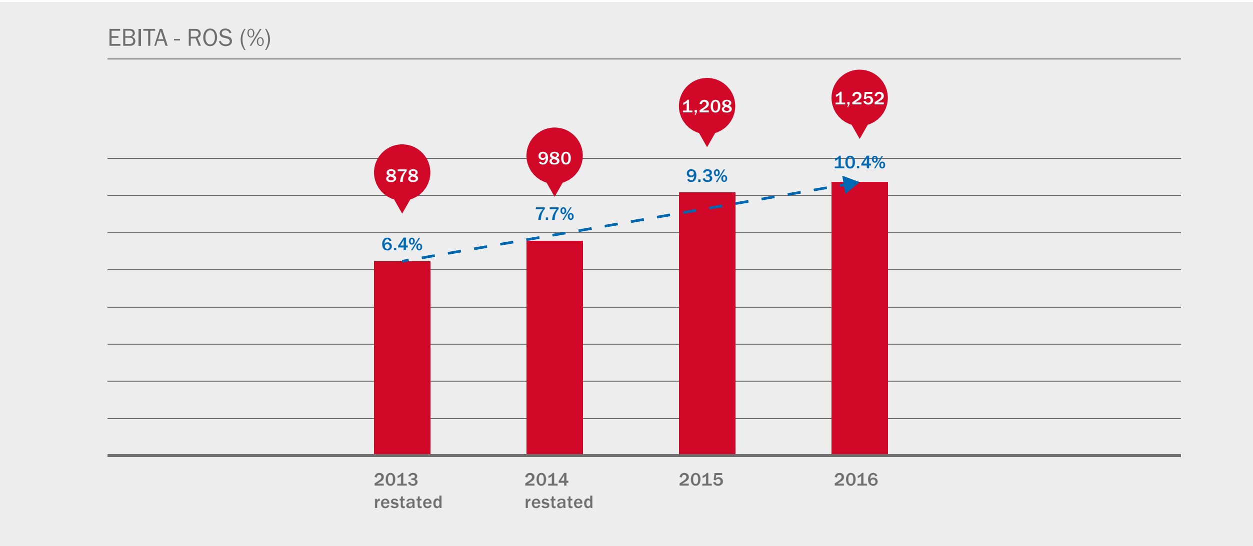
The 2016 results showed the following aspects:

- a significant increase in new orders compared to 2015 (+61%), mainly as a result of the acquisition of the contract for the supply of 28 Eurofighter Typhoon aircraft to the Kuwaiti Ministry of Defence, for an overall value of about €bil. 7.95;

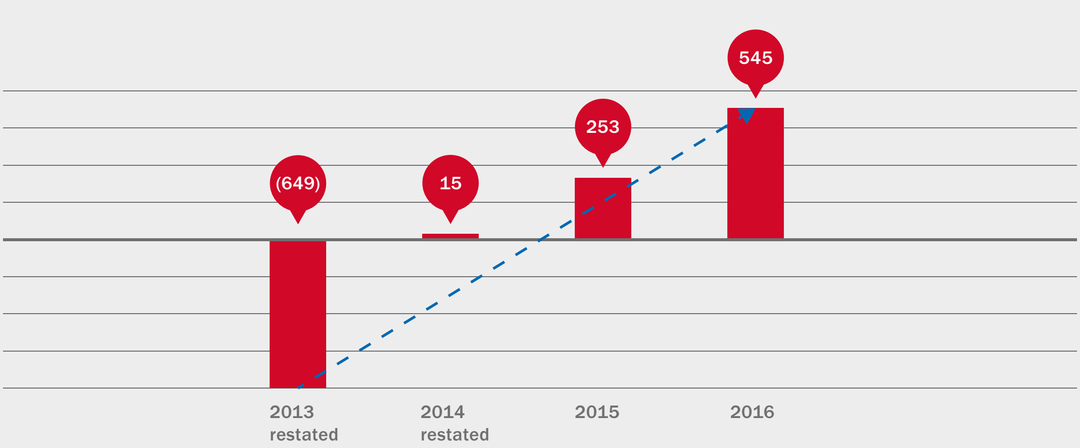
- a further growth in operating profits, with an increase in the EBITDA margin from 14.4% to 15.9% and in the ROS from 9.3% to 10.4%, thanks to improvements reported in all sectors and stable results in the *Helicopters* sector, despite the difficulties encountered in target markets. This expansion allowed an increase of 11%, 4% and 2%, respectively, in EBIT, EBITA and EBITDA compared to the previous year, despite a decrease in revenues (-8%);
- a net result before extraordinary transactions which more than doubled compared to 2015 (+115%), thanks to improved EBITA, a reduced volatility of costs excluded from EBITA and a reduction in financial costs and a lower tax impact;
- a significant improvement in return on invested capital, which showed an increase of 100 bps from 15.9% to 16.9%;
- a sharp improvement in the cash flow for the period, which recorded a more than doubled FOCF (+130%) compared to 2015, as a result of the collection of the first advance payment on the EFA Kuwait contract;
- a reduction in the Group's net debt (- 13%), which benefitted from an improved cash performance for the period, despite significantly negative exchange differences. This improvement and a greater financial soundness allowed a further reduction in the debt-to-equity, which returned to less than 1 from 2015, equal to 0.65 in 2016.

These improvements are even more significant when they are compared to the results posted in 2013, before the implementation of the actions described above. In fact, as shown by the charts reported below:

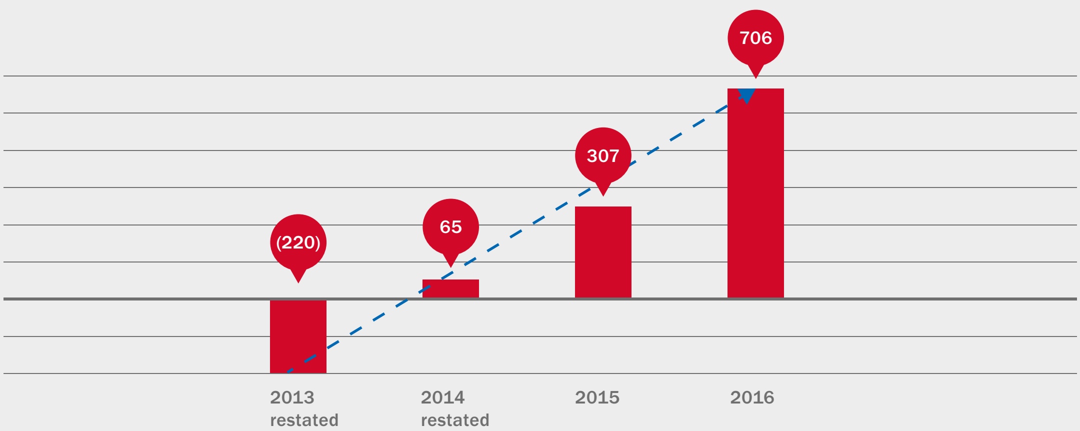
- EBITA showed an increase of more than 40%, with an improved ROS of 400 bps;
- profitability ratios (EBITA per capita) showed a significant improvement, with an increase of about 70% (from €th. 16 to 27);
- these improvements also impacted on the return on invested capital, which increased by more than 500 bps, from 11.6% in 2013 to the present 16.9%;
- the net result before extraordinary transactions, which in 2013 had been heavily negative, went back to the highs throughout the three-year period, going up to €mil. 545 in 2016;
- in financial terms, FOCF posted a positive result during the three-year period, showing a gradual and rapid growth of up to €mil. 706 in 2016 against a negative result of €mil. 220 posted in 2013. The Group's debt showed a decrease of about 30%, despite significantly negative exchange differences, as a result of its fresh capacity to generate cash, as well as of the completion of the disposals in the *Transportation* sector.



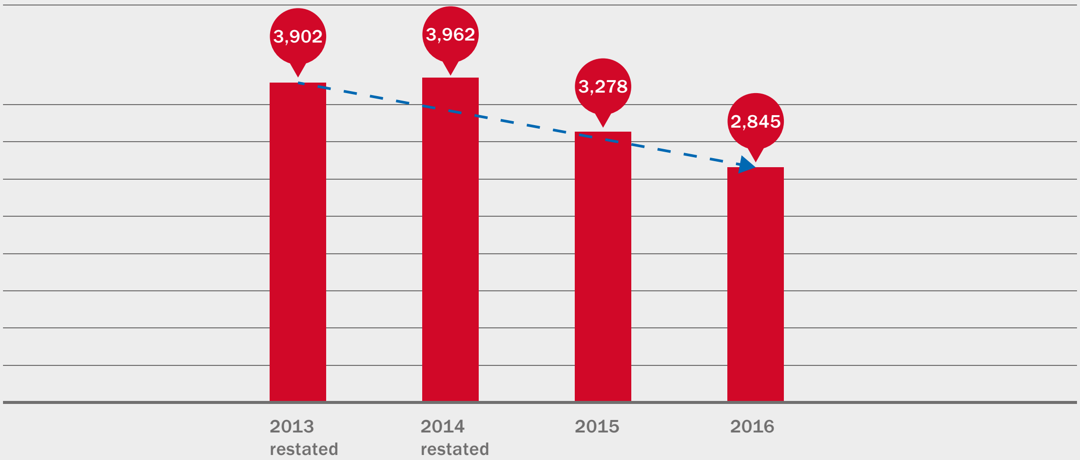
NET RESULT BEFORE EXTRAORDINARY TRANSACTIONS



FOCF



GROUP NET DEBT



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. In this regard, it should be noted that, consistently with the new organisation of the Group, the reporting by sector has been changed, with the consequent restatement of the comparative position of *Electronics, Defence & Security Systems* a sector in which the *Defence Systems* has converged (previously constituting a sector in itself).

31 December 2016 € millions	New orders	Order backlog	Revenues	EBITA	ROS %	EBITDA	EBITDA margin
Helicopters	3,737	10,622	3,639	430	11.8%	524	14.4%
Electronics, Defence & Security Systems	6,726	11,840	5,468	558	10.2%	772	14.1%
Aeronautics	10,158	13,107	3,130	347	11.1%	635	20.3%
Space	-	-	-	77	n.a.	77	n.a.
Other activities	88	174	327	(160)	(48.9%)	(101)	(30.9%)
Eliminations	*(758)*	*(945)*	*(562)*	-	*n.a.*	-	*n.a.*
Total	**19,951**	**34,798**	**12,002**	**1,252**	**10.4%**	**1,907**	**15.9%**

31 December 2015 € millions	New orders	Order backlog	Revenues	EBITA	ROS %	EBITDA	EBITDA margin
Helicopters	3,910	11,717	4,479	558	12.5%	657	14.7%
Electronics, Defence & Security Systems	6,974	11,116	5,656	512	9.1%	750	13.3%
Aeronautics	1,741	6,170	3,118	312	10.0%	575	18.4%
Space	-	-	-	37	n.a.	37	n.a.
Other activities	110	215	298	(211)	(70.8%)	(153)	(51.3%)
Eliminations	*(364)*	*(425)*	*(556)*	-	*n.a.*	-	*n.a.*
Total	**12,371**	**28,793**	**12,995**	**1,208**	**9.3%**	**1,866**	**14.4%**

% Change	New orders	Order backlog	Revenues	EBITA	ROS %	EBITDA	EBITDA margin
Helicopters	(4.4%)	(9.3%)	(18.8%)	(22.9%)	(0.7) p.p.	(20.2%)	(0.3) p.p.
Electronics, Defence & Security Systems	(3.6%)	6.5%	(3.3%)	9.0%	1.1 p.p.	2.9%	0.8 p.p.
Aeronautics	483.5%	112.4%	0.4%	11.2%	1.1 p.p.	10.4%	1.9 p.p.
Space	n.a.	n.a.	n.a.	108.1%	n.a.	108.1%	n.a.
Other activities	(20.0%)	(19.1%)	9.7%	24.2%	21.9 p.p.	34.0%	20.4 p.p.
Eliminations	*(108.2%)*	*(122.4%)*	*(1.1%)*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
Total	**61.3%**	**20.9%**	**(7.6%)**	**3.6%**	**1.1 p.p.**	**2.2%**	**1.5 p.p.**

Commercial performance

In 2016 **new orders** showed considerable growth, attributable to the abovementioned contract for the EFA supply to Kuwait. Net of this acquisition, the performance for the period also showed an increase in the *Aeronautics* sector, against a slight decline in the sectors of *Electronics, Defence & Security Systems*, which was attributable in particular to the depreciation of the pound sterling against the euro, and *Helicopters*, which was attributable to the persistent difficulties in the Oil & Gas segment and in other civil aviation markets, at a time that was also characterised by the launch of new products. In particular, the growth in the *Aeronautics* sector was attributable to the order for nine M-346 trainer aircraft for the Italian Air Force, which had been postponed from 2015 and higher orders for ATR and B787 aircraft in the *Aerostructures* Division.

The book-to-bill ratio was equal to 1.7, as a result of the abovementioned EFA order. The order backlog, considered in terms of its workability, ensures a coverage of about three years of production for the Group. The book-to-bill posted a result that was greater than 1 in all the sectors, thus confirming the positive commercial performance of the entire Group, even without taking account of the EFA contract.

Business performance

Revenues recorded a decrease of €mil. 993 compared to 2015, which was mainly attributable to the abovementioned difficulties encountered in the sector of *Helicopters* and, to a lesser extent, to a decline in the sector of *Electronics, Defence & Security Systems*, which was attributable to a negative exchange-rate effect and to the review of DRS's scope of business that occurred during the second half of 2015. The profitability indicators showed an improvement supported by the results recorded in the *Electronics* sector, which benefitted from significant improvements arising from reorganisation actions, as well as by the good results recorded in the *Aeronautics* sector – thanks to an improvement in the *Aerostructures* Division – which were able to offset, together with an improvement in other operations, the decline recorded in the *Helicopters* sector arising from the abovementioned lower volumes. Specifically, **EBITDA** and **EBITA** showed an increase of 2.2% and 3.6% respectively compared to 2015, while **EBIT** showed an even more considerable increase (+11.1%), as a result of the lesser impact of restructuring charges and non-recurring costs.

The **net result before extraordinary transactions**, equal to €mil. 545 compared with €mil. 253 in 2015, more than doubled compared to 2015 (+115%), due to the mentioned rise in EBIT, a reduced tax rate and lower financial costs, which included costs (€mil. 48) relating to the buy-back transactions on a portion of the Group's bond issues in 2015. The further improvement in financial costs was attributable to lower interest arising from this transaction, as well as from exchange difference, which also positively affected the fair value through profit or loss from derivatives. Vis-à-vis this increase in the net result before extraordinary transactions, the result from extraordinary transactions is less material compared to 2015 (€mil. 312), as the comparative period had benefitted from a significant gain of €mil. 274 obtained from the disposals of operations to Hitachi in the *Transportation* sector. Conversely, financial year 2016 was affected by the effects arising from the reorganisation of operations carried out with Sukhoi in the *Aeronautics* sector and from the disposal of the Environmental Systems business of DRS, net of the capital gain from the disposal of FATA (negative in the amount of €mil. 38). Therefore, the **net result** passed from €mil. 527 to €mil. 507, while the overall result increased, excluding the share attributable to minority interests, from €mil. 487 to €mil. 505.

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

€ millions	Notes	2016	2015	Change	% Change
Revenues		12,002	12,995	(993)	(7.6%)
Purchases and personnel expenses	(*)	(10,396)	(11,448)		
Other net operating income/(expenses)	(**)	6	58		
Equity-accounted strategic JVs	(***)	295	261		
EBITDA		**1,907**	**1,866**	**41**	**2.2%**
EBITDA margin		*15.9%*	*14.4%*	1.5 p.p.	
Amortisation, depreciation and impairment losses	(****)	(655)	(658)		
EBITA		**1,252**	**1,208**	**44**	**3.6%**
ROS		*10.4%*	*9.3%*	1.1 p.p.	
Non-recurring income/(costs)		(71)	(112)		
Restructuring costs		(102)	(114)		
Amortisation of intangible assets acquired as part of business combinations		(97)	(98)		
EBIT		**982**	**884**	**98**	**11.1%**
EBIT margin		*8.2%*	*6.8%*	1.4 p.p.	
Net financial income/(expenses)	(*****)	(279)	(438)		
Income taxes		(158)	(193)		
Net result before extraordinary transactions		**545**	**253**	**292**	**115.4%**
Net result related to discontinued operations and extraordinary transactions	(******)	(38)	274		
Net result		**507**	**527**	**(20)**	**(3.8%)**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:
(*) Includes "Purchases and personnel expenses" (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/(costs) and accruals/(reversals) for final losses on orders).
(***) Includes the effects of the valuation, classified under "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 expenses" (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" – relating to disposals in the Transportation sector in 2015 equal to €mil. 274 – and gains/(losses) relating to extraordinary transactions (key acquisitions and disposals).

Financial performance

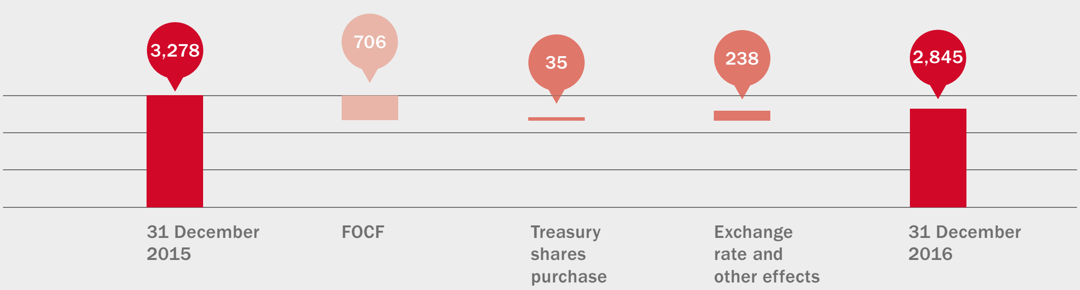
€ millions	2016	2015	Change	% Change
Funds From Operations (FFO) (*)	**1,362**	**1,446**	**(84)**	**(5.8%)**
Change in working capital	(229)	(596)		
Cash flows from ordinary investing activities (**)	(427)	(543)		
Free Operating Cash Flow (FOCF)	**706**	**307**	**399**	**130.0%**
Strategic transactions (***)	-	836		
Change in other investing activities (****)	(10)	(19)		
Treasury shares purchase	(35)	(3)		
Net change in loans and borrowings	(237)	(573)		
Dividends paid	(4)	-		
Net increase/(decrease) in cash and cash equivalents	**420**	**548**		
Cash and cash equivalents at 1 January	1,771	1,495		
Exchange-rate differences and other changes	(24)	18		
Cash and cash equivalents at 1 January of discontinued operations	-	(290)		
Cash and cash equivalents at 31 December	**2,167**	**1,771**		

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

The cash performance showed a considerable increase compared to 2015, with a particular improvement in the sectors of *Aeronautics* (in particular as a result of the collection of the first advance payment relating to the EFA Kuwait contract) and *Electronics, Defence & Security Systems* which was partially offset by the performance recorded in the sector of *Helicopters*. **FOCF** posted an overall positive result of €mil. 706 (€mil. 307 in 2015), which more than doubled compared to 2015 (+130%) as a result of cash flows generated from operating activities and, to a lesser extent, to lower investments.

This improvement in performance had a positive impact on the overall value of the **Group net debt**, which decreased by 13% compared to 31 December 2015, despite significantly negative exchange differences arising from the translation of the items expressed in pound sterling and, to a lesser extent, in US dollars. Compared to 31 December 2015, there were the following changes, which were also affected by the buy-back of treasury shares serving incentive plans:

NET DEBT AT 31 DECEMBER 2016 - €mil.



Net invested capital showed a decrease as a result of a reduction in net working capital, as well as in fixed assets, arising from the exchange-rate effect on assets and liabilities denominated in pound sterling.

€ millions	Notes	31 December 2016	31 December 2015
Non-current assets		12,119	12,558
Non-current liabilities		(3,373)	(3,676)
Capital assets	(*)	**8,746**	**8,882**
Inventories		4,014	4,337
Trade receivables	(**)	5,965	6,375
Trade payables	(***)	(9,295)	(9,962)
Working capital		684	750
Provisions for short-term risks and charges		(792)	(736)
Other net current assets/(liabilities)	(****)	(1,434)	(1,320)
Net working capital		(1,542)	(1,306)
Net invested capital		**7,204**	**7,576**
Equity attributable to Owners of the Parent		4,357	4,280
Equity attributable to non-controlling interests		16	22
Equity		**4,373**	**4,302**
Group net debt		**2,845**	**3,278**
Net (assets)/liabilities held for sale	(*****)	**(14)**	**(4)**

Notes to the reconciliation between the reclassified and the statutory statements of financial position:
(*) Includes all non-current assets (for 2015 net of "Fair value of the residual portion in portfolio of Ansaldo Energia", which became a current item in 2016) and all non-current liabilities, net of "Non-current loans and borrowings".
(**) 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 debt breaks down as follows:

€ millions	31 December 2016	*Of which current*	31 December 2015	*Of which current*
Bonds	4,375	*638*	4,397	*121*
Bank debt	297	*59*	389	*96*
Cash and cash equivalents	(2,167)	*(2,167)*	(1,771)	*(1,771)*
Net bank debt and bonds	**2,505**		**3,051**	
Fair value of the residual portion in portfolio of Ansaldo Energia	(138)		(131)	
Current loans and receivables from related parties	(40)	*(40)*	(122)	*(122)*
Other current loans and receivables	(58)	*(58)*	(45)	*(45)*
Current loans and receivables and securities	**(236)**		**(298)**	
Non-current financial receivables from SuperJet	(65)	-	-	-
Hedging derivatives in respect of debt items	35	*35*	41	*41*
Related-party loans and borrowings	502	*502*	401	*399*
Other loans and borrowings	104	*68*	119	*83*
Group net debt	**2,845**		**3,278**	

The reconciliation with the net financial position required by CONSOB communication DEM/6064293 of 28 July 2006 is provided in Note 19 to the consolidated financial statements.

In the course of the financial year the Group factored receivables without recourse for a total carrying value of approximately €mil. 1,586 (€mil. 1,262 in 2015).

To meet the financing needs for ordinary Group activities, Leonardo obtained a Revolving Credit Facility renegotiated with a pool of Italian and international banks in July 2015 for €mil. 2,000. The terms and conditions of this agreement are described in the section “Industrial and financial transactions”. At 31 December 2016, in the same way as at 31 December 2015, the credit line was entirely unused.

Leonardo had additional unconfirmed short-term lines of credit of €mil. 725, which also were entirely unused at 31 December 2016, as well as unconfirmed, unsecured lines of credit of approximately €bil. 3.8 at such date.

Below are the key performance indicators by sector.

Helicopters

In 2016, against a background that was still characterised by the crisis of some target markets, new orders were substantially in line with 2015 (without taking account of the negative effect of a different exchange rate), since they benefitted from the good performance recorded during the last quarter, which, in line with forecasts, saw the acquisition of major contracts in the sectors of both military and civil aviation. However, delays and commercial difficulties affected also on the production of AW189 and AW139 helicopters, at a time that was also characterised by the start of operations for the production of the new AW169 helicopter, thus causing a fall in financial results, despite still achieving excellent profits.

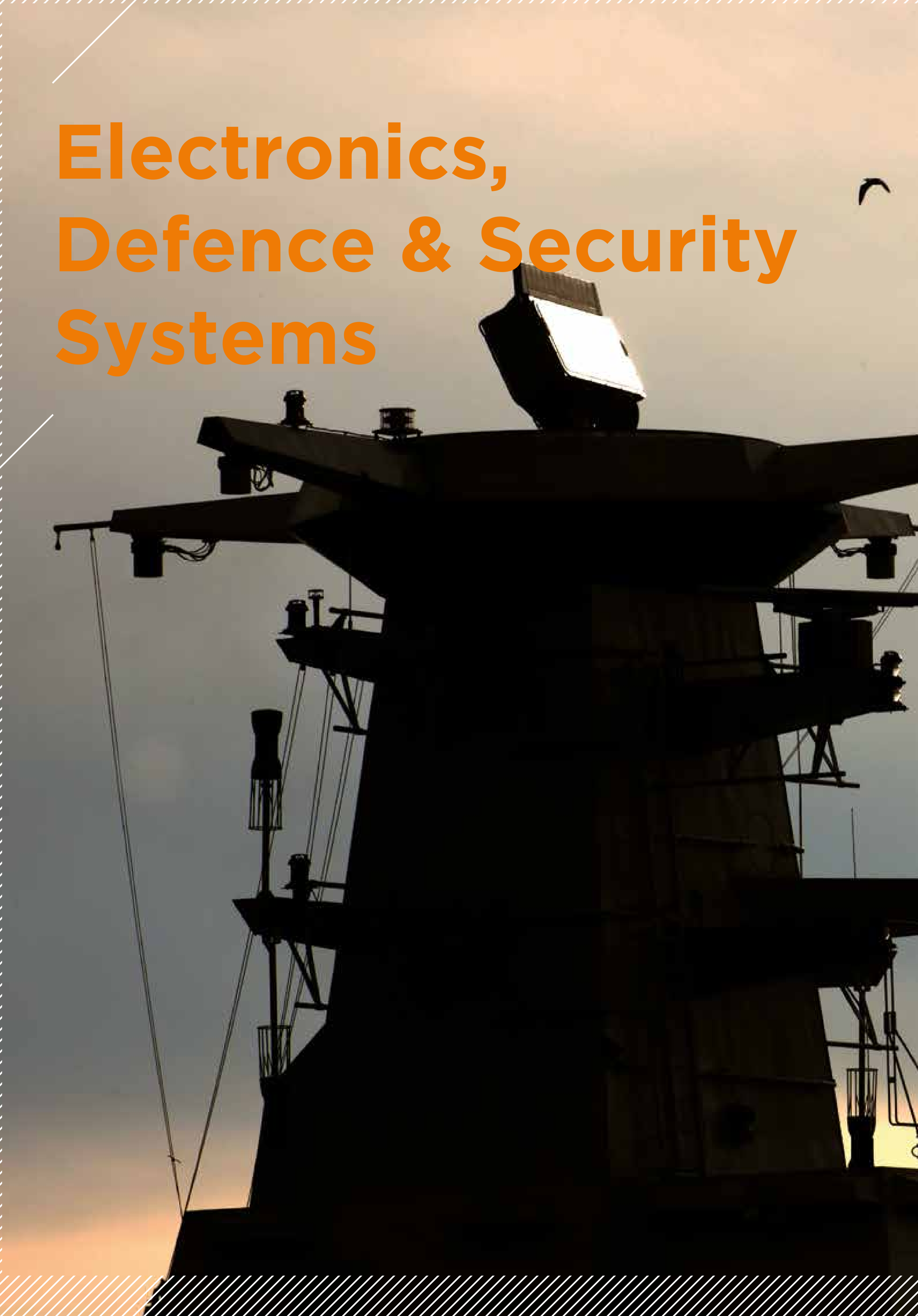
New orders. These were substantially in line with 2015, without taking account of the negative effect of the exchange rate applicable to the translation of the companies' accounts in a currency other than the euro. Among the main new orders gained during the year are the contract signed with the Air Weapons and Airworthiness Directorate (*Direzione Armamenti Aeronautici e Aeronavigabilità*) of the Italian Ministry of Defence relating to the development of the new exploration and escort helicopter (NEES) for the Army, the order gained from the British Ministry of Defence for the provision of support and training services for AW159 Wildcat aircraft deployed by the Army and the Royal Navy, the contracts signed with Sino-US for the supply of AW119Kx, AW139 and AW169 helicopters for search and rescue purposes in China, the orders for the supply of AW139 helicopters to be deployed for governmental purposes in Pakistan and the contract for the supply of six AW139 helicopters to the Finance Police (*Guardia di Finanza*) in Italy.

Revenues. There was a fall in revenues which was attributable to the abovementioned commercial difficulties and to delays in the progress of production of the new AW169 helicopter, which have been resolved, as well as to the expected reduced work on the AW159/Lynx programmes for the completion of the Wildcat contract for the British Ministry of Defence and to a lower contribution from Product Support.

EBITA. The reduction was substantially due to the effect of lower revenues, while profits remained stable at around 12%, despite being affected in particular by the extension of the activities for the development of the new AW169 helicopter, thus benefitting from a continued focus on cost curbing, as well as from some improvements to military programmes.

Outlook. In 2017, against a background that, even showing signs of recovery, remains characterised by uncertainty and the difficulties experienced in some target markets, production volumes are expected to be substantially in line with 2016 – supported by a 2016 book-to-bill that was higher than 1 and a coverage of order backlog of around 75% – while profits should still record double digit figures, at the levels of 2016, thus benefitting from operational efficiency improvement actions and the gradual development and the consequent entry in full operation of production activities on the new AW169 helicopter.

Electronics, Defence & Security Systems



The 2016 financial year was characterised by a good commercial performance and a considerable improvement in profitability, with the ROS recording double digit figures for the first time, as a result of benefits from actions aimed at the efficiency improvement and enhancement of industrial processes, as well as of the recovery of profits in some business areas, thus confirming the positive performance that was already recorded during 2015.

New orders. The commercial performance remained particularly positive, with a book-to-bill higher than 1.2 for the second consecutive year. The new orders gained in 2016 were substantially in line with 2015, which was also characterised by a significantly high number of acquisitions, without taking account of the effect of a different pound sterling/euro exchange rate. This was due in particular to the acquisition of the contracts for air support to Typhoon aircraft for the British Ministry of Defence and for the supply of radar and communication systems for Typhoon aircraft for Kuwait, both of which in the *Airborne & Space Systems* Division. Among the main new orders gained in 2016 are the contract for the supply of an air space surveillance and protection system for the Qatar Armed Forces in the *Land & Naval Defence Electronics* Division, the new air traffic control centre for the international airport of Kuala Lumpur in the *Security & Information Systems* Division and, as regards DRS, the contract for the supply of ENVG III (Enhanced Night Vision Goggles) vision goggles for the US Army.

Revenues. The negative impact of the pound sterling/euro exchange rate and the slight decline recorded by DRS as a result of the review of the business perimeter were partially offset by higher volumes associated with the start of operations for some major orders that had been gained in the *Security & Information Systems* Division during 2015.

EBITA. There was a sharp improvement compared to the same period in 2015, mainly as a result of the benefits arising from efficiency improvement and cost curbing actions and of a gradual recovery in industrial profitability within the *Security & Information Systems* Division, as well as of the confirmation of good levels of profitability recorded in the other Divisions. As regards DRS, lower profitability associated with a mix of activities that focused on low-margin development programmes such as ORP (Ohio Replacement Programme) and MFoCS (Mounted Family of Computing Systems) were partially offset by structure cost savings.

Outlook. In 2017 it is expected that production volumes and the level of profitability achieved in 2016 will remain substantially stable, despite pressures on margins due to fierce competition in the target markets, a reduced contribution from major and profitable programmes being completed and the major challenges associated with contracts being performed. This will be achieved thanks to the benefits arising from streamlining and improving the efficiency of industrial processes, as well as to a more sound and profitable portfolio than in the past, also as a result of reviewed business perimeters.

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

	New orders	Revenues	EBITA	ROS %	EBITDA	EBITDA margin
DRS (USDmil.) 2016	1,923	1,753	128	7.3%	166	9.5%
DRS (USDmil.) 2015	2,022	1,805	126	7.0%	168	9.3%
DRS (€mil.) 2016	1,737	1,584	116	7.3%	150	9.5%
DRS (€mil.) 2015	1,822	1,627	114	7.0%	152	9.3%

Average exchange rate €/USD: 1.1069 (2016) and 1.10951 (2015).

Aeronautics

The 2016 financial year was marked by an excellent commercial performance and in particular by the acquisition of the abovementioned order for the supply of 28 Eurofighter Typhoon aircraft to the Kuwait Ministry of Defence at the end of June 2016. In any case, without taking account of this contract, the amount of final orders gained as at 31 December 2016 showed a sharp improvement compared to the same period in the previous year, with higher acquisitions in both Divisions.

In terms of production, 2016 saw deliveries involving 121 fuselage sections and 88 stabilisers for the B787 programme (against 132 fuselages and 74 stabilisers in 2015), and 95 ATR fuselages (against 86 in 2015). As regards the M-346 programme, 7 units were delivered to the Italian Air Force and there was the completion of the supply to Israel with the delivery of the last 6 aircraft. The first 2 units of ATR 72MP maritime patrol aircraft were delivered to the Italian Air Force.

Work continued on the improvement of industrial processes and the optimisation of engineering activities and the reduction of purchasing and structure costs.

New orders. The considerable volume of final orders reported at 31 December 2016, equal to €mil. 10,158 (€mil. 1,741 at 31 December 2015), included the abovementioned order gained from the Kuwait Ministry of Defence, as well as other major contracts acquired both in the *Aerostructures* Division and in the *Aircraft* Division, including:

- in the *Aerostructures* Division, contracts for the supply of 100 fuselage sections for the B787 aircraft and 80 fuselages for the ATR aircraft;
- in the *Aircraft* Division, contracts for the supply of 9 additional M-346 training aircraft to the Italian Air Force and for logistical support to EFA, C-27J and AMX aircraft, as well as the orders gained from Lockheed Martin for the F-35 programme and for the production of nacelles.

Revenues. Overall volumes remained in line with the final values posted in 2015; the slight decline in revenues from the *Aerostructures* Division was offset by higher volumes in the *Aircraft* Division. Specifically:

- in the *Aerostructures* Division there was a reduction that was due to lower external "pass-through" supplies concerning the B787 programme and lower production rates for the A380 programme and that was partially offset by higher volumes for the ATR and Bombardier programmes;
- in the *Aircraft* Division there was a growth that reflected an increased production for the M-346 and F-35 programmes and that largely offset the decline in revenues from EFA aircraft.

EBITA. The increase was attributable to an improved industrial performance in the *Aerostructures* Division, while the operations in the *Aircraft* Division confirmed their excellent profitability, despite being affected by a lower contribution from training and defence aircraft, which was only partially offset by improved margins for the C-27J aircraft.

Outlook. In 2017 revenues are expected to remain substantially in line with 2016; an increase is expected in production volumes in the *Aircraft* Division under the EFA Kuwait contract, which would be offset by a decline in the volumes of operations on certain programmes in the *Aerostructures* Division such as the A380 programme. 2017 profits are confirmed to be in a double digit figure supported by additional efficiency actions aimed at a gradual improvement in the performance in the *Aerostructures* Division, as well as by a reduction in production cost of the M-346 and C-27J programmes in the *Aircraft* Division, which would be able to mitigate the lower contribution from ATR.

Space

2016 was marked by an excellent performance in the manufacturing sector, which reported a considerable increase in production volumes both in telecommunication and earth observation programmes, in particular for institutional clients, and an improvement in industrial profits compared to the previous year, which had been affected, among other things, by costs recognised on a specific programme. This phenomenon, together with the effects of cost curbing actions, entailed a similar improvement in the result from operations, involving the provision of satellite services, despite being affected by a fall in revenues that was mainly attributable to the launch of the Sicral 2 satellite that had occurred in 2015. Among the significant events that occurred in 2016 are the launch of the Turkish earth observation satellite GÖKTÜRK-1, which was conducted by Arianespace at the European spaceport located in Kourou, in the French Guiana, with the European launcher VEGA, on 5 December. On 14 December, after having positioned the satellite on its final orbit, there was the successful completion of the operation sequence of after-launch events, including the check of the satellite platform through “BUS In Orbit Tests”, thus allowing the start of the instrument calibration phase. Furthermore, in December Spaceopal, a Joint Venture established between Telespazio and DLR-GIR, was awarded the GSOp (Galileo System Operator) tender, which had been launched by GSA (European Global Navigation Satellite System Agency) for the management of the operations falling within the scope of the European satellite navigation and localisation Galileo programme. The ten-year contract was signed at the offices of the European Commission in Brussels on 15 December. Of significant importance was also the launch, in March, of the ExoMars rover, resulting from the international cooperation between the European Space Agency (ESA) and the Russian Space Agency (Roscosmos) and strongly supported by the Italian Space Agency (*Agenzia Spaziale Italiana*, ASI). Finally, an additional agreement to the contract for the COSMO-SkyMed Second Generation (CSG) programme was signed for the completion of activities with the Italian Space Agency in November.

Outlook. In 2017 it is expected that revenues will record a further increase, which will be mainly attributable to the manufacturing segment, in line with the trend reported during 2016, and that the levels of profitability will remain stable in line with those recorded in the financial year just ended.

OTHER PERFORMANCE INDICATORS

€ millions	2016	2015	Change
FFO	1,362	1,446	(5.8%)
Research and development costs	1,373	1,426	(3.7%)
Net interest	(268)	(296)	9.5%

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 costs.

“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 acquired 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, depreciation and impairment losses (net of those relating to goodwill or classified among “non-recurring costs”).
- ***EBITDA margin***: it is calculated as the ratio between EBITDA and revenues.
- ***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 expenses, EBIT and EBITA is shown below (the reconciliation by segment is reported in Note 9):

€ millions	2016	2015
Income before tax and financial expenses	**687**	**623**
Equity-accounted strategic JVs	295	261
EBIT	**982**	**884**
Amortisation of intangible assets acquired as part of business combinations	97	98
Restructuring costs	102	114
Non-recurring (income)/costs	71	112
EBITA	**1,252**	**1,208**

Non-recurring costs are mainly related to estimated legal expenses for certain contracts that are subject to ongoing disputes, as well as write-downs which reflect management’s estimates in respect of the Group’s exposure in countries considered at risk. Restructuring costs refer to ongoing proceedings chiefly relating to *Electronics, Defence & Security Systems* and *Aeronautics*.

- ***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 expenses", "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	2016	2015
Net result	**507**	**527**
Net result of discontinued operations	-	(258)
Effect of extraordinary transactions	38	(16)
Net result before extraordinary transactions	**545**	**253**

- ***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, at 31 December 2016 the Group net debt included the financial receivable (backed by bank guarantees) from SuperJet – previously recorded within current receivables – which will be repaid in 4 years based on the arrangements for the rescheduling of the Group's participation in this programme (a transaction described in the section "Industrial and financial transactions"). This indicator also includes the measurement of the residual interest in Ansaldo Energia in consideration – and assuming the exercise as well as in light of the creditworthiness of the other party – of the put & call rights based on which this amount will be paid by Fondo Strategico Italiano to Leonardo. Until 2015 this amount was classified, from an accounting perspective, under non-current assets; starting from 2016 this figure has been classified among current assets considering that the expiry date is nearing. The reconciliation with the net financial position required by the CONSOB communication DEM/6064293 of 28 July 2006 is reported in Note 19 to the consolidated financial statements.
- ***Free Operating Cash Flow (FOCF)***: this is the sum of the cash flows generated from/(used in) operating activities (excluding the changes in the Group net debt), the cash flows generated from/(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. 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 from/(used in) operating activities net of changes in working capital and the repayment of debts under Law 808/1998, included within "cash flows from ordinary investing activities" in the reclassified statement of cash flows. The FFO also includes dividends received.

- ***Research and development costs***: 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, which 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 Note 29 “Financial income and expenses” of the consolidated financial statements).
- ***Change in working capital***: this is equal to the change in trade receivables/payables, contract work in progress and progress payments and advances from customers and inventories (in 2015 excluded changes relating to the Fyra contract held by AnsaldoBreda included among loans and borrowings). The reconciliation is as follows:

€ millions	2016	2015
Change in trade receivables/payables, work in progress/progress payments and advances from customers and inventories	(229)	(637)
Payments on Fyra contract	-	41
Change in working capital	**(229)**	**(596)**

Reconciliation tables between reclassified income statement and statement of financial position presented in the Report on Operations and income statements and statement of financial position are as follows:

€ millions	Scheme	PPA amortis.	Restruct. costs	Non-recurring costs	Strategic JVs	Extraord. transactions	Reclassified scheme
Revenues	12,002						12,002
Purchases and personnel expenses	(10,549)		43	24			(10,396)
Other operating income	742						
Other operating expenses	(730)						
Other net operating income/(expenses)	12		59	21			6
Equity-accounted strategic JVs					295		295
EBITDA							**1,907**
Amortisation, depreciation and impairment losses	(778)	97		26			(655)
EBITA							**1,252**
Non-recurring income/(costs)				(71)			(71)
Restructuring costs			(102)				(102)
Amortisation of intangible assets acquired as part of business combinations		(97)					(97)
EBIT							**982**
Financial income	493						
Financial expenses	(815)						
Share of profits/(losses) of equity-accounted investees	300						
Net financial income/(expenses)	(22)				(295)	38	(279)
Income taxes	(158)						(158)
Net result before extraordinary transactions							**545**
Profit/(Loss) from discontinued operations	-					(38)	(38)
Net profit/(loss)	**507**						**507**

€ millions	Scheme	Financial receivables and cash	Financial payables	Hedging derivatives on debt items	FV Ansaldo Energia	Reclassified scheme
Non-current assets	12,184	(65)				12,119
Non-current liabilities	(7,384)		4,011			(3,373)
Capital assets						**8,746**
Current assets	13,187	(2,265)		(1)	(138)	10,783
Current liabilities	(13,628)		1,267	36		(12,325)
Net working capital						**(1,542)**
Equity attributable to Owners of the Parent	4,357					4,357
Equity attributable to non-controlling interests	16					16
Equity	**4,373**					**4,373**
Group net debt		**(2,330)**	**5,278**	**35**	**(138)**	**2,845**
Non-current assets held for sale	**14**					**14**

OUTLOOK

The new 2017-2021 Industrial Plan forecasts progressive growth of the Group, based on a more effective focus on markets – to be achieved through a unified and integrated presence and more competitive offerings – and a growth, both organic and external, in its core business areas.

