SIRIO PANEL S.p.A.

2016 FINANCIAL STATEMENTS

Disclaimer
These 2016 Financial Statements have been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.

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BOARDS AND COMMITTEES

BOARD OF DIRECTORS

Appointed by the Shareholders' Meeting of 10/04/2015

(for the three-year period 2015/2017)

Gianfranco Terrando - Chairman

Gabriele Pieralli - Chief Executive Officer .

Annamaria Raviola - Director

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BOARD OF STATUTORY AUDITORS

Appointed by the Shareholders' Meeting of 10/04/2015

for the three-year period 2015/2017

Marco Mugnai - Chairman

Francesca Tripodi - Regular Statutory Auditor

Pasquale Granato - Regular Statutory Auditor

INDEPENDENT LEGAL AUDITORS

(for the period 2012/2020)

Appointed by the Shareholders' Meeting of 23 March 2012

KPMG S.P.A.

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The Board of Directors and of the Board of Statutory Auditors ceased to hold office on 1 January 2017, as a result of the merger by incorporation into the parent company Leonardo Società per Azioni. Accordingly, these financial statements have been by the Corporate Bodies of Leonardo Società per Azioni, and the Board of Statutory Auditors' report to the shareholders' meeting has been prepared by the Board of Statutory Auditors of Leonardo Società per Azioni (Chairman: Riccardo Raul Bauer and Regular Statutory Auditors: Niccolò Abriani, Luigi Corsi, Francesco Perrini and Daniela Savi).

REPORT ON OPERATIONS AT 31 DECEMBER 2016

RESULTS AND FINANCIAL POSITION

Key Performance Indicators ("KPI")

	2016	2015	Changes. %
New orders	95,318	86,393	10%
Order backlog	77,895	88,752	(12%)
Revenue	106,175	88,505	20%
EBITDA	30,408	30,075	1%
EBITDA *Margin*	29%	34%	*(5%) p.p.*
EBITA	27,898	28,339	(441)
ROS	26%	32%	*(6%) p.p.*
EBIT	27,898%	28,339%	(2%)
EBIT *Margin*	26%	32%	*(6%) p.p.*
Net result before extraordinary transactions	20,895	21,280	(2%)
Net result	20,895	21,280	(2%)
Group Net Debt	(32,396)	(32,641)	(1%)
FOCF	19,748	24,002	(18%)
ROI	31%	31%	-
ROE	17%	18%	*(1%) p.p.*
Workforce	300	294	2%

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

PERFORMANCE OF OPERATIONS

With effect from 1 January 2017, Sirio Panel Spa (hereinafter also referred to as "the Company") was merged by incorporation into parent company Leonardo S.p.a. (hereinafter also referred to as "Leonardo"), with the consequent closure of the company, in the framework of the broader based process of divisionalisation of the Leonardo Group, in order to render its governance more effective and to ensure greater industrial efficiency. Specifically, Sirio Panel will enter the Airborne & Space Systems Division, one of the seven into which Leonardo is structured today, within the sector of Electronics, Defence & Security Systems.

The Company conducted business normally in 2016, continuing with the pursuit of the commercial strategies for its different products and markets and working on the design and production of the supplies in its programmes for its domestic and foreign customers.

In spite of the tension deriving from a particularly complex competitive scenario, the financial statements at 31 December 2016, as now for several years, showed a substantial rise in the main corporate ratios in terms of New Orders and Revenues; an excellent performance was also recorded in terms of both Operating Profit (EBIT) and Net Result, as well as of Free Operating Cash Flow.

The particularly favourable trend of the Company's financial position and operating results, which is, moreover, in line with or perhaps superior to those in the budget, is especially important because this successful performance has been achieved despite the Company's commitment has become increasingly intense due to the development of commercial programmes. In 2016 on one hand there was a further fall in the production rates for "military" programmes such as Eurofighter, which involve supplies with a high unit sale price and a high profit margin, while on the other hand there was a rise in the production rates for "commercial" programmes, in the sector of both aircraft and helicopters, which involve wider ranges of equipment with a lower sale price and profit margin: this it also a feature of internal and external lighting systems, the impact of which has been increasing gradually.

The good performance of revenues recorded during the 2016 financial year (+20%), with further forceful cost control measures and a careful implementation of a Design to Cost, Concurrent Engineering and Make/Buy policy, enabled the Company to achieve a profit (EBIT) of about €mil. 28, substantially in line with 2015, with an operating profit of about 26%.