These initiatives will be accompanied by additional strong actions aimed to improve industrial efficiency, through a continuous improvement in Leonardo key industrial processes (manufacturing, engineering and supply chain), with increasing efficiency and effectiveness.

In 2017 Leonardo forecasts:

- revenues in line with 2016, confirming that the Group, after the disposal of its non-core activities, is increasingly focused on businesses able to ensure adequate levels of profitability and cash generation;
- further progress in profitability, mainly driven by efficiency actions and by the continuous improvement of the industrial performance in Electronics, Defence & Security Systems and Aeronautics, still supported by the strong profitability of Helicopters;
- a confirmation of its ability to generate cash, as already highlighted in 2016, driven by increasing operating profits combined with careful management of working capital and constant selectivity in investments. 2017 FOCF also includes the net financial impact from the EFA Kuwait contract which, although in 2016 was higher than the original forecast, is forecasted to remain, on a 2016-2017 cumulative basis, in line with expectations.

The FY 2017 guidance are summarised below:

	2016 figures	Outlook 2017 (*)
New orders (€bil.)	20.0	12.0-12.5
Revenues (€bil.)	12.0	ca. 12
EBITA (€mil.)	1,252	1,250-1,300
FOCF (€mil.)	706	500-600
Group net debt (€bil.)	2.8	ca. 2.5

(*) Exchange rate assumptions: €/USD 1.15 and €/GBP 0.85.

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 issued 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 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 2016 financial year saw the completion, within the scope of the implementation of the Group's new Organisational and Operational Model, of the partial demergers of the wholly-owned companies Alenia Aermacchi SpA, AgustaWestland SpA and Selex ES SpA in favour of Leonardo SpA, which became effective (including in accounting and tax terms) from 1 January 2016, as illustrated in more details in this Report on Operations for the 2016 financial year. These operations were classified as transactions of greater importance, as defined by Article 4.1.a) of the abovementioned Regulation and benefitted – as they were carried out with subsidiaries – from the exemption provided for in Article 14.2 of the Regulation, as well as from Article 11.2 e) of the abovementioned Procedure. Finally, it should be noted that these transactions had no impact on the consolidated financial position and the consolidated results for the period under consideration and that no changes or developments took place in relation to the related-party transactions described in the 2015 Report on Operations.

CONSOB - Market Regulation, Article 36

In accordance with CONSOB provisions contained in the Market Regulation and specifically Article 36 of Resolution 16191/2007, Leonardo 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 11971/1999, as finally amended by CONSOB Resolution 18214/2012. As regards the non-EU foreign subsidiaries (DRS Technologies Inc., Meccanica Holdings USA Inc., AgustaWestland Philadelphia Co.) identified based on the above regulations and in compliance with the provisions of local laws, these verifications revealed the existence of an adequate administrative and accounting system and the additional requirements envisaged in said Article 36. Therefore, it is not necessary to prepare an adaptation plan pursuant to the abovementioned Article.

Information pursuant to Articles 70 and 71 of the 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 2016 the following industrial transactions were carried out:

- ***Completion of the disposal of 100% of FATA SpA.*** On 10 March 2016 there was the closing of the disposal to the Danieli Group of 100% of the share capital of FATA SpA, which is active in the design of industrial systems, and of its subsidiaries. The equity investment held in FATA Logistic Systems and some credit items, which were contributed to Leonardo Group companies, were spun off from FATA, through a partial demerger that took place before the closing.
- ***Completion of the merger by incorporation of Sirio Panel SpA.*** On 23 June 2016 the Board of Directors of Leonardo approved the plan for the merger of Sirio Panel SpA (a directly and wholly-owned subsidiary) by incorporation into Leonardo. The company is already within the business area of the *Airborne & Space Systems* Division, its objective being further to enhance the Division's expertise and know-how.
- ***Incorporation of the new legal entity of UK Leonardo MW Limited***. On 28 July 2016 the Board of Directors of Leonardo SpA approved the plan to concentrate the British business of the Group into one legal entity. The new "One Company" governance model will also be extended to the United Kingdom, with the objective of improving Leonardo's positioning in the second domestic market and at an international level. Leonardo MW Ltd (the new corporate name of Selex ES Ltd) will combine AgustaWestland Ltd, Selex ES Ltd, DRS Technologies UK Ltd and Finmeccanica UK Ltd.
- ***Strategic cooperation agreement between Leonardo and Polska Grupa Zbrojeniowa SA (PGZ)***. On 6 September 2016 Leonardo and Polska Grupa Zbrojeniowa SA (PGZ) signed a letter of intent in order to establish a long-term strategic cooperation relationship by sharing their know-how, technologies and industrial capabilities, aimed at strengthening their respective competitive positions in the international market.
- ***Expansion in the Space sector through an investment in Avio SpA***. On 20 October 2016 the Board of Directors of Leonardo resolved to increase the stake held in Avio SpA from the present about 14% to about 28%. The total outlay expected for Leonardo amounts to about €mil. 43. The business combination and the subsequent listing of Avio are expected to be carried out during the first quarter of 2017 and are subject to standard conditions set out for transactions of this type. The "New" Avio company will be listed on the Italian Stock Exchange by March 2017.
- ***Agreement between Leonardo and B Futura for safety in Serie B football league stadiums.*** On 20 December 2016 Leonardo and B Futura, a company that is wholly owned by the Italian Serie B Professional Footballers League and that is dedicated to the development of sports facilities infrastructures, signed a three-year Memorandum of Understanding whereby Leonardo offers its experience of safety services for new stadium construction projects and training facilities and the modernisation of existing stadiums and facilities.
- ***Acquisition of Sistemi Dinamici SpA and expansion in unmanned systems***. On 23 December 2016 Leonardo acquired the remaining 60% of the share capital of Sistemi Dinamici from IDS SpA. With this transaction, Leonardo acquires 100% of Sistemi Dinamici SpA and gains full control over the Unmanned Hero programme, thus further increasing its commitment in this sector.
- ***Disposal of DRS business units***. In December 2016, DRS Technologies completed the disposal of the "Environmental Systems" business unit, concerning the "Naval Power" LoB, within the scope of the review of the portfolio of activities and the disposal of non-core businesses.
- ***SuperJet Programme***. During the year Leonardo and United Aircraft Corporation ("UAC", a

company owned by the Russian Government) reached an agreement on the reorganisation of the SuperJet programme, which entailed the exit of Leonardo from the capital of Sukhoi Civil Aircraft Corporation ("SCAC"). This is a Joint Venture based in Russia, which is responsible for the development, manufacturing and sale of the aircraft in Russia and Asian markets. The operation also entailed the acquisition of control by the Russian partner over SuperJet International, based in Italy, which is responsible for the sale on Western markets and after-sales service all over the world. The transaction also entailed an agreement on the repayment and rescheduling of JV SuperJet International's debt to the Leonardo Group, backed by specific bank guarantees.

- ***Completion of the acquisition of Daylight Solutions***. On 7 March 2017 Leonardo signed, through the US subsidiary DRS Technologies, an agreement for the acquisition of Daylight Solutions Inc., world leader in the development of Quantum Cascade Laser products. This acquisition will enable the expansion of DRS' offer within the advanced solutions for the civil and military market.

Financial transactions. In 2016, the Leonardo Group did not carry out any significant transaction on the financial market.

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 Articles 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.

Furthermore, the €mil. 2,000 Revolving Credit Facility 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 – to 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. 280, 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 1.3 and 7.3, 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:

Agency	Last update	Updated		Previous	
		Credit rating	Outlook	Credit rating	Outlook
Moody's	August 2015	Ba1	stable	Ba1	negative
Standard & Poor's	April 2015	BB+	stable	BB+	negative
Fitch	October 2016	BB+	positive	BB+	stable

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 Standard & 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.

LEONARDO AND THE COMMERCIAL SCENARIO

Macroeconomic trends (e.g. expansive monetary measures in the Eurozone, with the consequent depreciation of the euro, the drop in the prices of hydrocarbons and raw materials, a general slowdown in growth rates at a global level) are consolidating. In the currency market the US dollar is strengthening against a steep devaluation of the rouble, which reached its lowest value ever in 2016, also owing to a gap in Russian state revenues caused by a fall in the price of gas and by economic sanctions for the situation in Ukraine, and against a devaluation of the pound sterling which started in the months preceding the Brexit referendum on 23 June 2016. The value of the US dollar, which is the reference currency for the aerospace market, of the pound sterling and of the euro have an impact on the business areas of Leonardo.

There are expectations of higher public expenditure in 2017, with a potential effect on the Group’s business areas. The persistence of the crisis in Ukraine and the threat from terrorism in Europe sustain both the now generalised increases in **NATO** countries’ defence budgets and in expenditure on internal security in European countries, which are potential terrorist targets and are caught up in the phenomenon of mass immigration. The new Trump administration and the majority which the Republican Party achieved in Congress generate expectations regarding an increase in the United States defence budget and its effects in European countries, which are asked for greater commitment to NATO. In the Asian Pacific area quarrels regarding disputed maritime areas, the Chinese power policy and the North Korean nuclear policy are causes of substantial rearmament in the countries involved, in particular Australia, South Korea, Japan, Indonesia and Vietnam. Because of the geopolitical tensions in 2016 India increased its defence budget to USDbil. 51 and it now ranks fourth in the list of top global defence spenders, with the expectation to raise its defence budget to USDbil. 56.5 in 2018. The Middle East continues to be an important market for defence, although the fall in revenues due to the collapse in oil prices in some oil exporting countries is creating budgetary problems and pressure to cut down/defer investment in defence. For example, even if Saudi Arabia is still one of the top spenders on defence, the decline in hydrocarbon revenues is starting to have an impact on the public purse, also leading to having to find a balance between demands for social and military expenditure, including the costs of the operations in Yemen and the fight against the Islamic State. Recourse to currency reserves and borrowing cannot be sustained in the long term.

The global Aerospace, Defence and Security market, as a whole, shows a positive trend with annual average growth rates that are in the region of 3.2% in the next decade. The short-term scenario is one in which defence expenditure budgets are expected to rise (+1.4% between 2017 and 2020, with an average annual value higher than €bil. 1,500), mainly supported by some countries such as Saudi Arabia, China, South Korea and India.

With reference to the “**domestic markets**” in which Leonardo operates, the **United States** continue to be the major market, with the main new generation systems programmes (multi-role aircraft, unmanned systems, integrated command, control and communication systems, naval units, increasingly including cyber warfare, the investments in which passed from USDbil. 3.9 in 2013 to USDbil. 6.7 in 2017).

With the Trump administration, an increase in the defence budget is expected as it can count on the support of a Congress with a Republican majority which should be great enough to outweigh the minority of Republican members who are contrary to increases in federal expenditure. In the election campaign President Trump said he did not agree with the defence sequester or the Budget Control Act for the Pentagon and that he wished to remove limits on expenditure by means of a “Restoring National Security Act”.

During the election campaign Trump announced an increase of 90,000 troops for the US Army, bringing the total up to 540,000, and 100 operational fighter aircraft for the Air Force, bringing the total up to 1,200. The Navy should rise to 350 ships and the Marine Corps from 24 to 36 combat battalions. An increase in missile capacity is expected, particularly shipborne. Trump also said he is in favour of the modernisation and expansion of the nuclear triad, consisting of submarine-launched ballistic missiles, land-based missiles and strategic bombers. The renewal plans, however, were already launched during the Obama administration.

President Trump also asked industry to be more efficient in limiting programme development costs, in particular Lockheed Martin for the F-35 aircraft and Boeing for Air Force One. Boeing was also asked to submit proposals for an updated F-18 E/F to create competition and put pressure on the F-35 aircraft. Similar criticisms were also directed at the shipbuilding industry.

The new administration intends to strike up a new relationship with industry and the United States will continue its innovation process started with the Defense Innovation Initiative in order to keep the technological advantage through new weapons programmes, while the processes of the Department of Defense will be reviewed, improved and made more flexible.

In the **United Kingdom** defence policy, for now, follows the decisions in the defence budget statement (SDSR 2015). The 2015 Spending Review cut large sections of public expenditure but allocated additional funds to the defence budget until 2021, including the Joint Security Fund for military operations and funds for countering terrorism and the strengthening of the Single Intelligence Account. With the contribution of these additional funds, the defence budget will rise by 3% in real terms for the first time since 2010 during the financial years from 2015-2016 to 2019-2020, in addition to achieving the 2% target of GDP for the military expenditure required by the NATO. In November 2015 there was the announcement of an increase in investments by GBPbil. 12 (about €bil. 16), thus bringing the total expenditure for the procurement of weapons up to GBPbil. 178 until 2026 within the framework of the ten-year planning programme (Defence Equipment Plan). Nevertheless, this funding was decided before the Brexit referendum; the effects of Brexit on GDP, not very significant up to now, could become so, particularly on the target of devoting 2% of GDP to defence. If British GDP goes down, funds for defence will consequently also diminish, with the possibility of some programmes not being financed. The same effect would be caused by an unfavourable economic situation. According to the British Government, Brexit should lead to heightened cooperation in defence with the United States but the depreciation of the pound sterling against the US dollar makes the purchase of equipment from the United States more costly, just as the rapid depreciation of the pound sterling against the euro made it necessary to speed up planned purchases from the Eurozone countries in the last months. In order to counter the possible loss of European Union research funds, the Ministry of Defence plans to put GBPmil. 800 in a Defence Investment Fund to support military research, a project inspired by the US Defense Innovation Initiative, in addition to other funds from private sources and from local authorities.

The transformation that has occurred in the international scene in the last years has seen the **NATO** countries involved in the development of a new concept of defence and security in order to become more efficient in operational terms in dealing with the new situation. As regards investments, this has given rise to the need for the allied countries to adopt targeted measures aimed at countering the new threats, above all in relation to the capacity of (*i*) situation awareness, (*ii*) protection, (*iii*) greater interoperability between means and resources deployed in the theatres of operations and (*iv*) a prompt response of the force projection. At the same time, in terms of reduction in operating costs, various allied countries have launched structural reforms of their respective organisations, many of which are still being implemented. At present the European Union is worldwide the region that is closer than any other regions to a number of situations of continuing crisis, such as the Ukraine, the civil war in Libya, the "Islamic State" between Turkey, Syria and Iraq, to which must be added the critical issues connected with the control of sea and land borders that are affected by unstoppable migration flows from the crisis zones, while terrorists attacks continue in the European cities. The threat to Europe is both conventional, in the form of an act of aggression or a kinetic strike against a Sovereign state, and hybrid. Hybrid warfare consists in using non-traditional methods of war such as propaganda, computer attacks and the use of paramilitary militias which cannot be directly traced back to the aggressor country, which make it hard to "name and shame" the attacker. NATO is paying increasing attention to high-intensity "conventional" conflict scenarios of a high technological level.

In **Poland**, after a decline in 2016, a growth of 4.5% is expected until 2020. The Polish Government sustains defence expenditure for reasons of both national security and economic growth. Poland is one of the few countries to have fixed the amount of the defence budget as at least 2% of GDP of the previous year by law, in line with the NATO requirements. An ambitious Armed Forces modernisation plan has also been launched for the years 2013 to 2022. For the first phase from 2013 to 2016, the plan amounts to PLNbil. 130 (about €bil. 32), with an annual expenditure of 20% of defence budget. This year the plan entered its second phase, from 2017 to 2022, with an expected expenditure of PLNbil. 273 (about €bil. 68) for the five years under consideration. The new Polish Government might even raise the allocation because it does not believe that the funds budgeted take the costs of supporting and keeping up the programmes into account. The Government has also initiated a reorganisation of defence structures, especially the bodies responsible for armaments procurement and management, and has started a review of the programmes assigned during the last two years.

Italy presents a substantially stable investment expenditure of around €bil. 4.5 per year, including the funds made available by the Ministry of Economic Development and by the Naval Law. In the last months Leonardo signed big contracts with the Italian Ministry of Defence's Air Weapons and Airworthiness Directorate for the first batch of M-345 HET aircraft for the Italian Air Force, which will be delivered in 2019 and which will also be used by the *Frecce Tricolori* aerobatic squadron and for starting to develop and delivering from 2021 the new exploration and escort helicopter (NEES) for the Italian Army, to replace the AW129D, which will be decommissioned starting in 2025 after 35 years of service. Furthermore, in 2017 Leonardo will deliver to the Italian Army the new armoured vehicle Centauro 2 for medium-weight vehicles. There has also been renewed interest, in line with present tendencies, in cyber defence in the biggest countries: the Defence and Security White Book, in fact, suggests the institution of a Joint Forces Command for Cyber Operations, which is being formed and is another opportunity for Leonardo.

Analysis by business sector

Aeronautics

- The **civil aviation** segment, with an overall market value of about €bil. 1,600 over 10 years, will continue to show a limited growth trend (around 2.5% on average per year). 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 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 to replace this aircraft, which is not expected to occur before the next decade. The growth in wide-body aircraft is linked to Airbus A350 and to the ramp-up of Boeing B787, while the rate of production of the A380 and of the B777 and B747 is falling drastically. There was an order contraction in 2016 compared with previous years, and both Boeing and Airbus fell short of the expected target of new orders, and a book-to-bill of less than 1 (new orders compared to invoiced deliveries) for Boeing. This could be the beginning of a negative cycle also due to the persistence of low fuel prices and a transformation of economic fundamentals. Demand for wide-body aircraft in particular is lessening while it is steady for narrow-body aircraft, which are manufactured at a lower profit margin. 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 applicative niche. Over the next few years, it is expected that a new generation of aircraft for regional transport will be introduced, equipped with features (operating range, transport capacity, speed) superior to those of aircraft that is currently in service. 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 will maintain annual growth rates of around 2.5% in the next decade.

- The **military aircraft** segment, in part due to delays on a number of important supply orders, presents an interesting growth trend over the next 10 years (although they are highly cyclical), with an overall value of new deliveries of about €bil. 600 and an average annual growth rate of around 8%. 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 linked 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 a 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 mainly consist of: (*i*) the definition phase of the MALE 2025, 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 United States.

Helicopters

There is still a market characterised by some uncertainty mainly in the Oil & Gas and civil segments, albeit with a moderate recovery. Overall, the new helicopter deliveries amount to around €bil. 190. This trend is linked, in addition to the abovementioned recovery in the civil segment, to a concurrent temporary contraction in the military segment, due to the completion of ongoing programmes, mainly in the United States, and to the lack of new large programmes during the period under consideration. In the civil segment, demand will continue to concern aircraft equipped with the most advanced performance features and lower operating costs, especially in the Oil & Gas segment, which is currently affected by a fall in oil prices. The military segment, by contrast, depends heavily upon the developments in the US market, which experienced a peak in demand in 2014 due to significant orders for the upgrading of fleets awarded to domestic industries. In 2015 there was also a major consolidation with Lockheed Martin's acquisition of Sikorsky. At the end of 2016 Leonardo's *Helicopters* Division acquired full control over Sistemi Dinamici SpA, thus strengthening its commitment to unmanned systems. New players will also come into the sector as a result of the development of new markets (South Korea, Turkey, India) and the diffusion of new technologies: tiltrotor, compound and unmanned systems. No new large military programmes are expected in following years in Europe or in the United States, partly offset by growing demand in other regions. However, it should be pointed out that, over the medium/long term, the American JMR/FVL programme will become increasingly important, as it will allow the development of a new generation of helicopters able to meet the most advanced operational requirements (speed, range and rate of climb). The JMR demonstrators of Lockheed Martin and Bell Textron will flight during 2017.

Electronics, Defence & Security Systems

The Defence Electronics market shows an overall value of more than €bil. 900 over ten years, characterised by a growth rate of about 2%.
The main trends in the Electronics sector are illustrated below.

- **Airborne & Space Systems**: growing demand for: (*i*) integrated electronic warfare systems for both new platforms (F-35, J-11B/SU-27, etc.) and the modernisation of platforms already in service owing to the delay in some programmes for new systems; (*ii*) new AESA (Active Electronically Scanned Array) combat radars for the Typhoon, Gripen aircraft and new programmes such as F-35, the Chinese/Russian aircraft J-11B/SU-27 and the new Chinese domestic fighter aircraft; (*iii*) Precision Strike Capability systems (EO/IRST); (*iv*) highly performing mission systems (Helmet Mounted Display and Glass Cockpit Suite); (*v*) integrated communications systems for manned and unmanned platforms; (*vi*) interoperable systems for airspace safety and protection of forces; (*vii*) integrated simulation and training solutions (Integrated Live, Virtual & Constructive).
- **Land & Naval Defence Electronics**: the **land defence electronics** market is characterised by a growing demand for: (*i*) integrated, interoperable solutions for the upgrading of C4ISR systems, also by means of the digitalisation of the battlefield and Network Centric Warfare (NCW) solutions; (*ii*) fast-deployable AESA (Active Electronically Scanned Array) radar systems for both air defence and countering missile threats from Tactical Ballistic Missiles (TBM); (*iii*) Counter-IED (Improvised Explosive Device) solutions for peace-keeping and peace-making missions; (*iv*) Radio Frequency (RF) systems which can be easily integrated in Command and Control (C2), Electronic Warfare and Communication solutions. In the **naval defence electronics** market there is growing demand for: (*i*) multi-functional fixed or rotating panel AESA radars for warships and anti-submarine warfare; (*ii*) CMS systems and sensors for coastal patrol ships on terrorism and illegal immigration countering missions; (*iii*) logistical support services for military units (Life Cycle Management).
- **Security & Information Systems**: the market shows an overall value of about €bil. 1,000 over ten years, with a growth rate of about 3%. The main trends in the sector arise from the growing need (*i*) to enhance the security of critical sites and infrastructures (Energy & Utility, Oil & Gas, Airports); (*ii*) to monitor land and sea borders; (*iii*) to provide services and solutions which create a collaborative and interoperable information environment for companies operating both in the defence/government and in the industrial areas. Cyber security goes across all segments.
- **Defence Systems:** the target market shows a total value of about €bil. 340 over ten years, with a growth rate of about 5%. It is estimated that the land segment of this market will show an overall annual average growth rate of more than 20%, mainly as a result of the review of the Armed Forces' technical requisites, due in turn to the evolution of the international operational scene, in which there are both conventional and hybrid

conflicts. In this context, some segments (tracked vehicles) will be characterised by even higher rates (+33%). The **naval segment** is characterised by lower growth rates, which can be estimated at around 10% per year. The **land vehicles and weapons** segment is worth about €bil. 80; in the short-term the business segments that expect an improved growth trend are those of tracked vehicles (above all for an improved contact patch and the possibility of operating on difficult terrain) and of MBT (for the higher firepower and an improved protection). In the **naval weapons** segment (with a value of €bil. 13 over ten years), the greatest opportunities are tied to the development of guided munitions systems to be used, above all, in coastal operations, which can guarantee a degree of accuracy comparable with that of a missile but with considerably lower costs. The value of the conventional munitions segment is about €bil. 27 over the next ten years, plus an estimate of about €bil. 14 over ten years for the guided munitions market (for sea and land use). The value of the **underwater systems** segment is €bil. 20 over ten years and includes heavy (launched from naval platforms) and light (also launchable from air platforms, particularly rotary wing aircraft) torpedoes, ATDS counter-measures and sonar systems on board surface ships. Finally, the **missile systems** market will experience a slight increase, worth an estimated total of about €bil. 210 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 nuclear air threats. 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.

Space

The demand in the sector of space systems and services shows an overall value of €bil. 970 over ten years, about 60% of which consists of manufacturing (satellites and probes, launch and space access systems, orbiting infrastructures). The development trend in the sector is diversified, with growth rates of about 1% for manufacturing, supported by civil and military government investment programmes, and of about 7% for services. The private component of investments in the sector continues to mainly involve the replacement of in-orbit assets of satellite operators, although some projects initiated by start-ups or new entries to the sector which look in the direction of constructing innovative infrastructures (among which constellations of small satellites stand out) are becoming increasingly concrete; another development is the procurement of services offered by commercial aerospace transport companies and companies which refuel the International Space Station.

The industrial growth continues to mainly depend on institutional programmes that are promoted and operated by space agencies and governmental entities, including both national (e.g. NASA, Italian Space Agency, Ministry of Defence) and international (ESA, EU) entities. On the contrary, the component of demand for services in the aerospace sector is mainly generated from the commercial sector, in particular for telecommunications (TV broadcasting, broadband, mobility services, etc.). Globally speaking, the development of aerospace capacity and infrastructures is still one of the priority objectives of emerging countries in addition to that of the more developed countries. On one hand policies for developing aerospace activities support national defence or security programmes while on the other hand, through the formation of national agencies, they develop the expertise (also by means of technology transfer projects) necessary to create their own national industry. The continuity of secure strategic telecommunications systems, and, above all, of observation systems, is at the heart of demand for military equipment. 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. 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 together with applications solutions based upon the acquisition and processing of data from a variety of sources (satellites, traditional and unmanned aircraft, ground-based systems) or different technologies (broadband satellite communications, digital terrestrial, communication networks, etc.).

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 contract and new developments (E-Scan) which tend to contribute to an increase in operational capacity and performance, while the M-346 aircraft is confirming its leading position in the trainer aircraft segment, thus supporting the launch of new versions and developments (Dual Role M-346, M-346 FA) and new models (M-345 HET), as well as the evolution of supply towards complete training systems. In the tactical transport sector, we 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 is still the market leader 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 reaping the results of the action that has been taken to increase industrial returns in an attractive market, with a medium/long-term visibility.

Helicopters

The Group is still the leader in the Intermediate class of civil/dual-use helicopters and is also making gradual progress in the Light Intermediate and Medium classes as a result of the completion of the concept of "product family" (AW169, AW139 and AW189) and is also laying foundations for the strengthening of the Light class. In spite of a lack in major acquisition programmes in the military segment 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 (NEES), which uses the AW149 dynamic systems mentioned above. A critical success factor is to enrich the product portfolio by developing new versions, exploiting dual-use solutions and technologies (AW169M, AW139M and AW609 tiltrotor) and working on unmanned and optionally piloted aircraft.

Electronics, Defence & Security Systems

In the sector of Airborne & Space Systems, the leadership has been gained in some segments, such as Radars and Electronic Warfare, thanks to valuable collaboration projects in domestic market countries, which can be utilised to maximise profits and help expansion in neighbouring countries and to foster outlets on international markets. In the segment of Naval Defence 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 Security & Information Systems 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. Telespazio has consolidated its position as leader in the management of the big European systems' operations, starting from its leadership in Italy. Last December it won the European tender for the selection of the Galileo System Operator (GSOp) against competition from the other main European operators in the sector. In the telecommunications sector, Leonardo's position is one in which there are opportunities for growth by offering a range of services based on high-capacity satellite systems. In the geo-information sector opportunities for improving its position 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 the development of data access infrastructures and platforms.

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 operating 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. 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 like those that mark the global economy now, 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.	The Group continues pursuing an international diversification policy, which leads the same to compete not only in its main markets (Italy, the United Kingdom and the United States) but also in emerging markets marked by high growth rates, especially in the Aeronautics and Defence markets, in order to be less dependent on cuts that may be made by individual countries. Moreover, under the Group's 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 organisational plan 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.

RISKS		ACTIONS
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 €bil. 1.4 in 2016, 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 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.

RISKS		ACTIONS
In the past certain Group companies were involved in judicial investigations	As more fully explained in paragraph "Provisions for risks and charges and contingent liabilities" of the notes to the consolidated financial statements, certain Group companies and the Parent Company itself have been 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 its relationships with customers.	The Group has taken all steps necessary to more thoroughly examine any irregularities and to prevent employees, directors and suppliers 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 from the Top" concept. Specific measures have been adopted also with reference to suppliers, by centralising the process of qualification and management of supplier registers and the prompt identification of the indicators to be monitored for possible inhibition.

RISKS		ACTIONS
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 might determine a significant reduction in profitability or a loss, if these costs exceed the revenues deriving from the contract.	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 performance of the contracts, the Group adopted Life Cycle 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.

RISKS		ACTIONS
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, (*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 from 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 Life Cycle 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.

RISKS		ACTIONS
The Group's debt shows high level and could have an impact on the Group's operational and financial strategies	At 31 December 2016, the Group net debt amounted to €bil. 2.8. This level of debt was previously affected by the acquisition of DRS and by the negative performance of the *Transportation* sector. 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.	Following the acquisition of DRS Leonardo reduced its level of indebtedness through a successful capital increase and the selling off of assets, with particular reference to the *Transportation* and *Energy* businesses. Moreover, Leonardo seeks to continually reduce its debt by keeping a close eye on cash generation. In 2015 the Group also renegotiated the contractual terms of its Revolving Credit Facility setting the total amount at €bil. 2.0: this credit line is 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.

RISKS		ACTIONS
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 & Poor's and Fitch. At the presentation date of this report Leonardo's credit ratings were: Ba1 with a stable outlook from Moody's, BB+ with a stable outlook from Standard & Poor's and BB+ with a positive outlook from Fitch. The downgrading experienced from 2011 and 2014 was attributable to the deterioration in the Group's financial and economic performance, to the delays in the execution of the expected disposal plan of the *Transportation* and *Energy* sectors and, in part, to the downgrade in the rating for the Italian Republic. Overall, all rating agencies assigned the sub-investment grade rating status to Leonardo. 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.

RISKS		ACTIONS
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 US 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 US 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 issues. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the Group level.

RISKS		ACTIONS
The Group operates in some segments through Joint Ventures, in which the control is shared with other partners	The major Joint Ventures in the Aerospace, Defence & Security area are MBDA, held at 25% (with partners BAE Systems and Airbus 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.	The Group constantly follows, including through the involvement of its own top management, the performance of these activities, in order to timely identify and manage critical issues.

RISKS		ACTIONS
The Group is a sponsor of defined-benefit pension plans in the United Kingdom and the United States 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 United Kingdom and the United States 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 2016, pension liabilities amounted to €mil. 338 and were more than offset by the plan assets amounting to €mil. 367. 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.

RISKS		ACTIONS
The Group operates in particularly complex markets, where disputes are settled after a considerable period of time and following extremely convoluted procedures	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 unlikely or that cannot be quantified – are not covered by the provision.	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
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 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. Moreover, the Group is exposed to risks regarding the workers' health and safety, also with reference to third party work sites where workers operate.	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, with the aim of ensuring that action is aligned with corporate policies.

RISKS		ACTIONS
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.

RISKS		ACTIONS
A significant portion of the consolidated assets relates to intangible assets, specifically goodwill	At 31 December 2016 the Group reported intangible assets of €bil. 6.7, of which €bil. 3.8 relate to goodwill (15% of total assets) and €bil. 2.0 to development costs. The recoverability of these amounts is linked to the realisation 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. In the last three years, compared to previous periods, Leonardo reduced 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 digitalisation 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

The concepts of an organisation's sustainability and sustainable growth play a fundamental part in decision-making processes and in the evaluation of corporate strategic decisions, which are the object of the attention of an increasingly vast and demanding range of stakeholders. Leonardo, among the top players in the world in the Aerospace, Defence and Security sectors, is fully aware of this and acts throughout the world on the basis of an approach whose aim is to integrate sustainability with business in its Industrial Plan, in compliance with both national and international rules, laws and regulations, on the basis of a policy of ongoing search for value creation which also involves its customers and suppliers and the communities and territories in which the Group performs its activities.

Leonardo voluntarily reports on the sustainability of its performance in accordance with the Group's Sustainability and Innovation Report, prepared according to the "Sustainability Reporting Guidelines" (version G4) set down by the Global Reporting Initiative (GRI) – in accordance with the "core" application level – and assured by KPMG.

This section contains a summary of the main information on various aspects of sustainability (Environment, Human Resources, Research & Development) and seeks to explain how "**human capital**", "**environmental capital**" and "**intellectual capital**" are managed, protected and developed. Please refer to the 2016 Sustainability and Innovation Report, available on Leonardo's website, for more detailed information.

Thanks to the development and circulation of the governance tools described in the paragraphs below, and to its desire to communicate to all its stakeholders in a clear manner, Leonardo voluntarily reports its sustainability activities and services on an annual basis using the following tools:

- **Sustainability and Innovation Report**, which provides a full and integrated picture of the Group's approach to the issue of sustainability and the process of the improvement of performance and of the management aspects of its strategy and Industrial Plan;
- inclusion in the **Dow Jones Sustainability Indexes** (DJSI): once again in 2016 the Group was included in the prestigious indexes of the DJSI family (both Europe and World) (for more information, refer to: http://www.sustainability-indices.com);
- participation in the **Carbon Disclosure Project** (CDP): once again in 2016 Leonardo took part in the initiative of the non-profit organisation CDP, which is committed to reducing greenhouse gas emissions and to the sustainable use of water resources. The organisation acts on behalf of 827 institutional investors, representing managed and invested capital (Assets under Management - AuM) equal to USDtril. 100 (for more information, refer to: https://www.cdp.net). In 2016 the CDP, which has adopted new procedures for awarding scores to the companies which belong to the project, placed Leonardo at the B "Management" level for its approach to carbon issues (levels from D-/D "Disclosure" and A-/A "Leadership"), as the Group has taken action and implemented policies and strategies in hand directed at environmental and carbon issues.

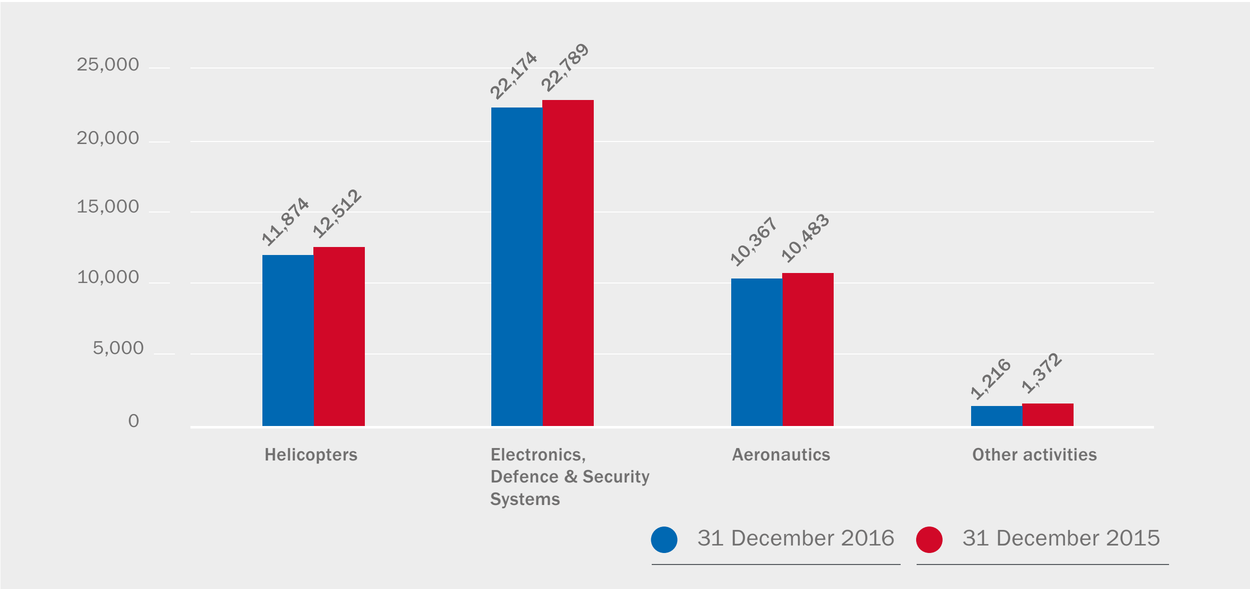
Human Resources

Employees

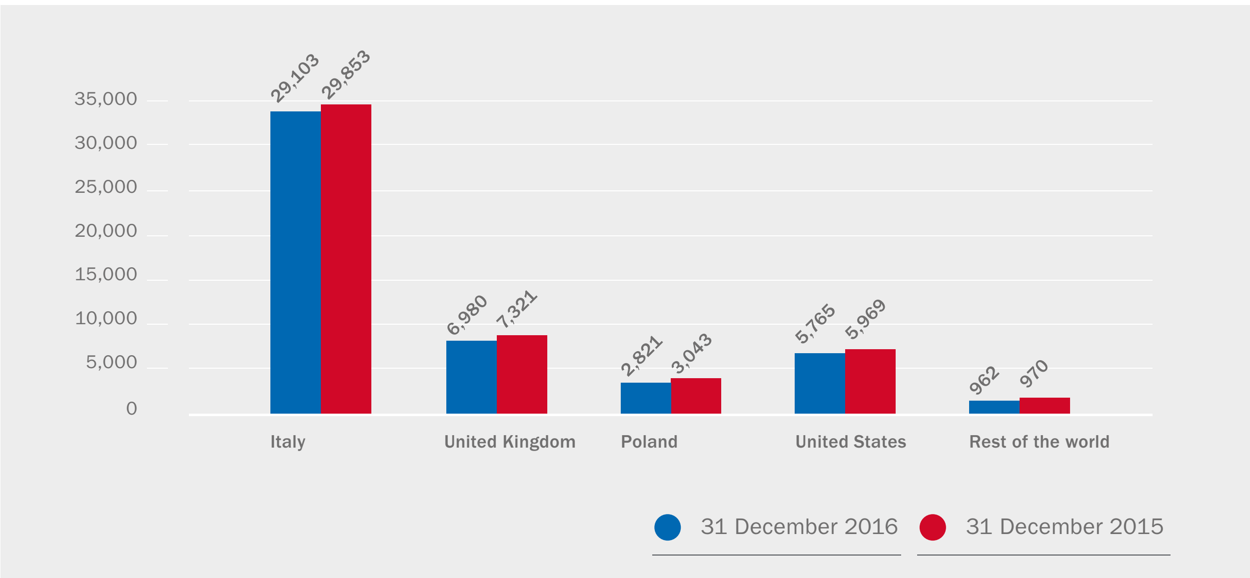
2016 also saw a considerable reduction in the number of the Group's staff members compared to 31 December 2015 (about 3%) bringing the workorce number at 31 December 2016 to 45,631 employees.

The Leonardo Group has a significant direct presence of subordinate employees in 15 countries (including domestic markets) and 13 Italian regions: about 98% of the Group's workers operate in those markets that are considered "domestic" (Italy, the United Kingdom, the United States and Poland).

Below is the breakdown of employees by sector:



Below is the geographical distribution of employees (of which about 36% working abroad):



During 2016 work continued on the rationalisation of the Group's management: with reference to the consolidation area, the executive/manager population was further reduced down to one hundred units (with a decrease of 8.3%) during the year.

Organisation

The year 2016 was a very intense year as regards organisation, with strong focus on the organisation required by the divisional model implemented during the year.

In particular, the year saw the definition of the organisation charts of the Divisions, as well as of the sectors, the first-level divisional organisational functions and of certain centralised functions.

We underline that a Data Protection Officer was appointed to supervise compliance with data protection rules and an Energy Manager was appointed to encourage the rational use of energy and to encourage the personnel at large to conduct themselves with an eye to saving energy and optimise its use.

After the establishment of the One Company, the **system of internal rules** was redrawn in conformity to the new corporate organisational model by associating certain types of documents with each area of activity/processes ("centralised"/centrally coordinated/managed at divisional level). In detail:

- **One Company Guidelines** for centrally coordinated activities/processes, which must be formally adopted in each Division and at corporate level when necessary by means of implementation procedures which lay down roles, methods of operation and monitoring of the work involved;
- **One Company Procedures** for "centralised" activities/processes, immediately applicable throughout Leonardo without any need for formal adoption by Divisions/corporate functions;
- **Corporate and Divisional Procedures** (for the adoption of the One Company Guidelines or for the operational processes which are the sole responsibility of corporate functions or of Divisions), applicable to centralised functions at corporate or divisional level, respectively.

During 2016, 48 documents were prepared and issued at a central level in this context, of which 32 related to the areas at risk of crime identified within the framework of the new Model under Legislative Decree 231/2001, which was approved by the Board of Directors on 17 December 2015 ("231 Protocols").

Management and development of Human Resources

As last year, in 2016 Leonardo's strategy for the management and development of Human Resources was based on the principles of ethics, transparency, equality and meritocracy.

In order to ensure the full implementation of these principles in all parts of the Group, an integrated set of processes and tools started to be used during the year, to value the professionalism of all resources, nurturing talent and measuring each person's actual contribution to the attainment of the Group's results consistently with business targets and in the conviction that this is the right road to take in order to assure Leonardo's future sustainability and competitive differential.

In order to support the new Management and Development System and the even-handed implementation of HR processes throughout the Group, an innovative IT platform was launched for use by all parts of the Group (HRevolution). This platform ensures all employees to be part of the Group with the same opportunities, and it is constantly enriched with new functions. In 2016 the launching of HRevolution, the first transversal One Company IT system, was a clean break with the past, enabling Leonardo's Human Resources to feel really a part of an organisation which is integrated even in terms of working processes and tools.

Human Resources management. The present Human Resources management strategy aims at rewarding individual contributions to the attainment of business targets and recognition of the work of the most competent resources ensuring, for the first time in the Group, that the findings of the appraisal processes in the new Management and Development System are consistent with the opportunities for advancement of the persons concerned. The tools adopted by the Group, which are innovative and in line with best market practice, have supported the implementation of the new divisional organisational model into a concrete form while also ensuring the consistency of the processes both among the Divisions themselves and between the Divisions and centralised functions. With the new divisional model, key processes of management and development have been revised and issues of great importance from the management and organisational point of view have been examined in depth and integrated. The processes and policies involved in this revision are:

- Salary Review policies, which ensure that remuneration is uniform and consistent with the Group's values, governance principles and pay policy;
- policies for the appointment of executives, which seek to find the best possible fit between key positions in the Group and the persons occupying them and are therefore based on a decision-making process which follows objective criteria and structured professional growth paths;
- international mobility policies, which support, through consistent management, all the personnel that have been seconded abroad, considering their various personal situations and ensuring efficiency, equity and cost reductions in compliance with the different legislations involved and in the light of the Divisions' specific needs as they emerged from the round table meetings devoted to this aspect;
- internal and external recruitment and selection processes (mobility and job posting) to meet the professional requirements that the Company expects, finding the candidates who best match the profiles required, on the basis of the annual programme of activities and its budget, ensuring equal opportunities in access to employment in compliance with the provisions of current law, collective labour agreements and the criteria of transparency and impartiality. The computerisation of recruitment work was initiated in the HRevolution platform in support of these processes.

Human Resources development. To support the implementation of the new divisional organisational model, uniform processes for acquiring a detailed knowledge of the Group's Human Resources and appraising them were initiated at Group level during 2016 and made the basis for all opportunities for growth and advancement. Specific processes based on traceable and transparent methods were included in the new Management and Development System during the year in order to acquire a better knowledge of the Group's resources and appraise the results they achieved and their skills and potential.

My Profile - The module was implemented on the HRevolution platform in 2016: this is a tool which gives all employees the chance to consult the "public profiles" of all their colleagues throughout the world 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".

Performance & Development Management (PDM) - In 2016 a uniform Group process for the appraisal of the performance of Human Resources was launched which, in a traceable and transparent manner, measured the results achieved by persons in their work in order to put these findings at the basis of all advancement and management procedures. The process was conducted for the first time, involving more than 23,000 resources worldwide among executives, middle managers and office workers (up to Grade 6 in Italy) in Divisions and subsidiaries Telespazio, Leonardo Global Solutions and SOGEPA. In some organisations, above all abroad, the PDM process was immediately extended to take in all white and blue collar workers. For the first time in the Group, all the employees were able to discuss their targets and the Company's expectations in terms of conduct and expected results with their managers. They were also given the chance to talk to their line manager in a private meeting about their aspirations and the opportunities for developing their careers. Many persons with different roles were involved in the appraisal procedure in order to gather more than one point of view, enhance the level of knowledge of the resources concerned and ensure internal equality. Line managers were responsible for each of their resources' appraisal, which they drew up in consultation with their own superior. The PDM process was computerised on the HRevolution platform and obtained a level of participation of 98.5%. The findings of the appraisal, which is to be conducted yearly, are one of the basic elements in the new management policies, which seek to reward those who work most professionally: one of the forms of recognition is that the appraisal findings are linked to incentive and remuneration schemes.

Individual appraisals - As the Group had already started to do last year, some resources of particular interest underwent an individual appraisal process which was certified by an outside body. Added to the output from the internal appraisal, this second appraisal informed the Group of how the resources concerned are positioned on the external labour market with respect to a pool of comparable professionals. This constitutes an important database for the implementation of a transparent, structured Human Resources policy. Specifically, in 2016 120 persons were specially appraised with a view to:

- further carrying forward the present organisational changes, particularly as regards the allocation of organisational responsibilities;
- assessing the resources' actual potential for being in charge of complex areas of responsibility in the case of candidates for managerial positions;
- verifying to what extent the resources are ready to take on roles of greater responsibility in the case of candidates for succession.

Succession planning - After the Chief Executive Officer and General Manager received a mandate from the Board of Directors, the present situation was analysed as to cover for first-level organisational positions in Leonardo (Divisions, centralised functions) and the Chief Executive Officer positions in Leonardo Global Solutions and Telespazio. The purpose of succession planning is to ensure business continuity, which depends on putting processes in place for the progressive replacement of the persons filling the most important positions in the organisation. The process includes an analysis of the expected future implications of the role to which a successor is to be appointed and possibilities of consequent action. Plans for succession started to be made as a result of some research into short- and medium-term corporate strategies conducted with the Group's Chief Executive Officer and General Manager and top management and the identification of the main positions involved. 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 by means of individual appraisals which assessed their qualities in depth. 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.

HR Review - Finally, in 2016 the groundwork was laid for the computerisation of the HR Review process, which gives the top management a summary dashboard of the results of the various appraisal processes conducted by the staff working on the Leonardo Management and Development System and at the same time names the new "High Potential" candidates to include in Talent Management plans. This process, which will be operational on the HRevolution platform in early 2017, will enter the data on the performance and potential of resources obtained from the PDM process and from the certified appraisals and will make this information regarding all the Group's resources a valuable asset at the Group's disposal. The HR Review will manage corporate population targets of particular interest with personalised methods, initiatives and tools in the framework of general, standardised rules valid for all. The Group will be able to acquire greater knowledge of some resources and obtain elements which will help it to make decisions regarding organisation and management and personal development ensuring fairness, consistency and equal opportunities regardless of where the persons concerned are serving.

Compensation systems

As thouroughly reported in the Company's Remuneration Report, to which reference is made for more details, the Board of Directors' meeting held on 16 March 2016 approved, and then presented to the Shareholders' Meeting, the remuneration policy for 2016 and subsequent financial years. 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 2016 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 2016 financial year saw the start of the second cycle of the Co-Investment Plan and of the Long-Term Incentive Plan for the period from 2016 to 2018. 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%), the Group's net debt (25%) and the Return On Sales (25%) 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, 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 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.

Moreover, in 2016 the Board of Directors approved the preparation of an Incentive Plan for the Commercial Area, named "SSIP - Strategic Sales Incentive Plan", whose goal is to encourage front-end resources selected from teams for commercial campaigns referable to specific strategic and/or high-value programmes for the Group. The plan 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.

In 2016 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

During 2016 work continued on training sessions for various categories of the Group's personnel. This was an integrated system to develop and foster key professionals and skills through discussions regarding best practice both within and outside the Group and comparison with the highest international standards. Leonardo has adopted a single reference framework, creating a common language and spreading best practices which are necessary to enable the Group to achieve its business targets. The main training schemes in 2016 are reported below.

- Excellence in execution in Project Management, E2-PM: a modular programme launched in 2016 for about 450 employees including (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.
- Enterprise Risk Management Programme (ERM): a Fondirigenti executive foundation funded project aimed to spread a corporate risk management culture and to give all ERM process players training in risk management programmes. The final users of this project are 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).
- Initiative for the Group Internal Audit (GIA) Professional Family: aimed to support the function in performing its mission in the One Company, enhancing its expertise so that it has an efficient, flexible pool of resources.
- Initiative for the Legal, Corporate Affairs and Compliance (LSC) Professional Family: training sessions were held to provide insights into financial issues.
- Course in the Anti-Corruption Code: the programme was addressed to all employees of the Leonardo Group in Italy and abroad. The training path begun in 2015 with sessions for the Top Management continued in 2016, involving blue collar workers and office workers, middle managers and executives.
- Course in the 231 Model: in 2016 the first organisational levels attended one-to-one sessions and online training in the 231 Model started for the One Company office workers and middle managers and all the workers were given training in classroom sessions.
- Certifications: about 100 new PMs were accredited during 2016 according to the international standards PMI (Project Management Institute) and IPMA (International Project Management Association). At present Leonardo has about 350 accredited PMs and keeps up all the certifications by conducting *ad hoc* workshops with the support of the main Italian Chapters of the PMI.

To complete these technical and specialist training schemes, in 2016 courses were delivered to some personnel who have been targeted as being key persons to Leonardo, among which the courses listed below.

- "Change in Action": the purpose of this project, which involved 50 executives, is to propose constructive action in support of change, bringing executives into the search for and the preparation of operational proposals to make the changes in the structure of some key cross-sector processes effective and sustainable. A basic nucleus of "Change Agents" took part in three benchmarking workshops, with representatives of big industrial companies (Eni, Enel, FCA, Generali) also talking about their experiences, and three Executive LABs, lasting one and half days and including personal coaching sessions during the workshop.

- "One Company… One Change": the first international training course in view of the change for about 900 middle managers of the One Company, 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.
- Trainer Training: a programme whose aim is to develop and consolidate the capacity of designing, constructing and conveying training content and seeing that it is learned with the ultimate purpose of supporting and strengthening the skills and expertise of Leonardo personnel. The first Italian session was completed for about 15 persons from the various business functions at present engaged in managing classroom lessons and monitoring and assessing the value of the training sessions.

E-learning: the new training system was launched within the HRevolution platform in September in which the users have a virtual desk on which they can find all the training programmes/courses recommended by each line manager, including mandatory courses on transversal themes and a vast choice within a training course catalogue which is continually evolving. The platform also manages classroom courses, sends notices, material if required, reserves locations (if inside the One Company) and records attendance and any certificates/ attestations issued during the session.

Agreements: in order to start a virtuous training and career guidance collaboration circle, Leonardo made agreements in 2016 with the main Italian and foreign universities.

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, Leonardo carried out the following projects in 2016:

- participation in Job Meetings and Career Days at the most important Italian universities;
- Innovation Prize, which has provided all the Group's resources at worldwide level with a chance to submit new ideas and be rewarded for their contribution towards its steady progress;
- continuous 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 in collaboration with the Ministry of Economic Development.

Industrial relations and labour regulations

Observation of labour law regulations in 2016 took the form, in addition to the dual monitoring of the production of Italian and EU laws, also of the evaluation of the impact on the One Company of the body of legislation referred to as the "Jobs Act", taking account of the most recent case law rulings issued on the merits and by the Supreme Court. As regards industrial relations, the most significant event that occurred in 2016 saw the successful completion of the negotiations with the engineering industry's bargaining units that are present in the divisional perimeter, which defined – under a single supplementing second level agreement for the Italian employees working in roles up to middle manager positions – common rules as to the wage and regulatory treatments applicable within the Group. The abovementioned agreement is aimed at superseding the numerous agreements applied as a result of a number of corporate events that have occurred over the years and allows a more adequate support of the transformation process of the Group. The negotiations involved the areas of interest of industrial relations, working time, remuneration structures and single pay slips, performance bonus, high professional skills, travels, corporate welfare, professional training, public contracts.

The provisions of the supplementary agreement for executives of 2015 came into effect during 2016, particularly aspects related to Supplementary Pension and Medical Care schemes:

- Group executives were transferred to the national PREVINDAI executives' pension fund and the Group welfare fund was liquidated;
- supplementary medical care already included in the Italian collective labour agreement (FASI and ASSIDAI) was introduced and contribution rates were reviewed at the same time; the main Group medical care funds were liquidated.

Finally, we note the performance of the procedure of information to and consultation with the trade unions, pursuant to Article 47 of Law 428/1990, as amended and supplemented, as to the corporate transaction involving the merger by incorporation of Sirio Panel SpA.

In addition to negotiations, during the financial year, operations were also started in relation to the processes of restructuring and reorganisation that had already been started by former companies contributed to Leonardo in previous years. From the monitoring of redundancy schemes (based on the criterion of the forthcoming entitlement to retirement and the principle of "non-opposition to the placement on redundancy schemes" on the part of the workers concerned) and of the plans to access bridging pension schemes pursuant to Article 4 of Law 92 of 2012 (the so-called Fornero Act) it emerges that the results achieved in the sectors involved, in terms of staff reduction, were in line with the present targets.

Privacy - Data Protection Officer

In March 2016 the position of Data Protection Officer (DPO) was created: this person's responsibility is to ensure that corporate data protection regulations are correctly framed, in compliance with the new European General Data Protection Regulation (EU 679/2016).

After this appointment, the process of analysing and revising the One Company's privacy policy began, focusing on corporate functions and the *Security & Information Systems* Division. After mapping the data protection processing and the related gap analysis, the action to take to make the necessary adjustments was determined and the new Privacy Organisational Model (POM) of Leonardo was outlined. Then all the Data Officers and Data Processors of corporate information were found and appointed and all their letters of appointment were drawn up and signed.

In order to establish the most appropriate guidelines for the governance of the One Company's data protection, a Privacy Committee was formed whose duty is to steer data protection policy adopting an organic, centralised approach. The Data Protection Team was also created with the duty to be the DPO's operational interface for all the Divisions' data protection needs.

In the framework of data protection governance, the details were laid down for a training process for spreading awareness of the new provisions of the European Regulation which will come into force in May 2018.

The 6P1 project was launched in October to map all the personal data processed by the other Divisions and apply the new POM to all the Divisions, its aim being to make the necessary adjustments in the organisational units involved in view of the entry into force of the new Regulation EU 679/2016.

The Environment

The profound changes that the Leonardo Group passed through last year and the constant evolution of international scenarios have gradually heightened the need to consider environmental issues as an extremely important strategic and operational element in all parts of an organisation's business. The new environmental vision seen from the One Company point of view, which is strongly sustained by Leonardo's top management and presents the environment as a systemic factor to evaluate, safeguard and preserve in all the business activities, has led to the determination, planning and implementation of various measures for the monitoring of environmental risks as early as in 2015.

Strategic guidelines and management approach

Leonardo's environmental issues are managed on the basis of two lines of operations, determined as a result of the profound transformations that have recently involved the Group and in compliance with the new corporate organisational model:

- the Health, Safety & Environment (HSE) Integrated Policy at work is a high level tool which lays down the fundamentals of the sustainability path that the Group has been following for years with regard to these matters. With this tool are plans and programmes for monitoring environmental risk (including activities concerning the Group's Environmental Risk Management, assessment and verification of conformity to current law);
- each Division which has been given special responsibilities has to manage and monitor environmental matters according to dedicated Operational Procedures, Protocols and Instructions. These tools, which in most cases are accompanied by appropriate management systems, are indispensable for keeping up and improving the standards of the technical, operational and control methods followed at all Group sites. According to an approach based on the optimisation, effectiveness and efficiency of corporate processes, an ever-rising number of Leonardo sites have voluntarily chosen to adopt Environmental Management Systems (EMSs) and Occupational Health and Safety Management Systems (OHSMSs) that are certified according to the international standards ISO 14001 and OHSAS 18001, respectively.

Furthermore subsidiary Leonardo Global Solutions, as owner of most of the Group's properties, conducts environmental investigations and checks (only regarding aspects which concern the properties) by means of environmental audits on the sites that it owns. In order to find any possible problems arising from either the past or present use of the areas on which the factories stand, in compliance with current environmental laws and in order to prevent and manage environmental risk 148 Environmental Audits were carried out in 2016 after which the heads of Divisions/companies utilising the sites were asked to provide the follow-up plans containing actions to be taken to resolve the problems identified and the timelines for such actions were prepared.

With specific regard to environmental issues, Leonardo Global Solutions manages and supervises the entire process of collecting, processing, analysing and evaluating the Group's environmental information and data (including those relating to carbon management) on a dedicated central platform, which is the heart of the Group's environment history.

Relevant environmental issues and Group performance

In particular, the following specific issues were addressed.

- **Waste**. Waste collection, which is carried out in compliance with current laws in the matter and as prescribed in site-specific Operational Procedures and Instructions, has always been checked, monitored and verified periodically during all its phases. Reducing the amount of waste produced, better waste sorting and the adoption of corporate policies aimed at reusing production scraps have always formed the basis of a sustainable management that is mindful of the environment.

- **Emission Trading Directive**. 11 sites located throughout Italy are covered by the application of the Directive, the instrument for implementing the Kyoto Protocol for reducing greenhouse gas emissions. These sites all received certification of their emissions by a body accredited by the Ministry for the Environment, Land and Sea. In addition, certain flights in the helicopters sectors fall under the scope of application of the Aviation Emission Trading Scheme (ETS), which extends the European CO_2 emissions trading system to certain flight activities.
- **Hazardous substances**. Considering the manufacturing processes carried out, some types of hazardous substances are employed when strictly necessary for technical/design purposes (in line with corporate procedures) in some sites. Their use is monitored in order to control and reduce the risks to worker health and to the environment to a minimum. Studies and in-depth research into less hazardous or even non-hazardous substances have been in progress for some time. Due to the amounts of substances used and the size of some industrial plants employed for the surface treatment of metals, some of these sites are classified as being a Major Accident Hazard (MAH). A portion of these, together with others which are not considered a MAH, are subject to the Integrated Pollution Prevention & Control (IPPC) Directive, and therefore are required to minimise pollution caused by various sources by adopting Best Available Techniques (BAT) to reduce their environmental impact.
- **Ozone-depleting substances**. The management of ozone-depleting substances (ODS), which are now being decommissioned as required by the European regulations, and of fluorinated greenhouse gases (F-gases), is controlled and monitored on a periodical basis, in order to ensure its compliance with current regulations. As regards ODS, the Group has been carrying out plans for some years for the removal of systems and apparatus containing the refrigerants that are most harmful to the ozone layer, prior to installing ozone-friendly refrigerant systems.
- **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 (there were 20 ongoing reclamation procedures in 2016) and with the help of persons with specific knowledge and expertise who find the best technical and operational solutions which also ensure business continuity. In this context, Leonardo has not been found definitively liable for causing environmental damage. In addition, there have been no definitive penalties imposed on Leonardo for environmental violations.

Energy issues

Consistently with the establishment of the One Company, the Group has started to prepare a uniform energy management scheme with the objective of accompanying established procurement activities with a similarly structured governance of energy efficiency initiatives. From the point of view of organisation, an Energy Manager has been appointed in accordance with Law 10/1991, and all the Divisions have been asked to name an energy contact responsible for the coordination of activities at operational sites.

Therefore the efficiency budget for 2017 for all the Divisions was coordinated centrally during 2016. A number of measures were decided upon by means of a standardised technical and financial model and this made it possible to divert the funds made available to more profitable intended purposes, which will be subsequently implemented during 2017.

The new Energy Management scheme which is being implemented envisages:

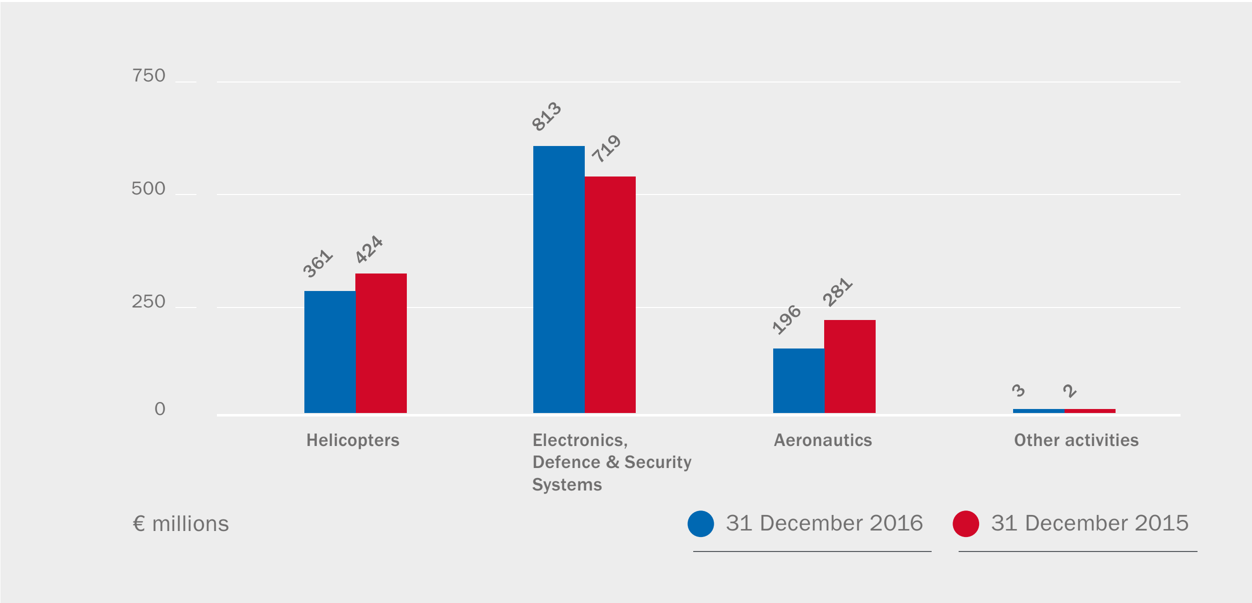
- a set of common energy rules;
- analysis of the energy absorption of the sites, carried out periodically;

- the central coordination of the projects, progress on which will be made through a Long-term Energy Efficiency Programme;
- the centralised management of obtainable incentives;
- the study of a single energy monitoring programme;
- the formation of technical working groups with the personnel on site in order to determine and spread the best practices that have already been tried out;
- the promotion of ways of training all employees and heightening their awareness, focusing on the energy impact of each individual's behaviour.

Research and development

Leonardo's activities are directed towards technological research of a highly strategic nature and over a medium/long-time horizon, as well as research applied to new products or to improving existing projects, which has a shorter time horizon. The planning and balancing of these activities helps reduce the risks related to new developments, thereby optimising the incorporation of new technologies into products for the launch of such 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:



Group governance of technolgies and products

The Group has been investing over 10% of its revenues in R&D for years, collaborating with the main universities, institutes, research organisations and technology partners in Italy and in the world in activities whose purposes are not only to develop technologies, products and services but also to carry out basic research. The Group, in fact, is strongly convinced that an effective process of technological innovation must be fuelled by constant interaction among all the players involved: the Group's engineers, the customers that use the product, the world of research, other industrial groups, small- and medium-sized enterprises and start-ups.

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 2016 were to outline the issues and innovative technology in which Leonardo must and shall invest in the next future, to ensure a continuing direction and monitoring of any associated investment, in order to maximise its return while avoiding a waste of resources, and to pay constant attention to engineering performances.

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

- the “Product and Technology Innovation Plans” as a tool for the management and control of the Divisions and the Group’s requirements, in terms of technology needs, future developments, collaborative activities, etc., with particular attention to any possible cross-division opportunities;
- the “Technology and Innovation Strategy” project which is aimed at selecting about 80 innovative technology issues, so as to gain and consolidate, in a rapid and effective manner, a state-of-the-art vision of the technology trends that are relevant to the Aerospace and Defence sector and in which Leonardo must invest in order to maintain and strengthen its technology leadership;
- the “Engineering Performance Management (EPM)” project, i.e. a system to monitor and improve the timing, costs, quality, productivity, use of resources, workload/capacity/offload of the “distributed” engineering of the One Company.

These processes are useful to enhance our innovation organisational model that is based on the concept of “internal federation” of laboratories and skills spread out in the various Group sites all over the world, which improves on the conventional model that concentrates this work in a single research centre.

This manner of organising innovation responds to a modern vision in which the obstacles resulting from decentralisation are more than overcome by the globalisation of the network, which also acts as a multiplier of resources by means of constant exchange of ideas.

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.

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 2016, mainly in the areas of: Secure Society, 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 and Clean Sky 2 (which focuses on the development of the most appropriate technologies to reduce the environmental impact of aircraft);
- SESAR and 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 2016, 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 2016, there was the review of the centralisation strategy concerning the management of the Group's portfolio of patents, through a new internal procedure involving the "Capital and Intellectual Property", with the goal of promoting greater accessibility to know-how, at an inter-division and a trans-national level. This would enable the optimisation of intellectual property (IP) resources, in an effort to better leverage them (including from an economic and financial point of view), through a more standardised system that is more supportive of the Group's business.

At the end of 2016, after encouraging results achieved in 2015, 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.

Research and development during the year

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

Helicopters:

- improving the helicopter fleet products on an ongoing basis, in terms of both the availability of new certified variants/configurations in the market and the availability of new kits to strengthen the products' operational capacity. Specifically, there was the entry into full operation of the production of the AW169, which is now certified with a weight increase of up to 4,800 kg, including numerous configurations of equipment and interiors to meet the market requirements and product variants;
- performing activities, as regards the RUAV (Rotary wing Unmanned Aerial Vehicle) platform, for the development and flight tests of a naval variant within the scope of the National Military Research Programme, and starting operations for approval from the Italian military authorities for the development of a naval variant with increased performance, while, as regards OPVs (Optionally Piloted Vehicles), there was the flight test for the demonstration of the ISTAR (Intelligence, Surveillance, Target, Acquisition & Reconnaissance) capability mission in real operational environment;
- again within the framework of the multi-role formula, a programme was reformulated and submitted to the European Commission for the development of a new-generation innovative technology demonstrator (NextGenCTR);
- the programme COMFORT was launched, among others, for the development of new technology aimed at reducing noise and vibration on board helicopters.

Aeronautics:

- within the framework of the M-346 programme, work continued on custom-designed products for customers and the M-346 Advanced Jet Trainer certification process. Trade-off research continued into Dual Role/Light Fighter configurations according to roles/configurations;
- as regards the M-345 programme, operations were started for the detailed development of structures and systems and the performance of the Critical Design Review for most of the major components/on-board systems;
- as regards the C-27J programme, operations were started for the development of the baseline configuration, in order to mitigate obsolescence and take Should-Cost actions;

- operations were started for the European MALE2020 programme for the unmanned Medium-Altitude Long-Endurance vehicle, in collaboration with Airbus Defence and Space, and Dassault Aviation, with the objective of fulfilling high level (HLR) and operational (CORD - Common Operational Requirements Document) requirements and defining the certification and integration in non-segregated air space;
- there was the completion of all the projects set out in the SESAR 1 programme, during which the technology and functionality preliminary to the inclusion of regional and military transport aircraft in the new Air Traffic Management were tested through ground and in-flight validation;
- 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 Leonardo's Aircraft Division retains leadership, and within the Airframe Integrated Technology Demonstrator (Airframe ITD);
- 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 in non-segregated air space;
- 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, "one piece" manufacturing processes for structural composite elements, automated prevention techniques, checking for and repairing defects that might arise during the manufacturing and assembly of structural composite elements.

Electronics, Defence & Security Systems:

- Airborne & Space Systems Division:
  - 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;
  - the main investments for the development of the product portfolio involved activities connected with: New Gen. Obstacle Warning System, Unmanned ISTAR mission systems, Mission Management Systems, Airborne AESA (Active Electronically Scanned Array) radar and IFF (Identification Friend or Foe), ATC Civil Transponders, Skyward IRST (Infra-red Search and Track), Radar Warning Receivers, Advanced RF ESM (Electronic Support Measures), lasers, DIRCM Systems (Directional Infrared Counter Measures), Wide Band Data Links and Radio Comms;
- Land & Naval Defence Electronics Division:
  - continuation of activities relating to the participation in both national and international major programmes, including the ships of FREMM 9/10 (*FRegate Europee Multi-Missione*);
  - continuation of activities connected with the national programme linked to the "Naval Law", in particular for the progress of developments for multi-purpose radar systems based on AESA (Active Electronically Scanned Array) technology in C-band, X-band with four fixed flats and in an integrated DBR - Dual Band Radar configuration. There was the definition of the architecture of the AESA radar in L-band. The architecture was also developed for the new fire-control radar in double X- and Ka-band with the availability of the array;

- › as regards communications, developments were completed for vehicular SatComs, Hand-Held Evolution SDRs (Software Defined Radio) and ComNECT Dismounted Soldiers;
- › as regards optronics there was the completion of the qualification of the EOST 380 turret;
- › research continued, within the Galileo geo-localisation programme, into an integrated receiver for PRS (Public Regulated Service) signals;

- Security & Information Systems Division:
  - › there was the completion of ATC (Air Traffic Control) activities on radar sensors in S- and L- band, while operations are being completed at the ATM (Air Traffic Management) centres and work continued on Air to Ground communication systems (ARES/DEMETRA and Aeromacs projects);
  - › R&D work continued for products within Cyber Security, Cyber Intelligence, the evolution of Professional Broadband Networks, the new PMR (Professional Mobile Radio) terminals, SC2 (Smart City Main Operation and Security Centre) for critical infrastructures and the automation for the sector of parcel and baggage handling;

- Defence Systems Division:
  - › the procedure is being completed for bench testing and approval and tests are being started at sea for the new battery for heavy torpedoes (POWER project);
  - › entry into service of the new battery for heavy torpedoes (ENERGY project), used in the test launches of the new SMG U212 submarines (ENERGY project);
  - › work is being completed on the detailed definition of the VDS (Variable Depth Sonar) system; prototypes were constructed for the submerged portion and preliminary tests were started;
  - › the demonstrators and the prototype of the new 76mm above-deck cannon were developed and preliminary tests were started;
  - › work is being completed on the industrialisation and approval of guided ammunition Vulcano 127mm and 155mm, and operations were started for the development of guided munition Vulcano 76mm;
  - › work was completed on the industrialisation of the new Nuova Blindo Centauro2 tank;

- DRS:
  - › investments continued in sensors for multi-domain awareness, including infrared sensors, thermal chambers and systems, both wearable 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 hardware, communication systems, electronic warfare systems and software for land vehicles, air and naval platforms;
  - › a continuing focus on next-generation naval components, including engines and drive components, as well as elements for on-board command and computational capacity.

Space:

- › development of HTS (High-Throughput Satellite) service architectures on platforms in Ka- and Ku-band (KaSat, GX, EPIC) for vertical segments (Oil & Gas, Broadband, etc.);

- analysis of architectures of constellations of micro-satellites for TLC and EO (Earth Observation) applications;
- design and development of application platforms in the service segments that are relevant to geo-information: agriculture, defence and security, territory management, asset management, crisis management, maritime surveillance;
- development of integrated connectivity solutions for manned (e.g. railways) and unmanned transport vehicles;
- analysis, design and development of navigation-based systems and solutions (PRS, Railway and Aeronautics facilities);
- Space Weather, Space Surveillance & Tracking, Space Situation Awareness: design of service platforms.

SHARE PRICE

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

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

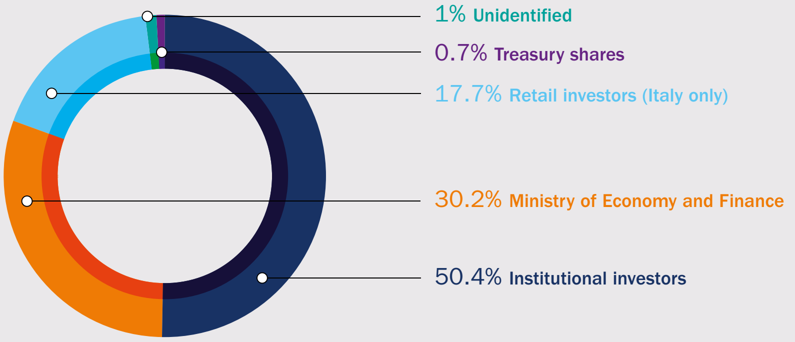
Leonardo works towards constructing an ongoing and professional relationship with its shareholders and bondholders in general and with institutional investors through Investor Relations and SRI (Sustainable Responsible Investors). This office handles financial and also extra-financial information on Environmental, Social and Governance (ESG) themes and relations with credit rating agencies.

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

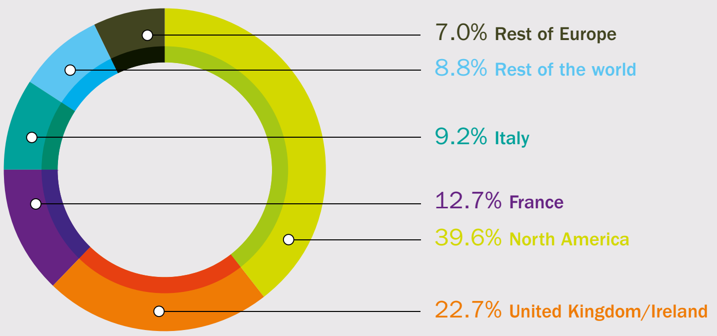
Major shareholders

Below is the last Shareholder Analysis performed in January 2017 showing the geographical distribution of the Leonardo's share capital and the total shareholder composition:

DISTRIBUTION OF SHAREHOLDERS



GEOGRAPHICAL DISTRIBUTION OF INSTITUTIONAL SHAREHOLDERS FLOATING RATE



January 2017

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) index and the leading Italian and European indexes (4 January 2016 = 100)

Below is Leonardo's stock performance from the beginning of 2016 to 28 February 2017, 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).

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 criteria and principles 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/2015clean.pdf).

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, on the main updates that took place in 2016, 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, with 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 15 May 2014 for the three-year period 2014-2016; the related

mandate will expire at the time of the next Shareholders' Meeting called to approve the 2016 financial statements;

- **Chairman of the Board of Directors.** On 3 November 2015, the Board granted Mr Giovanni De Gennaro, the Chairman of the Company in office from 4 July 2013 and legal representative with signatory powers pursuant to law and to the By-laws, some powers concerning Institutional Relationships – to be exercised in coordination with the Chief Executive Officer –, Group Safety and Group Internal Audit, thereby confirming the powers granted to him on 15 May 2014 upon his appointment;
- **Chief Executive Officer and General Manager.** The Board of Directors' meeting held on 3 November 2015 granted the Chief Executive Officer and General Manager, Mauro Moretti, 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, 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. These are all new delegated powers and authority, compared to what the Board of Directors granted to him on 15 May 2014 upon his appointment, which take effect from 1 January 2016. The redefinition of the delegated powers and authority became necessary in order to implement the new Organisational and Operational Model of the Group;
- **Lead Independent Director.** Following the renewal of the Board of Directors by the Shareholders' Meeting held on 15 May 2014, 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 when these financial statements are approved;
- **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 illustrated 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 Auditors.** 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 15 May 2014, 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 confirmed Gian Piero Cutillo (the Company's Chief Financial Officer), in this position since 14 June 2012, as the Officer in charge of financial reporting until the expiry of the term of office of the Board of Directors.

Below is reported a chart summarising the corporate governance structure of Leonardo.

Shareholders' Meeting

Independent Auditing Firm
KPMG

Board of Statutory Auditors
Riccardo Raul Bauer (Chairman)
Niccolò Abriani R.A.
Luigi Corsi R.A.
Francesco Perrini R.A.
Daniela Savi R.A.
Maria Teresa Cuomo A.A.
Stefano Fiorini A.A.

Chief Executive Officer
Mauro Moretti

General Manager
Mauro Moretti

Board of Directors
Giovanni De Gennaro
Mauro Moretti
Guido Alpa
Marina Elvira Calderone
Paolo Cantarella
Marta Dassù
Alessandro De Nicola
Dario Frigerio
Fabrizio Landi
Silvia Merlo
Marina Rubini

Chairman
Giovanni De Gennaro

Group Internal Audit Manager
Marco Di Capua

Officer in charge of financial reporting
Gian Piero Cutillo

Control and Risks Committee
Paolo Cantarella
Guido Alpa
Fabrizio Landi
Silvia Merlo

Surveillance Body
Enrico Laghi
(Chairman - External Member)
Angelo Carmona
(External Member)
Marco Di Capua
(Resp. Group Internal Audit)
Andrea Parrella
(Group General Counsel Leonardo)
Angelo Piazza
(External Member)
Saverio Ruperto
(External Member)

Remuneration Committee
Dario Frigerio
Marina Elvira Calderone
Alessandro De Nicola
Marina Rubini

Nomination, Governance and Sustainability Committee
Guido Alpa
Marina Elvira Calderone
Marta Dassù
Dario Frigerio
Marina Rubini

Analisys of International Scenarios Committee
Marta Dassù
Alessandro De Nicola
Fabrizio Landi
Silvia Merlo

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;
- Rules 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 Procedure of the Analysis of International Scenarios Committee;
- Procedure for Related-Party Transactions;
- Code of Internal Dealing;
- Procedure for inside and confidential information.

PERFORMANCE OF THE PARENT COMPANY

€ millions	2016	2015
New orders	15,848	-
Order backlog	26,551	-
Revenues	7,925	54
EBITDA	1,000	(68)
EBITDA margin	12.6%	n.a.
EBITA	510	(79)
ROS	6.4%	n.a.
EBIT	463	(95)
EBIT margin	5.8%	n.a.
Net result before extraordinary transactions	637	444
Net result	609	444
Group net debt	3,019	2,494
FOCF	581	68
ROI	7.4%	(1.1%)
ROE	13.4%	11.2%
Workforce	27,583	279

The financial year 2016 closed with a net profit of €mil. 609 compared to €mil. 444 in 2015. As a consequence of the launch of the One Company, the P&L and balance sheet data are little comparable with those of 2015, since Leonardo has turned itself from a holding company managing a number of legally separate operating entities into a one-company able to combine, through the aforementioned divisional structure, its industrial nature with the management and control of its activities. This radical change significantly and obviously impacted on the financial statements: revenues went from €mil. 54 in 2015 to €bil. 7.9 in 2016, with impacts on all the income statement, balance sheet and cash flow items.

The business trends are commented on in a special section regarding the Group and the sectors in which Leonardo operates. By comparison with the previous year, it is worth recalling that the 2015 result benefitted from the gain arising, within the context of the disposal of the *Transportation* sector, from the sale of the shares in Ansaldo STS (equal to €mil. 702). As a result also of these transactions, Leonardo had adjusted the value of the shareholding in AnsaldoBreda as to reflect the losses posted by the latter upon the transfer of the business unit to Hitachi (as well as those reported in the financial year), by €mil. 353, with an overall net benefit of €mil. 349.

In 2016 Leonardo showed EBITA equal to €mil. 510, with ROS at 6.4%, and recorded net financial income of €mil. 274 mainly deriving from dividends received from subsidiaries and JVs (the latter contribute to the Group consolidated EBITA through their valuation at equity, while their contribution to the separate financial statements is reflected in the financial section thereof as dividends).

Below is provided the performance of earnings:

€ millions	Notes	2016	2015	Change	% Change
Revenues		7,925	54	7,871	14,575.9%
Purchases and personnel expenses	(*)	(6,911)	(118)		
Other net operating income/(expenses)	(**)	(14)	(4)		
EBITDA		**1,000**	**(68)**	**1,068**	**1,570.6%**
EBITDA margin		*12.6%*	*(125.9%)*	*138.5 p.p.*	
Amortisation, depreciation and impairment losses	(***)	(490)	(11)		
EBITA		**510**	**(79)**	**589**	**745.6%**
ROS		*6.4%*	*(146.3%)*	*152.7 p.p.*	
Restructuring costs		(43)	(16)		
Amortisation of intangible assets acquired as part of business combinations		(4)	-		
EBIT		**463**	**(95)**	**589**	**587.4%**
EBIT margin		*5.8%*	*(175.9%)*	*181.7 p.p.*	
Net financial income/(expenses)	(****)	274	512		
Income taxes		(100)	27		
Net result before extraordinary transactions		**637**	**444**	**193**	**43.5%**
Net result related to discontinued operations and extraordinary transactions	(*****)	(28)	-		
Net result		**609**	**444**	**165**	**37.2%**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:
(*) Includes “Purchases and personnel expenses” (net of restructuring costs of non-recurring costs) and “Accruals/(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 accruals/(reversals) for final losses on orders.
(***) 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 expenses”, 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 2016 and at 31 December 2015.

€ millions	Notes	31 December 2016	31 December 2015	Change	% Change
Non-current assets		10,589	7,595		
Non-current liabilities		(2,091)	(262)		
Capital assets	(*)	8,498	7,333	1,165	15.9%
Inventories		2,920	-		
Trade receivables	(**)	4,955	93		
Trade payables	(***)	(7,523)	(100)		
Working capital		352	(7)		
Provisions for short-term risks and charges		(519)	(226)		
Other net current assets/(liabilities)	(****)	(1,138)	(426)		
Net working capital		(1,305)	(659)	(646)	(98.0%)
Net invested capital		**7,193**	**6,674**	**519**	**7.8%**
Equity		**5,325**	**4,180**		
Net debt		**3,019**	**2,494**	**525**	**21.1%**
Net (assets)/liabilities held for sale	(*****)	**1,151**	**-**	**1,151**	**n.a.**

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”.
(**) 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”.

A comparison with 2015 is poorly significant considering the impact of the concentration process finalised in 2016.