The achievement of good results of operations, together with a careful management of working capital that was also implemented during 2016, allowed the generation of liquid assets of about €mil 20 at an operating level (FOCF), thus recording a positive Net Financial Position of about €mil. 32.4 at the end of the financial year.

The Company also continued to pursue its R&D investment policy, incurring total costs of about €mil. 6.9, including those recharged to customers, during 2016.

The key production programmes, which ensure almost all revenues and profits, are mainly those relating to Airbus, which is the most important customer in terms of volumes and revenues, including, in particular, the A320, A400M e A350 – Goodrich, JSF, Eurofighter and helicopter (NH-90 and the key products in the Helicopters Division of Leonardo) programmes. To ensure that it provides the "On Time Delivery" services required under conditions imposed in commercial programmes with a high production rate which, following a fully successful development, are approaching the "Ramp Up" phase, the Company is in fact operating by employing "Make To Stock" and "Assembly To Order" methods, which are based on the manufacture of semi-finished goods (or finished goods if their value is low) to allocate to warehouse stocks, whose value is a function of the increase in production rates.

While commercial aircraft programmes give the Company revenues for at least ten years ahead, on the other hand they are subject to risks which are typical of this business sector, well known to the international aviation community, which usually enters into contracts which lay down rigorous obligations in terms of industrial and after-sales performance.

In order to mitigate such risks, the Company continued with its environmental and functional Stress Tests in 2016 as well, which had already been started in 2015. Tests were conducted on the products developed in order to intercept as many latent technical defects as possible and prevent them from coming to light during use.

There was further consolidation of the industrial structure in 2016 with the objective of achieving greater efficiency, indispensable in order to execute the programmes acquired. In this context there was the construction of Transponder TRA-100B for Honeywell, for which a volume of more than 25,000 units is estimated to be achieved over five years at the site located in Montevarchi.

The 2016 financial year still recorded successful results from sales for new orders of €mil. 95.3 gained for both well-established programmes and new projects.

OUTLOOK

On 1 January 2017 the Company was merged by incorporation into parent company Leonardo Società per azioni and, in accordance with the merging company's organisational and operating model, entered the Airborne & Space Systems Division, in which work will continue towards its pursuit of stable, orderly and balanced growth both in terms of profitability and cash flows, through the continuation of improvement plans that were already started during the previous year and the launch of new projects that have been outlined in the new business plan.

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Business performance

Revenues showed a net total increase of about €mil. 17.7 (20%) compared to 2015. This growth was essentially due to the volumes recorded by the key civil aviation programmes in which the Company is involved, such as the supply of objects for the cockpit of the Airbus A320, and A350wxb aircraft, as well as of their Lighting systems, both internal and external. Furthermore, note the supplies for ATR42/72 aircraft, as well as the order relating to the lighting system of helicopters for the US Army, which entered into production during 2016.

EBIT was about €mil. 0.4 lower owing to the increasing proportion of commercial aviation contracts, the area in which there is most competition and margins are lower than those in the military market. Consequently, the **net result and the net result before extraordinary transactions** showed a decrease of about €mil. 0.4.

The table below shows the reclassified statement relating to the business performance for the 2016 financial year compared to 2015.

Euro thousands	***2016***	***2015***	***Change***	***Change %***
Revenue	**106,175**	**88,505**	17,670	20%
Purchase and personnel expense	73,468	56,744	16,724	29%
Other net operating income/(expenses)	(2,299)	(1,685)	(614)	36%
EBITDA	**30,408**	**30,076**	**332**	**1%**
EBITDA Margin	*29%*	*34%*	*(5%) p.p.*	
Amortisation, depreciation and impairment losses	2,510	1,737	773	45%
EBITA	**27,898**	**28,339**	**(441)**	**(2%)**
ROS	*26%*	*32%*	*(6%) p.p.*	
EBIT	**27,898**	**28,339**	**(441)**	**(2%)**
EBIT Margin	*26%*	*32%*	*(6%) p.p.*	
Net financial income/(expenses)	1,058	(12)	1,070	n/a
Income taxes	(8,061)	(7,047)	(1,014)	14%
Net result before extraordinary transactions	**20,895**	**21,280**	**(385)**	**(2%)**
Net Result related to *discontinued operations*	-	-	-	-
Net result	**20,895**	**21,280**	**(385)**	**(2%)**

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Financial performance

The Company’s financial position continued to be sound, generating a Free operating cash flow of €mil. 20 during 2016 (€mil. 24 in 2015).