The net debt rose by €mil. 525 from 31 December 2015. However, this increase is exclusively due to the mergers and demergers and the elimination of the relevant credit and debit balances among companies. Beginning from 1 January 2016 Leonardo considerably reduced its indebtedness thanks to a significantly positive FOCF (€mil. 581), also as a result of the collection of the first advance payment relating to the EFA Kuwait contract, as reported several times. A breakdown of the net debt follows:

€ millions	31 December 2016	*Of which current*	31 December 2015	*Of which current*
Bonds	3,263	*603*	3,325	*82*
Bank debt	296	*58*	329	*51*
Cash and cash equivalents	(1,747)	*(1,747)*	(1,365)	*(1,365)*
Net bank debt and bonds	**1,812**		**2,289**	
Fair value of the residual portion in portfolio of Ansaldo Energia	(138)		(131)	
Non-current financial receivables from SuperJet	(65)			
Non-current financial receivables from Group's consolidated entities	(15)		(102)	
Current loans and receivables from related parties	(326)	*(326)*	(2,558)	*(2,558)*
Other current loans and receivables	(27)	*(27)*	-	*-*
Current loans and receivables and securities	**(571)**		**(2,791)**	
Hedging derivatives in respect of debt items	35	*35*	13	*13*
Related-party loans and borrowings	1,664	*1,664*	2,983	*2,983*
Other loans and borrowings	79	*46*	-	*-*
Net debt	**3,019**		**2,494**	

The cash flow for the year is summarised below:

€ millions	2016	2015	Change	% Change
Funds From Operations (FFO) (*)	**1,226**	**75**	**1,151**	**1534.7%**
Change in working capital	(316)	(1)		
Cash flows from ordinary investing activities (**)	(329)	(6)		
Free Operating Cash Flow (FOCF)	**581**	**68**	**513**	**754.4%**
Strategic transactions (***)	-	761		
Change in other investing activities (****)	195	38		
Increase of share capital	(35)	(2)		
Net change in loans and borrowings	(387)	(259)		
Net increase/(decrease) in cash and cash equivalents	**354**	**606**		
Cash and cash equivalents at 1 January	1,365	745		
Effect from mergers/demergers	56			
Exchange-rate differences and other changes	(28)	14		
Cash and cash equivalents at 31 December	**1,747**	**1,365**		

Notes on the reconciliation between the reclassified cash flow and the statutory cash flow:
(*) Includes “Cash flows used in operating activities” (net of “Change in working capital” and debt 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 “Sales of Transportation segment” and the share of “Other investing activities” classified as “Strategic transactions”.
(****) Includes “Other investing activities” (net of dividends collected and operations classified as “Strategic transactions”).

The Parent Company's offices

The Parent Company's offices are:

- Registered office: Rome, Piazza Monte Grappa, 4;
- Secondary office: Genoa, Corso Perrone, 118.

Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 31 December 2016

€ millions	2016	
	Equity	Of which: Net profit/(loss) for the year
Group Parent equity and net profit/(loss)	**5,325**	**609**
Excess of shareholders' equities in the financial statements compared with the carrying amounts of the equity investments in consolidated companies	(1,774)	614
Consolidation adjustments for:		
- difference between purchase price and corresponding book equity	1,411	(94)
- elimination of intercompany profits	(353)	3
- deferred tax assets and liabilities	(36)	33
- dividends from consolidated companies	-	(660)
- translation differences	(215)	-
- other adjustments	(1)	-
Group equity and net profit/(loss)	**4,357**	**505**
Non-controlling interests	16	2
Total consolidated equity and net profit/(loss)	**4,373**	**507**

PROPOSAL TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

the 2016 financial statements, which we submit for your approval, close with a net profit of €609,111,179.88.

In light of the foregoing, we submit the following proposed resolution for your approval:

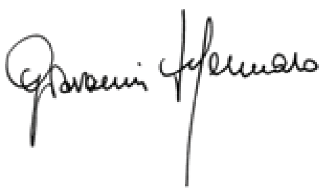
"The Ordinary Shareholders' Meeting of Leonardo - Società per azioni:

- 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 2016;
- having acknowledged the report of KPMG SpA;

resolves

- to approve the Directors' Report on Operations and the financial statements at 31 December 2016;
- to approve the proposal posed by the Board of Directors of allocating the 2016 net profit of €609,111,179.88 as follows:
  - €30,455,558.99, equal to 5% of the net profit, to legal reserve;
  - €0.14 as the dividend per ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, to be paid – before tax, if any – starting from 24 May 2017, with the ex-dividend date of coupon no. 8 falling on 22 May 2017 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 58 of 24 February 1998 and Article 2.6.6, paragraph 2, of the Market Rules organised and managed by Borsa Italiana SpA) falling on 23 May 2017;
  - the residual as retained earnings".

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



Consolidated financial statements at 31 December 2016

CONSOLIDATED ACCOUNTING STATEMENTS

Consolidated separate income statement

€ millions	Notes	2016	*Of which with related parties*	2015	*Of which with related parties*
Revenues	25	12,002	*2,079*	12,995	*2,097*
Other operating income	26	742	*5*	823	*13*
Purchases and personnel expenses	27	(10,549)	*(171)*	(11,605)	*(190)*
Amortisation, depreciation and impairment losses	28	(778)		(784)	
Other operating expenses	26	(730)	*(1)*	(806)	*(7)*
Income before tax and financial expenses		**687**		**623**	
Financial income	29	493	*33*	356	*3*
Financial expenses	29	(815)	*(5)*	(789)	*(8)*
Share of profits/(losses) of equity-accounted investees	11	300		272	
Operating profit/(loss) before income taxes and discontinued operations		**665**		**462**	
Income taxes	30	(158)		(193)	
Profit/(Loss) from discontinued operations	31	-		258	
Net profit/(loss) for the period attributable to:		**507**		**527**	
- Owners of the Parent		*505*		*487*	
- non-controlling interests		*2*		*40*	
Earnings/(Losses) per share	**32**	*0.879*		*0.843*	
Basic and diluted from continuing operations		*0.879*		*0.458*	
Basic and diluted from discontinued operations		*n.a.*		*0.385*	

Consolidated statement of comprehensive income

€ millions	Notes	2016		2015	
Profit/(Loss) for the period			**507**		**527**
Other comprehensive income/(expenses)					
Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:					
- measurement of defined-benefit plans:	18		38		(42)
. revaluation		54		(35)	
. exchange-rate gains/(losses)		(16)		(7)	
- tax effect	18		(7)		19
			31		(23)
Comprehensive income/(expenses) which will or might be subsequently reclassified within the profit/(loss) for the period:					
- changes in cash-flow hedges:	18		(105)		14
. change generated in the period		(90)		(37)	
. transferred to the profit/(loss) for the period		(16)		51	
. exchange-rate gains/(losses)		1		-	
- translation differences	18		(300)		290
. change generated in the period		(300)		302	
. transferred to the profit/(loss) for the period		-		(12)	
- tax effect	18		23		(9)
			(382)		295
Current portion of “Other comprehensive income/(expenses)” of equity-accounted investees			(48)		17
Total other comprehensive income/(expenses), net of tax			**(399)**		**289**
Total comprehensive income/(expenses), attributable to:			**108**		**816**
- *Owners of the Parent*			106		772
- *non-controlling interests*			2		44
Total comprehensive income/(expenses), attributable to Owners of the Parent:			**106**		**772**
- *from continuing operations*			106		853
- *from discontinued operations*			-		(81)

Consolidated statement of financial position

€ millions	Notes	31 December 2016	*Of which with related parties*	31 December 2015	*Of which with related parties*
Intangible assets	9	6,719		7,010	
Property, plant and equipment	10	2,375		2,630	
Investment property		48		32	
Investments accounted for under equity method	11	1,123		1,117	
Receivables	12	586	*1*	503	*3*
Deferred tax assets	30	1,231		1,159	
Other non-current assets	12	102		238	
Non-current assets		**12,184**		**12,689**	
Inventories	13	4,014		4,337	
Contract work in progress	14	2,541		2,857	
Trade receivables	15	3,424	*667*	3,518	*660*
Income tax receivables		162		154	
Loans and receivables	15	98	*40*	167	*122*
Other assets	16	781	*4*	662	*8*
Cash and cash equivalents	17	2,167		1,771	
Current assets		**13,187**		**13,466**	
Non-current assets held for sale	31	14		81	
Total assets		**25,385**		**26,236**	
Share capital	18	2,491		2,522	
Other reserves		1,866		1,758	
Equity attributable to Owners of the Parent		**4,357**		**4,280**	
Equity attributable to non-controlling interests		16		22	
Total equity		**4,373**		**4,302**	
Loans and borrowings (non-current)	19	4,011		4,607	*2*
Employee benefits	21	702		773	
Provisions for risks and charges	20	1,125		1,463	
Deferred tax liabilities	30	391		325	
Other non-current liabilities	22	1,155		1,115	
Non-current liabilities		**7,384**		**8,283**	
Progress payments and advances from customers	14	6,457		6,626	
Trade payables	23	2,838	*76*	3,336	*116*
Loans and borrowings (current)	19	1,267	*502*	699	*399*
Income tax payables		68		25	
Provisions for short-term risks and charges	20	792		736	
Other current liabilities	22	2,206	*166*	2,152	*306*
Current liabilities		**13,628**		**13,574**	
Liabilities associated with assets held for sale	31	-		77	
Total liabilities		**21,012**		**21,934**	
Total liabilities and equity		**25,385**		**26,236**	

Consolidated statement of cash flows

€ millions	Notes	2016	*Of which with related parties*	2015	*Of which with related parties*
Gross cash flows from operating activities	33	1,691		1,680	
Change in trade receivables/(payables), work in progress/ progress payments and inventories	33	(229)	*(29)*	(637)	*72*
Change in other operating assets and liabilities and provisions for risks and charges	33	(345)	*(112)*	5	*151*
Interest paid		(222)	*53*	(264)	*23*
Income taxes paid		(70)		(158)	
Cash flows generated from/(used in) operating activities		**825**		**626**	
Sales of Transportation segment		-		790	
Investments in property, plant and equipment and intangible assets		(391)		(597)	
Sales of property, plant and equipment and intangible assets		31		54	
Other investing activities		231		210	
Cash flows generated from/(used in) investing activities		**(129)**		**457**	
Treasury shares purchase		(35)		(3)	
Bond redemption		-		(512)	
Net change in other loans and borrowings		(237)	*90*	(20)	*(61)*
Dividends paid		(4)		-	
Cash flows generated from/(used in) financing activities		**(276)**		**(535)**	
Net increase/(decrease) in cash and cash equivalents		420		548	
Exchange-rate differences and other changes		(24)		18	
Cash and cash equivalents at 1 January		1,771		1,495	
Cash and cash equivalents at 1 January of discontinued operations		-		(290)	
Cash and cash equivalents at 31 December		**2,167**		**1,771**	
Cash flows from operating activities of discontinued operations		-		(47)	
Cash flows from investing activities of discontinued operations		-		(34)	
Cash flows from financing activities of discontinued operations		-		48	

Consolidated statement of changes in equity

€ millions	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 2015	**2,525**	**1,473**	**(57)**	**(226)**	**(204)**	**3,511**	**343**	**3,854**
Profit/(Loss) for the period	-	487	-	-	-	487	40	527
Other comprehensive income/(expenses)	-	-	4	1	280	285	4	289
Total comprehensive income/(expenses)	**-**	**487**	**4**	**1**	**280**	**772**	**44**	**816**
Dividends resolved	-	-	-	-	-	-	(21)	(21)
Sale of Ansaldo STS - minority interests	-	-	-	-	-	-	(341)	(341)
Repurchase of treasury shares less shares sold	(3)	-	-	-	-	(3)	-	(3)
Total transactions with Owners of the Parent, recognised directly in equity	**(3)**	**-**	**-**	**-**	**-**	**(3)**	**(362)**	**(365)**
Other changes	-	-		(1)	1	-	(3)	(3)
31 December 2015	**2,522**	**1,960**	**(53)**	**(226)**	**77**	**4,280**	**22**	**4,302**
Profit/(Loss) for the period	-	505	-	-	-	505	2	507
Other comprehensive income/(expenses)	-	-	(88)	(21)	(290)	(399)	-	(399)
Total comprehensive income/(expenses)	**-**	**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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

1. General information

Leonardo SpA (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 Leoanrdo Group (hereinafter "the Group") is a major Italian high technology organisation operating in the *Helicopters, Electronics, Defence & Security Systems*, *Aeronautics* and *Space* sectors.

2. Form, content and applicable accounting standards

In application of Regulation EC 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 2016 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 separate 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 2015, 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 2016 of the Leonardo Group were approved by the Board of Directors on 15 March 2017 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 2016 of the companies/entities included in the scope of consolidation ("consolidated entities"), which have been prepared in accordance with the IFRS 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 United States, 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 DRS Group is managed through a Proxy Agreement which provides for the appointment by Meccanica Holdings USA (the parent company of DRS) of 7 US Proxy Holders subject to the approval of the DSS. These 7 Proxy Holders, besides acting as the directors of the company, are entitled to vote (a prior right of Meccanica Holdings USA) 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 DSS, if their conduct infringes the principle of preservation of 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.

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 realised 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 and control model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: (*Helicopters, Electronics, Defence & 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.

3.3.2 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.

3.3.3 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 a 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 2016 has been marked by the following changes in the euro against the main currencies of interest for the Group.

	31 December 2016		31 December 2015		% Change	
	average	final	average	final	average	final
US dollar	1.1069	1.0541	1.1095	1.0887	(0.2%)	(3.2%)
Pound sterling	0.8195	0.8562	0.7258	0.7340	12.9%	16.6%

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 Research and development costs

This account includes costs (including higher set-up costs incurred compared to the costs of the asset once fully operating) related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. 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 4.1).

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

3.4.2 Industrial patent and intellectual property rights

Patent 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.

3.4.3 Concessions, licences 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.

3.4.4 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 and commercial positioning	7-15
Backlog	10-30
Software/know-how	3

3.4.5 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 4.1), 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 “Progress payments and 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 4.2 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 or 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 a 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 4.2.

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 hedges
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 hedges
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 expenses 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, at least on a quarterly basis, 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 ("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.

This 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 Leases

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 Revenues

Revenues are recognised at the fair value of the amount received and receivable, inclusive of volume discounts and reductions. Revenues also include changes in work in process, the accounting policies for which were described in Note 3.9. The change in work in progress is the portion of work performed for which there are not yet the conditions to recognise it as revenues. For a description of the estimates related to the evaluation process of the long-term contracts, reference should be made to Note 4.3. Revenues generated from the sale of goods are 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 4.1.

3.21 Costs

Costs are recorded in compliance with the accrual principle.

3.22 Financial income and expenses

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 in its final version will replace IAS 39. At present, the IASB has modified the requirements for the classification and measurement of financial assets that are currently in the scope of IAS 39 and has published a document on the principles for the measurement of financial instruments at amortised cost and for recognising impairment, if any. The new overall approach to financial instruments is currently under discussion by the various competent bodies and for the time being the date of adoption is not foreseeable. The effect on the Group deriving from the application of such standard is currently under analysis. The Group will apply this standard as from 1 January 2018.
IFRS 15	Revenue from contracts with customers	The standard redefines how to account for revenue, which shall be recognised when the control of goods and services is transferred to customers, and envisages additional disclosures to be provided. The Group started a project to accurately determine the impacts deriving from the application of the new standard. From a preliminary analysis, such impacts on the companies belonging to the Aerospace and Defence sector may be as follows: • introduction of new criteria for the revenue recognition during the execution of the contract; failing those criteria revenue is recognised solely at the completion of the contract. This requires the companies of this sector to review the terms and conditions of the contracts entered into with customers which are normally medium/long term; • new criteria for the calculation of the variable consideration; • recognition of the option rights granted to the customer; • new specific requirements to establish if goods and services of a series of supplies have to be recognised as a single performance obligation or a separate performance obligation; • new criteria on contract cost recognition; • new and in-depth additional qualitative and quantitative information to disclose. The Group will apply this standard as from 1 January 2018 and the first effects will be available during the second half of 2017.

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. In particular, among such standards we note IFRS 16 “Leases” which significantly modifies the methods for the accounting of operating leases in the financial statements of lessees.

4. Significant issues and critical estimates by management

4.1 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.

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.

4.2 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, the Group has 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 29. 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.

4.3 Estimate of revenues 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. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, 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.

4.4 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: however, these valuations stem from actuarial, demographic, statistical and financial assumptions that are highly volatile and hardly foreseeable.

4.5 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.

Impairment tests are generally conducted using the discounted cash-flow method: however, this method is highly sensitive to the assumptions contained in the estimate of future cash flows and interest rates applied.

For these valuations, the Group uses 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.

4.6 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 2016 the Group has adopted the following amendments without any significant effect on this Annual Financial Report:

- amendment to IFRS 11 "Accounting for acquisitions of interests in joint operations": the amendments govern the accounting for acquisitions of interests in Joint Operations, conforming it to that applied to business combinations;
- amendment to IAS 1 "Presentation of financial statements": the amendments mainly aim at clarifying the presentation of the items referred to other comprehensive income, facilitating the separation between the items under comprehensive income and the share of other comprehensive income of equity-accounted associates and Joint Ventures;
- amendment to IAS 16 "Property, plant and equipment" and to IAS 38 "Intangible assets": the amendments clarify that the revenue-based methods are not appropriate to calculate the depreciation/amortisation of an asset.

6. Significant non-recurring events or transactions

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

During 2015 there was the completion of the transfers in the Transportation sector business to Hitachi, which allowed to collect a total amount of about €mil. 790, showing a reduction of about €mil. 600 (considering the deconsolidation of the overall positive net financial position of the businesses sold) in the Group net debt, as well as to recognise a net capital gain of €mil. 248.

7. Significant post-balance sheet events

No significant events occurred after the year-end.

8. Segment information

In accordance with the compliance and control model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: *Helicopters, Electronics, Defence & 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 each segment at 31 December 2016, as compared with those of the same period of the previous year, are as follows:

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Eliminations	Total
31 December 2016							
Revenues	3,639	5,468	3,130	-	327	(562)	12,002
Inter-segment revenues (*)	(11)	(326)	(3)	-	(222)	562	-
Third-party revenues	**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

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Eliminations	Total
31 December 2015							
Revenues	4,479	5,656	3,118	-	298	(556)	12,995
Inter-segment revenues (*)	(3)	(403)	(6)	-	(144)	556	-
Third-party revenues	**4,476**	**5,253**	**3,112**	**-**	**154**	**-**	**12,995**
EBITA	558	512	312	37	(211)	-	1,208
Investments	174	200	203	-	26	-	603
Non-current assets (**)	3,287	3,964	1,735	-	686	-	9,672

(*) Inter-segment revenues include revenues 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 expenses and the share of results of equity-accounted investees for the periods concerned is shown below:

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Total
2016						
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/(costs)	(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**

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Total
2015						
EBITA	**558**	**512**	**312**	**37**	**(211)**	**1,208**
Amortisation of intangible assets acquired as part of business combinations	(8)	(90)	-	-	-	(98)
Restructuring costs	2	(55)	(33)	-	(28)	(114)
Non-recurring income/(costs)	(25)	(60)	(16)	-	(11)	(112)
EBIT	**527**	**307**	**263**	**37**	**(250)**	**884**
Equity-accounted strategic JVs	-	(54)	(170)	(37)	-	(261)
Income before tax and financial expenses	**527**	**253**	**93**	**-**	**(250)**	**623**

Group revenues 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 (*)	
	2016	**2015**	**31 December 2016**	**31 December 2015**
Italy	2,148	2,110	4,666	5,217
United Kingdom	1,541	1,844	1,441	1,256
Rest of Europe	3,251	3,488	826	958
North America	2,999	3,232	2,196	2,221
Rest of the world	2,063	2,321	13	20
	12,002	**12,995**	**9,142**	**9,672**

(*) 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 2015							
Cost	5,868	1,231	1,913	421	1,246	766	**11,445**
Amortisation and impairment losses	(2,068)	(717)	(567)	(119)	(604)	(589)	**(4,664)**
Carrying amount	**3,800**	**514**	**1,346**	**302**	**642**	**177**	**6,781**
Transportation assets	(38)	(4)	(1)	-	-	(15)	**(58)**
Investments	-	100	174	3	-	51	**328**
Sales	(8)	-	-	(4)	-	-	**(12)**
Amortisation	-	(72)	(80)	(8)	(98)	(57)	**(315)**
Impairment losses	-	(18)	-	-	-	(1)	**(19)**
Other changes	234	-	(2)	31	44	(2)	**305**
31 December 2015	**3,988**	**520**	**1,437**	**324**	**588**	**153**	**7,010**
Broken down as follows:							
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**
31 December 2015							
Gross value			4,719				
Grants			3,282				
31 December 2016							
Gross value			4,774				
Grants			3,302				

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 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
Helicopters		1,260		1,337
DRS	*1,504*		*1,464*	
Leonardo Divisions	*999*		*1,127*	
Electronics, Defence & Security Systems		2,503		2,591
Aeronautics		60		60
		3,823		**3,988**

The net decrease compared to 31 December 2015 is mainly due to foreign currency translation differences on goodwill denominated in pound sterling, solely partially offset by the increase in the DRS goodwill denominated in US dollars. 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 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 expenses 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:

- as risk-free rate, the 10- and 20-year gross yield of government bonds of the geographic market of the CGU was used. The drop in these rates justifies the overall decrease of WACCs compared with 2015. In order to evaluate the potential impacts deriving from the partial compensation for the effects of the ECB monetary policy on the Euro area rates, the following sensitivity analysis was developed;
- the market premium was equal to 5.7%;
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of debt applicable to the Group, net of taxes;

- 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 CGU operates. 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 in real terms of the Defence budgets	X	X	X
Growth in production rates of mass production of particular importance	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 2016 and 2015:

	31 December 2016		31 December 2015	
	WAAC	**g-rate**	**WAAC**	**g-rate**
Helicopters	7.6%	2.0%	8.7%	2.0%
DRS	*7.6%*	*2.0%*	*7.9%*	*2.0%*
Leonardo Divisions	*5.5%*	*2.0%*	*7.8%*	*2.0%*
Electronics, Defence & Security Systems				
Aeronautics	5.9%	2.0%	7.2%	2.0%

Testing revealed no signs of impairment. The Group recognised impairment losses in both of the CGUs in the *Electronics, Defence & Security Systems* sector in 2011 and 2012, particularly in DRS (totalling €mil. 1,639). The headroom for DRS (i.e. the positive margin calculated during impairment testing) is still lower than that for the other GCUs, even if it is progressively growing. However, it is estimated that the US defence budget, which is the main source of revenue of DRS, will expand over the next few years. 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 of all the CGUs. The table below highlights the headroom in the base scenario, compared with the following sensitivity analyses: (*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.

	Margin (base case)	Margin post sensitivity		
		WAAC	g-rate	ROS TV
Helicopters	2,544	2,019	2,110	2,529
DRS (USD millions)	*305*	*102*	*149*	*105*
Leonardo Divisions	*6,463*	*5,272*	*5,421*	*5,653*
Electronics, Defence & Security Systems				
Aeronautics	12,178	10,893	11,047	10,601

In order to evaluate the possible effects of an increase in the risk-free rates of the Euro area, a sensitivity analysis was developed, as previously said, considering an increase in rates equal to 100 basis points using the following WACCs: *Helicopters* 8.6%, Leonardo Divisions of *Electronics, Defence & Security Systems* 6.5% and *Aeronautics* 6.9%. Within this scenario, the margins of the 3 CGUs decreased by about 20% although remaining significantly positive (in detail: *Helicopters* €mil. 1,574, Leonardo Divisions of *Electronics, Defence & Security Systems* €mil. 4,347 and *Aeronautics* €mil. 9,875).

Other intangible assets

Investments in “development costs” refer in particular to the *Helicopters* (€mil. 13) and *Electronics, Defence & Security Systems* (€mil. 31) sectors. Investments attributable to “non-recurring costs” are related to the *Helicopters* (€mil. 91), *Aeronautics* (€mil. 42) and *Electronics, Defence & Security Systems* (€mil. 27) segments. As regards programmes that benefit from the provisions of Law 808/1985 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 26.

Total research and development costs, comprising also “development” and “non-recurring costs” just mentioned, as well as the amounts included in the sale contracts or covered by grants, are equal to €mil. 1,373, of which €mil. 175 expensed.

“Concessions, licences and trademarks” include 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 (Note 22). The change during the period is mainly attributable to the decline in amortisation during the period and the increase resulting from the effect of foreign exchange transactions.

Intangible assets acquired in the course of business combinations mainly decreased as a result of the amortisation and include the following items:

	31 December 2016	31 December 2015
Know-how	63	72
Trademarks	44	45
Backlog and commercial positioning	358	471
	465	**588**

Specifically, “Backlog and commercial positioning” essentially refers to the portion of the purchase prices of DRS and the UK component related to the *Electronics, Defence & Security Systems* and *Helicopters* Divisions allocated to this item.

“Other” mainly includes software, which is amortised over a 3 to 5 year period, and intangible assets in progress and advances.

Overall investments were mainly made in the *Helicopters* (€mil. 108), *Aeronautics* (€mil. 52) and *Electronics, Defence & Security Systems* (€mil. 68) sectors.

Commitments are in place for the purchase of intangible assets for €mil. 5 (€mil. 10 at 31 December 2015).

10. Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2015					
Cost	1,788	1,586	1,923	1,370	**6,667**
Amortisation, depreciation and impairment losses	(654)	(1,086)	(1,094)	(878)	**(3,712)**
Carrying amount	**1,134**	**500**	**829**	**492**	**2,955**
Transportation assets	(96)	(26)	(8)	(17)	**(147)**
Investments	5	19	100	151	**275**
Sales	(97)	(1)	(1)	(12)	**(111)**
Depreciation	(52)	(95)	(168)	(62)	**(377)**
Impairment losses	-	-	(2)	(1)	**(3)**
Increase for business combinations	-	-	-	-	**-**
Other changes	74	95	39	(170)	**38**
31 December 2015	**968**	**492**	**789**	**381**	**2,630**
Broken down as follows:					
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)**
Increase for business combinations	-	-	-		**-**
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**

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. 61 for *Aeronautics* (mainly for progress on the B787 programme), €mil. 84 for *Electronics, Defence & Security Systems*, €mil. 26 for *Helicopters* and €mil. 31 for *Other activities*.

"Other tangible assets" also include the value of assets under construction (€mil. 121 at 31 December 2016 vs €mil. 149 at 31 December 2015).

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 79 (€mil. 113 at 31 December 2015).

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

	2016			2015		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
Material Joint Ventures	947		947	925		925
Joint Ventures not individually material:	76	(2)	74	80	(3)	77
- Aviation Training International Ltd	*18*	-	*18*	*24*	-	*24*
- Rotorsim Srl	*28*	-	*28*	*27*	-	*27*
- Advanced Acoustic Concepts LLC	*22*	-	*22*	*20*	-	*20*
- Rotorsim USA LLC	*8*	-	*8*	*8*	-	*8*
- Closed Joint Stock Company Helivert	-	*(2)*	*(2)*	-	*(3)*	*(3)*
- SuperJet International SpA	-	-	-	*1*	-	*1*
	1,023	(2)	1,021	1,005	(3)	1,002
Associates	100		100	112	(1)	111
	1,123	**(2)**	**1,121**	**1,117**	**(4)**	**1,113**

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.

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, 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 Group 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 to Thales 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 IFRS 10 – 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:

	2016	**2015**
Revenues	+569	+610
EBITA	+34	+14
EBIT	+32	+5
Net result (non-controlling interests)	+8	-
FOCF	+12	+16
Group net debt	+19	+8

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 2016					
	Telespazio	Thales Alenia Space	MBDA	GIE ATR	Other JVs 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*	*38*	*14*	*-*		
NCI net equity (100%)	15	-	1	-		
Group net equity (100%)	261	1,696	295	456		
Revenues (100%)	577	2,493	3,140	1,787		
Amortisation, depreciation and impairment losses (100%)	32	52	90	28		
Financial income/(expenses) (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/(expenses) (100%)	-	(2)	(203)			
Total comprehensive income/(expenses) (100%)	**28**	**169**	**6**	**331**		
% Group's interest in equity at 1 January	**161**	**540**	**83**	**232**	**78**	**1,094**
% Group's interest in profit/(loss) from continuing operations	19	56	52	166	(1)	292
% Group's interest in profit/(loss) from discontinued operations, net of taxes	-	-	-	-		-
% Group's interest in other comprehensive income/(expenses)	-	(1)	(51)	-		(52)
% Group's interest in total comprehensive income/(expenses)	**19**	**55**	**1**	**166**	**(1)**	**240**
Dividends received	(4)	(35)	(11)	(177)	(5)	(232)
Disposals					(1)	(1)
Exchange differences				8	(4)	4
Other changes	(1)	(1)	1	-	7	4
% Group's interest in equity at 31 December	**175**	**559**	**74**	**229**	**74**	**1,109**
Consolidation adjustments	10	(216)	116		2	(86)
Equity investments at 31 December	**185**	**343**	**190**	**229**	**76**	**1,023**
% Group's 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				

	31 December 2015					
	Telespazio	Thales Alenia Space	MBDA	GIE ATR	Other JVs not individually material	**Total**
Non-current assets	319	1,865	2,009	98		
Current assets	335	1,445	3,340	1,194		
- of which cash and cash equivalent	*16*	*105*	*91*	*5*		
Non-current liabilities	45	270	1,059	127		
- of which non-current financial liabilities	*5*	*-*	*9*	*6*		
Current liabilities	355	1,408	3,954	702		
- of which current financial liabilities	*6*	*25*	*29*	*-*		
NCI net equity (100%)	14	-	2	-		
Group net equity (100%)	240	1,632	334	463		
Revenues (100%)	633	2,085	3,065	1,756		
Amortisation, depreciation and impairment losses (100%)	35	48	84	26		
Financial income/(expenses) (100%)	(3)	(9)	2	-		
Income taxes (100%)	(1)	(27)	(74)	-		
Profit/(Loss) from continuing operations (100%)	1	106	215	340		
Profit/(Loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income/(expenses) (100%)	(2)	(2)	73			
Total comprehensive income/(expenses) (100%)	**(1)**	**104**	**288**	**340**		
% Group's interest in equity at 1 January	**173**	**543**	**26**	**118**	**80**	**940**
% Group's interest in profit/(loss) from continuing operations	1	35	54	170	3	263
% Group's interest in profit/(loss) from discontinued operations, net of taxes	-	-	-	-	-	-
% Group's interest in other comprehensive income/(expenses)	(1)	(1)	18	-		16
% Group's interest in total comprehensive income/(expenses)	**-**	**34**	**72**	**170**	**3**	**279**
Dividends received	(11)	(38)	(16)	(65)	(9)	(139)
Equity investments of discontinued operations	-	-	-	-	-	-
Acquisitions	2	-	2	-	-	4
Disposals	-	-	-	-	-	-
Exchange differences	(2)	-	(3)	9	(1)	3
Other changes	(1)	1	2	-	5	7
% Group's interest in equity at 31 December	**161**	**540**	**83**	**232**	**78**	**1,094**
Consolidation adjustments	12	(219)	116	-	2	(89)
Equity investments at 31 December	**173**	**321**	**199**	**232**	**80**	**1,005**
% Group's interest in profit/(loss)	1	35	54	170	3	263
Consolidation adjustments		1	-	-	-	1
Share of profits/(losses) of equity-accounted investees	**1**	**36**	**54**	**170**	**3**	**264**
		261				

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 Decemebr 2016	31 December 2015
% Group's interest in equity at 1 January	**112**	**173**
% Group's interest in profit/(loss) from continuing operations	4	11
% Group's interest in profit/(loss) from discontinued operations, net of taxes		
% Group's interest in other comprehensive income/(expenses)		-
% Group's interest in total comprehensive income/(expenses)	**4**	**11**
Dividends received	(6)	(44)
Equity investments of discontinued operations		(32)
Subscriptions and capital increases		3
Acquisitions		8
Disposals	(9)	(2)
Exchange differences	(4)	3
Other changes	(1)	(12)
% Group's interest in equity at 31 December	**96**	**108**
Consolidation adjustments	4	4
Equity investments at 31 December	**100**	**112**
% Group's interest in profit/(loss)	4	11
Consolidation adjustments		
Share of profits/(losses) of equity-accounted investees	**4**	**11**

12. Receivables and other non-current assets

	31 December 2016	31 December 2015
Financing to third parties	27	35
Non-current financial receivables from SuperJet	65	-
Guarantee deposits	9	9
Deferred grants under Law 808/1985	58	44
Defined-benefit plan assets, net (Note 21)	367	351
Related-party receivables (Note 34)	1	3
Other non-current receivables	59	61
Non-current receivables	**586**	**503**
Prepayments - non-current portion	9	13
Equity investments at cost	18	17
Non-recurring costs pending under Law 808/1985	75	77
Fair value of the residual portion in portfolio of Ansaldo Energia	-	131
Non-current assets	**102**	**238**

Non-current receivables mainly increased as a result of the reclassification from current loans and receivables of the financial receivable from SuperJet, which can be collected after 12 months as a consequence of the definition of a 4-year repayment plan arranged with the acquirer within the rescheduling of Leonardo's participation in this programme (a transaction described in the section "Industrial and financial transactions" of the Report on Operations). Such amount was taken into account in calculating the KPI "Group net debt", as highlighted in Note 19.

Other non-current assets decreased as a result of the reclassification within current assets of the fair value of 15% of the share capital of Ansaldo Energia (classified as fair value through profit and loss), considering that the expiry date of Leonardo's put option and FSI's call option is nearing (i.e. between 30 June and 31 December 2017).

13. Inventories

	31 December 2016	31 December 2015
Raw materials, supplies and consumables	1,675	1,939
Work in progress and semi-finished goods	1,562	1,765
Finished goods and merchandise	72	91
Advances to suppliers	705	542
	4,014	4,337

Inventories are shown net of impairment charges of €mil. 750 (€mil. 772 at 31 December 2015).

14. Contract work in progress and progress payments and advances from customers

	31 December 2016	31 December 2015
Contract work in progress (gross)	3,923	4,273
Final losses (positive wip)	(51)	(50)
Progress payments and advances from customers	(1,331)	(1,366)
Contract work in progress (net)	**2,541**	**2,857**
Progress payments and advances from customers (gross)	6,406	6,379
Contract work in progress	(517)	(331)
Final losses (negative wip)	568	578
Progress payments and advances from customers (net)	**6,457**	**6,626**
Net value	(3,916)	(3,769)

"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 2016	31 December 2015
Cost incurred and margins recognised, net of losses	3,821	3,976
Advances	(7,737)	(7,745)
Net value	**(3,916)**	**(3,769)**

15. Trade and financial receivables

	31 December 2016		31 December 2015	
	Trade	Financial	Trade	Financial
Receivables	3,240	76	3,301	67
Cumulative impairments	(483)	(18)	(443)	(22)
Related-party current receivables (Note 34)	667	40	660	122
	3,424	**98**	**3,518**	**167**

Financial receivables from related parties decreased mainly as a result of the abovementioned reclassification within non-current receivables of the portion that will be collected beyond 12 months from SuperJet.

Trade receivables include €mil. 38 for receivables from Sukhoi and SuperJet which will be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined during the abovementioned transaction on the SuperJet programme.

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 35.

16. Other current assets

	31 December 2016	31 December 2015
Derivatives	165	134
Prepaid expenses - current portion	89	76
Receivables for grants	98	95
Receivables from employees and social security institutions	56	55
Indirect tax receivables	79	164
Deferred receivables under Law 808/1985	4	3
Other related-party receivables (Note 34)	4	8
Fair value of the residual portion in portfolio of Ansaldo Energia	138	-
Other assets	148	127
	781	**662**

The increase relates to the reclassification from non-current assets of the fair value of the residual equity investment in Ansaldo Energia. This item refers to 15% of the company's share capital (classified as fair value through profit or loss), which will be sold upon the exercise of the put & call options, defined below, by the parties, at a pre-arranged price of

€mil. 117 in respect of which capitalised interest accrues at a yearly 6% rate. In particular, Leonardo can exercise its put option between 30 June and 31 December 2017, while the call option of FSI is exercisable in the same period or before if some conditions occur. Considering that the expiry date of the options is nearing, the item was reclassified under current assets. This amount was taken into account during the calculation of the KPI "Group net debt", as highlighted in Note 19.

The table below provides detail of the asset and liability positions related to derivative instruments.

	31 December 2016		31 December 2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward forex instruments	153	297	129	238
Derivatives covering debt items	1	36	1	42
Embedded derivatives	9	-	2	2
Interest-rate swaps	2	4	2	3
	165	**337**	**134**	**285**

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

	Fair value at					
	31 December 2016			**31 December 2015**		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Interest-rate swaps						
Trading	2	(3)	(1)	2	(3)	(1)
Fair-value hedges	-	-	-	-	-	-
Cash-flow hedges	-	(1)	(1)	-	-	-
Currency forwards/swaps/ options						
Trading	-	-	-	-	-	-
Fair-value hedges	1	(36)	(35)	1	(42)	(41)
Cash-flow hedges	153	(297)	(144)	129	(238)	(109)
Embedded derivatives (trading)	9	-	9	2	(2)	-

17. Cash and cash equivalents

The change in the year is shown in the statement of cash flows. Cash and cash equivalents at 31 December 2016 include €mil. 6 of term deposits (€mil. 5 at 31 December 2015).

18. 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
Treasury shares	(232,450)	-	(3)	-	(3)
31 December 2015	**577,917,945**	**2,544**	**(3)**	**(19)**	**2,522**
Repurchase of treasury shares less shares sold	(3,506,246)	-	(31)	-	(31)
31 December 2016	**574,411,699**	**2,544**	**(34)**	**(19)**	**2,491**
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,738,696)	-	(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 3,738,696 treasury shares.

At 31 December 2016 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:

	2016	2015
US dollar	63	160
Pound sterling	(360)	147
Other currencies	7	(27)
	(290)	**280**

Overall, the reserve is negative for €mil. 215, mainly for the translation differences on the components denominated in pound sterling partially offset by the components denominated in US dollars, in particular 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
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)**
2015						
Revaluation of defined-benefit plans	(42)	19	(23)	32	(8)	24
Changes in cash-flow hedges	14	(8)	6	(3)	1	(2)
Foreign currency translation difference	285	-	285	(5)	-	(5)
Total	**257**	**11**	**268**	**24**	**(7)**	**17**

Below is a breakdown of the tax effects on the gain and loss items recognised in equity of non-controlling interests:

	Non-controlling interest		
	Amount before taxes	Tax effect	Net amount
2016			
Revaluation of defined-benefit plans	-	-	-
Changes in cash-flow hedges	-	-	-
Foreign currency translation difference	-	-	-
Total	**-**	**-**	**-**
2015			
Revaluation of defined-benefit plans	-	-	-
Changes in cash-flow hedges	-	(1)	(1)
Foreign currency translation difference	5	-	5
Total	**5**	**(1)**	**4**

19. Loans and borrowings

	31 December 2016			31 December 2015		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	3,737	638	4,375	4,276	121	4,397
Bank loans and borrowings	238	59	297	293	96	389
Related-party loans and borrowings (Note 34)	-	502	502	2	399	401
Other loans and borrowings	36	68	104	36	83	119
	4,011	**1,267**	**5,278**	**4,607**	**699**	**5,306**

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

	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

	1 January 2015	Issues	Repayments/ Payment of coupons	Other net increase/ (decrease)	Exchange differences and other movements	31 December 2015
Bonds	4,761	-	(793)	271	158	**4,397**
Bank loans and borrowings	472	-	(79)	3	(7)	**389**
Related-party loans and borrowings	431	-	-	(30)	-	**401**
Other loans and borrowings	106	-	(5)	27	(9)	**119**
	5,770	-	(877)	271	142	5,306

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.

Bank loans and borrowings mainly included the loan executed with the European Investment Bank (EIB) (€mil. 280 compared to €mil. 327 at 31 December 2015), aimed at implementing development activities in the aeronautic segment.

Bonds

Below is the detail of the bonds at 31 December 2016 which shows the bonds issued by Leonardo ("LDO") and Meccanica Holdings USA ("MH"):

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	319	8.000%	(2)	European institutional
LDO (originally Fin Fin)	(**)	2009	2022	€	555	5.250%		European institutional
MH	(***)	2009	2019	USD	434	6.250%		American institutional Rule 144A/ Reg. S
MH	(***)	2009	2039	USD	275	7.375%		American institutional Rule 144A/ Reg. S
MH	(***)	2009	2040	USD	457	6.250%		American institutional Rule 144A/ Reg. S
LDO (originally Fin Fin)	(**)	2012	2017	€	521	4.375%		European institutional
LDO (originally Fin Fin)	(**)	2013	2021	€	739	4.500%		European institutional

(*) Nominal amounts decreased compared to the value of the original issues following 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 Meccanica Holdings USA to finance the purchase of the subsidiary DRS replacing the dollar-issue bonds originally issued by the company. These bonds were redeemed early following Leonardo's purchase of DRS. As a result, these issues were not hedged against exchange-rate risk.

(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 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 Fin Fin 2022 (*)	579		29		(27)		**581**	556
USDmil. 500 MH 2019 (*)	408		26		(25)	13	**422**	412
USDmil. 300 MH 2039 (*)	255		18		(18)	9	**264**	261
USDmil. 500 MH 2040 (*)	426		25		(27)	15	**439**	433
€mil. 600 LDO 2017 (*)	519		24		(22)		**521**	521
€mil. 950 Fin Fin 2021 (*)	760		35		(33)	-	**762**	739
	4,397	-	246	(2)	(241)	(25)	4,375	4,294

	1 January 2015	New borrowings	Interest	Repayments/ Repurchases	Payments of coupons	Effect of exchange rate	31 December 2015	Fair value
€mil. 500 LDO 2018 (*)	500		29		(29)		**500**	561
€mil. 500 LDO 2025 (*)	515		25		(24)		**516**	557
GBPmil. 400 LDO 2019 (*)	511		44	(117)	(41)	37	**434**	509
€mil. 600 Fin Fin 2022 (*)	624		32	(45)	(32)		**579**	631
USDmil. 500 MH 2019 (*)	365		24		(24)	43	**408**	383
USDmil. 300 MH 2039 (*)	250		20	(24)	(20)	29	**255**	269
USDmil. 500 MH 2040 (*)	419		27	(41)	(28)	49	**426**	457
€mil. 600 LDO 2017 (*)	596		27	(79)	(25)		**519**	553
€mil. 950 Fin Fin 2021 (*)	981		43	(211)	(53)	-	**760**	806
	4,761	-	271	(517)	(276)	158	4,397	4,726

(*) 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:

31 December 2016

	Bonds		Bank loans and borrowings		Related-party loans and borrowings		Other loans and borrowings		Total	
	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

31 December 2015

	Bonds		Bank loans and borrowings		Related-party loans and borrowings		Other loans and borrowings		Total	
	floating	fixed	floating	fixed	floating	fixed	floating	fixed	**floating**	**fixed**
Within 1 year	-	121	66	30	399	-	83		**548**	**151**
2 to 5 years		1,845	105	109	2	-	29	1	**136**	**1,955**
Beyond 5 years	-	2,431	24	55	-	-	6	-	**30**	**2,486**
Total	-	4,397	195	194	401	-	118	1	714	4,592

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

	31 December 2016	*Of which with related parties*	31 December 2015	*Of which with related parties*
Cash and cash equivalents	(2,167)		(1,771)	
Securities held for trading	-		-	*425*
Liquidity	(2,167)		(1,771)	
Current loans and receivables	(98)	*(40)*	(167)	*(122)*
Current bank loans and borrowings	59		96	
Current portion of non-current loans and borrowings	638		121	
Other current loans and borrowings	570	*502*	482	*399*
Current financial debt	1,267		699	
Net current financial debt (funds)	(998)		(1,239)	
Non-current bank loans and borrowings	238		293	
Bonds issued	3,737		4,276	
Other non-current loans and borrowings	36	-	38	2
Non-current financial debt	4,011		4,607	
Net financial debt	**3,013**		**3,368**	

The reconciliation between net financial debt and Group net debt, used as KPI, is as follows:

	Notes	31 December 2016	31 December 2015
Net financial debt CONSOB com. DEM/6064293		**3,013**	**3,368**
Fair value of the residual portion in portfolio of Ansaldo Energia	16	(138)	(131)
Hedging derivatives in respect of debt items	16	35	41
Non-current financial receivables from SuperJet	12	(65)	-
Group net debt (KPI)		**2,845**	**3,278**

20. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2015						
Current	16	128	48	82	475	**749**
Non-current	140	113	318	103	607	**1,281**
	156	**241**	**366**	**185**	**1,082**	**2,030**
Transportation liabilities	(8)	-	-	-	(3)	**(11)**
Allocations	138	61	7	76	311	**593**
Uses	(1)	(57)	(16)	(9)	(49)	**(132)**
Reversals	-	(14)	(9)	(63)	(197)	**(283)**
Other changes	(4)	(24)	33	26	(29)	**2**
31 December 2015	**281**	**207**	**381**	**215**	**1,115**	**2,199**
Broken down as follows:						
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**

“Other provisions” for risks and charges mainly include:

- the provision for contractual risks and charges of €mil. 533 (€mil. 443 at 31 December 2015), mainly related to the Aeronautics sector;
- the provision for risks on equity investments of €mil. 3 (€mil. 6 at 31 December 2015), which includes the accruals for losses exceeding the carrying amounts of unconsolidated equity-accounted investments;
- the provision for tax risks of €mil. 133 (€mil. 190 at 31 December 2015);
- the provision for litigation with employees and former employees of €mil. 37 (€mil. 39 at 31 December 2015);
- the provision for litigation underway of €mil. 55 (€mil. 70 at 31 December 2015).

With regard to risks, below is a summary of the criminal proceedings that are currently underway against a number of Group companies or Leonardo itself, as well as certain former directors and executives, concerning acts committed during the performance of their duties at Group companies or at Leonardo itself, with specific reference to the events that occurred in 2016 and in early 2017:

- criminal proceedings are pending before the Court of Rome against 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. The proceedings are now in the trial phase. In relation to this case, criminal proceedings are also pending before the Public Prosecutor's Office of Rome against Leonardo for administrative violations pursuant to Article 25 of Legislative Decree 231/2001, for crimes under Articles 321 and 322-*bis* of the Italian Criminal Code attributed to the then Commercial Director of the Company, in the context of the abovementioned criminal proceedings;
- criminal proceedings are pending before the Public Prosecutor's Office of Rome against one former executive, three former directors and an executive of Leonardo, for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000 in relation to the position as director held in the then Finmeccanica Finance SA, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61, paragraph 11 of the Italian Criminal Code in relation, *inter alia*, 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 SpA (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland SpA to a prison term of two years 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, and ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil. 3.4) be confiscated from AgustaWestland SpA, 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. The decision is being appealed against.
  On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo to four years and six months of imprisonment, and the former Chief Executive Officer of AgustaWestland SpA to four years of imprisonment, 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. 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.
  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 SpA and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5.
The Indian authorities also started their own criminal investigations in late February 2013 into this matter, which are still underway;

- preliminary investigations are being conducted in relation to the criminal proceedings pending with the Public Prosecutor's Office of Busto Arsizio, against two former chief executive officers of AgustaWestland SpA, 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 this investigation, on 23 April 2015 some search warrants were executed at the Cascina Costa office of AgustaWestland SpA in order to collect contract, accounting and non-accounting documents relating to the relationships maintained by AgustaWestland SpA with some companies incorporated under Italian and foreign law. 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 SpA, regarding relationship with a foreign company. In the context of these proceedings, an executive of the company was also under investigation, but the proceedings against him have been dismissed;
- criminal proceedings are pending before the Court of Rome against the former Vice-Chairman of BredaMenarinibus, for crimes under Articles 110 and 646 of the Italian Criminal Code and Article 8 of Legislative Decree 74/2000, as well as against the former Chief Financial Officer of the company, for crimes under Article 110 of the Italian Criminal Code and Article 8 of Legislative Decree 74/2000, in relation to the supply of 45 trolley buses made by BredaMenarinibus in the competitive tender launched by Roma Metropolitane SpA. The company, as a party injured by the crimes under Article 646 of the Italian Criminal Code, brought a civil action in the criminal proceedings. At the hearing held on 7 April 2016, the Court, after having combined these proceedings with those brought against the former Chief Executive Officer of BredaMenarinibus, handed down a dismissal of charge against the former Vice-Chairman of BredaMenarinibus as a result of the extinguishment of the offence. At the same hearing the Court also accepted the civil action brought by the company in the criminal proceedings against the former Chief Executive Officer. The case has now entered the trial phase;
- criminal proceedings are pending before the Court of Naples concerning contracts awarded to the then-Elsag Datamat (now Selex ES SpA) and Electron Italia 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, the former Chief Executive Officer of Electron Italia, 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, and an employee of the then-Elsag Datamat and an employee of Electron Italia with crimes under Articles 353 and 326 of the Italian Criminal Code, as well as Selex ES and Electron Italia for having committed administrative offences under Article 24-*ter*, paragraph 2, of Legislative Decree 231/2001. Selex ES SpA and Electron Italia, 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;
- in relation to the proceedings pending before the Court of Trani against a former employee of the then-Elsag Datamat for crimes under Articles 353 and 356 of the Italian Criminal Code, concerning a tender launched by the Municipality of Barletta for the construction of access control systems for the limited traffic area, on 5 February 2016 the Court declared the decision not to prosecute against a former employee of the then-Elsag Datamat, for crimes charged to him, as they have become statute barred;

- criminal proceedings are pending before the Court of Genoa, concerning the overflow of the Chiaravagna River which took place in Genoa on 5 October 2010, involving a former employee of the then-Elsag Datamat (now Selex ES SpA), for crimes under Articles 426 and 449 of the Italian Criminal Code. Selex ES SpA, following service of civil summons issued by the Court at the request of the civil-action party, entered appearance in the civil action. At the end of the trial phase, on 7 March 2017 the Court of Genoa found not guilty the former employee of the then-Elsag Datamat (now Selex ES SpA) and the person civilly liable for Selex ES SpA;
- 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 the former Chief Executive Officer of Selex 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, and a supplier of Selex Service Management, 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 to a prison term of 2 years and 6 months and ordered him to pay damages to Selex Service Management. The aforesaid judgment is being appealed against. The proceedings are currently pending before the Naples Court of Appeal;
- 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 SpA, on 16 October 2015 the Court of Rome 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 is being appealed against. The hearing before the Rome Court of Appeal is scheduled to be held on 24 May 2017;
- 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.
  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 the 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 pending with 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 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 before the Court of Milan involving certain directors of the then-Breda Termomeccanica SpA, subsequently Ansaldo SpA, 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.
  Leonardo, following service of civil summons issued by the Court at the request of the civil-action parties, entered appearance in the civil action. The proceedings are now in the trial phase.

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 beyond those indicated in the rest of the paragraph. 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 dispute in which Leonardo is defendant in relation to contractual commitments undertaken at the time of the transfer of the former subsidiary Finmilano SpA to Banca di Roma (now UniCredit Group), arising from an assessment report issued to Finmilano SpA by the Rome Direct Taxation Office, which disallowed the tax deductibility of the capital loss arising from the factoring without recourse of a receivable subject to deferred collection for an amount lower than its nominal amount. At present, after alternating outcomes in the various degrees of adjudication, which were mainly unfavourable for the Company and after numerous adjournments, we are waiting for the appeal to be discussed before the Supreme Court. Leonardo does not currently expect it will incur significant losses in this respect;
- in January 2017 some notices of assessment were served on Alenia Aermacchi SpA, as a result of the examination of the documents submitted for a request for refund of the Group VAT of Leonardo SpA for the 2011 financial year. Specifically, the notices report estimated

higher taxable income for VAT and IRES (Corporate Income Tax), a higher value of net production and IRAP (Regional Production Activity Tax) withholdings, as well as penalties and interest (for a total amount of €mil. 17 on account of tax and €mil. 20 on account of penalties). In this regard the company has decided to consent to the assessment procedure subject to agreement in order to provide evidence of the groundlessness of the acts established in the conciliation phase;

- the litigation brought by Reid against Leonardo and Alenia Space (then ALS SpA, now SOGEPA SpA) 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 complaint on Leonardo and SOGEPA, 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 SOGEPA concerning the lack of jurisdiction of the Court of Delaware. Therefore, the discovery phase commenced, during which the witnesses requested by Reid were deposed. The preliminary investigations were completed in December 2013 and on 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Leonardo and SOGEPA. Therefore, the case is proceeding on the merits and the discovery phase is currently underway. However, it should be recalled that the lawsuit filed by Leonardo and SOGEPA in Italy – aimed at establishing the inexistence of the claims concerning the facts and requests argued by Mr Dennis Reid before the Court of Delaware – is still pending before the Court of Appeal of Rome and said lawsuit is still at a preliminary stage;

- the litigation brought before the Santa Maria Capua Vetere Court in February 2011 by GMR SpA, 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 and are still in a phase of preliminary discussion.
  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 GMR (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and GMR be dropped from action. On 2 March 2015 GMR filed an appeal before the Naples Court of Appeal against this order. Leonardo and AnsaldoBreda formally entered appearance; at present the appellate proceedings are under the decision phase. While pending the aforesaid appellate proceedings, the judge responsible for preliminary investigations was replaced in the action brought by Firema before the Court of Naples; on 17 June 2015 the new judge 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;

- 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 Italia Srl and of Progetto Cina Srl 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 abovementioned 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 Progetto Cina Srl and a minority shareholder of Janua Dei Italia Srl intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. The parties will be called upon to specify the conclusions that they intend to submit to the Court during the next hearing to be held on 22 November 2017;
- the dispute between Ansaldo STS and Selex ES (SES) against the Russian company ZST relating to a contract signed in August 2010 between ZST, which had been awarded the contract to build the Sirth-Benghazi railway line in Libya, and the Joint Venture comprised of Ansaldo STS and SES, which was the sub-contractor for the signalling, automation, security and telecommunications works.
  On 12 August 2013, Ansaldo STS and SES filed a motion before the Court of Milan seeking a provisional remedy against the Russian company ZST, prohibiting it from enforcing the advance payment bond guarantees, issued by Crédit Agricole to guarantee the contract advances paid to the companies in the amount of around €mil. 70 for Ansaldo STS and €mil. 15.7 for Selex ES. The performance of the contract had been in fact suspended following the well-known events that occurred in Libya in early 2011. The preventive proceedings concluded with the Court granting the injunction only as to the amounts corresponding to the value of the activities performed up until the works were interrupted (equal to €mil. 29 for Ansaldo STS and to €mil. 3 for Selex ES). The bank therefore proceeded to make payment of the remaining amount.
  Therefore, ZST started arbitration proceedings before the Vienna International Arbitral Centre against Ansaldo STS and Selex ES seeking repayment of the full amount paid

on account of fees. On 6 May 2016 an award was issued, which ordered Ansaldo STS, jointly with SES, to pay an amount of €mil. 30, plus interest. Ansaldo STS and Selex ES, based on their respective shares of supply (€mil. 3.3 for Selex ES), have paid the amount required by the award and, therefore, the dispute can be considered to have been settled. It is also recalled that Leonardo has not provided any guarantee in relation to the aforesaid litigation within the transfer of Ansaldo STS to Hitachi.

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 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.

Finally, said Law also 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 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". 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. The proceedings in question are still underway and the parties will be called upon to specify their conclusions before the judge responsible for preliminary investigations on 22 November 2017;

- 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 is 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, reserving the right to seek damages, provisionally estimated at an amount equal to about €mil. 648, 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 Indian Supreme Court.

  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. The company, in addition to challenging such objections, will, once the decision on the preliminary questions is issued, restate the reasonableness of its claims, also in light of the ruling handed down by the Court of Busto Arsizio on 9 October 2014 in the context of the immediate trial against the former Chairman and Chief Executive Officer of Leonardo SpA and against the former Chief Executive Officer of AgustaWestland SpA. The arbitration proceedings are still underway.

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 SpA 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 net assets recognised in the Group's financial statements (€mil. 110), as well as the recognition of any compensation to be paid or received, are dependent upon the outcome of the proceedings underway.

21. Employee benefit obligations

	31 December 2016			31 December 2015		
	Liabilities	Assets	Net	Liabilities	Assets	Net
Severance pay provision	340	-	340	360	-	360
Defined-benefit plans	338	367	(29)	388	351	37
Defined-contribution plans	24	-	24	25	-	25
	702	**367**	**335**	**773**	**351**	**422**

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

	31 December 2016	31 December 2015
GBP area	(168)	(114)
Euro area	6	5
USD area	114	124
Other	19	22
	(29)	**37**

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

	31 December 2016	31 December 2015
Present value of obligations	(2,802)	(2,613)
Fair value of plan assets	2,831	2,576
Plan deficit	**29**	**(37)**
of which, related to:		
- net liabilities	(338)	(388)
- net assets	367	351

Changes in the defined-benefit plans are shown below:

31 December 2016

	Present value of obligations	Fair value of plan assets	Net liability defined-benefit plans
Opening balance	**2,613**	**2,576**	**37**
Transportation liabilities			-
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)

31 December 2015

	Present value of obligations	Fair value of plan assets	Net liability defined-benefit plans
Opening balance	**2,492**	**2,431**	**61**
Transportation liabilities	(15)		(15)
Costs of benefits paid	30	-	30
Net interest expense	95	94	1
Remeasurement	(31)	(78)	47
- Actuarial losses/(gains) through equity - demographic assumption	*(2)*	-	*(2)*
- Actuarial losses/(gains) through equity - financial assumptions	*(34)*	-	*(34)*
- Actuarial losses/(gains) through equity resulting from adjustments based on the experience	*5*		*5*
- Expected return on plan assets (no interest)	-	*(78)*	*78*
Curtailments	(68)	(57)	(11)
Increase for business combinations	-	-	-
Contributions paid		78	(78)
Contributions from other plan participants	16	16	-
Exchange-rate differences	164	160	4
Benefits paid	(70)	(68)	(2)
Other changes			-
Closing balance	**2,613**	**2,576**	**37**
of which, related to:			
- net liabilities	2,045	1,657	388
- net assets	568	919	(351)

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

	2016	2015
Current service costs	58	78
Past service costs	-	(47)
Curtailments and settlements	(16)	(11)
Costs booked as “personnel expenses”	**42**	**20**
Net interest costs	5	6
Costs booked as “financial expenses”	**5**	**6**
	47	**26**

Changes in severance pay provision are shown below:

	31 December 2016	31 December 2015
Opening balance	**360**	**437**
Transportation liabilities		(35)
Costs of benefits paid	1	1
Net interest costs	4	5
Remeasurement	8	(12)
- Actuarial losses/(gains) through equity - financial assumptions	*8*	*(12)*
Benefits paid	(32)	(39)
Other changes	(1)	3
Closing balance	**340**	**360**

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 2016	31 December 2015	31 December 2016	31 December 2015
Discount rate (annual)	1.1%	1.5%	2.7%-3.2%	3.4%-4.1%
Rate of salary increase	n.a.	n.a.	3.55%-4.3%	3.5%-4.1%
Inflation rate	1.5%	1.6%	2.2%-5%	2.1%-4.9%

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 2016		31 December 2015		31 December 2016		31 December 2015	
	-0.25%	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	6	(6)	7	(7)	109	(109)	125	(122)
Inflation rate	(3)	3	(5)	5	(79)	79	(76)	77

The average duration of the severance pay is 10 years while that of the other defined-benefit plans is 19 years.

The estimate of the contributions to be paid in 2017 related to defined-benefit plans is about €mil. 75.

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 bonds and investment funds.

Assets of defined-benefit plans include:

	31 December 2016	31 December 2015
Cash and cash equivalents	118	67
Shares	483	570
Debt instruments	1,115	923
Real properties	30	34
Derivatives	67	118
Investment funds	1,018	864
	2,831	2,576

22. Other current and non-current liabilities

	31 December 2016		31 December 2015	
	Non-current	Current	Non-current	Current
Employee obligations	47	322	47	327
Deferred income	114	93	97	66
Amounts due to social security institutions	-	164	5	170
Payables to MED (Law 808/1985)	307	106	324	66
Payables to MED for royalties (Law 808/1985)	196	31	181	27
Other liabilities (Law 808/1985)	190	-	193	-
Indirect tax liabilities	-	119	-	139
Derivatives	-	337	-	285
Other payables	301	868	268	766
Other payables to related parties (Note 34)	-	166	-	306
	1,155	2,206	1,115	2,152

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. 275 (€mil. 248 at 31 December 2015), 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.

23. Trade payables

	31 December 2016	31 December 2015
Suppliers	2,762	3,220
Trade payables to related parties (Note 34)	76	116
	2,838	3,336

24. Guarantees and other commitments

Leases

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

	31 December 2016		31 December 2015	
	Operat. lease as lessee	Operat. lease as lessor	Operat. lease as lessee	Operat. lease as lessor
Within 1 year	68	9	88	8
2 to 5 years	191	10	187	15
Beyond 5 years	141	4	168	-
	400	23	443	23

Guarantees

The Group had the following outstanding guarantees:

	31 December 2016	31 December 2015
Guarantees in favour of third parties	17,371	18,936
Other unsecured guarantees given to third parties	844	2,806
Unsecured guarantees given	18,215	21,742

The item mainly includes guarantees given to third parties while performing the contracts and to banks, as well as commitments in favour of the tax authorities.

25. Revenues

	2016	2015
Revenues from sales	6,752	7,785
Revenues from services	3,232	3,308
Change in work in progress	(61)	(195)
Revenues from related parties (Note 34)	2,079	2,097
	12,002	12,995

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

26. Other operating income/(expenses)

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	25	-	25	53	-	53
Other operating grants	17	-	17	5	-	5
Gains/(Losses) on sales of intangible asset, property, plant and equipment	10	(2)	8	18	(4)	14
Reversals/(Accruals) to provisions for risks, final losses on orders and impairment of receivables	440	(396)	44	468	(453)	15
Exchange-rate difference on operating items	190	(178)	12	189	(211)	(22)
Insurance reimbursements	4	-	4	30	-	30
Restructuring costs	-	(37)	(37)	3	(23)	(20)
Indirect taxes	-	(34)	(34)	-	(40)	(40)
Other operating income/(expenses)	51	(82)	(31)	44	(68)	(24)
Other operating income/(expenses) from/to related parties (Note 34)	5	(1)	4	13	(7)	6
	742	**(730)**	**12**	**823**	**(806)**	**17**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil. 65 (€mil. 83 at 31 December 2015) are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 12) equal to €mil. 58 (€mil. 79 at 31 December 2015).

Restructuring costs include both costs incurred and accruals to the "restructuring provision". Costs and accruals relating to personnel are found under personnel expenses (Note 27).

27. Purchases and personnel expenses

	2016	2015
Purchase of materials from third parties	3,869	4,505
Change in inventories of raw materials	228	115
Costs for purchases from related parties (Note 34)	63	52
Purchases	**4,160**	**4,672**
Services rendered by third parties	3,150	3,868
Costs of rents and operating leases	105	104
Royalties	8	5
Software fees	19	12
Rental fees	20	28
Services rendered by related parties (Note 34)	108	138
Services	**3,410**	**4,155**
Wages and salaries	2,391	2,505
Social security contributions	493	511
Costs related to defined-contribution plans	108	110
Costs related to severance pay provision and other defined-benefit plans (Note 21)	42	20
Employee disputes	2	7
Restructuring costs - net	43	81
Other personnel expenses	79	66
Personnel expenses	**3,158**	**3,300**
Change in finished goods, work in progress and semi-finished goods	***170***	***(87)***
Internal work capitalised	***(349)***	***(435)***
Total purchases and personnel expenses	**10,549**	**11,605**

In terms of personnel expenses, this item decreased by €mil. 142 due to the impact related to the change in the average workforce and to the decrease in restructuring costs.

Restructuring costs equal to €mil. 43 (€mil. 81 in 2015) mainly related to: *Electronics, Defence & Security Systems* (€mil. 31), *Aeronautics* (€mil. 8) and *Helicopters* (€mil. 4) for costs incurred and provisions allocated against on-going reorganisation activities.

The average workforce at 31 December 2016 significantly decreased (1,288 units) in comparison with 31 December 2015 mainly due to the *Electronics, Defence & Security Systems* (492 units of which 270 units in Italy), *Helicopters* (352 units, of which 106 units in Italy) and *Aeronautics* (328 units) sectors, in addition to the change deriving from the sale of FATA (210 units).

The decrease, in addition to the component related to the sale of the FATA Group (207 units), was also due to the streamlining and efficiency improvement processes, mainly attributable to the *Helicopters* (638 units, of which 178 units in Italy) and *Electronics, Defence & Security Systems* (615 units, of which 320 units in Italy).

In particular, the reduction on the foreign component is about 51% of the total decrease.

	Average workforce			Total workforce		
	31 December 2016	**31 December 2015**	**Change**	**31 December 2016**	**31 December 2015**	**Change**
Senior managers (*)	1,143	1,276	(133)	1,134	1,231	(97)
Middle managers	5,372	5,359	13	5,301	5,471	(170)
Clerical employees	26,680	27,331	(651)	26,915	27,587	(672)
Manual labourers (**)	12,614	13,131	(517)	12,281	12,867	(586)
	45,809	**47,097**	**(1,288)**	**45,631**	**47,156**	**(1,525)**

(*) Includes pilots.
(**) Includes senior manual labourers.

28. Amortisation, depreciation and impairment losses

	2016		**2015**	
Amortisation of intangible assets		335		315
Development costs	*62*		*72*	
Non-recurring costs	*113*		*80*	
Acquired through business combinations	*97*		*98*	
Concessions, licences and trademarks	*14*		*8*	
Other intangible assets	*49*		*57*	
Depreciation of property, plant and equipment		365		377
Impairment of operating receivables		57		70
Impairment of other assets		21		22
		778		**784**

The impairment of receivables mainly refers to impairments carried out for receivables from countries considered at risk. The impairment of other assets refers to the write-down of development costs (€mil. 13) mainly related to the *Aeonautics* sector.

29. Financial income and expenses

Below is a breakdown of financial income and expenses:

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Interest	5	(259)	(254)	10	(288)	(278)
Premiums received/(paid) on IRS	6	(6)	-	6	(6)	-
Commissions on borrowings	-	(14)	(14)	-	(18)	(18)
Other commissions	2	(9)	(7)	4	(13)	(9)
Income/(Expenses) from equity investments and securities	14	(52)	(38)	25	(7)	18
Fair value gains/(losses) through profit or loss	48	(11)	37	13	(20)	(7)
Premiums (paid)/received on forwards	32	(44)	(12)	12	(13)	(1)
Exchange-rate differences	336	(318)	18	270	(291)	(21)
Interest cost on defined-benefit plans (Note 21)	-	(5)	(5)	-	(6)	(6)
Financial income/(expenses) - related parties (Note 34)	33	(5)	28	3	(8)	(5)
Other financial income and expenses	17	(92)	(75)	13	(119)	(106)
	493	**(815)**	**(322)**	**356**	**(789)**	**(433)**

Overall the item improved by €mil. 111, mainly as a result of the reduction in other financial charges (which in 2015 included €mil. 48 related to the buy-back of bonds) and of the consequent interest reduction, in addition to exchange gains, which had a positive effect also on the fair value of derivatives in portfolio. This improvement is partially offset by the effects of the extraordinary transactions. In detail:

- net interest expenses decreased by €mil. 24. The item includes €mil. 246 (€mil. 271 in 2015) related to interest on bonds and €mil. 7 (€mil. 8 in 2015) related to the interest on the EIB loan. The figure of interest on bonds benefitted, as mentioned above, from the effects of the buy-back transactions carried out in the second half of 2015;
- the expenses arising from the application of fair value break down as follows:

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Exchange-rate swaps	1	-	1	1	-	1
Interest-rate swaps	-	(1)	(1)	1	(1)	-
Ineffective portion of hedging swaps	38	(10)	28	11	(18)	(7)
Embedded derivatives	9	-	9	-	(1)	(1)
	48	**(11)**	**37**	**13**	**(20)**	**(7)**

- costs from equity investments and securities include the results of the sales concluded during the year, while in 2015 these included net income linked to the sale of some activities of DRS;
- other net financial expenses mainly refer to the discounting effects on non-current liabilities. The figure of the prior year was affected, as previously said, by the recognition of charges related to the buy-back transactions carried out in 2015.

30. Income taxes

Income taxes can be broken down as follows:

	2016	2015
IRES	(14)	-
IRAP	(23)	(26)
Other income taxes (foreign)	(65)	(88)
Tax related to previous periods	4	7
Provisions for tax disputes	(36)	(79)
Deferred tax - net	(24)	(7)
	(158)	**(193)**

Following is an analysis of the difference between the theoretical and effective tax rate for 2016 and 2015:

	2016	2015
Profit/(Loss) before income taxes	**665**	**720**
Percentage impact of Italian and foreign taxes		
IRES (net of tax receipts)	2.1%	n.a.
IRAP	3.5%	3.6%
Other income taxes (foreign)	9.8%	12.2%
Substitute taxes		
Tax related to previous periods	(0.6%)	(1.0%)
Provisions for tax disputes	5.4%	11.0%
Deferred tax - net	3.6%	1.0%
Effective rate	**23.8%**	**26.8%**

Deferred taxes and related receivables and payables at 31 December 2016 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. 164 is related to the tax consolidation mechanism (about €bil. 0.8 of unrecognised losses).

	2016			2015		
	Income statement			Income statement		
	Income	Expenses	Net	Income	Expenses	Net
Deferred tax assets on tax losses	78	66	12	32	5	27
Property, plant and equipment and intangible assets	50	19	31	55	20	35
Financial assets and liabilities	1	4	(3)	-	13	(13)
Severance pay and retirement benefits	-	8	(8)	2	16	(14)
Provision for risks and impairment	116	163	(47)	182	189	(7)
Effect of change in tax rate	(9)	(2)	(7)	(66)	(20)	(46)
Other	78	80	(2)	99	88	11
Deferred taxes recognised through profit or loss	**314**	**338**	**(24)**	**304**	**311**	**(7)**

	31 December 2016			31 December 2015		
	Balance sheet			Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	311	-	311	299	-	299
Property, plant and equipment and intangible assets	77	239	(162)	59	290	(231)
Severance pay and retirement benefits	8	27	(19)	4	1	3
Financial assets and liabilities	-	-	-	5	21	(16)
Provision for risks and impairment	646	-	646	665	-	665
Other	97	105	(8)	128	71	57
Offsetting	(38)	(38)	-	(116)	(116)	-
Deferred taxes recognised through balance sheet	**1,101**	**333**	**768**	**1,044**	**267**	**777**
Cash-flow hedge derivatives	31	1	30	8	1	7
On actuarial gains and losses	99	57	42	107	57	50
Deferred taxes recognised through equity	**130**	**58**	**72**	**115**	**58**	**57**
	1,231	**391**	**840**	**1,159**	**325**	**834**

31. Assets held for sale and discontinued operations

In 2016 there are no discontinued operations. This item, in 2015, included the result of the businesses of the Transportation sector sold to the Hitachi Group:

	2016	2015
Revenues	-	1,838
Purchases and personnel expenses	-	(1,746)
Amortisation, depreciation and impairment losses	-	(20)
Other operating income/(expenses)	-	(22)
Income before tax and financial expenses	**-**	**50**
Financial income/(expenses)	-	(8)
Income taxes	-	(32)
Profit/(Loss) for the period	**-**	**10**
Capital gain on disposal of Transportation segment	-	248
Profit/(Loss) from discontinued operations	**-**	**258**
- Measurement of defined-benefit plans	-	-
- Changes in cash-flow hedges	-	(42)
- Translation differences	-	(7)
Other comprehensive income/(expenses)	**-**	**(49)**
Total comprehensive income/(expenses)	**-**	**209**

The figure related to assets held for sale includes the value of an asset owned by Leonardo Global Solutions, under disposal. The prior year balance-sheet figure mainly included assets and liabilities related to the companies of the FATA Group included in the scope of the sale to the Danieli Group (the transaction completed in March 2016 is described in the section "Industrial and financial transactions" of the Report on Operations). This item breaks down as follows:

	31 December 2016	31 December 2015
Non-current assets	14	21
Current assets	-	60
Assets	**14**	**81**
Adjustment to selling price	-	
Assets held for sale	**14**	**81**
Non-current liabilities	-	3
Current liabilities	-	74
Liabilities associated with assets held for sale	**-**	**77**

32. 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.

	2016	2015
Average shares outstanding during the reporting period (in thousands)	574,543	578,034
Earnings for the period (excluding non-controlling interests) (€ millions)	505	487
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	505	265
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	-	222
Basic and diluted EPS (€)	**0.879**	**0.843**
Basic and diluted EPS from continuing operations (€)	*0.879*	*0.458*
Basic and diluted EPS from discontinued operations (€)	*n.a.*	*0.385*

33. Cash flows from operating activities

	2016	2015
Net result	507	527
Amortisation, depreciation and impairment losses	778	784
Share of profits/(losses) of equity-accounted investees	(300)	(272)
Income taxes	158	193
Cost of severance pay provision and other defined-benefit plans	42	20
Net financial expenses/(income)	322	433
Net allocations to the provisions for risks and inventory write-downs	191	219
Profit from discontinued operations	-	(258)
Other non-monetary items	(7)	34
	1,691	**1,680**

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 expenses).

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:

	2016	2015
Inventories	185	38
Contract work in progress and progress payments and advances from customers	191	(423)
Trade receivables and payables	(605)	(252)
Change in trade receivables/payables, work in progress/ progress payments and inventories	**(229)**	**(637)**

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:

	2016	2015
Payment of pension plans	(102)	(117)
Changes in provisions for risks and other operating items	(243)	122
Change in other operating assets and liabilities and provisions for risks and charges	**(345)**	**5**

34. 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 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						
NHIndustries SAS				198		**198**
Eurofighter Jagdflugzeug GmbH				76		**76**
Iveco - OTO Melara Scarl				36		**36**
Macchi Hurel Dubois SAS				20		**20**
Orizzonte - Sistemi Navali SpA				23		**23**
AgustaWestland Aviation Services LLC						**-**
Other with unit amount lower than €mil. 10			1	33	1	**35**
Joint Ventures						
GIE ATR				61		**61**
Joint Stock Company Helivert				53		**53**
MBDA SAS				22	1	**23**
Thales Alenia Space SAS			34	21	1	**56**
Telespazio SpA	1		2	12		**15**
Rotorsim USA LLC				10		**10**
Other with unit amount lower than €mil. 10				2	1	**3**
Consortia (*)						
Other with unit amount lower than €mil. 10			3	15		**18**
Companies subject to the control or considerable influence of the MEF						
ENAV SpA				29		**29**
Poste Italiane SpA				16		**16**
Fintecna SpA				12		**12**
Other				18		**18**
Total	**1**	**-**	**40**	**667**	**4**	**712**
% against total for the period	***3.6%***	***n.a.***	***40.8%***	***19.5%***	***1.7%***	

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

Receivables at 31 December 2015

	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			-	8	1	**9**
Associates						
NHIndustries SAS				174		**174**
Eurofighter Jagdflugzeug GmbH				62		**62**
Iveco - OTO Melara Scarl				20		**20**
Macchi Hurel Dubois SAS				20		**20**
Orizzonte - Sistemi Navali SpA				10		**10**
Euromids SAS				10		**10**
AgustaWestland Aviation Services LLC				10		**10**
Other with unit amount lower than €mil. 10			5	22		**27**
Joint Ventures						
GIE ATR				69		**69**
Closed Joint Stock Company Helivert				51		**51**
MBDA SAS				23		**23**
SuperJet International SpA			100	60	5	**165**
Thales Alenia Space SAS			12	24	1	**37**
Other with unit amount lower than €mil. 10	3		2	18	1	**24**
Consortia (*)						
Other with unit amount lower than €mil. 10			3	16		**19**
Companies subject to the control or considerable influence of the MEF						
ENAV SpA				30		**30**
Fintecna SpA				10		**10**
Other				23		**23**
Total	3	-	122	660	8	793
% against total for the period	*10%*	*n.a.*	*125%*	*19%*	*3%*	

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

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 Ventures							
MBDA SAS			440	7	1	**448**	47
GIE ATR				2	148	**150**	
Rotorsim USA LLC				14		**14**	
Telespazio SpA			14	1	5	**20**	228
Other with unit amount lower than €mil. 10				11		**11**	
Consortia (*)							
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.

Payables at 31 December 2015

	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				16	9	**25**	
Associates							
Eurofighter Jagdflugzeug GmbH			56			**56**	
Other with unit amount lower than €mil. 10			4	26	5	**35**	
Joint Ventures							
MBDA SAS			332	9	1	**342**	47
GIE ATR				25	259	**284**	
Rotorsim USA LLC				13		**13**	
Telespazio SpA			2	5	4	**11**	211
SuperJet International SpA				2	19	**21**	8
Other with unit amount lower than €mil. 10			1	11	2	**14**	
Consortia (*)							
Other with unit amount lower than €mil. 10				1	1	**2**	
Companies subject to the control or considerable influence of the MEF							
Other	2		4	8	6	**20**	
Total	**2**	**-**	**399**	**116**	**306**	**823**	**266**
% against total for the period	***n.a.***	***n.a.***	***31.5%***	***4.1%***	***17.2%***		

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

Trade receivables are commented on later, along with revenues 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. 440 (€mil. 332 at 31 December 2015) due by Group companies to the Joint Venture MBDA and payables of €mil. 38 (€mil. 56 at 31 December 2015) to Eurofighter, of which Alenia Aeronautica owns 21%. 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 2016

	Revenues	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					
NHIndustries SAS	343					
Orizzonte - Sistemi Navali SpA	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	31		17	1		
Joint Ventures						
GIE ATR	331		62			
MBDA SAS	51					2
Thales Alenia Space SAS	69					
SuperJet International SpA	21				2	
Telespazio SpA					1	
Rotorsim Srl		3	16			
Other with unit amount lower than €mil. 10	11	1	16			
Consortia (*)						
Other with unit amount lower than €mil. 10	4		2			
Companies subject to the control or considerable influence of the MEF						
ENAV SpA	37					
Poste Italiane SpA	29					
Cassa Depositi e prestiti Equity					30	
Eni SpA			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 or which are subject to joint control.

Income statement transactions at 31 December 2015

	Revenues	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Finmeccanica UK Ltd			11			
Cardprize TWO Ltd			13			
Other with unit amount lower than €mil. 10			6			
Associates						
Eurofighter Jagdflugzeug GmbH	857					1
NHIndustries SAS	331	9				
Orizzonte - Sistemi Navali SpA	194					
Iveco - OTO Melara Scarl	62					3
Macchi Hurel Dubois SAS	66					
AgustaWestland Aviation Services LLC	12					
Other with unit amount lower than €mil. 10	21		27	7		
Joint Ventures						
GIE ATR	284		47			
MBDA SAS	89					4
Thales Alenia Space SAS	46					
SuperJet International SpA	18				2	
Telespazio SpA	3		19		1	
Rotorsim Srl	2	3	20			
Other with unit amount lower than €mil. 10	5	1	16			
Consortia (*)						
Other with unit amount lower than €mil. 10	3		2			
Companies subject to the control or considerable influence of the MEF						
ENAV SpA	20					
Expo 2015 SpA	20					
Poste Italiane SpA	29					
Eni SpA			16			
Fintecna SpA	10					
Other	25		13			
Total	**2,097**	**13**	**190**	**7**	**3**	**8**
% against total for the period	***17.5%***	***1.8%***	***1.8%***	***(0.9%)***	***0.6%***	***1.0%***

(*) 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 and PZH2000 self-propelled vehicle 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.

35. 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. 5,278 at 31 December 2016 the fixed-rate percentage amounted to around 86%, while the floating-rate percentage is around 14%.

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 2016, the outstanding transactions were the following:

- *interest-rate swaps 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 2016 is as follows:

	Notional		Underlying (maturity)	Fair value 1 January 2016	Changes			Fair value 31 December 2016
	2016	2015			Income	Expenses	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)**

	Notional		Underlying (maturity)	Fair value 1 January 2015	Changes			Fair value 31 December 2015
	2015	2014			Income	Expenses	CFH reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	4	-	(1)	-	3
Options	200	200	Bond 2025	(5)	1		-	(4)
Total notional	**400**	**400**		**(1)**	**1**	**(1)**	**-**	**(1)**

The table below shows the effects of the sensitivity analysis for 2016 and 2015 deriving from the 50-basis-point shift in the interest rate at the reporting date:

Effect of shift of interest-rate curve

	31 December 2016		31 December 2015	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	3	(3)	(1)	1
Equity (*)	3	(3)	(1)	1

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

Exchange-rate disk

Transaction risk

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 or 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 4.2).

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

At 31 December 2016 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 6,766 (notional amount) (a decrease of around 1% over the year-earlier period), as reported in the table below. Overall, the average euro/US dollar exchange rate for hedging purposes is 1.1770 on sales and about 1.251 on purchases relating in particular to the portfolio of the Aeronautics Division, whose exposure represents about 75% of the Group's portfolio hedging transaction risk.

	Notional			Fair value 1 January 2016	Changes				Fair value 31 December 2016
	Sales	Purchases	Total		Discontinued operations	Income	Expenses	CFH reserve	
Swap and forward transactions	2,757	4,009	6,766	(150)		48	(10)	(58)	(170)

	Notional			Fair value 1 January 2015	Changes				Fair value 31 December 2015
	Sales	Purchases	Total		Discontinued operations	Income	Expenses	CFH reserve	
Swap and forward transactions	3,559	3,254	6,813	(55)	(30)	12	(19)	(58)	(150)

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

	31 December 2016				31 December 2015			
	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	1,370	62	547	1,365	1,722	28	1,017	1,319
2 to 3 years	732	9	317	323	1,333	20	313	14
4 to 9 years	65	-	136	382	117	2	-	-
Total	**2,167**	**71**	**1,000**	**2,070**	**3,172**	**50**	**1,330**	**1,333**
Hedging transactions which cannot be classified as hedging transactions	**567**	**3**	**567**	**3**	**424**	**3**	**424**	**3**
Total transactions	2,734	74	1,567	2,073	3,596	53	1,754	1,336

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 2016 (1.0541 and 0.8562 respectively), and 31 December 2015 (1.0887 and 0.7340 respectively).

	31 December 2016				31 December 2015			
	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 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%
Net result	4	(1)	1	(5)	10	(3)	10	(12)
Equity (*)	(32)	39	30	(33)	(6)	(10)	41	(46)

(*) 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 US dollars and pound sterling) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named “Translation reserve” (Note 18). 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 United States and in the United Kingdom.

The main equity holdings in the United Kingdom 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 18.

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 abovementioned risks, the Group has adopted a series of instruments aimed at optimising the management of financial resources through banking transactions and bonds. The average maturity of the bonded debt is about 6.8 years.

Leonardo is the issuer of all the bonds in euro and pound sterling placed on the market related to the EMTN programme.
The EMTN programme, under which all the outstanding bonds of Leonardo have been issued, was used in the amount of about €mil. 3,187 at 31 December 2016 compared to the total amount of €mil. 4,000. To such amount the bonds issued on the US market by the subsidiary Meccanica Holding USA Inc. must be added for a total gross value of USDmil. 1,300.

Furthermore, Leonardo in order to finance its own ordinary and extraordinary operations, can use the cash and cash equivalents of €mil. 2,167 reported at 31 December 2016 related to Leonardo SpA (€mil. 1,747), to Group companies that, for different reasons, do not fall within the scope of the treasury centralisation (€mil. 420) and for the remaining part, to cash amounts of the companies falling, directly or indirectly, within the scope of the treasury centralisation (also as a result of collections made in the very last days of the period), and to deposits made for different reasons.