Below is the reclassified statement of cash flows at 31 December 2016 compared to 2015:

Euro thousands	***2016***	***2015***	***Change +/-***	***Change %***
Funds From Operations (FFO)	**24,324**	**28,078**	(3,754)	(13%)
Change in working capital	(4,302)	(3,744)		
Cash flow from ordinary investing activities	(274)	(332)		
Free Operating Cash-Flow (FOCF)	**19,748**	**24,002**	(4,254)	(18%)
Change in other investing activities	7	-		
Dividends paid	(20,000)	(9,000)		
Net change in loans and borrowings	(611)	(15,991)		
Net increase/(decrease) in cash and cash equivalents	**(856)**	**(989)**		
Cash and cash equivalents at 1° January	**3,927**	**4,916**		
Exchange rate differences and other changes	-	-		
Cash and cash equivalents at 31 December	**3,071**	**3,927**		

The table below shows the statement of financial position at 31 December 2016 compared to 31 December 2015:

Euro thousands	*Note*	*31.12.2016*	*31.12.2015*	*Change*	*Change %*
Non-current assets		30,248	30,737	(489)	(2%)
Non-current liabilities		(11,064)	(9,179)	(1,885)	21%
Capital assets	*(*)*	**19,184**	**21,558**	**(2,374)**	**(11%)**
Inventories		63,107	62,869	238	0%
Trade receivables	*(**)*	44,138	29,819	14,319	48%
Trade payables	*(***)*	(30,988)	(20,438)	(10,550)	52%
Working capital		**76,257**	**72,250**	**4,007**	**6%**
Provisions for short-term risks and changes		(6,170)	(3,540)	(2,630)	74%
Other net current assets (liabilities)	*(****)*	1,377	(733)	2,110	288%
Net working capital		**71,464**	**67,977**	**3,487**	**5%**
Net invested capital		**90,648**	**89,535**	**1,113**	**1%**
Equity		**123,044**	**122,176**	**868**	**1%**
Net debt (funds)		**(32,396)**	**(32,641)**	**245**	**(1%)**

Notes to the reconciliation between the reclassified and the statutory statements of financial position:
(*) Includes all non-current assets and non-current liabilities net of "Non-current loans and borrowings".
(**) Includes "Contract work in progress".
(***) Includes "Progress payments and advances from customers".
(****) Includes "Other current assets" net of "Other current liabilities" and "Income tax payables".

Capital assets showed a decrease of €mil. 2.4, mainly for the payables to the Ministry of Economic Development for "royalties" under Law 808/1985.

Working capital showed an increase of €mil. 3.5, thanks to an increase in trade receivables as a result of increased volumes with respect to the comparative financial year.

Net Debt

For more complete information, the table below reports the Net Debt, the amount of which shows a positive Net Financial Position at 31 December 2016 and 2015.

Euro thousands	***31.12.2016***	***Of wihich current***	***31.12.2015***	***Of wihich current***
Bank dept	3,071	*3,071*	3,927	*3,927*
NET BANK DEBT (FUNDS) AND BONDS	**(3,071)**		**(3,927)**	
Current loans and receivables from related parties	30,612	*30,612*	30,215	*30,215*
Financial loans and receivables	**30,612**		**30,215**	
Other loans and borrowings	1,287	*328*	1,501	*215*
NET FINANCIAL DEBT (FUNDS)	**(32,396)**		**(32,641)**	

The financial position at 31 December 2016, as detailed below in the Notes commenting on the items of the Financial Statements, showed a net credit position of about €mil. 32.4, including:

- Cash and cash equivalents of €mil. 3.1 in current accounts held with various Banks;
- A credit balance of €mil. 30.6 in the transaction account held with parent company Leonardo;
- A balance of €mil. 1.3 of debt to the Tuscany Regional Government for a 7-year loan expiring on 31 December 2022, out of the regional Funds under the ROP (Regional Operational Programme) CReO (Creativity and Occupation) 2007-2013.

OTHER PERFORMANCE INDICATORS

	2016	2015	*Changes %*
FFO	2,.324	28,078	*(13,4%)*
Research and Development expenses	6,869	6,384	*7,6%*

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

"NON-GAAP" PERFORMANCE INDICATORS

The Management assesses the Group's economic and financial 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 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 year 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 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).

EBITA is to EBIT, in the absence of Adjustment items, for the periods under comparison.

- ***Return on Sales (ROS):*** this is calculated as the ratio of EBITA to revenue.
- ***EBIT:*** is equal to EBIT (defined as earnings before "financial income and expense", "income taxes" and "result from discontinued operations").
- ***Net result before extraordinary transactions***: this is the Net Result before the result from Discontinued Operations and the effects of the extraordinary transactions (mainly acquisitions and disposals).