To meet the financing needs for ordinary Group activities, Leonardo obtained a Revolving Credit Facility that, in order to take advantage of favourable market conditions and considering the industrial efficiency-enhancement actions undertaken, as well as the Group's improved business and financial outlook, on 6 July 2015, it renegotiated with the providers reducing the margin from 180 bps to 100 bps. In line with the Group's financial needs, Leonardo has simultaneously reduced the total amount of the credit line from €mil. 2,200 to €mil. 2,000 and has extended the duration by one year, to July 2020.

At 31 December 2016 the credit line, including the financial covenants described in the "Industrial and financial transactions" section, was entirely unused.

Leonardo had additional unconfirmed short-term lines of credit of €mil. 725, which also were entirely unused at 31 December 2016.

Furthermore, it should be noted that the entry into force of the new business contracts is subject to the Group's ability to issue, in favour of the customers, the necessary bank and insurance guarantees. To this end, at 31 December 2016 Leonardo had unconfirmed credit lines for an amount of about €mil. 3,799 at banks. Finally, owing to the nature of the Group's customers, which involves longer collection times than in other sectors, the Group enters into factoring transactions typically under terms which enable the derecognition of the receivables sold.

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 United Kingdom and the United States. 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 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 2016, we note the following relations with countries exposed to credit risk according to the international institutions:

	Lybia	Egypt	Other countries	Total
Assets	70	24	5	99
Liabilities	52	10	2	64
Net exposure	**18**	**14**	**3**	**35**

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. In particular, among receivables there are receivables linked to the SISTRI programme and to the supply to the Indian Government – already described in Note 20 – as well as amounts receivable from Piaggio Aero Industries (gross amount of €mil. 118) which is currently defining a restructuring plan that envisages also the rescheduling of the company’s borrowings, and from Roma TPL SpA (€mil. 40) for the supply of buses made by BredaMenarinibus.

The table below summarises trade receivables at 31 December 2016 and 2015, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

€ billions	31 December 2016	31 December 2015
Portion due	1.7	1.9
- of which: from more than 12 months	*0.8*	*0.9*
Portion not yet due	1.7	1.6
Total trade receivables	**3.4**	**3.5**

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. 126 (€mil. 205 at 31 December 2015) include €mil. 28 (€mil. 38 at 31 December 2015) 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 19).
Loans and receivables are broken down in the table below:

Loans and receivables

	31 December 2016	31 December 2015
Loans and receivables from related parties	1	3
Non-current financial receivables from SuperJet	65	-
Other loans and receivables	27	35
Non-current loans and receivables	**93**	**38**
Loans and receivables from related parties	40	122
Other loans and receivables	58	45
Current loans and receivables	**98**	**167**
Total loans and receivables	**191**	**205**

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"), in particular the foreign exchange rate and the interest rate (spot exchange rates and forwards). Vice versa, the fair value of the remaining 15% in Ansaldo Energia, subject to put & call options (classified under other current assets), as well as of 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"). In particular, the fair value of the stake in Ansaldo Energia was calculated on the basis of the price of the sale, as established in the related agreements. 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 2016			31 December 2015		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	-	-	-	131	131
Other current assets	165	138	303	134	-	134
Other non-current liabilities	-	275	275		248	248
Other current liabilities	337	-	337	285		285

36. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA is €mil. 8 (€mil. 3 at 31 December 2015).

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 1 for 2016 and 2015. This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

37. 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 2016 to €mil. 6 (€mil.1 in 2015).

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) and 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).

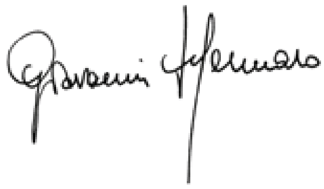
Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90 with reference to the first three-year cycle (2015-2017) and to €3.88 with reference to the second three-year cycle (2016-2018).

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 respect of the bonus shares (“matching shares”) the requirements for the award of the rights have not yet been fulfilled.

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	99.00	1.00	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Sydney (Australia)	AUD	400,000	100		100
AGUSTAWESTLAND DO BRASIL LTDA	São Paulo (Brazil)	BRL	11,817,172	99.00	1.00	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		80.00	80.00
AGUSTAWESTLAND PORTUGAL SA	Lisbon (Portugal)	EUR	100,000	100		100
AGUSTAWESTLAND SPA	Rome	EUR	702,537,000	100		100
ALENIA AERMACCHI NORTH AMERICA INC.	Wilmington, Delaware (USA)	USD	44		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
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

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*	
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 TACTICAL SYSTEMS LTD	Farnham, Surrey (UK)	GBP	1,000		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		49.00	100
DRS TECHNOLOGIES UK LTD	Farnham, Surrey (UK)	GBP	14,676,000		100	100
DRS TECHNOLOGIES VERWALTUNGS GMBH	Baden-Wurttemberg (Germany)	EUR	25,000		100	100
DRS TECHNOLOGIES INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee, Florida (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
ED CONTACT SRL	Rome	EUR	600,000		100	100
ELECTRON ITALIA SRL	Rome	EUR	206,582		100	100
ENGINEERED COIL COMPANY	Jefferson City, Missouri (USA)	USD	1,000		100	100
ENGINEERED SUPPORT SYSTEMS INC.	Jefferson City, Missouri (USA)	USD	1		100	100
ESSI RESOURCES LLC	Frankfort, Kentucky (USA)	USD	-		100	100

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*	
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	60.00		60.00
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 MW LTD	Basildon, Essex (UK)	GBP	270,000,100	100		100
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
PCA ELECTRONIC TEST LTD	Grantham, Lincolnshire (UK)	GBP	1		100	100
PIVOTAL POWER INC.	Halifax, Nova Scotia (Canada)	CAD	-		100	100
REGIONALNY PARK PRZEMYSLOWY ŚWIDNIK SP Z OO	Mechaniczna 13 - U1, Świdnik (Poland)	PLN	7,072,000		74.00	73.00
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		100	100
SELEX ES ELEKTRONIK TURKEY AS	Ankara (Turkey)	TRY	79,557,009		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

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	
SELEX ES TECHNOLOGIES LTD	Nairobi (Kenya)	KES	109,600,000	4.00	96.00	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
SIRIO PANEL SPA	Montevarchi (Arezzo)	EUR	447,228	100		100
SISTEMI DINAMICI SPA	Pisa	EUR	200,000	100		100
SOGEPA - SOCIETÀ 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 TECHNOLOGIES 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
WING NED BV	Rotterdam (the Netherlands)	EUR	18,000	100		100
WORLD'S WING SA	Geneva (Switzerland)	CHF	120,100,000	100		100
WYTWORNIA SPRZETU KOMUNIKACYJNEGO “PZL-ŚWIDNIK” SPOLKA AKCYJNA	Aleja Lotnikow, Świdnik (Poland)	PLN	86,006,050	99.00		99.00
ZAKLAD OBROBKI PLASTYCZNEJ SP Z OO	Kuznicza 13 - U1, Świdnik (Poland)	PLN	3,800,000		100	99.00

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	21.00		21.00
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)	AED	1,150,000	43.04		43.04
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		100
AMSH BV	Rotterdam (The Netherlands)	EUR	36,296,316	50.00		50.00
ANSALDO-EMIT SCRL (IN LIQ.)	Genoa	EUR	10,200		50.00	50.00
ATITECH MANUFACTURING SRL	Naples	EUR	10,000	25.00		25.00
ATITECH SPA	Naples	EUR	6,500,000	25.00		25.00
AVIATION TRAINING INTERNATIONAL LTD	Sherborne (UK)	GBP	550,000		50.00	50.00
AVIO SPA	Turin	EUR	40,000,000	14.32		14.32
C-27J AVIATION SERVICES INC.	Ottawa (Canada)	CAD	10,000		30.00	30.00
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	GBP	1		100	100
CONSORZIO ATR GIE	Toulouse (France)	USD	-		50.00	50.00
CONSORZIO TELAER (IN LIQ.)	Rome	EUR	103,291		100	67.52
CONSORZIO TELAER - SISTEMI DI TELERILEVAMENTO AEREO	Rome	EUR	120,000		62.00	47.00
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 INTERNATIONAL LTD (IN LIQ.)	Farnborough (UK)	GBP	2,000,000	21.00		21.00
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	EUR	2,556,459	21.00		21.00
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	EUR	260,000	24.00		24.00
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 DO BRASIL LTDA	Brasilia (Brazil)	BRL	1,203,200	100		100
FINMECCANICA UK LTD	Yeovil, Somerset (UK)	GBP	1,000		100	100
GAF AG	Munich (Germany)	EUR	256,000		100	53.60

List of companies consolidated using the equity method (amounts in currency)

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
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
INDIAN ROTORCRAFT LTD	Hyderabad (India)	INR	429,337,830	26.00		26.00
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	40.00		40.00
JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	RUR	10,000	50.00		50.00
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		50.00	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		100
RARTEL SA	Bucharest (Romania)	RON	468,500		61.00	40.91
ROTORSIM SRL	Sesto Calende (Varese)	EUR	9,800,000	50.00		50.00
ROTORSIM USA LLC	Wilmington, Delaware (USA)	USD	12.607.452		50.00	50.00
SAPHIRE INTERNATIONAL AVIATION & ATC ENGINEERING CO. LTD	Beijing (China)	USD	800,000		65.00	65.00
SELEX ES FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES LTD	Kuwait City (Kuwait)	KWD	807,000		93.00	93.00
SELEX ES (PROJECTS) LTD	Basildon, Essex (UK)	GBP	100		100	100
LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE)	Basildon, Essex (UK)	GBP	100		100	100
SPACEOPAL GMBH	Munich (Germany)	EUR	500,000		50.00	33.50
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	ARS	9,900,000		100	66.96
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	BRL	58,724,000		98.77	66.18
TELESPAZIO FRANCE SAS	Toulouse (France)	EUR	33,670,000		100	67.00
TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS LTD (IN LIQ.)	Budapest (Hungary)	EUR	100,000		100	67.00
TELESPAZIO IBERICA SL	Barcelona (Spain)	EUR	2,230,262		100	67.00

List of companies consolidated using the equity method (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
TELESPAZIO LATIN AMERICA LTDA	Rio de Janeiro (Brazil)	BRL	56,444,390		100	67.00
TELESPAZIO NORTH AMERICA INC. (IN LIQ.)	Dover, Delaware (USA)	USD	10		100	67.00
TELESPAZIO SPA	Rome	EUR	50,000,000	67.00		67.00
TELESPAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	EUR	44,150		100	67.00
TELESPAZIO VEGA UK LTD	Luton (UK)	GBP	30,000,100		100	67.00
TELESPAZIO VEGA UK SL	Madrid (Spain)	EUR	3,100		100	67.00
THALES ALENIA SPACE SAS	Cannes-la-Bocca (France)	EUR	979,240,000	33.00		33.00
WIN BLUEWATER SERVICES PRIVATE LTD	New Delhi (India)	INR	12,000,000	100		100
ZAO ARTETRA	Moscow (Russia)	RUB	353,000		51.00	51.00

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
LEONARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	GBP	1		100	100
ANSALDOBREDA FRANCE SAS (IN LIQ.)	Marseille (France)	EUR	200,000		100	100
CCRT SISTEMI SPA (IN BANKRUPTCY)	Milan	EUR	697,217		30.34	30.34
CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP. CO. LTD	Chongqing (China)	CNY	50,000,000		50.00	50.00
EARTHLAB LUXEMBOURG SA	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 (EXT. ADM.)	Genoa	EUR	103,567	30.98		30.98
INMOVE ITALIA SRL	Naples	EUR	120,000		100	100

Below are the main changes in the scope of consolidation at 31 December 2016 in comparison with 31 December 2015:

COMPANY	EVENT	MONTH
Companies which entered the scope of consolidation		
C-27J Aviation Services Inc.	newly established	January 2016
Selex ES Australia Pty Ltd	change of consolidation method	January 2016
Selex ES Malaysia Sdn Bhd	change of consolidation method	January 2016
Selex ES Technologies Ltd	change of consolidation method	January 2016
Gulf Systems Logistics Services Company WLL	purchase	May 2016
Sistemi Dinamici SpA	change of consolidation method	December 2016
Companies which left the scope of consolidation		
NGL Prime SpA (in liq.)	deconsolidated	January 2016
Selex ES Infrared Ltd	deconsolidated	January 2016
Finmeccanica Finance SA (in liq.)	deconsolidated	February 2016
FATA SpA	sold	March 2016
Automation Integrated Solutions SpA	sold	March 2016
FATA (Shanghai) Engineering Equipment Co. Ltd	sold	March 2016
FATA Gulf Co. WLL	sold	March 2016
FATA Hunter Inc.	sold	March 2016
FATA Hunter India PVT Ltd	sold	March 2016
Musinet Engineering SpA	sold	March 2016
Comlenia Sendirian Berhad	sold	March 2016
Finmeccanica North America Inc.	deconsolidated	June 2016
Severnyj Avtobus Z.A.O.	deconsolidated	March 2016
Selex ES Romania	deconsolidated	September 2016
LMATTS LLC	deconsolidated	September 2016
Selex ES Electro Optics (Overseas) Ltd	deconsolidated	October 2016
Sirio Panel Inc.	deconsolidated	October 2016
AgustaWestland Properties Ltd	deconsolidated	November 2016
AgustaWestland España SL (in liq.)	deconsolidated	October 2016
SuperJet International SpA	amendment to shareholders' agreement	December 2016
Joint Stock Company Sukhoi Civil Aircraft	sold	December 2016

Merged companies

Merged company	Merging company	Month
OTO Melara SpA	Leonardo SpA	January 2016
Whitehead Sistemi Subacquei SpA	Leonardo SpA	January 2016
FATA Engineering SpA	SOGEPA SpA	July 2016
Selex Sistemi Integrati SpA	SOGEPA SpA	July 2016

Companies which changed name

Old name	New name	Month
Finmeccanica Global Services SpA	Leonardo Global Solutions SpA	June 2016
Selex ES Ltd	Leonardo MW Ltd	September 2016
Closed Joint Stock Company Helivert	Joint Stock Company Helivert	September 2016
Selex Systems Integration Ltd	Selex ES Ltd	October 2016
Selex Pension Scheme (Trustee) Ltd	Leonardo Electronics Pension Scheme (Trustee)	December 2016
AgustaWestland UK Pension Scheme (Trustee) Ltd	Leonardo Helicopters Pension Scheme (Trustee) Ltd	January 2017
Meccanica Holdings Usa Inc.	Leonardo US Holding Inc.	March 2017
Alenia Aermacchi North America Inc.	Leonardo US Aircraft Inc.	March 2017

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS*, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/1998 AS AMENDED

1. The undersigned Mauro Moretti, Chief Executive Officer and General Manager, and Gian Piero Cutillo, as the Officer in charge of financial reporting for Leonardo SpA, 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 2016.

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 Regulation EC 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, 15 March 2017

The Chief Executive Officer and General Manager (**Mauro Moretti**)	The officer in charge of financial reporting (**Gian Piero Cutillo**)

KPMG

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Leonardo S.p.a.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Leonardo Group (the "group"), which comprise the statement of financial position as at 31 December 2016, the separate income statement and statements of comprehensive income, changes in cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The parent's 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.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 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 31 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report and the 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 as at and for the year ended 31 December 2016.

Rome, 21 March 2017

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit

Separate financial statements at 31 December 2016

Leonardo - Società per azioni

ACCOUNTING STATEMENTS TO THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Separate income statement

€	Notes	2016	*Of which with related parties*	2015	*Of which with related parties*
Revenues	25	7,924,605,965	*2,531,398,441*	53,785,321	*53,063,898*
Other operating income	26	448,384,841	*14,721,020*	10,936,841	*8,782,466*
Purchases and personnel expenses	27	(6,996,992,151)	*(911,875,189)*	(122,024,155)	*(56,393,604)*
Amortisation, depreciation and impairment losses	28	(494,384,862)		(10,850,834)	
Other operating expenses	26	(418,347,207)	*(2,891,679)*	(26,673,782)	*(926,525)*
Income before tax and financial expenses		**463,266,586**		**(94,826,609)**	
Financial income	29	1,124,364,439	*51,872,821*	1,347,321,711	*104,044,376*
Financial expenses	29	(878,648,904)	*(14,815,120)*	(835,912,371)	*(27,385,608)*
Operating profit/(loss) before income taxes and discontinued operations		**708,982,121**		**416,582,731**	
Income taxes	30	(99,870,941)		27,344,666	
Net profit/(loss) for the period		**609,111,180**		**443,927,397**	

Statement of comprehensive income

€		2016		2015
Profit/(Loss) for the period		**609,111,180**		**443,927,397**
Other comprehensive income/(expenses):				
Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:				
- measurement of defined-benefit plans:		(8,766,182)		(29,934)
. *revaluation*	(8,766,182)		(29,934)	
- tax effect		170,334		-
		(8,595,848)		(29,934)
Comprehensive income/(expenses) which will or might be subsequently reclassified within the profit/(loss) for the period:		-		-
- changes in cash-flow hedges:		(94,620,763)		-
. *change generated in the period*	(80,726,178)		-	
. *transferred to the profit/(loss) for the period*	(13,894,585)		-	
- others		4,298,116		-
- tax effect		21,301,472		-
		(69,021,175)		-
Total other comprehensive income/(expenses), net of tax		**(77,617,023)**		**(29,934)**
Total comprehensive income		**531,494,157**		**443,897,463**

€	Notes	31 December 2016	*Of which with related parties*	31 December 2015	*Of which with related parties*
Intangible assets	7	2,730,894,303		4,100,314	
Property, plant and equipment	8	1,359,942,104		47,037,371	
Investment property	8	7,309,338		102,389,161	
Equity investments	9	5,640,547,044		7,387,101,160	
Receivables	10	196,232,261	*68,130,640*	105,730,522	*105,078,565*
Deferred tax assets	30	669,583,597		39,775,699	
Other non-current assets	10	83,026,120		142,468,885	
Non-current assets		**10,687,534,767**		**7,828,603,112**	
Inventories	11	2,919,809,439		-	
Income tax receivables	12	2,067,194,010		-	
Loans and receivables	13	2,836,516,644	*1,225,728,387*	93,072,685	*91,446,557*
Other assets	14	100,472,708		97,515,687	
Loans and receivables	13	353,318,000	*325,549,328*	2,558,098,861	*2,557,558,583*
Other assets	15	636,940,939	*50,685,177*	573,875,055	*33,210,559*
Cash and cash equivalents	16	1,747,407,118		1,364,696,937	
Current assets		**10,661,658,858**		**4,687,259,225**	
Non-current assets held for sale	17	1,150,936,866		-	
Total assets		**22,500,130,491**		**12,515,862,337**	
Share capital		2,490,883,940		2,522,470,761	
Other reserves		2,834,228,314		1,657,811,863	
Equity attributable to Owners of the Parent		**5,325,112,254**		**4,180,282,624**	
Equity attributable to non-controlling interests		-		-	
Total equity	18	**5,325,112,254**		**4,180,282,624**	
Loans and borrowings (non-current)	19	2,931,102,770		3,521,242,570	
Employee benefits	21	346,476,698		3,251,897	
Provisions for risks and charges	20	809,352,442		149,187,067	
Deferred tax liabilities	30	91,846,295		-	
Other non-current liabilities	22	877,086,201	*14,260*	109,613,967	
Non-current liabilities		**5,055,864,406**		**3,783,295,501**	
Progress payments and advances from customers	12	4,944,188,578		-	
Trade payables	23	2,566,516,347	*613,235,343*	99,701,879	*52,794,803*
Loans and borrowings (current)	19	2,371,351,769	*1,664,041,165*	3,115,786,946	*2,982,680,007*
Income tax payables	14	33,099,052		1,419,470	
Provisions for short-term risks and charges	20	518,536,172		225,914,989	
Other current liabilities	22	1,685,165,147	*390,956,455*	1,109,460,928	*645,976,040*
Current liabilities		**12,118,857,065**		**4,552,284,212**	
Liabilities associated with assets held for sale		*296,766*		-	
Total liabilities		**17,175,018,237**		**8,335,579,713**	
Total liabilities and equity		**22,500,130,491**		**12,515,862,337**	

Statement of cash flows

€	Notes	2016	*Of which with related parties*	2015	*Of which with related parties*
Gross cash flows from operating activities	31	1,115,217,667		(69,684,437)	
Change in working capital	31	(315,654,244)	*(68,041,246)*	(761,288)	*(15,311,350)*
Change in other operating assets and liabilities and provisions for risks and charges	31	(45,547,832)	*(148,965,324)*	166,223,936	*188,750,936*
Interest paid		(146,933,244)	*56,711,568*	(103,548,822)	*71,604,701*
Income taxes paid		1,406,410		(19,615,737)	
Cash flows generated from/(used in) operating activities		**608,488,757**		**(27,386,348)**	
Sale of Ansaldo STS		-		761,245,270	
Investments in property, plant and equipment and intangible assets		(263,409,034)		(5,974,475)	
Sales of property, plant and equipment and intangible assets		1,431,419		204,932	
Dividends received		665,115,421		380,721,659	
Other investing activities		(234,757,840)		(241,862,270)	
Cash flows generated from/(used in) investing activities		**168,379,966**		**894,335,116**	
Increase of share capital		(34,811,754)		(2,388,380)	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Bond buy-back		-		(451,244,536)	
Net change in other loans and borrowings		(341,113,209)	*(195,252,754)*	239,149,053	*190,297,327*
Cash flows generated from/(used in) financing activities		**(422,245,309)**		**(260,804,209)**	
Net increase/(decrease) in cash and cash equivalents		354,623,414		606,144,559	
Exchange-rate differences and other changes		(27,789,310)		13,720,076	
Cash and cash equivalents at 1 January		1,364,696,937		744,832,302	
Effect from mergers/demergers		55,876,077			
Cash and cash equivalents at 31 December		**1,747,407,118**		**1,364,696,937**	

Statement of changes in equity

€	Share capital	Retained earnings	Cash-flow hedge reserve	Revaluation reserve of defined-benefit plans	Merger surplus	Total equity
1 January 2015	2,524,859,141	1,209,343,487	-	247,366	-	3,734,449,994
Profit/(Loss) for the period	-	443,927,397	-	-	-	443,927,397
Other comprehensive income/(expenses)	-	-	-	(29,934)	-	(29,934)
Total comprehensive income/(expenses)	**-**	**443,927,397**	**-**	**(29,934)**	**-**	**443,897,463**
Dividends resolved	-	-	-	-	-	-
Repurchase of treasury shares less shares sold	(2,388,380)	-	-	-	-	(2,388,380)
Total transactions with Owners of the Parent, recognised directly in equity	**(2,388,380)**	**-**	**-**	**-**	**-**	**(2,388,380)**
Stock-option/ grant plans - performance's value	-	4,323,547	-	-	-	4,323,547
Other changes	-	-	-	-	-	-
31 December 2015	2,522,470,761	1,657,594,431	-	217,432	-	4,180,282,624
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/(expenses)	-	4,298,116	(73,319,291)	(8,595,848)	-	(77,617,023)
Total comprehensive income/(expenses)	**-**	**613,409,296**	**(73,319,291)**	**(8,595,848)**	**-**	**531,494,157**
Repurchase of treasury shares less shares sold	(31,586,821)	-	-	-	-	(31,586,821)
Dividends resolved	-	-	-	-	-	-
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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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 organisation operating in the *Helicopters, Electronics, Defence & Security Systems* and *Aeronautics* sectors.

2. Form, content and applicable accounting standards

In application of Regulation EC 1606/2002 of 19 July 2002, the financial statements at 31 December 2016 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 2015 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 15 March 2017 resolved to submit to shareholders the draft financial statements at 31 December 2016, authorising their circulation at the same date. The Board convened the Ordinary Shareholders' Meeting for the approval thereof for 2, 3 and 16 May 2017, on first, second and third call, respectively.

The separate financial statements were prepared in accordance with IFRS and are subject to a statutory audit by KPMG SpA.

3. Accounting policies adopted

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 "Value adjustments on 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 2016 the Company has adopted the amendments to IAS 16 "Property, plant and equipment" and to IAS 38 "Intangible assets" without any significant effect on this Annual Financial Report.

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. For a description of the main amendments and potential effects for the Company reference is made to Note 3.25 of the consolidated financial statements.

5. Significant non-recurring events on transactions

On 1 January 2016 the operations became effective, which had involved the merger of OTO Melara SpA and Whitehead Sistemi Subacquei SpA by incorporation into Leonardo SpA and the partial demerger of Alenia Aermacchi SpA, AgustaWestland SpA and Selex ES SpA in favour of Leonardo SpA (including in accounting and tax terms). In accordance with the new Organisational and Operational Model of Leonardo, the direction and control are centralised, while business operations have been decentralised into seven Divisions (*Helicopters, Aircraft, Aerostructures, Airborne & Space Systems, Land & Naval Defence Electronics, Defence Systems, Security & Information Systems*), which have been provided with powers and resources so as to ensure a complete end-to-end management of the related scope of business, with consequent full responsibility of the relevant income statement, and which operate, together with DRS that is subject to a Proxy regime and the entities outside the One Company perimeter (mainly the JVs), within four sectors (*Helicopters, Aeronautics, Electronics, Defence & Security Systems, Space*) which are assigned coordination tasks and functions.

In accounting terms, the mergers and demergers, as these represent business combinations under common control, were recognised in the separate financial statements of Leonardo according to the principle of "continuity of values", making reference to the carrying amounts of merged assets and liabilities stated in the consolidated financial statements of Leonardo; therefore, no surplus values were entered upon the derecognition of equity investments against merged assets and liabilities, which had not already been entered in the consolidated financial statements. Accordingly, any possible deficit exceeding the amount stated in the Group's financial statements was considered to be a lower surplus, as a reduction in equity.

In the case of demergers, the value of equity investments was allocated to the demerged companies, which continue to operate, in an amount corresponding to the net value of assets and liabilities that had not been transferred, consistenty with the "residual" nature of these items compared to the total value of said companies before the demerger; on the contrary, the complement was regarded as attributable to the demerged business unit and, therefore, it was included in the calculation of demerger surpluses and deficits.

As a whole, the five transactions generated a merger/demerger surplus, equal to €mil. 722, which is broken down as follows:

Demerger of Selex ES SpA	148
Demerger of AgustaWestland SpA	940
Merger of OTO Melara SpA	53
Merger of WASS SpA	(7)
Demerger of Alenia Aermacchi SpA	(412)
Net surplus	**722**

As a result of these transactions, Leonardo changed its structure profoundly – from being a holding company responsible for managing various operating companies that were separate legal entities to being a single company capable of combining manufacturing activities with the direction and control of its business through the abovementioned divisional organisation. This radical change also had significant and obvious effects on the financial statements: revenues passed from €mil. 54 in 2015 to €bil. 7.9 in 2016, with a consequent impact on any and all income statement, balance sheet and cash flow statement items. Where required to understand any changes in the balance sheet items, the value of assets and liabilities merged as at 1 January 2016 has been separately shown as "Effect from mergers/demergers", it being understood that in general a large amount of changes are attributable to said transactions. Likewise, the income statement items show a limited comparability; therefore, the related comments are focused on the most significant events that occurred in 2016 after the business combinations.

With reference to 2015, as detailed in the Annual Financial Report at 31 December 2015 to which reference should be made, it should be noted that on 2 November 2015 there was the completion of the closing of the sales in the *Transportation* sector to Hitachi. The transactions provided for the transfer to Hitachi of the investments held by Leonardo in Ansaldo STS (equal to 40% of the share capital) and AnsaldoBreda's businesses in the rolling stock segment, excluding revamping activities that are of minor importance, which remained within AnsaldoBreda.

6. Significant post-balance sheet events

On 1 January 2017 the merger of Sirio Panel SpA, which was previously wholly owned, by incorporation into Leonardo SpA became fully effective, in legal, accounting and tax terms in the full implementation of the new Organisational and Operational Model adopted by the

Group. Furthermore, at the beginning of 2017 Leonardo transferred its equity investments in AgustaWestland Ltd 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; therefore, the equity investment was entered under “Non-current assets held for sale” in the financial statements at 31 December 2016.

In March 2017, at the end of the concentration process of the Group real estate holdings into Leonardo Global Solutions, the transfer of the real estate business of Leonardo to Leonardo Global Solutions was approved, mainly composed of real assets (industrial complexes, buildings, real estate portions and land), as well as payables, receivables, legal relations in which the company is the plaintiff or the defendant, personnel and whatever related to these, excluding plants, machinery and anything in relation to production.

7. Intangible assets

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2015							
Cost	-	-	-	14	-	10	**24**
Amortisation, depreciation and impairment losses	-	-	-	(13)	-	(6)	**(19)**
Carrying amount	-	-	-	**1**	-	**4**	**5**
Investments	-	-	-	2	-	1	**3**
Sales	-	-	-	(1)	-	-	**(1)**
Depreciation	-	-	-	(1)	-	(2)	**(3)**
31 December 2015	-	-	-	1	-	3	**4**
Broken down as follows:							
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	875	1,093	1,958	361	96	452	**4,835**
Amortisation, depreciation and impairment losses	(168)	(685)	(590)	(268)	(39)	(354)	**(2,104)**
Carrying amount	**707**	**408**	**1,368**	**93**	**57**	**98**	**2,731**
31 December 2016							
Gross value			4,631				
Grants			3,263				

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 described above, goodwill was allocated, in accordance with the principle of "continuity of values", on the merged assets solely to the extent of the goodwill recognised in the consolidated financial statements, while that related to foreign equity investments was included in the value of the same equity investments.

The breakdown of goodwill recognised by segment at 31 December 2016 is as follows:

	31 December 2016	31 December 2015
Helicopters	459	-
Electronics, Defence & Security Systems	188	-
Aeronautics	60	-
	707	-

At 31 December 2015 there was no value related to goodwill. There are no changes as regards the data comprising the branches included in the 3 sectors abovementioned.

The CGUs of the separate financial statements are the same as those identified in the consolidated financial statements, to which reference is made. 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 Meccanica Holdings USA Inc., a company that holds, among other things, the investment in DRS Technologies 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 the 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 expenses 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:

- as risk-free rate, the 10- and 20-year gross yield of government bonds of the geographic market of the CGU was used. The drop in these rates justifies the overall decrease of WACCs compared with 2015. In order to evaluate the potential impacts deriving from the partial compensation for the effects of the ECB monetary policy on the Euro area rates, the following sensitivity analysis was developed;
- the market premium was equal to 5.7%;
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of debt applicable to the Group, net of taxes;
- 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 CGU operates. 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 in real terms of the Defence budgets	X	X	X
Growth in production rates of mass production of particular importance	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 2016 and 2015:

	31 December 2016		31 December 2015 (*)	
	WACC	g-rate	WACC	g-rate
Helicopters	7.6%	2%	8.7%	2%
Electronics, Defence & Security Systems	5.5%	2%	7.8%	2%
Aeronautics	5.9%	2%	7.2%	2%

(*) Data referred to impairment tests performed in 2015 solely on the value of the equity investments.

Testing revealed no signs of impairment. We note that the performance of the *Electronics, Defence & Security Systems* sector was subject to impairment test in the 2011 and 2012 consolidated financial statements, with particular reference to DRS through the equity investments in Meccanica Holdings USA. 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: (*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.

	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

In order to evaluate the possible effects of an increase in the risk-free rates of the Euro area, a sensitivity analysis was developed, as previously said, considering an increase in rates equal to 100 basis points using the following WACCs: *Helicopters* 8.6%, *Electronics, Defence & Security Systems* 6.5% and *Aeronautics* 6.9%. Within this scenario, the margins of the 3 CGUs decreased by about 15% although remaining significantly positive (in detail: *Helicopters* €mil. 2,902, *Electronics, Defence & Security Systems* €mil. 4,810 and *Aeronautics* €mil. 10,097).

Other intangible assets

In addition to the net effect of investments, development costs rose also as a result of the concentration process, especially in the *Helicopters* (€mil. 6) and *Electronics, Defence & Security Systems* (€mil. 17) sectors, and of the amortisation for the year. Investments attributable to “Non-recurring costs” related to the *Helicopters* (€mil. 74) sector, to programmes concerning aircraft (€mil. 42) and to programmes of the *Electronics, Defence & Security Systems* sector (€mil. 27). As regards programmes that benefit from the provisions of Law 808/1985 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 10). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 26.

Total research and development costs, including also development and non-recurring costs just mentioned, amount to €mil. 982, of which €mil. 123 expensed.

“Other” mainly includes software, which is amortised over a 3 to 5 year period, and intangible assets in progress and advances.

Commitments are in place for the purchase of intangible assets for €mil. 5 (€mil. 0 at 31 December 2015).

8. Property, plant and equipment and investment property

	Property, plant and equipment					Investment property
	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total	
1 January 2015						
Cost	95	7	1	17	**120**	201
Amortisation, depreciation and impairment losses	(53)	(6)	(1)	(13)	**(73)**	(95)
Carrying amount	**42**	**1**	**-**	**4**	**47**	**106**
Investments	-	-	-	3	**3**	-
Depreciation	(2)	-	-	(1)	**(3)**	(5)
Other changes	-	1	-	(1)	**-**	1
31 December 2015	**40**	**2**	**-**	**5**	**47**	**102**
Broken down as follows:						
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	2,289	**5,627**	23
Amortisation, depreciation and impairment losses	(211)	(845)	(1,085)	(2,126)	**(4,267)**	(16)
Carrying amount	**267**	**359**	**571**	**163**	**1,360**	**7**

Property, plant and equipment showed a decrease, excluding the effect of the abovementioned mergers and demergers at 1 January 2016, as a result of the depreciation for the period, which was only partially offset by investments, attributable in particular to the sectors of *Aeronautics* (€mil. 61), *Helicopters* (€mil. 11) and *Electronics, Defence & Security Systems* (€mil. 26).

The item “Investment property”, which includes the value of land, as well as of civil and industrial buildings, that are mainly leased to Group companies, showed a considerable decrease as a result of the mergers and demergers, which led Leonardo to act both as lessor and lessee. Therefore, said value was largely reclassified as a result of the concentration among property, plant and equipment that are owned and those that are used by Leonardo.

Moreover, purchase commitments of property, plant and equipment are recorded in the amount of €mil. 72 (€mil. 3 at 31 December 2015).

9. Equity investments

	2016			2015		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	**7,387**	**(170)**	**7,217**	**7,494**	**(57)**	**7,437**
Acquisitions/Subscriptions	43	170	**213**	192	57	**249**
Effect from mergers/ demergers	(495)	(3)	**(498)**	-	-	**-**
Reclassifications in assets/ liabilities held for sale	(1,151)	-	**(1,151)**	-	-	**-**
Impairment losses	(136)	(53)	**(189)**	(231)	(170)	**(401)**
Disposals	(5)	-	**(5)**	(71)	-	**(71)**
Other changes	(2)	-	**(2)**	3	-	**3**
31 December	**5,641**	**(56)**	**5,585**	**7,387**	**(170)**	**7,217**

Appendices nos. 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 7.

Among the changes that occurred during the period were the following movements:

- the derecognition of equity investments falling within the scope of the mergers or attributable to the demerged business units within the demergers, for a total amount of €mil. 4,426;
- the recognition of new equity investments of the companies and merged business units for €mil. 3,931 and of provisions for risks on equity investments for €mil. 3;
- the reclassification, under “Non-current assets held for sale”, involving the equity investment in AgustaWestland Ltd, which was transferred to Leonardo MW within the One Company process in the United Kingdom (€mil. 1,109) at the beginning of 2017, as well as other international investments of minor importance (equity investments of €mil. 42 and provisions for risks on equity investments of €mil. 6), which were transferred to AgustaWestland Holdings Ltd (Note 6) at the beginning of 2017;
- actions regarding the equity investments, equal to €mil. 213, mainly relating to AnsaldoBreda SpA, which were taken partly in consideration of the use of the provision for risks set aside at 31 December 2015 and partly against the adjustment to the carrying amount of the equity investments;
- the write-downs for the period, mainly relating to AnsaldoBreda SpA (€mil. 22), Selex ES SpA (€mil. 54), AgustaWestland SpA (€mil. 57), SOGEPA SpA (€mil. 12) and Avio SpA (€mil. 31). The latter write-down was required in order to adjust the carrying amount at the value attributed to Avio within the scope of the transaction with Space 2, which is described in the section “Industrial and financial transactions”. The write-downs were required against the losses recognised by the investees during the reporting period considering that the residual assets are still managed by the investees. These write-downs led to an overall reduction in the carrying amount of the equity investments for €mil. 136 and €mil. 53, against the negative equity of AgustaWestland SpA, and were offset by accruals to the provision for risks.

Finally, below is presented a comparison of the book value and the average market price of the listed shares of Eurotech SpA in December 2016:

Listed company	Number of shares held	Stock Exchange value		Book value		Difference Unit in €	Difference Total in €mil.
		Unit €	Total €mil.	Unit €	Total €mil.		
Eurotech SpA	3,936,461	1.400	6	1.469	6	0.07	-

10. Receivables and other non-current assets

	31 December 2016	31 December 2015
Financing to third parties	1	1
Non-current financial receivables from SuperJet	65	-
Deferred grants under Law 808/1985	52	-
Related-party receivables (Note 32)	68	105
Other non-current receivables	10	-
Non-current receivables	**196**	**106**
Prepayments - non-current portion	8	-
Non-recurring costs pending under Law 808/1985	75	-
Other non-current assets	-	11
Fair value of the residual portion in portfolio of Ansaldo Energia	-	131
Non-current assets	**83**	**142**

Non-current receivables showed an increase of €mil. 90, mainly as a result of the business combinations (€mil. 72). The item at 31 December 2016 also included the non-current portion (€mil. 65) of the receivable claimed from SuperJet SpA, arising from the 4-year repayment plan agreed with the acquirer within the reorganisation of Leonardo's participation in this programme.

Non-current assets showed a decrease of €mil. 59, mainly as a result of the reclassification of the fair value of the remaining equity investment in Ansaldo Energia (€mil. 131 at 31 December 2015) to current assets, net of any increase attributable to business combinations (€mil. 88 at 1 January 2016).

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.

11. Inventories

	31 December 2016	31 December 2015
Raw materials, supplies and consumables	1,254	-
Work in progress and semi-finished goods	990	-
Finished goods and merchandise	25	-
Advances to suppliers	651	-
	2,920	-

Advances to suppliers mainly related to programmes concerning aircraft (mainly C-27J, B787, EFA and ATR) and, to a lesser extent, helicopters and *Electronics*.

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 net realisable value, for a total amount of €mil. 471.

12. Contract work in progress and progress payments and advances from customers

	31 December 2016	31 December 2015
Contract work in progress (gross)	3,191	-
Final losses (positive wip)	(40)	-
Progress payments and advances from customers	(1,084)	-
Contract work in progress (net)	**2,067**	**-**
Progress payments and advances from customers (gross)	4,614	-
Contract work in progress	(141)	-
Final losses (negative wip)	471	-
Progress payments and advances from customers (net)	**4,944**	**-**
Net value	(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 2016	31 December 2015
Cost incurred and margins recognised, net of losses	3,109	-
Advances	(5,986)	-
Net value	(2,877)	-

13. Trade and financial receivables

	31 December 2016		31 December 2015	
	Trade	Financial	Trade	Financial
Receivables	1,775	29	16	-
Cumulative impairments	(164)	(2)	(14)	-
Related-party current receivables (Note 32)	1,226	326	91	2,558
	2,837	353	93	2,558

Trade receivables increased as a result of the centralisation process and of the usual business trend of the period. On the contrary, loans and receivables decreased as a result of the write-off of the Parent Company's receivables from the business units and companies merged.

Trade receivables include €mil. 38 for receivables from Sukhoi and SuperJet which will be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined during the sale of the SuperJet Russian business.

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 33.

14. Income tax receivables and payables

Receivables (€mil. 100) mainly relate to IRES receivables for which a request for refund has been claimed (€mil. 98 at 31 December 2015), while payables are mainly related to IRES and IRAP taxes to be paid. 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.

15. Other current assets

	31 December 2016	31 December 2015
Derivatives	152	415
Prepaid expenses - current portion	32	5
Receivables for grants	98	-
Receivables from employees and social security institutions	50	1
Indirect tax receivables	32	116
Deferred receivables under Law 808/1985	2	-
Other related-party receivables (Note 32)	51	33
Fair value of the residual portion in portfolio of Ansaldo Energia	138	-
Other assets	82	4
	637	574

This item includes the fair value of 15% of the share capital of Ansaldo Energia and of the related put & call options, which will be sold upon the exercise of these options, by the parties, at a pre-arranged price of €mil. 117, in respect of which capitalised interest accrues at a yearly 6% rate (total €mil. 138 at 31 December 2016). In particular, Leonardo can exercise its put option between 30 June and 31 December 2017, while the call option of FSI is exercisable in the same period or before if some conditions occur. Considering that the expiry date of the options is nearing, the item was reclassified under current assets.

“Indirect tax receivables”, equal to €mil. 32 (€mil. 116 at 31 December 2015), mainly represent VAT receivables transferred from companies participating in the Group VAT mechanism. 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.