The Net result before extraordinary transactions is equal to Net Result, in the absence of Adjustment items, for the periods under comparison.

- ***Net Debt:*** this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings. For the breakdown of its composition, reference should be made to Note 17.
- ***Free Operating Cash-Flow (FOCF)***: this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Net Debt), the cash flows from ordinary investing activities (intangible assets, property, plant and equipment) and dividends. The calculation of FOCF is presented in the reclassified statement of cash flows shown in the section "*Financial performance*".
- ***Return on Investments (ROI)***: this is calculated as the ratio of EBITA to the average net capital invested in the two comparative financial years.
- ***Return on Equity (ROE):*** this is calculated as the ratio of the net result to the average value of equity in the two comparative financial years.
- ***Workforce***: the number of employees recorded in the register on the last day of the financial year.
- ***Funds From Operations (FFO):*** this is cash flow generated by (used in) operating activities, net of changes in working capital.
- ***Research and Development expenditure:*** the Company classifies under R&D all internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. The item includes development costs capitalised even if covered by grants:
  - research costs, whose activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, or development costs for which the accounting requirements for capitalisation do not obtain, are expensed as incurred

– research and development costs reimbursed by the customer as part of existing contracts (which fall under the scope of work in progress from an accounting viewpoint).

RELATED PARTY TRANSACTIONS

In compliance with Article 2497-bis of the Italian Civil Code, it should be noted that the Company was subject to direction and coordination by Parent Company Leonardo until 31 December 2016. The highlights of the last financial statements approved by Leonardo S.p.a. are reported in the annex that is attached hereto as Appendix no. 10.

Within the Leonardo Group, Sirio Panel S.p.A. joined the Group VAT procedure and Group taxation regime (national tax consolidation) for IRES (Corporate Income) tax purposes from 1 January 2004; the related agreement, which was extended on 18 December 2015, will remain in force for the three-year period from 2016 to 2018 and is governed by the regulation in force from 2013.

For an adequate and full understanding of the financial position, results of operations and cash flows of the Company at 31 December 2016, as well as of the results of operations achieved by the Company during the financial year ended on that date, reference should be made to the financial statements, including the Independent Auditors' Report, which are available in the forms and manners prescribed by law.

It should be noted that in 2010 Leonardo issued a specific "Procedure for Related Parties Transactions" (hereinafter referred to as the "Procedure") – last update on 20 December 2016 - pursuant to CONSOB Regulation no. 17221 of 12 March 2010, as amended and supplemented (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 area, Related Parties section).

For the sole purposes of additional disclosures to be provided in the Report on Operations pursuant to Article 5 of CONSOB Regulation adopted by resolution no. 17221 of 12 March 2010 (related party transactions), the definition of related parties should make express reference to the Procedure, applicable to all the Leonardo Group Companies, which was issued in 2010 and updated on 20 December 2016.

The values concerning related party transactions that took place during the 2016 financial year and in 2015, the details of which are reported in Note 30, are summarised below. In addition to the Parent Company and to the companies with which Sirio Panel S.p.A. maintains direct and indirect investment relationships, the definition of related parties should make reference to IAS 24 – Related Party Disclosure. Furthermore, it should be noted that related parties also include the companies subject to control from the Ministry of Economy and Finance (MEF).

The Company maintained both commercial and financial relationships with parent company Leonardo in 2016 as well. These dealings, conducted at arm's length, are to be seen essentially in the context of the similarity of the sectors in which the two companies operate.

	Parent company	Consociates (*)	Other related parties (**)	Total
Current receivables				
- financial	30,611	-	-	**30,611**
- trade	16,995	4,214	-	**21,209**
- other	5,148	-	-	**5,148**
Current payables				
- trade	807	2,380	42	**3,228**
- other	1,842	-	-	**1,842**

	Parent company	Subsidiares	Consociates (*)	Other related parties (**)	Total
Revenue	31,074	-	5,705	-	**36,779**
Costs	(1,164)	(208)	(4,224)	(327)	**(5,923)**
Financial income	3	-	-	-	**3**

(*): companies subject to the control and coordination by Leonardo S.p.A.
(**): investees of the Ministry of Economy and Finance

SUSTAINABILITY

Employees and organisation

Below is the breakdown of total staff members, including permanent and temporary staff, at 31 December 2016:

Breakdown of employees	**31 December 2016**	**31 December 2015**	**Change**
On the payroll:			
Managers	5	6	(1)
Junior Managers	21	20	1
White collars	135	134	1
Blue collars	139	134	5
	300	**294**	**6**
Flexible resources :			
Temporary workers	67	26	41
Internships	-	7	(7)
	67	**33**	**34**
Total workforce	**367**	**327**	**40**

Five persons in all, counting permanent and temporary staff, left the Company in 2016 while there were eleven new hires (a net increase of 6 units).