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	150	274	412	411
Derivatives covering debt items	1	35	1	14
Interest-rate swaps	2	4	2	3
	153	**313**	**415**	**428**

	Fair value at					
	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest-rate swaps						
Trading	2	(3)	(1)	2	(3)	(1)
Fair-value hedges	-	-	-	-	-	-
Cash-flow hedges	-	(1)	(1)	-	-	-
Currency forwards/swaps/options						
Trading	41	(41)	-	411	(411)	-
Fair-value hedges	1	(37)	(36)	1	(14)	(13)
Cash-flow hedges	109	(231)	(122)	1	-	1

The cash-flow hedge is the forward instrument hedging trade items denominated in foreign currency. Such item was not present last year since Leonardo, before the merger and acquisition transactions, did not carry out any trading activity.

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 that the Leonardo Group finance department carries out with banks acting in the interest of the fully owned subsidiaries; these transactions are transferred to the Group companies that incur the related costs on a mirror-like basis.

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 Note 33.

The portion of the changes that had an impact on the income statement is described in Note 29.

16. Cash and cash equivalents

The balance of "Cash and cash equivalents" at the end of the year, equal to €mil. 1,747 (€mil. 1,365 at 31 December 2015), was mainly the result of net cash flows realised by the Company's Divisions during the year. Cash and cash equivalents at 31 December 2016 include €mil. 6 of term deposits (0 at 31 December 2015).

17. Non-current assets held for sale

This item includes at 31 December 2016 the following equity investments: AgustaWestland Ltd (€mil. 1,109), Agusta Aerospace Services SA (€mil. 21), AgustaWestland do Brasil (€mil. 8) and AgustaWestland Malaysia (€mil. 13).

In particular, AgustaWestland Ltd was sold at the beginning of 2017 to Leonardo MW within the One Company process in United Kingdom, while the other equity investments (together with AgustaWestland Australia, with a carrying amount equal to zero) were jointly sold at the beginning of 2017 to AgustaWestland Holdings Ltd. The sales were carried out, in both cases, at a value higher than the carrying amount.

18. 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	(232,450)	-	(3)	-	(3)
31 December 2015	**577,917,945**	**2,544**	**(3)**	**(19)**	**2,522**
Repurchase of treasury shares less shares sold	(3,506,246)	-	(31)	-	(31)
31 December 2016	**574,411,699**	**2,544**	**(34)**	**(19)**	**2,491**
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,738,696)	-	(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 3,738,696 treasury shares.

At 31 December 2016 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 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.

The revaluation reserve includes the effects of the valuation of actuarial gains and losses with reference to severance pay.

19. Loans and borrowings

	31 December 2016			31 December 2015		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,660	603	3,263	3,243	82	3,325
Bank loans and borrowings	238	58	296	278	51	329
Related-party loans and borrowings (Note 32)	-	1,664	1,664	-	2,983	2,983
Other loans and borrowings	33	46	79	-	-	-
	2,931	2,371	5,302	3,521	3,116	6,637

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 institutional
2005	2025	€	500	4.875%		European institutional
2009	2019	GBP	319	8.000%	(2) (3)	European institutional
2009	2022	€	555	5.250%	(3)	European institutional
2012	2017	€	521	4.375%	(3)	European institutional
2013	2021	€	739	4.500%	(3)	European institutional

(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.
(3) Nominal amounts decreased compared to the value of the original issues following the buy-back transactions.

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

	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-party 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

	1 January 2015	Issues	Repayments/ Payment of coupons	Effect from mergers/ demergers	Other net increase/ (decrease)	Exchange differences and other movements	31 December 2015
Bonds	2,130	-	(655)	-	1,813	37	**3,325**
Bank loans and borrowings	374	-	(45)	-	-	-	**329**
Related-party loans and borrowings	4,523	-	-	-	(1,540)	-	**2,983**
Other loans and borrowings	-	-	-	-	-	-	**-**
	7,027	-	(700)	-	273	37	6,637

Bank loans and borrowings

The item mainly includes the 12-year loan signed with the European Investment Bank (EIB) in 2009 (€mil. 280 at 31 December 2016 compared to €mil. 327 at 31 December 2015) to finance development in the aeronautics segment. As provided in the loan agreement, €mil. 300 of the loan was originally used at a fixed rate of 3.45% and €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. 47 was repaid, as in 2015.

Related-party loans and borrowings

Loans and borrowings decrease as a result of the write-off of the Parent Company's payables to the companies and business units merged.

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:

31 December 2016

	Bonds		Bank loans and borrowings		Related-party loans and borrowings		Other loans and borrowings		Total	
	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**

31 December 2015

	Bonds		Bank loans and borrowings		Related-party loans and borrowings		Other loans and borrowings		Total	
	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	82	21	30	2,983	-	-	-	3,004	112
2 to 5 years	-	1,453	76	109	-	-	-	-	76	1,562
Beyond 5 years	-	1,790	38	55	-	-	-	-	38	1,845
Total	**-**	**3,325**	**135**	**194**	**2,983**	**-**	**-**	**-**	**3,118**	**3,519**

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

	31 December 2016	*Of which with related parties*	31 December 2015	*Of which with related parties*
Liquidity	**(1,747)**		**(1,365)**	
Current loans and receivables	**(353)**	*(326)*	**(2,558)**	*(2,558)*
Current bank loans and borrowings	58		51	
Current portion of non-current loans and borrowings	603		82	
Other current loans and borrowings	1,710	*1,664*	2,983	*2,983*
Current financial debt	**2,371**		**3,116**	
Net current financial debt (funds)	**271**		**(807)**	
Non-current bank loans and borrowings	238		278	
Bonds issued	2,660		3,243	
Other non-current loans and borrowings	33	-	-	-
Non-current financial debt	**2,931**		**3,521**	
Net financial debt	**3,202**		**2,714**	

The reconciliation between net financial debt and Group net debt, used as KPI, is as follows:

	Note	31 December 2016	31 December 2015
Net financial debt CONSOB com. DEM/6064293		3,202	2,714
Fair value of the residual portion in portfolio of Ansaldo Energia	15	(138)	(131)
Hedging derivatives in respect of debt items	15	35	13
Non-current financial receivables from Leonardo's consolidated entities	32	(15)	
Non-current financial receivables from SuperJet	10	(65)	
Net debt (KPI)		**3,019**	**2,596**

The main clauses that regulate the Leonardo's payables are reported in the section "Industrial and financial transactions" of the Report on Operations.

20. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2015						
Current	-	-	-	-	97	**97**
Non-current	123	8	-	-	15	**146**
	123	**8**	**-**	**-**	**112**	**243**
Allocations	-	-	-	-	205	**205**
Uses	(1)	(1)	-	-	(68)	**(70)**
Reversals	-	(5)	-	-	-	**(5)**
Other changes	1	-	-	-	1	**2**
31 December 2015	**123**	**2**	**-**	**-**	**250**	**375**
Broken down as follows:						
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**

The other provisions for risks and charges mainly include:

- the provision for contractual risks and charges of €mil. 475, mainly related to the Aeronautics sector;
- the provision for risks on equity investments of €mil. 56 (€mil. 170 at 31 December 2015), which mainly includes the accruals for losses exceeding the carrying amounts of the AgustaWestland SpA equity investment (for the changes in the provision for risks on equity investments reference is made to Note 9);
- the provision for tax risks of €mil. 40 (€mil. 22 at 31 December 2015);
- the provision for litigation with employees and former employees of €mil. 34 (€mil. 17 at 31 December 2015);
- the provision for litigation underway of €mil. 6 (€mil. 4 at 31 December 2015).

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 2016 and in early 2017:

- criminal proceedings are pending before the Court of Rome against 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. The proceedings are now in the trial phase. In relation to this case, criminal proceedings are also pending before the Public Prosecutor's Office of Rome against Leonardo SpA for administrative violations pursuant to Article 25 of Legislative Decree 231/2001, for crimes under Articles 321 and 322-*bis* of the Italian Criminal Code attributed to the then Commercial Director of the Company, in the context of the abovementioned criminal proceeding;
- criminal proceedings are pending before the Public Prosecutor's Office of Rome against one former executive, three former directors and an executive of Leonardo, for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000 in relation to the position as director held in the then Finmeccanica Finance SA, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61, paragraph 11 of the Italian Criminal Code in relation, *inter alia*, 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 SpA (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland SpA to a prison term of two years 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, and ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil. 3.4) be confiscated from AgustaWestland SpA, 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. The decision is being appealed against.
  On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo to four years and six months of imprisonment, and the former Chief Executive Officer of AgustaWestland SpA to four years of imprisonment, 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. 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.
  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 SpA and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5.
The Indian authorities also started their own criminal investigations in late February 2013 into this matter, which are still underway;

- preliminary investigations are being conducted in relation to the criminal proceedings pending with the Public Prosecutor's Office of Busto Arsizio, against two former chief executive officers of AgustaWestland SpA, 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 this investigation, on 23 April 2015 some search warrants were executed at the Cascina Costa office of AgustaWestland SpA, in order to collect contract, accounting and non-accounting documents relating to the relationships maintained by AgustaWestland SpA with some companies incorporated under Italian and foreign law. 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 SpA, regarding relationship with a foreign company. In the context of these proceedings, an executive of the company was also under investigation, but the proceedings against him have been subsequently dismissed;

- 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.
  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 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 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 before the Court of Milan involving certain directors of the then-Breda Termomeccanica SpA, subsequently Ansaldo SpA, 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.

Leonardo, following service of civil summons issued by the Court at the request of the civil-action parties, entered appearance in the civil action. The proceedings are now in the trial phase.

Based upon the information gathered and the results of the analysis carried out so far, the directors did not allocate any specific provisions beyond those indicated in the rest of the paragraph. 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 dispute in which Leonardo is defendant in relation to contractual commitments undertaken at the time of the transfer of the former subsidiary Finmilano SpA to Banca di Roma (now UniCredit Group), arising from an assessment report issued to Finmilano SpA by the Rome Direct Taxation Office, which disallowed the tax deductibility of the capital loss arising from the factoring without recourse of a receivable subject to deferred collection for an amount lower than its nominal amount. At present, after alternating outcomes in the various degrees of adjudication, which were mainly unfavourable for the Company and after numerous adjournments, we are waiting for the appeal to be discussed before the Supreme Court. Leonardo does not currently expect it will incur significant losses in this respect;
- the litigation brought by Reid against Leonardo and Alenia Space (then ALS SpA, now SOGEPA SpA) 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 complaint on Leonardo and SOGEPA, 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 SOGEPA concerning the lack of jurisdiction of the Court of Delaware. Therefore, the discovery phase commenced, during which the witnesses requested by Reid were deposed. The preliminary investigations were completed in December 2013 and on 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Leonardo and SOGEPA. Therefore, the case is proceeding on the merits and the discovery phase is currently underway. However, it should be recalled that the lawsuit filed by Leonardo and SOGEPA in Italy, aimed at establishing the inexistence of the opposite party's claims concerning the facts and

requests argued by Mr Dennis Reid before the Court of Delaware, is still pending before the Rome Court of Appeal and is in their initial phase;

- the litigation brought before the Santa Maria Capua Vetere Court in February 2011 by GMR SpA, 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 and are still in a phase of preliminary discussion.
  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 GMR (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and GMR be dropped from action. On 2 March 2015 GMR filed an appeal before the Naples Court of Appeal against this order. Leonardo and AnsaldoBreda formally entered appearance; at present the appellate proceedings are under the decision phase. While pending the aforesaid appellate proceedings, the judge responsible for preliminary investigations was replaced in the action brought by Firema before the Court of Naples; on 17 June 2015 the new judge 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;

- 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 Italia Srl and of Progetto Cina Srl 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 abovementioned 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 Progetto Cina Srl and a minority shareholder of Janua Dei Italia Srl intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. The parties will be called upon to specify the conclusions that they intend to submit to the Court during the next hearing to be held on 22 November 2017.

21. Employee benefit obligations

	31 December 2016	31 December 2015
Severance pay provision	326	3
Defined-contribution plans	20	-
	346	**3**

The entire amount of the costs related to employee benefit obligations, equal to €mil.3 (0 in 2015), was recognised under financial expenses.

	31 December 2016	31 December 2015
Opening balance	**3**	**4**
Costs of benefits paid	-	-
Net interest costs	4	-
Remeasurement	8	-
- Actuarial losses/(gains) through equity - financial assumptions	*8*	-
Effect from mergers/demergers	358	-
Benefits paid	(27)	(1)
Closing balance	**346**	**3**

The severance pay provision, amounting to €mil. 346, increased as a result of the new Company's structure. 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 2016	31 December 2015
Discount rate (annual)	0.9%	1.4%
Inflation rate	1.5%	1.8%

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

€ thousands	31 December 2016		31 December 2015	
	-0.25%	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	6	(6)	-	-
Inflation rate	(3)	3	-	-

The average duration of the severance pay is 9 years.

22. Other current and non-current liabilities

	31 December 2016		31 December 2015	
	Non-current	Current	Non-current	Current
Employee obligations	45	228	2	9
Deferred income	129	33	99	7
Amounts due to social security institutions	-	144	-	11
Payables to MED (Law 808/1985)	307	106	-	-
Payables to MED for monopoly costs (Law 808/1985)	193	31	-	-
Other liabilities (Law 808/1985)	187	-	-	-
Indirect tax liabilities	5	58	-	5
Derivatives	-	313	-	429
Other payables	11	381	9	2
Other payables to related parties (Note 32)	-	391	-	646
	877	**1,685**	**110**	**1,109**

Other liabilities increased mainly as a result of the recognition of the payables of the merged companies. In particular, 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. 87, penalties on programmes for €mil. 79 and payables for royalties amounting to €mil. 33.

23. Trade payables

	31 December 2016	31 December 2015
Suppliers	1,954	47
Trade payables to related parties (Note 32)	613	53
	2,567	100

24. Guarantees and other commitments

Leases

The Company is party to a number of operating leases as both lessor and lessee primarily for the purposes of acquiring the use 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 2016				31 December 2015			
	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	43	7	8	-	5	9	-	4
2 to 5 years	126	7	5	-	6	23	-	16
Beyond 5 years	28	-	-	-	-	19	-	43
	197	**14**	**13**	**-**	**11**	**51**	**-**	**63**

With regard to operating leases in which the Company is a lessee, commitments amounted to €mil. 152 with respect to subsidiaries and to €mil. 45 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. 14 (€mil. 50 at 31 December 2015) in respect to subsidiaries.

Guarantees

	31 December 2016	31 December 2015
Guarantees in favour of related parties (Note 32)	5,266	13,030
Guarantees in favour of third parties	7,440	1,467
Guarantees given to third parties	2,906	2,274
Other guarantees for Leonardo commitments	250	170
Unsecured guarantees given	15,862	16,941

Specifically, these consist of:

- counter-guarantees, totalling €mil. 8,589 (€mil. 8,233 at 31 December 2015), granted by Leonardo to third parties, banks in its own interest for €mil. 52 (€mil. 21 at 31 December 2015), in the interest of related parties for €mil. 1,097 (€mil. 6,745 at 31 December 2015) and in the interest of other companies for €mil. 7,440 (€mil. 1,467 at 31 December 2015);
- direct commitments issued by Leonardo, amounting to €mil. 7,273 (€mil. 8,708 at 31 December 2015), in favour of lenders, the tax authorities and to customers (Parent Company Guarantee), in its own interest for €mil. 199 (€mil. 149 at 31 December 2015), in favour of related parties for €mil. 4,168 (€mil. 6,285 at 31 December 2015) and in favour of other companies for €mil. 2,906 (€mil. 2,274 at 31 December 2015).

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.

25. Revenues

	2016	2015
Revenues from sales	3,520	-
Revenues from services	1,936	1
Change in work in progress	(62)	-
Revenues from related parties (Note 32)	2,531	53
	7,925	54

The trends in revenues by business segment at Group level are described in the Report on Operations. In comparison with the 2015 revenues, equal to about €bil. 8.1, that would have been recognised on a like-for-like basis, the 2016 revenues decreased by about 6%, in line with the trends described in the Report on Operations.

Revenues were realised in the following geographical areas:

	2016	2015
Italy	2,044	54
United Kingdom	504	-
Rest of Europe	2,762	-
North America	1,288	-
Rest of the world	1,327	-
	7,925	54

26. Other operating income/(expenses)

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	21	-	21	-	-	-
Other operating grants	2	-	2	-	-	-
Reversals/(Accruals) to provisions for risks and final losses on orders and reversal of impairment of receivables	224	(223)	1	-	(12)	(12)
Exchange-rate difference on operating items	150	(137)	13	-	-	-
Insurance reimbursements	3	-	3	-	-	-
Restructuring costs	10	(15)	(5)	-	-	-
Indirect taxes	-	(13)	(13)	-	(6)	(6)
Other operating income/(expenses)	23	(27)	(4)	2	(8)	(6)
Other operating income/(expenses) from related parties (Note 32)	15	(3)	12	9	(1)	8
	448	**(418)**	**30**	**11**	**(27)**	**(16)**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil 63 (0 at 31 December 2015) are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 10) equal to €mil. 58 (0 at 31 December 2015).

Restructuring costs include both costs incurred and accruals to the "restructuring provision". Costs and accruals relating to personnel are found under personnel expenses (Note 27).

27. Purchases and personnel expenses

	2016	2015
Purchase of materials from third parties	2,185	-
Change in inventories of raw materials	177	-
Costs for purchases from related parties (Note 32)	470	-
Purchases	**2,832**	**-**
Services rendered by third parties	1,913	9
Costs of rents and operating leases	120	5
Royalties	4	-
Software fees	21	-
Rental fees	9	-
Services rendered by related parties (Note 32)	442	56
Services	**2,509**	**70**
Wages and salaries	1,315	43
Social security contributions	382	10
Costs related to defined-contribution plans	87	2
Employee disputes	3	5
Restructuring costs - net	14	3
Other personnel expenses net of cost recovery	10	(11)
Personnel expenses	**1,811**	**52**
Change in finished goods, work in progress and semi-finished goods	***143***	**-**
Internal work capitalised	***(298)***	**-**
Total purchases and personnel expenses	**6,997**	**122**

Restructuring costs (€mil. 14 in 2016) mainly refer to the *Electronics, Defence & Security Systems* (€mil. 5) and *Aeronautics* (€mil. 8) sectors, as a result of the reorganisation underway.

The average workforce, as a result of the abovementioned mergers and acquisitions, amounts to 27,124 units; the average workforce compared with the pro-forma data at 31 December 2015 significantly decreased (650 units) mainly attributable to the *Electronics, Defence & Security Systems* (273 units), *Aeronautics* (290 units) and *Helicopters* (106 units) sectors.

The figure of total workforce at 31 December 2016, compared to the pro-forma data at 31 December 2015 decreased by 586 units as a result of the streamlining and efficiency improvement processes mainly in the *Electronics, Defence & Security Systems* (311 units) and *Helicopters* (178 units) sectors. 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 2016	31 December 2015	Change	31 December 2016	31 December 2015	Change
Senior managers (*)	706	83	623	707	78	629
Middle managers	3,178	85	3,093	3,153	89	3,064
Clerical employees	16,368	106	16,262	16,799	112	16,687
Manual labourers (**)	6,872	-	6,872	6,924	-	6,924
Total	**27,124**	**274**	**26,850**	**27,583**	**279**	**27,304**

(*) Includes pilots.
(**) Includes senior manual labourers.

28. Amortisation, depreciation and impairment losses

	2016	2015
Amortisation of intangible assets	220	3
Development costs	*68*	-
Non-recurring costs	*93*	-
Acquired through business combinations	*4*	-
Concessions, licences and trademarks	*26*	1
Other intangible assets	*29*	2
Depreciation of property, plant and equipment and investment properties (Note 8)	240	8
Impairment of operating receivables	18	-
Impairment of other assets	16	-
	494	**11**

29. Financial income and expenses

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Interest to/from banks	1	(11)	(10)	1	(13)	(12)
Interest and other charges on bonds	-	(173)	(173)	-	(184)	(184)
Commissions	2	(22)	(20)	2	(18)	(16)
Dividends	663	-	663	381	-	381
Premiums (paid)/received on IRS	6	(6)	-	6	(6)	-
Premiums (paid)/received on forwards	31	(44)	(13)	6	-	6
Income/(Expenses) from equity investments and securities	2	(33)	(31)	703	-	703
Value adjustments on equity investments	-	(189)	(189)	-	(401)	(401)
Fair value gains/(losses) through profit or loss	38	(11)	27	1	(1)	-
Exchange-rate differences	314	(308)	6	135	(135)	-
Financial income/(expenses) - related parties (Note 32)	52	(15)	37	104	(27)	77
Other financial income and expenses	15	(66)	(51)	9	(51)	(42)
	1,124	(878)	246	1,348	(836)	512

Net financial income showed a decrease of €mil. 266 compared to 2015. However, in 2015 this item included the net effect of the sales in the Transportation sector (i.e. a capital gain of €mil. 702 from the disposal of Ansaldo STS and a write-down of €mil. 353 of the equity investment in AnsaldoBreda, also as a result of said transactions, with a net positive effect of €mil. 349). As a whole, financial income and expenses recognised in 2016 showed the following changes compared to 2015:

- dividends, net of write-downs, increased by about €mil. 140 (excluding the write-down of AnsaldoBreda carried out during 2015, as noted above) in 2016;
- lower interest, mainly as a result of the buy-back carried out during 2015;
- foreign exchange gains and gains from fair value of derivatives for a total amount of €mil. 33 in 2016 against zero in 2015, when Leonardo only operated in the market to repay its own debt or on behalf of its subsidiaries, passing on any effect.

Finally, we note that in 2015 financial expenses included costs for €mil. 48 deriving from the buy-back plan.

Value adjustments to equity investments are described in Note 9.

Fair value results through profit or loss are as follows:

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Exchange-rate swaps	1	-	1	1	-	1
Interest-rate swaps	-	(1)	(1)	-	(1)	(1)
Ineffective portion of hedging swaps	37	(10)	27	-	-	-
	38	(11)	27	1	(1)	-

30. Income taxes

Income taxes can be broken down as follows:

	2016	2015
IRES	(35)	-
IRAP	(19)	-
Benefit under consolidated tax mechanism	-	39
Tax related to previous periods	38	2
Provisions for tax disputes	(26)	(18)
Deferred tax - net	(58)	4
	(100)	27

In consideration of the changes in the company's structure of Leonardo, which from an holding company became an operating company, in 2016 the Company showed tax profits with related recognition of income taxes (profit from national consolidated tax mechanism in 2015).

The accrual to provisions for tax disputes of €mil. 26 stems from the valuation of risks deriving from pending situations related to previous years.

Following is an analysis of the composition of the theoretical and effective tax rates for 2016 and 2015:

	2016	2015
Profit/(Loss) before income taxes	**709**	**417**
Tax rate	**14.1%**	**6.5%**
Theoretical tax	(195)	(115)
Permanent differences	(10)	179
Timing differences	(12)	(7)
Dividends	127	100
Revaluations of equity investments		(4)
Impairment of equity investments	(52)	(110)
IRAP tax	(28)	
Net deferred tax assets	58	
Tax provision	(26)	(18)
Previous years' tax	38	2
Total tax through profit or loss	**(100)**	**27**
Theoretical tax	**(27.5%)**	**(27.5%)**
Permanent differences not to reverse in subsequent years	(1.4%)	42.9%
Timing differences to reverse in subsequent years	(1.7%)	(1.6%)
Total dividends from profit or loss	17.9%	23.8%
Revaluations of equity investments		(0.9%)
IRAP tax	(4.0%)	(26.3%)
Gains on equity investments	(7.3%)	
Net deferred tax assets	8.2%	
Tax provision	(3.7%)	(4.3%)
Current taxes of previous years	5.4%	0.4%
Total tax	**(14.1%)**	**6.5%**

The effective tax rate went from 6.5% in 2015 to 14.1% in 2016.

Deferred taxes and related receivables and payables at 31 December 2016 were the result of the following temporary differences:

	2016 Income statement			2015 Income statement		
	Financial income	Financial expenses	Net	Financial income	Financial expenses	Net
Deferred tax assets on tax losses	50	(63)	(13)	-	-	-
Property, plant and equipment and intangible assets	3	-	3	-	-	-
Financial assets and liabilities	2	(4)	(2)	-	-	-
Severance pay and retirement benefits		(1)	(1)	-	-	-
Provision for risks and impairment	94	(128)	(34)	-	-	-
Effect of change in tax rate	1	(8)	(7)	-	-	-
Other	19	(23)	(4)	4	-	-
Deferred taxes recognised through profit or loss	**169**	**(227)**	**(58)**	**4**	**-**	**-**

	31 December 2016 Balance sheet			31 December 2015 Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	58	-	58	33	-	-
Property, plant and equipment and intangible assets	39	(53)	(14)	-	-	-
Severance pay and retirement benefits	9	(4)	5	-	-	-
Financial assets and liabilities	-	-	-	-	-	-
Provision for risks and impairment	490	-	490	7	-	-
Other	40	(32)	8	-	-	-
Offsetting	-	-	-	-	-	-
Deferred taxes recognised through balance sheet	**636**	**(89)**	**547**	**40**	**-**	**-**
Cash-flow hedge derivatives	28	(1)	27	-	-	-
On actuarial gains and losses	5	(2)	3	-	-	-
Deferred taxes recognised through equity	**33**	**(3)**	**30**	**-**	**-**	**-**
	669	**(92)**	**577**	**40**	**-**	**-**

31. Cash flows from operating activities

	2016	2015
Net result	609	444
Amortisation, depreciation and impairment losses	494	11
Income taxes	100	(27)
Net allocations to the provisions for risks and inventory write-downs	126	12
Net financial expenses/(income)	(246)	(512)
Other non-monetary items	32	2
	1,115	**(70)**

The changes in other operating assets and liabilities are as follows:

	2016	2015
Inventories	130	-
Contract work in progress and progress payments and advances from customers	350	-
Trade receivables and payables	(796)	(1)
Change in trade receivables/payables, work in progress/progress payments and inventories	**(316)**	**(1)**

	2016	2015
Payment of pension plans	(28)	-
Changes in provisions for risks and other operating items	(18)	166
Change in other operating assets and liabilities and provisions for risks and charges	**(46)**	**166**

32. Related-party transactions

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 2016 and 2015.

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**
PZL-Świdnik	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 SpA		37	2			**39**
Leonardo MW Ltd			38			**38**
BredaMenarinibus SpA		50				**50**
Leonardo Global Solutions SpA	53		5	3	8	**69**
SOGEPA 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 Scarl			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 Ventures						
GIE ATR			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**
Other with unit amount lower than €mil. 10			3			**3**
Consortia						
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			9			**9**
Total	**68**	**326**	**1,226**	**37**	**14**	**1,671**
% against total for the period	***34.7%***	***92.4%***	***43.2%***	***100.0%***	***14.6%***	

Receivables at 31 December 2015	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
AgustaWestland SpA	59	295	19	14	-	**387**
Alenia Aermacchi North America Inc.	-	-	-	-	-	**-**
Alenia Aermacchi SpA	-	324	27	-	-	**351**
AnsaldoBreda SpA	-	181	3	-	-	**184**
BredaMenarinibus SpA	-	64	-	-	-	**64**
Leonardo Global Solutions SpA	26	7	1	1	-	**35**
Selex ES SpA	-	1,639	21	3	5	**1,668**
SOGEPA Società Generale di Partecipazioni SpA	17	-	-	-	2	**19**
Whitehead Sistemi Subacquei SpA	-	26	2	-	-	**28**
Other with unit amount lower than €mil. 10	-	6	11	6	1	**24**
Joint Ventures						
Thales Alenia Space Italia SAS	-	11	-	-	-	**11**
Other with unit amount lower than €mil. 10	3	3	6	1	-	**13**
Consortia						
Other with unit amount lower than €mil. 10		2				**2**
Companies subject to the control or considerable influence of the MEF						
Other with unit amount lower than €mil. 10			1			**1**
Total	**105**	**2,558**	**91**	**25**	**8**	**2,787**
% against total for the period	*99.1%*	*100.0%*	*97.8%*	*100.0%*	*6.4%*	

Payables at 31 December 2016	Non-current loans and borrowings	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiarie							
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**	
DRS Group			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
PZL-Świdnik			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 Eleckronik Turkey AS							23
Selex ES GmbH							119
Sirio Panel SpA		31	17		5	**53**	
SOGEPA 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 Ventures							
GIE ATR			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**	
Consortia							
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	*n.a.*	*70.2%*	*23.9%*	*100.0%*	*30.3%*		*100.0%*

Payables at 31 December 2015

	Non-current loans and borrowings	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries							
AgustaWestland Ltd						-	1,693
AgustaWestland Philadelphia Co						-	107
AgustaWestland SpA		418	1	-	132	**551**	2,573
Alenia Aermacchi North America Inc.						-	-
Alenia Aermacchi SpA		1,797	4	5	144	**1,950**	3,554
Ansaldo STS SpA				-	-	-	
AnsaldoBreda SpA				55	127	**182**	799
BredaMenarinibus SpA				13	3	**16**	
Cyberlabs Srl						-	
DRS Group			7			**7**	126
FATA SpA					8	**8**	341
Leonardo Global Solutions SpA		11	11		5	**27**	1
Meccanica Holdings USA Inc.						-	1,194
OTO Melara SpA		46			26	**72**	156
PZL-Świdnik						-	6
Selex ES GmbH						-	35
Selex ES Ltd		278	3		4	**285**	71
Selex ES SpA		35	15		47	**97**	1,212
Selex Service Management SpA				4	7	**11**	30
Selex Sistemi Integrati SpA					17	**17**	
Selex ES Inc.						-	5
Sirio Panel SpA					3	**3**	1
SOGEPA Società Generale di Partecipazioni SpA		2		1	2	**5**	8
Whitehead Sistemi Subacquei SpA				1	3	**4**	125
Other with unit amount lower than €mil. 10		6	11	3	11	**31**	-
Associates							
Eurofighter Jagdflugzeug GmbH		56				**56**	-
Joint Ventures							
MBDA Italia SpA		-					47
MBDA Treasury Company Ltd		332				**332**	
SuperJet International SpA		-		2	12	**14**	8
E-Geos SpA		-		2	-	**2**	
Telespazio SpA		2	1	-	4	**7**	211
Companies subject to the control or considerable influence of the MEF							
Ansaldo Energia SpA		-	-	-	5	**5**	727
Other with unit amount lower than €mil. 10		-	-	-	-	-	
Total	-	2,983	53	86	560	3,682	13,030
% against total for the period	*n.a.*	*95.7%*	*53.0%*	*100.0%*	*95.4%*		*100.0%*

As regards the most important transactions we note:

- loans and borrowings from related parties include, in particular, the payable of €mil. 440 (€mil. 332 at 31 December 2015) of the Group companies to the Joint Venture MBDA;
- current loans and borrowings, for a total of €mil. 1,664 (€mil. 2,983 at 31 December 2015), reflect the method adopted by Leonardo for centralising the Group Treasury resources and show, by their high amount, the net cash inflows realised by the Group companies during the year, particularly during the final quarter. These loans and borrowings also include the balancing entry for cash surpluses that a number of Group companies pay to Leonardo outside the cash pooling system as their share, under treasury agreements signed with the latter, the corresponding balancing entry of which is found under cash and cash equivalents. Similarly, current loans and receivables of €mil. 326 (€mil. 2,558 at 31 December 2015) 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. 38 and €mil. 41 respectively) and from the Group VAT mechanism (€mil. 169 of payables), are recognised by the Parent Company, the sole 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).

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 2016 and 2015.

Income statement transactions at 31 December 2016

	Revenues	Other operating income	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	6	1	38	13	1	1
Larimart SpA		-			12		-
PZL-Świdnik	22	-			84	1	-
Sirio Panel SpA					29	-	-
Other with unit amount lower than €mil. 10	35		1	49	19	13	
Associates							
Eurofighter Jagdflugzeug GmbH	703						
NHIndustries SAS	342						
Orizzonte - Sistemi Navali SpA	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 Ventures							
GIE ATR	331				57	-	-
MBDA SAS	38					-	2
SuperJet International SpA	20					2	-
Thales Alenia Space France Sas	68					-	-
Rotorsim Srl	1	3		16		-	-
Other with unit amount lower than €mil. 10	2		1	5		1	-
Consortia							
Other with unit amount lower than €mil. 10	4			1			-
Companies subject to the control or considerable influence of the MEF							
Eni SpA				16			
ENAV SpA	37			-		-	-
Poste Italiane SpA	29			-		-	-
Cassa Depositi e Prestiti Equity						30	
Other with unit amount lower than €mil. 10	23	1		5			
	-	-		-		-	-
Other related parties							
Other	9			3	1		
Total	**2,531**	**15**	**3**	**442**	**470**	**52**	**15**
% against total for the period	***31.9%***	***3.3%***	***0.7%***	***6.3%***	***6.7%***	***4.6%***	***1.7%***

Income statement transactions at 31 December 2015	Revenues	Other operating income	Other operating expenses	Services expenses	Financial income	Financial expenses
Subsidiaries						
AgustaWestland Ltd					3	-
AgustaWestland SpA	14	2		1	13	3
Alenia Aermacchi North America Inc.	-			-	-	-
Alenia Aermacchi SpA	10			2	12	13
Leonardo Global Solutions SpA			1	17	3	-
Selex ES Ltd				3	-	1
Selex ES SpA	11	6		20	52	1
Other with unit amount lower than €mil. 10	7			12	20	5
Joint Ventures						
Other with unit amount lower than €mil. 10	10			1	1	4
Companies subject to the control or considerable influence of the MEF						
Other with unit amount lower than €mil. 10	1	1				
Total	**53**	**9**	**1**	**56**	**104**	**27**
% against total for the period	***98.1%***	***81.8%***	***3.7%***	***45.9%***	***7.7%***	***3.2%***

“Financial income/(expenses)” relate 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.

33. Financial risk management

Leonardo SpA 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 risks, 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 Note 35 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 borrowings equal to €mil. 5,302 at 31 December 2016 the fixed-rate percentage amounted to around 65%, while the floating-rate percentage is around 35%.

At 31 December 2016, the outstanding transactions were the following:

- *interest-rate swaps 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 2016 is as follows:

	Notional		Underlying (maturity)	Fair value 1 January 2016	Changes			Fair value 31 December 2016
	2016	2015			Income	Expenses	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)**

	Notional		Underlying (maturity)	Fair value 1 January 2015	Changes			Fair value 31 December 2015
	2015	2014			Income	Expenses	CFH reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	3	-	(1)	-	2
Options	200	200	Bond 2025	(4)	-	1	-	(3)
Total notional	**400**	**400**		**(1)**	**-**	**-**	**-**	**(1)**

The table below shows the effects of the sensitivity analysis for 2016 and 2015 on IRS at 31 December 2016 deriving from the 50-basis-point shift in the interest-rate curve:

Effect of shift of interest-rate curve

	31 December 2016		31 December 2015	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	4	(4)	1	(1)
Equity (*)	4	(4)	1	(1)

(*) 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 SpA. 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. 6,425 (notional amount) (substantially in line with the previous year), as detailed in the following table:

	Notional 2016			Notional 2015		
	Sales	Purchases	Total	Sales	Purchases	Total
Swap and forward transactions	2,512	3,913	6,425	3,282	3,180	6,462

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 pound sterling and US dollars. 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 2016				31 December 2015			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges	1,140	62	518	1,357	-	-	-	-
Within 1 year	593	9	310	323	-	141	9	769
2 to 3 years	52	-	125	382	-	-	-	434
4 to 9 years	-	-	-	-	-	-	-	-
Total	**1,785**	**71**	**953**	**2,062**	**-**	**141**	**9**	**1,203**
Hedging transactions which cannot be classified as hedging transactions	567	3	567	3	-	-	-	-
Total transactions	**2,352**	**74**	**1,520**	**2,065**	**-**	**141**	**9**	**1,203**

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 2016 (1.0541 and 0.8562, respectively) and at 31 December 2015 (1.0887 and 0.7339, respectively),

	31 December 2016				31 December 2015			
	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 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%
Net result	4	(1)	1	(5)	(1)	(2)	(2)	2
Equity (*)	(31)	37	25	(28)	(1)	(2)	(2)	2

(*) 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 abovementioned risks, Leonardo has adopted a series of instruments aimed at optimising the management of financial resources.

During 2016, €mil. 47 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 can use the €bil. 2.0 Revolving Credit Facility, whose maturity date has been extended to 2020.

Credit risk

Following the mergers and demergers commented on in the Report on Operations, Leonardo SpA was transformed from an industrial holding company responsible for direction and control into a trading company, exposed to the exchange risk with reference to its portfolio, orders, revenues and costs denominated in currencies other than Euro (in particular USD) 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 2016, we note the following relations with countries exposed to credit risk according to the international institutions:

	Libya	Egypt	Other countries	Total
Assets	10	24	5	39
Liabilities	8	10	2	20
Net exposure	**2**	**14**	**3**	**19**

Finally the receivables related to these agreements, as reported in the section “Leonardo and risk management” of the Report on Operations, might not be paid, renegotiated or written off. Among receivables, we note in particular those from Piaggio Aero Industries (gross amount of €mil. 118) which is currently defining a restructuring plan that envisages also the rescheduling of the company’s borrowings.

The table below summarises trade receivables at 31 December 2016 and 2015:

€ billions	31 December 2016	31 December 2015
Portion due	1.3	-
- of which: for more than 12 months	*0.4*	-
Portion not yet due	1.5	-
Total trade receivables	**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 measured at fair value. The fair value 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), exclusively in relation to options, and the volatility of these inputs. Vice versa, the fair value of the remaining 15% interest in Ansaldo Energia, subject to put & call options (classified starting from 2016 under other current assets), is determined on the basis of measurement techniques which do not consider directly observable market inputs (the so-called "Level 3"). In particular, the fair value of the stake in Ansaldo Energia was calculated on the basis of the price of the sale, as established in the related agreements and increased by capitalised interest at a yearly 6% rate.

	31 December 2016			31 December 2015		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	-	-	-	131	131
Other assets	113	138	251	4	-	4
Other non-current liabilities	-	275	275	-	-	-
Other current liabilities	273	-	273	17	-	17

34. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA are reported in Note 36 to the consolidated financial statements.

35. 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 2016 to €mil. 5 (€mil. 1 in 2015).

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) and 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).

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) and to €3.88 with reference to the second three-year cycle (2016-2018).

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 2016, 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 December 2015		
		Cost	Impairment	Carrying amount
%	**Equity investments in subsidiaries**			
100	AGUSTAWESTLAND SPA	2,172	-	2,172
100	AGUSTAWESTLAND HOLDING LTD	-	-	-
100	AGUSTAWESTLAND PHILADELPHIA CO.	-	-	-
100	ALENIA AERMACCHI NORTH AMERICA INC.	-	-	-
100	ALENIA AERMACCHI SPA	542	-	542
100	ANSALDOBREDA SPA	509	(509)	-
100	BREDAMENARINIBUS SPA	48	(44)	4
100	FATA SPA	22	-	22
100	FINMECCANICA NORTH AMERICA INC.	3	-	3
60	LARIMART SPA	-	-	-
100	LEONARDO GLOBAL SOLUTIONS SPA	497	-	497
100	LEONARDO MW LTD	-	-	-
100	MECCANICA HOLDINGS USA INC.	2,389	(1,290)	1,099
100	OTO MELARA IBERICA SAU			
100	OTO MELARA SPA	103	-	103
100	SELEX ES INTERNATIONAL LTD	-	-	-
100	SELEX ES SPA	2,001	(214)	1,787
100	SIRIO PANEL SPA	-	-	-
100	SOGEPA - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	14	(9)	5
67	TELESPAZIO SPA (*)	171	-	171
100	W.S.K. PZL-ŚWIDNIK SA	-	-	-
100	WHITEHEAD SISTEMI SUBACQUEI SPA	25	-	25
	Conferring other investments (**)			
		8,496	**(2,066)**	**6,430**

(*) Joint control.
(**) Investments adjusted in investments held for sale.

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 December 2016 Cost	Impairment	Carrying amount
(2,169)	-	-	-		(3)	-	-	3	(3)	-
58	-	-	-		-	-	-	58	-	58
217	-	-	-		-	-	-	217	-	217
22	-		(22)		-	-	-	-	-	-
(530)	-	-	-		(9)	-	-	12	(9)	3
-	40	-	-		(23)	-	-	509	(492)	17
-	-	-	-		(2)	-	1	48	(45)	3
-	-	(2)	(20)		-	-	-	-	-	-
-	-	(3)	-		-	-	-	-	-	-
14	-	-			-	-	-	14	-	14
67	-	-	6		-	-	-	570	-	570
1,760	-	-			-	-	-	1,760	-	1,760
1	-	-	22		-	-	-	2,412	(1,290)	1,122
4	1	-	-		-	-	-	5	-	5
(103)	-	-	-		-	-	-	-	-	-
131	-	-			-	-	-	131	-	131
(1,666)	-	-			(54)	-	(1)	120	(54)	66
122	-	-			-	-	-	122	-	122
-	-	-	14		(12)	-	1	28	(20)	8
-	-	-	-		-	-	-	171	-	171
141	1	-			-	-	-	142		142
(25)	-	-	-		-	-	-	-	-	-
1,151			(1,151)							
(805)	**42**	**(5)**	**(1,151)**	**-**	**(103)**	**-**	**1**	**6,322**	**(1,913)**	**4,409**

Appendix no. 1 (€mil.) - EQUITY INVESTMENTS

%		31 December 2015 Cost	Impairment	Carrying amount
%	**Equity investments in associates**			
50	ABU DHABI SYSTEMS INTEGRATION LLC	-	-	-
14	AMSH BV (*)	873	(392)	481
31	ATITECH SPA	7	(1)	6
50	AVIO SPA	54	-	54
11	AW AVIATION SERVICES LLC	-	-	-
31	GIE ATR	-	-	-
25	ELETTRONICA SPA	54	(47)	7
21	EUROFIGHTER INTERNATIONAL LTD (IN LIQ.)	-	-	-
50	EUROFIGHTER JAGDFLUGZEUG GMBH	-	-	-
15	EUROFIGHTER SIMULATION SYSTEMS GMBH	-	-	-
21	EUROTECH SPA	18	(12)	6
49	IND. A. E M. R. PIAGGIO SPA (EXT. ADM.)	31	(31)	-
50	INDIAN ROTORCRAFT LTD	-	-	-
49	JIANGXI CHANGHE AGUSTA HELICOPTERS CO.	-	-	-
24	LIBYAN ITALIAN ADVANCED TECH. CO.	2	(2)	-
26	NHINDUSTRIES SAS	-	-	-
30	ORIZZONTE - SISTEMI NAVALI SPA	-	-	-
40	PANAVIA AIRCRAFT GMBH	-	-	-
50	ROTORSIM SRL	-	-	-
50	THALES ALENIA SPACE SAS (*)	546	(145)	401
		1,585	**(630)**	**955**
	Other companies			
99	CONS. CREO	1	(1)	-
12	INDUSTRIA ITALIANA AUTOBUS SPA	1	-	1
1	VITROCISET SPA	-	-	-
	Other companies with unit amount lower than €mil. 1	1	-	-
		3	**(1)**	**1**
	TOTAL EQUITY INVESTMENTS	10,084	(2,697)	7,386
	Investments held for sale			
99	AGUSTA AEROSPACE SERVICES SA			
100	AGUSTAWESTLAND AUSTRALIA			
100	AGUSTAWESTLAND DO BRASIL LTDA			
100	AGUSTAWESTLAND LTD			
100	AGUSTAWESTLAND MALAYSIA			
100	AGUSTAWESTLAND PORTUGAL			
	Total investments held for sale	-	-	-

(*) Joint control.

	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 December 2016 Cost	Impairment	Carrying amount
	3	-	-	-		-	-	-	3	-	3
	-	-	-	-		-	-	-	873	(392)	481
	-	-	-	-		-	-	-	7	(1)	6
	-	-	-	-		(31)	-	-	54	(31)	23
	4	-	-	-		-	-	-	4	-	4
	234	-	-	-		-	-	(2)	232	-	232
	-	-	-	-		-	-	-	54	(47)	7
	1	-	-	-		-	-	-	1	-	1
	9	-	-	-		-	-	-	9	-	9
	2	-	-	-		-	-	-	2	-	2
	-	-	-	-		-	-	-	18	(12)	6
	-	-	-	-		-	-	-	31	(31)	-
	2	-	-	-		(2)	-	-	2	(2)	-
	2	-	-	-		-	-	-	2	-	2
	-	-	-	-		-	-	-	2	(2)	-
	1	-	-	-		-	-	-	1	-	1
	16	-	-	-		-	-	-	16	-	16
	4	-	-	-		-	-	-	4	-	4
	28	-	-			-	-	-	28	-	28
	-	-	-	-		-	-	-	546	(145)	401
	306	**-**	**-**	**-**	**-**	**(33)**	**-**	**(2)**	**1,889**	**(663)**	**1,226**
		1	-	-		-		-	1	-	1
	-	-	-	-		-	-	-	1	-	1
	1		-	-		-		-	1	-	1
	3	-	-	-	-	-	-	(1)	3	-	3
	4	**1**	**-**	**-**	**-**	**-**	**-**	**(1)**	**6**	**-**	**6**
	(495)	43	(5)	(1,151)	-	(136)	-	(2)	8,217	(2,576)	5,641
				20					20	-	20
				-					-	-	-
				9					9	-	9
				1,109					1,109	-	1,109
				13					13	-	13
	-	**-**	**-**	**1,151**	**-**	**-**	**-**	**-**	**1,151**	**-**	**1,151**

Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date
Equity investments in subsidiaries		
AGUSTA WESTLAND SPA	Rome	31.12.2016
AGUSTAWESTLAND HOLDING LTD	Yeovil (UK)	31.12.2016
AGUSTAWESTLAND PHILADELPHIA CORP.	Philadelphia (USA)	31.12.2016
ALENIA AERMACCHI SPA	Rome	31.12.2016
ALENIA NORTH AMERICA CANADA CO.	Canada	31.12.2015
ANSALDOBREDA SPA	Naples	31.12.2016
BREDAMENARINIBUS SPA	Bologna	31.12.2016
FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	31.12.2016
FINMECCANICA DO BRASIL LTDA (EURO at 31.12.2016 = BRL 3.4305)		
LARIMART SPA	Rome	31.12.2016
LEONARDO GLOBAL SOLUTIONS SPA	Rome	31.12.2016
LEONARDO MW LTD	Basilidon, Essex (UK)	31.12.2016
MECCANICA HOLDINGS USA INC.	Wilmington (USA)	31.12.2016
MECCANICA HOLDINGS USA INC. (EURO at 31.12.2016 = USD 1.0541)		
OTO MELARA IBERICA SAU	Valencia (Spain)	31.12.2015
SELEX ES SPA	Rome	31.12.2016
SELEX INTERNATIONAL LTD	Basilidon, Essex (UK)	31.12.2016
SIRIO PANEL SPA	Montevarchi (Arezzo)	31.12.2016
SISTEMI DINAMICI SPA	Pisa	31.12.2016
SOGEPA - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	Genoa	31.12.2016
TELESPAZIO SPA (*)	Rome	31.12.2016
W.S.K. PZL-ŚWIDNIK SA	Świdnik (Poland)	31.12.2016
WIN BLUE WATER SERVICES PVT LTD	New Delhi (India)	31.12.2016
WING NED BV	Rotterdam (The Netherlands)	31.12.2015
WORLD'S WING SA	Geneva (Switzerland)	31.12.2015

(*) Joint control.

Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/ (Loss)	Ownership	Net equity in financial statements	Carrying amount
120,000		(52.0)	283.0	335.0	(56.0)	100.0	(52.0)	-
500,000	GBP	35.0	35.0	0.0	0.0	100.0	35.0	58
121,200,000	USD	240.0	962.0	722.0	(11.0)	100.0	240.0	217
120,000		3.0	29.0	26.0	(10.0)	100.0	3.0	3
1	USD	-	-	-	-	100.0	-	-
10,000,000		17.0	433.0	416.0	(22.0)	100.0	17.0	17
1,300,000		3.0	68.0	65.0	(4.0)	100.0	3.0	3
350,736	BRL	0.6	0.6	-	-	100.0	0.6	-
1,203,200	BRL	2.0	2.0	-	-			
2,500,000		19.9	33.8	13.9	3.1	60.00	11.9	14
49,945,983		603.0	777.0	174.0	11.0	100.0	603.0	569
270,000,000	GBP	679.9	1,271.5	591.6	81.0	100.00	679.9	1,760
9	USD	1,467.6	2,662.0	1,195.3	(1,971.3)	100.0	1,467.6	1,122
10	USD	1,547.0	2,806.0	1,260.0	(2,078.0)			
2		6.0	n.a.	n.a.	n.a.	100.0	6.0	5
120,000		267.0	371.0	104.0	(17.0)	100.0	267.0	66
59,500,000	GBP	46.8	83.2	36.4	-1.5	100.00	46.8	131
400,000		123.0	179.7	56.7	20.9	100.00	123.0	122
200,000		-	12.0	12.0	-	100.0	-	-
1,000,000		8.0	105.0	98.0	(12.0)	100.0	8.0	8
50,000,000		229.0	583.0	354.0	23.0	67.0	153.4	171
307,642,000	PLN	79.0	191.0	112.0	21.0	98.5	77.8	142
8,534,800	INR	393.6	494.5	471.4	23.1	100.0	393.6	-
18,000		112.0	112.0	-	-	100.0	112.0	-
120	CHF	795.0	136.0	(659.0)	(119.0)	94.9	754.8	-
								4,409

Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date
Equity investments in associates		
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)	31.12.2014
ADVANCED MALE AIRCRAFT LLC	Al Ain (United Arab Emirates)	n.a.
AMSH BV (*)	Amsterdam (The Netherlands)	31.12.2016
ATITECH MANUFACTURING SRL	Naples	31.12.2015
ATITECH SPA	Capodichino (Naples)	31.12.2015
AVIO SPA	Turin	31.12.2015
AW AVIATION SERVICES LLC	United Arab Emirates	31.12.2016
ELETTRONICA SPA	Rome	31.12.2016
EUROFIGHTER AIRCRAFT MAN. GMBH	Hallbergmoos (Germany)	31.12.2015
EUROFIGHTER INTERNATIONAL LTD	Hallbergmoos (Germany)	31.12.2013
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	31.12.2015
EUROFIGHTER SIMULATION SYSTEMS GMBH	Halbergmoos (Germany)	31.12.2014
EUROSYSNAV SAS (IN LIQ.)	Paris (France)	31.12.2015
EUROTECH SPA	Udine	31.12.2015
HELIVERT CLOSED JOINT STOCK COMPANY	Moscow (Russia)	31.12.2016
IND. A. E M. R. PIAGGIO SPA (EXT. ADM.)	Genoa	31.12.2013
JIANGXI CHANGHE AGUSTA HELICOPTERS CO	Jingdezhen (China)	31.12.2016
LIBYAN ITALIAN ADVANCED TECH. CO.	Tripoli (Lybia)	31.12.2011
LIBYAN ITALIAN ADVANCED TECH. CO. (EURO at 31.12.2016 = LYD 1.51553)		
MACCHI HUREL DUBOIS SAS	Plaisir (France)	31.12.2015
NHINDUSTRIES SAS	Aix-en-Provence (France)	31.12.2016
ORIZZONE - SISTEMI NAVALI	Genoa	31.12.2015
ROTORSIM SRL	Sesto Calende (Varese)	31.12.2016
THALES ALENIA SPACE SAS (*)	Paris (France)	31.12.2015

(*) Joint control.

Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/ (Loss)	Ownership	Net equity in financial statements	Carrying amount
258,000	AED	5.2			2.8	43.4	2.3	3
n.a.	SED	n.a.	n.a.	n.a.	n.a.	49.0	n.a.	0
36,296,316		836.0	836.0	0.0	104.0	50.0	418.0	481
10,000		0.0	8.0	8.0	0.0	25.0	0.0	0
6,500,000		13.0	48.6	35.5	2.2	25.0	3.3	6
40,000,000		286.5	713.2	426.7	5.4	14.3	41.0	23
58,010,000	AED	15.0	25.0	10.0	-	30.0	4.5	4
9,000,000		88.0	n.a.	n.a.	17.0	31.3	27.6	7
127,823		-	-	-	-	21.0	-	0
2,000,000	GBP	2.0	2.0	-	-	100.0	2.0	1
639,114		50.0	2,126.6	2,076.6	27.0	21.0	10.5	9
260,000		13.9			1.0	24.0	3.3	2
40,000		4.0	7.0	3.0	0.0	50.0	2.0	0
8,878,946		114.3	128.1	13.8	3.7	11.1	12.7	6
325,010,000	RUB	(6.0)	57.0	63.0	5.0	50.0	(3.0)	0
103,567		n.a.	n.a.	n.a.	n.a.	31.0	n.a.	0
48,403,000	CNY	5.0	7.0	1.0	0.0	40.0	2.0	2
8,952,644	LYD	3.1	18.6	15.5	(2.5)	25.0	0.8	0
13,568,000	LYD	4.7	28.2	23.5	(3.8)		-	
100,000		0.4	40.0	40.0	-	50.0	0.2	0
306,000		5.0	5,819.0	5,814.0	1.0	32.0	1.6	1
20,000,000		34.7	2,546.0	2,511.3	1.4	49.0	17.0	16
9,800,000		61.0	105.0	44.0	2.0	50.0	30.5	28
918,038,000		1,095.0	1,414.8	319.8	112.4	33.0	361.4	401
								990

Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date
Consortia		
CONS. CREO	L'Aquila	31.12.2016
CONS. PISA RICERCHE SCRL (IN BANKRUPTICY)	Pisa	31.12.2011
CONSORZIO CALS ITALIA	Rome	31.12.2015
CONSORZIO CONSAER	Naples	31.12.2015
CONSORZIO DHITECH SCARL	Lecce	31.12.2015
GIE ATR	Toulouse (France)	n.a.
CONSORZIO IMAST SCARL	Naples	31.12.2015
CONSORZIO PER L'ENERGIA VARESE	Varese	31.12.2015
CONSORZIO TECHNOVA SCARL	Naples	n.a.
CONSORZIO TESSERA	Venice	31.12.2015
CONSORZIO TOP IN SCARL	Naples	n.a.
EUROSLAT G.E.I.E.	Sophia Antipolis (France)	31.12.2015
EUROTORP G.E.I.E	Sophia Antipolis (France)	31.12.2015
IAMCO-INT. AEROSPACE MANAG. COMPANY SCRL	Venice	31.12.2015
Other companies		
BCV MANAGEMENT SA	Luxembourg	31.12.2015
CIRA SCPA	Capua	31.12.2015
DISTRETTO AEROSPAZIALE DELLA CAMPANIA SCARL	Capua	31.12.2015
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCARL	La Spezia	31.12.2015
DISTRETTO TECNOLOGICO AEROSPAZIALE SCARL	Brindisi	31.12.2015
EMITTENTI TITOLI SPA	Milan	31.12.2015
EUROPEAN SATELLITE NAVIGATION IND. GMBH (IN LIQ.)	Ottobrunn (Germany)	12.11.2014
INDUSTRIA ITALIANA AUTOBUS SPA	Roma	31.12.2015
PANAVIA AIRCRAFT GMBH	Hallbergmoos (Germany)	31.12.2015
SECBAT SARL	Saint-Cloud (France)	31.12.2015
SOC.INFORM ESPERIENZE TERMOID. SPA	Piacenza	31.12.2015
VITROCISET SPA	Rome	31.12.2015
OTHER COMPANIES WITHOUT CODIFICATION		
TOTAL EQUITY INVESTMENTS		

(*) Joint control.

Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/ (Loss)	Ownership	Net equity in financial statements	Carrying amount
774,685		0.4	2.6	2.2	(0.4)	99.0	0.4	1
1,061,613		1.1	9.6	8.5	(0.1)	7.7	0.1	0
100,709		0.1	0.1	0.0	0.0	16.7		0
275,600		0.0	2.0	2.0	0.0	23.0	0.0	0
231,800		1.0	34.0	33.0	0.0	2.8	0.0	0
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	50.0		232
689,000		1.0	13.0	12.0	0.0	3.2	0.0	0
88,154		0.0	0.0	0.0	0.0	0.6	0.0	0
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.8		0
40,000		0.0	0.0	0.0	0.0	47.0	0.0	0
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.4		0
0		0.0	0.0	0.0	(4.0)	50.0	0.0	0
0		0.0	0.0	0.0	626.0	50.0	0.0	0
208,000		1.0	8.0	7.0	0.0	25.0	0.3	0
								233
36,470		0.0	0.1	0.0	0.0	15.0	0.0	0
985,224		116.0	170.0	54.0	1.0	11.7	13.5	0
492,500		0.0	1.0	1.0	0.0	6.1	0.0	0
1,140,000		1.1	5.0	4.0	0.0	11.1	0.1	0
150,000		1.0	3.0	2.0	0.0	17.0	0.2	0
4,264,000		71.7	71.8	0.1	62.7	3.7	2.6	0
264,000		0.0	3.5	3.5	0.0	18.9	0.0	0
4,250,000		4.3	100.7	96.5	0.0	11.7	0.5	1
6,437,165		52.0	246.0	194.0	7.0	15.0	7.8	4
32,000		1.0	22.0	21.0	0.0	13.6	0.1	0
697,820		0.8	3.5	26.7	0.1	2.2	0.0	0
82,000,000		99.7	282.1	182.4	3.1	1.5	1.5	1
								2
								9
								5,641

Appendix no. 3 (€mil.) - NON-CURRENT RECEIVABLES

	31 December 2015			
	Residual nominal amount	Impairment	Carrying amount	
Receivables	1		1	
Receivables from subsidiaries	105		105	
			-	
Total receivables	**106**	**-**	**106**	

Appendix no. 4 (€mil.) - ASSETS BROKEN DOWN BY MATURITY

	31 December 2016			31 December 2015		
	Amounts due			Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	**Total**	from 2nd to 5th subsequent year	beyond 5th year	**Total**
Receivables	61	-	61			
Other non-current receivables from related parties	24	28	52			
Loans and receivables	67	-	67	1		1
Non-current loans and receivables from relates parties	16	-	16	62	43	105
Other non-current assets	60	23	83	142		142
Total receivables and non-current assets	**228**	**51**	**279**	**205**	**43**	**248**

					31 December 2016		
Mergers/ Demergers	Disbursement	Reclassifications	Reimbursements	Other changes	Residual nominal amount	Impairment	Carrying amount
46	16	65			128		128
26		(17)	45	(1)	68		68
72	**16**	**48**	**45**	**(1)**	**196**	**-**	**196**

Appendix no. 5 (€mil.) - FOREIGN CURRENCY ASSETS

	31 December 2016			31 December 2015		
	In foreign currency	In euro	Total	In foreign currency	In euro	Total
Receivables	-	61	61			
Other non-current receivables from related parties		52	52			
Loans and receivables	-	67	67		1	1
Non-current loans and receivables from related parties	15	1	16		105	105
Other non-current assets		83	83		142	142
Total receivables and other non-current assets	**15**	**264**	**279**	**-**	**248**	**248**
Deferred tax assets	-	669	669		40	40
Total non-current assets	**15**	**933**	**948**	**-**	**288**	**288**
Loans and receivables	-	28	28		-	-
Loans and receivables form related parties	58	268	325		2,558	2,558
	58	**296**	**353**	**-**	**2,558**	**2,558**
Trade receivables	501	1,111	1,612		2	2
Trade receivables from related parties	438	787	1,225		91	91
	939	**1,898**	**2,837**	**-**	**93**	**93**
Other assets	26	560	586	3	538	541
Other receivables from related parties	1	50	51		33	33
	27	**610**	**637**	**3**	**571**	**574**
Income tax receivables	-	100	100		97	97
Cash and cash equivalents	76	1,671	1,747	191	1,174	1,365
Total current assets	**1,100**	**4,575**	**5,674**	**194**	**4,493**	**4,687**

Appendix no. 6 (€thous.) - ASSETS BY GEOGRAPHICAL AREA

	31 December 2016					31 December 2015				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Receivables	61				61					
Other non-current receivables from related parties	52				52	105				105
Loans and receivables	67				67	1				1
Non-current loans and receivables from relates parties	1	15			16	105				105
Other non-current assets	83				83	142				142
Total receivables and other non-current assets	**264**	**15**	**-**	**-**	**279**	**248**	**-**	**-**	**-**	**248**
Deferred tax assets	669				669	40				40
Total non-current assets	**933**	**15**	**-**	**-**	**948**	**288**	**-**	**-**	**-**	**288**
Loans and receivables	28				28					
Loans and receivables from related parties	236	71	12	6	325	2,547	11	-	-	2,558
	264	**71**	**12**	**6**	**353**	**2,547**	**11**	**-**	**-**	**2,558**
Trade receivables	628	346	198	440	1.612	2				2
Trade receivables from related parties	254	693	219	59	1,225	85	3	3		91
	882	**1,039**	**417**	**499**	**2,837**	**87**	**3**	**3**	**-**	**93**
Other assets	574	2		10	586	540	1			541
Other receivables from related parties	51			-	51	33				33
	625	**2**	**-**	**10**	**637**	**573**	**1**	**-**	**-**	**574**
Income tax receivables	100				100	97				97
Cash and cash equivalents	1,742		5		1,747	1,318	47			1,365
Total current assets	**3,613**	**1,112**	**434**	**515**	**5,674**	**4,622**	**62**	**3**	**-**	**4,687**

Appendix no. 7 (€mil.) - AVAILABLE AND DISTRIBUTABLE RESERVES

Nature/description	Amount	Possible use	Available portion
Share capital (*)	2,491		
Revenue reserves			
Legal reserve	236	B	
Extraordinary reserve	391	A,B,C	391
Reserve for actuarial gains/(losses) in equity	(58)	B	
Cash-flow hedge reserve	(103)	B	
Stock-grant reserve	8	B	
Reserve for merger and demerger surplus	722	A,B,C	722
Retained earnings and other reserves	1,029	A,B,C	1,014
Total	**4,716**		**2,127**
Net profit/(loss) for the period	609	A,B,C	579
Constraint ex Article 2426, paragraph 1 no. 5 Civil Code			(1,776)
Total equity	**5,325**		**930**

Keys:
(*) less treasury shares for €mil. 34 and costs for capital increase for €mil. 19.
A: for capital increase.
B: for loss coverage.
C: for distribution to shareholders.

Appendix no. 8 (€mil.) - LIABILITIES BROKEN DOWN BY MATURITY

	31 December 2016			31 December 2015		
	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	417	460	877	110	-	110
	417	460	877	110	-	110
Loans and borrowings (non-current)	1,827	1,104	2,931	1,638	1,883	3,521
Non-current loans and borrowings to related parties	-	-	-	-	-	-
	1,827	1,104	2,931	1,638	1,883	3,521
Total non-current liabilities	**2,244**	**1,564**	**3,808**	**1,748**	**1,883**	**3,631**

Appendix no. 9 (€mil.) - FOREIGN CURRENCY LIABILITIES

	31 December 2016			31 December 2015		
	In foreign currency	In euro	Total	In foreign currency	In euro	Total
Loans and borrowings (non-current)	371	2,560	2,931	434	3,087	3,521
Non-current loans and borrowings to related parties	-	-	-			-
	371	2,560	2,931	434	3,087	3,521
Deferred tax assets	-	92	92	-	-	-
Other non-current liabilities	-	877	877	-	110	110
Total non-current liabilities	**371**	**3,529**	**3,900**	**434**	**3,197**	**3,631**
Loans and borrowings	1	706	707	1	132	133
Related-party loans and borrowings	1,057	607	1,664	762	2,221	2,983
	1,058	1,313	2,371	763	2,353	3,116
Trade payables	480	1,473	1,953	1	46	47
Trade payables to related parties	225	388	613	16	37	53
	705	1,861	2,566	17	83	100
Other liabilities	44	1,250	1,294	-	464	464
Other payables to related parties	148	243	391	-	646	646
	192	1,493	1,685	-	1,110	1,110
Income tax payables	-	33	33	-	1	1
Total current liabilities	**1,955**	**4,700**	**6,655**	**780**	**3,547**	**4,327**

Appendix no. 10 (€mil.) - LIABILITIES BY GEOGRAPHICAL AREA

	31 December 2016					31 December 2015				
	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)	2,699	232	-	-	2,931	3,243				3,243
Non-current loans and borrowings to related parties	-	-	-	-	-					-
	2,699	232	-	-	2,931	3,243	-	-	-	3,243
Deferred tax assets	92	-	-	-	92					
Other non-current liabilities	869	8	-	-	877	110				110
Total non-current liabilities	**3,660**	**240**	**-**	**-**	**3,900**	**3,353**	**-**	**-**	**-**	**3,353**
Loans and borrowings	658	49	-	-	707	133				133
Related-pary loans and borrowings	148	1,516	-	-	1,664	2,312	671	-		2,983
	806	1,565	-	-	2,371	2,445	671	-	-	3,116
Trade payables	1,350	263	266	74	1,953	37	8	1	1	47
Trade payables to related parties	209	135	251	18	613	35	7	11	-	53
	1,559	398	517	92	2,566	72	15	12	1	100
Other liabilities	1,153	77	15	49	1,294	464				464
Other payables to related parties	243	148	-	-	391	645	1			646
	1,396	225	15	49	1,685	1,109	1	-	-	1,110
Income tax payables	33	-	-	-	33	1				1
Total current liabilities	**3,794**	**2,188**	**532**	**141**	**6,655**	**3,627**	**687**	**12**	**1**	**4,327**

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

STATEMENT ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS*, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/1998 AS AMENDED

1. The undersigned Mauro Moretti, Chief Executive Officer and General Manager, and Gian Piero Cutillo, as the Officer in charge of financial reporting for Leonardo SpA, 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 separate financial statements at 31 December 2016.

2. In this respect it is noted that no significant matters arose.

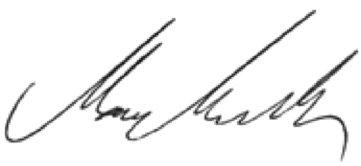
3. It is also certified that:

   3.1 the separate financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to Regulation EC 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;

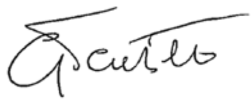
   3.2 the Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer, together with a description of the main risks and uncertainties it is exposed to.

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, 15 March 2017



Chief Executive Officer
and General Manager
(Mauro Moretti)



Officer in charge of financial reporting
(Gian Piero Cutillo)

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 articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Leonardo S.p.a.

Report on the separate financial statements

We have audited the accompanying separate financial statements of Leonardo S.p.a. (the "company"), which comprise the statement of financial position as at 31 December 2016, the separate income statement and statements of comprehensive income, changes in cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the separate financial statements

The company's 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.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of separate financial statements that give a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

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

Opinion

In our opinion, the separate financial statements give a true and fair view of the company's financial position as at 31 December 2016 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 31 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the company's directors, with the separate financial statements. In our opinion, the directors' report and the 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. as at and for the year ended 31 December 2016.

Rome, 21 March 2017

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

To the Shareholders' Meeting of Leonardo S.p.a.
Registered Office: Piazza Monte Grappa no. 4 - 00195 Rome

Dear Shareholders,

the Board of Statutory Auditors of 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) and Article 2429, paragraph 3, of the Italian Civil Code, on the supervisory work done.

1. INTRODUCTION.

The Board's work covered the entire 2016 financial year, during which periodical meetings were regularly held which are reported in specific minutes.

During the financial year ended 31 December 2016, the Board of Statutory Auditors carried out the audits and any other supervisory activity in accordance with the relevant laws and regulations in force, as well as with the Corporate Governance Code for listed companies of Borsa Italiana and the Code of Conduct for the boards of statutory auditors of listed companies as recommended by the Italian National Council of Accountants and Tax Consultants. With reference to the inspection and assessment of the adequacy of the Company's organisational, administration and accounting system, the phase of supervision planning during which inherent risks and critical issues are assessed with respect to the abovementioned principles, was carried out by relying on the positive feedback on well-known matters based on any information acquired over time.

The Board has assessed the adequacy of the Company's organisational and functional structure and its developments on a periodic basis, through information flows and contacts with each head of divisions and sectors; the relationships with the resources operating within the abovementioned structure have been based on mutual collaboration in accordance with their roles and responsibilities and each body or function within the Company has duly fulfilled the disclosure obligations required by applicable regulations.

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 Corporate 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 year. The Board has also assessed and given a favourable opinion about the independence of the members of the Board of Directors on an annual basis.

2) Corporate bodies' meetings and information flows.

The Board of Statutory Auditors acknowledges that the information flows consisting of direct and indirect contacts with any and all corporate bodies and functions were adequate to allow the Board to verify that the organisational structure, the internal procedures, the actions of the Company and the resolutions of its executive bodies comply with the provisions of the law, the Bylaws, the applicable regulations and the Corporate Governance Code of listed companies.

In details:

a) during 2016 the Board of Statutory Auditors held twenty meetings, carried out audits and gathered information from the heads of corporate functions. As regards the administration and accounting system and its adequacy to report on the management events in a correct manner, the Board has acquired any information necessary to confirm that the Company also continued its commitment to enhance and improve the overall adequacy of the systems in place during the current financial year. In 2016 the Board met all the top managers in order to exchange information about the performance of corporate transactions. The Board also paid constant attention to compliance activities through periodical meetings with the functions concerned.

b) The Board attended all the eleven meetings held by the Board of Directors, during which it was informed of the work done and of the main financial and capital transactions carried out by the Company and its subsidiaries. On the basis of the information so acquired by the Board, the resolutions and operations carried out as a result comply with the law and the Bylaws and do not highlight any potential conflicts of interest with the Company. They are not manifestly imprudent, reckless, atypical or unusual, nor do they conflict with the resolutions passed by the Shareholders' Meeting or otherwise are prejudicial to the integrity of the Company's assets.

c) The Board of Statutory Auditors attended all the ten meetings held by the Control and Risks Committee and also attended, through its members, any and all meetings held by the Remuneration Committee and by the Nomination Committee (now the Nomination, Governance and Sustainability Committee).

The Board points out that the Control and Risks Committee acted in accordance with the provisions laid down in the Corporate Governance Code. The Committee ensured its successful and active collaboration, thus allowing, among other things, the coordination of their respective work and avoiding their duplication to the detriment of audit efficiency.

The Committee examined the periodic reports prepared by the Group Internal Audit Organisational Unit on the work performed during 2016, as well as the auditors' reports; it carried out any audit within the sphere of its competence as to the preparation of half-year financial report and annual financial statements; it assessed the adequacy of accounting standards and their consistency for the purposes of half-year financial reports or annual financial statements. For any assessment of key risks and actions, reference should be made to the Report of the Control and Risks Committee.

The Board met the Officer in charge of Financial Reporting and the Manager responsible for the Group Internal Audit Organisational Unit, as well as the heads of other corporate functions on a periodic basis.

The Board also assessed the process to enhance the resources working within the organisational unit, aimed at reaching a quality level that is fully consistent with the Group's size and the variety of issues to be dealt with.

d) The Board of Statutory Auditors has provided ongoing coordination with the Supervision Body, in accordance with their respective functions referred to in Legislative Decree 231/2001, with which it held periodical meetings, and acknowledged that the latter has complied with its disclosure obligations, with specific reference to the special report that the Body is required to submit to the Board of Directors.

e) The Chairman of the Board also attended the two meetings held by the Corruption Prevention Coordination and Consulting Board, which was set up by the Company in 2015, is chaired by the Chairman of the Board of Directors and is composed of the Chairman of the Control and Risks Committee, the Chairman of the Surveillance Body and the Chairman of the Board of Statutory Auditors.

f) In performing its duties, the Board also organised meetings to obtain all the relevant information about the main legal actions that have involved the Company and its key subsidiaries, monitoring their developments during the year.

g) The Board met regularly the representatives of the auditing firm KPMG appointed to carry out the statutory audit of accounts, which periodically reported on the quarterly reviews carried out and related outcomes, as well as on its auditing strategy and the key issues dealt with in performing its work.

With reference to the tasks assigned to the auditing firm, reference should be made to the information provided pursuant to Article 149-*duodecies* of the Issuers' Regulation included in the annual financial report. The auditing firm confirmed the related purposes and issued the declaration required by Legislative Decree 39/2010. As regards the supervision over the auditing firm and its independence, the Board monitored compliance with the Group's procedure and Directive governing the appointment of auditing firms, which provides for specific information flows, authorisations and terms of engagement, aimed at allowing the Board of Statutory Auditors to perform the abovementioned supervisory work in an adequate manner.

Within the framework of an intense exchange of information, the Board analysed the results of the half-year and annual reports issued and took steps to update the internal procedures that regulate non-audit services awarded to the appointed auditing firm, which led to a new version of the related internal procedure. To this end, it monitored the auditor's independence on a periodic basis.

In the light of the above observations, the Board of Statutory Auditors believes that no critical issues arose in relation to the independence of the company appointed to carry out the statutory audit of accounts during the year.

The Board also paid constant attention to the exchange of information with the auditing firm for the purposes of the duties the Board is required to perform in the capacity as Internal Control and Auditing Committee (Article 19 of Legislative Decree 39/2010).

Based on the set of information acquired, no critical issues or anomalies were reported which were such as to affect the opinions provided on the Company's separate and consolidated financial statements. The auditing firm has duly issued the reports required by Articles 14 and 16 of Legislative Decree 39 of 27 January 2010, for the separate and the Group's consolidated financial statements at 31 December 2016, respectively. These reports do not contain any remark.

h) The Board has established that the obligations concerning any regulated, inside information or information required by Supervisory Authorities were complied with in full.

i) The Board has established that information was exchanged between the Parent Company and the other Group companies in a prompt manner and that the instructions given to subsidiaries, pursuant to Article 114, paragraph 2, of the Consolidated Law on Financial Intermediation, were adequate.

The audits referred to above have been aimed at gathering information and assessments concerning the administration and control systems of each company: the subsidiaries' Boards of Statutory Auditors have not reported any critical issue worthy of mention as regards these matters. All the Boards of Statutory Auditors involved have also given their favourable opinions about the adequacy of the organisational, administration and accounting system of their respective companies, as well as unambiguous and unanimous opinions about the adequacy and effectiveness of their internal control systems and the absence of systematic or significant violations of procedures.

l) With reference to the provisions of Article 36 of Consob Resolution 16191 of 29 October 2007, concerning the IT accounting systems of key subsidiaries incorporated and regulated under the laws applicable in non-EU countries, the Group Internal Audit function carried out a specific audit which was brought to the attention of the Control and Risks Committee. From that audit it emerged that all the companies concerned have an adequate administration and accounting system in place and meet the additional requirements laid down in the abovementioned Article 36 of Consob Resolution 16191/2007: therefore, no specific updating plan was required to be prepared.

m) The Board established that the purchase of treasury shares made by the Company during the year on the basis of and in conformity with the prior resolution passed by the Shareholders' Meeting, was made within the limits and in accordance with the requirements prescribed by law.

n) The Report on Corporate Governance and Shareholder Structure describes the conclusions drawn by the governing body as to the confirmation of the adequacy and effectiveness of the organisational, administration and accounting system of the Company and of its key subsidiaries, with specific reference to the internal control and risk management system, also in the light of specific in-depth analyses of the legal actions that involve the Group Companies for various reasons; as regards the latter issue, in performing its duties, the Board organised meetings to obtain all the relevant information about the main legal proceedings that have involved the Company and the Group.

3) *DESCRIPTION OF THE OUTCOME OF THE SUPERVISORY WORK.*

a) The Report on Operations submitted by the Directors, to which reference should be made, describes the most significant transactions that were carried out during 2016. It provides adequate information on intra-group or related-party transactions, which were all consistent with and met the interests of the Company and carried out at arm's length: the latter transactions were monitored by the Board of Statutory Auditors in order to establish whether the relevant regulations and, in particular, the "*Procedure for Related Parties Transactions*" adopted by the Company, had been complied with.

b) As to the most significant transactions having a considerable impact on the Company's overall operational model, it should be pointed out, first of all, that the Board of Directors continued its work involving a thorough and significant reorganisation aimed at the Group's strategic repositioning at an international level and at improving its operational efficiency. This work entailed a sharp cost-cutting programme, as well as actions concerning the key operational processes of engineering, production and supply chain, while strengthening and consolidating the Group's internal governance, in line with the structural interventions undertaken by its main competitors.

The 2016 financial year was marked by the implementation of the thorough reorganisation of the Group, which was developed in a number of areas, also including the change of its corporate name, which is now Leonardo S.p.a., and the simultaneous and considerable reduction in the number of Italian and foreign investee companies.

Within this context, the Board of Statutory Auditors also gave its contribution, within the sphere of its responsibilities and in close agreement with independent directors (and in particular with the Control and Risks Committee), to the complex and challenging path the Company had embarked on, which entailed the completion of the disposal of investments in non-core businesses, on the one hand, and, on the other, the full application of the new organisational and operational model of the One Company.

The Board focused its attention on the start of operations for the new Group's Organisational and Operational Model, which marked the shift from a number of separate legal entities to a single divisional structure that is also decentralised for the purposes of rendering the decision-making and operational units more responsible. This process has entailed the creation of divisions structured into any and all functions required for the development and management of their respective businesses, as well as technical offices and centralised functions for the coordination of divisions and support for the business, in addition to more integrated strategic guidelines, thus ensuring benefits in terms of industrial productivity, economies of scale and increased competition, which have already had a positive impact on the Company and the Group's results.

These developments, which have produced a radical transformation of the holding company into an operating entity, entailed a substantial increase of responsibilities of the Board, which is called upon to meet, by rotation and on a regular basis, the top managers of the Company and of its divisions, thus being promptly informed of the process development and of the issue of directives required to update the organisational, procedural and regulatory system.

As regards international and national companies not included in the divisional process, the Board continued to monitor the management and coordination activities carried out by the parent company and as a partner of joint ventures. Specifically, the Board's supervision over international companies was developed in collaboration with the internal audit function.

During 2016 the Board maintained its information flows with the Boards of Statutory Auditors of the key subsidiaries, paying particular attention to the corporate operations, the reliability of the internal control system and of the business organisation, the main legal actions – as required by Article 151 of the Consolidated Law on Financial Intermediation – and the compliance with the internal procedures issued by the Parent Company.

At the same time, a process of business reorganisation and combination also involved the foreign subsidiaries, specifically in the United Kingdom, where the investee companies were combined into Leonardo UK, with almost all of them becoming first-level subsidiaries.

The Board also supervised the transactions carried out during the year for the purpose of the incorporation of additional key subsidiaries (Sirio Panel S.p.A.) and the completion of disposals of non-core businesses (Fata S.p.A.).

c) Finally, the Board also gave its contribution to further strengthening the Internal Audit function and to the full application of the Anti-Corruption Code drawn up in accordance with the recommendations of the Flick Committee. This integrated system of principles of honesty and transparency, aimed at preventing and combating risks of unlawful practices in the conduct of businesses and corporate operations, together with the completion of the management process of reports (by either named or anonymous individuals) and the updating of the Organisational Model referred to in Legislative Decree 231/2001, has allowed the Company to improve its position in the Defence Companies Anti-Corruption Index.

d) Pursuant to Article 2408 of the Italian Civil Code, the Board of Statutory Auditors subsequently considered that the complaint submitted by a shareholder was unfounded and introduced an internal procedure to regulate any related information flow and any possible consequent action to be taken. No omissions nor reprehensible actions, were reported.

e) The Company complies with the Corporate Governance Code for listed companies of Borsa italiana. The Report on Corporate Governance and Shareholder Structure describes the corporate governance system and the decisions adopted. The Board of Statutory Auditors established that the Company complied with the principles and criteria laid down therein in a correct manner.

f) The Board has paid due attention to the communications to be given to the market and also monitored the updating of any related procedure.

g) In accordance with the recommendations laid down in document no. 4 that was jointly issued by the Bank of Italy and CONSOB-ISVAP on 3 March 2010, the Board hereby acknowledges that the impairment test regulated by IAS 36 obtained the favourable opinion of the Control and Risks Committee on 23 February 2017 and was approved by the Board of Directors on the same date.

h) During 2016 the Board of Statutory Auditors gave its opinion in any and all cases prescribed by law. Specifically, opinions were issued as to the correct application of criteria used to assess the directors' independence; the Board also gave its opinion as to the fees payable to the Group Internal Audit function members.

On the basis of the activities carried out until the date of this report, the Board of Statutory Auditors declares that it waives the time limits set out in Article 2429 of the Italian Civil Code for the preparation of the financial statements on the part of the Board of Directors.

Based on all the above considerations, the Board of Statutory Auditors believes that a favourable opinion can be given as to the compliance with the principles of proper administration, the adequacy of the organisational structure, as well as of the internal control and administration/accounting system, and the latter's reliability in the description of management events in a correct manner.

As regards the result for the 2016 financial year, which showed a profit of €609,111,180, the Board of Directors has detailed the formation of said result and the events that generated it in the Report on Operations and in the Explanatory Notes.

While taking account of the above considerations and within the sphere of its responsibilities, the Board of Statutory Auditors, pursuant to Article 153, paragraph 2, of the Consolidated Law on Financial Intermediation, does not report any impediment to the proposals put forward by the Board of Directors for the approval of the Financial Statements at 31 December 2016, as well as for the allocation of the related profit for the year and distribution of dividends.

Rome, 21 March 2017

THE BOARD OF STATUTORY AUDITORS

Riccardo Raul Bauer (Chairman)

Niccolò Abriani

Luigi Corsi

Francesco Perrini

Daniela Savi

INFORMATION PURSUANT TO ARTICLE 149-*DUODECIES* OF THE ISSUERS' REGULATIONS

The following statement reports the fees for the year 2016 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 2016 (€ thousands)	Notes
Auditing services	KPMG SpA	Parent Company	2,310	
	KPMG SpA	Subsidiaries	1,109	
	KPMG network	Subsidiaries	3,688	
Assurance services	KPMG SpA	Parent Company	172	(1)
	KPMG SpA	Subsidiaries	33	
	KPMG network	Subsidiaries	10	
Tax consulting services	KPMG SpA	Parent Company	458	
	KPMG network	Parent Company	-	
	KPMG SpA	Subsidiaries	-	
	KPMG network	Subsidiaries	71	
Other services	KPMG SpA	Parent Company	95	
	KPMG SpA	Subsidiaries	-	
	KPMG network	Subsidiaries	-	
Total			**7,946**	

(1) Assurance services mainly related to the sustainability report or agreed-upon procedures as agreed with the companies concerned pursuant to International Standard on Related Services (ISRS) 4400.

290

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