Four employees were promoted to white-collar jobs and one employee became a middle manager.

There are no Fixed-term employees on the registration books.

The workforce in active employment was equal to 294 people, of which 190 direct, about 65% of the registered workforce. This represented approximately the same proportion between directly and indirectly employed as in 2015, while the average number of temporary workers (also including apprentices) was 42 people, including 3 office and 39 manual workers.

In 2016 labour cost came to about €mil. 15.4, showing an increase of about €mil. 0.7 in absolute values compared to 2015, as a result of both an increased average number of people employed and pay increases as per contract recorded during the financial year.

In percentage terms the impact on total revenues came to about 14%, down by 2% compared to 2015.

The Environment

Sites

The site on which the Company operated:

- is not subject to IPPC (Integrated Pollution Prevention and Control) regulations;
- does not fall within the scope of application of Legislative Decree 334/99, as amended and supplemented (Risk of Major Accident);
- is not among Sites of National Interest (S.I.N., Sito di Interesse Nazionale) as per Law 426/1998, as amended and supplemented;
- is not subject to environmental reclamation;
- does not fall within the scope of application of the Emission Trading Directive.

Energy

Energy is procured from the ENEL Energia S.p.A. grid.

Electricity consumption continued to be monitored during 2016.

Water Resources Management

The water supply comes from the council mains. Water treatment only involves domestic or similar waste water, which is discharged into the public sewage system. Small quantities of water are also drawn from wells but are only used for the irrigation of green areas.

Waste Management

Production residues are stored in two temporary depots, sorted by EWC (European Waste Catalogue) code and disposed of by Consorzio Prisma Srl in Signa (Province of Florence), which collects them from the depots, takes them to authorised centres and notifies Sirio Panel S.p.A. on certified forms.

The amount of waste handled in 2016 was higher, mainly owing to septic tank cleaning. On the contrary, both hazardous and non-hazardous waste from production processes showed a decrease compared to 2015.

Hazardous Substances Management

Like special waste, hazardous waste is stored in two temporary depots, sorted by EWC (European Waste Catalogue) code and disposed of by Consorzio Prisma Srl, through the same process as that described with reference to waste management.

The Company is subject to REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulations as a manufacturer of articles and not of chemical substances. The composition of the mixtures used in the Company's products ("articles" under the REACH regulations) may include SVHCs (Substances of Very High Concern), which are considered "hazardous" and the list of which is updated at European level and published on the website of ECHA (European Chemicals Agency).

Present activity consists in monitoring the "hazardous" substances in this list and checking whether any of them are contained in the chemical compounds used in manufacturing. If appropriate the Company contacts the supplier with regard to the application of REACH regulations.

CO2 Emission

The Company's conditioning systems no longer use the R22 substance, which was present until December 2015.

Strategic guidelines and management approach

The Company devotes great attention to continuous improvement in its approach to the environment and to worker health and safety with the aim of minimising the environmental impact of its activities, products and services, pursuing sustainable development and providing a safe and healthy workplace for its employees and for anyone present on its premises, taking particular care with the prevention of accidents and the minimisation of risks by:

- seeking the continuous improvement of environment and safety performance, setting targets and goals which are reviewed periodically and aimed in particular at the prevention of accidents and energy saving;
- committing itself to informing everyone in the Company, at all levels, of the objectives of the environment and safety management system and any related implementing programme;
- complying with environmental and safety legislation and regulations in force, as well as with the provisions and voluntary agreements entered into, while cooperating with Institutions, Local Entities and Industrial Organisations.

The key instrument for the pursuit of these aims has been found to be control over corporate processes by means of the adoption of an Integrated Environment and Safety Management System according to ISO 14001 and OHSAS 18001 standards at our site.

Environment and safety at work factors are considered essential from the time plans are made for new activities or products or when existing activities or products are reviewed.

The Company has held an "Environment and Safety" certification for some years according to ISO 14001:2004 (environmental certification of our production site) and BS OHSAS 18001:2007 (health and safety at work management system) standards.

The periodic meetings to verify that the Company satisfies the certification requirements were held successfully in 2016.

Innovation and disclosure of best practices

All the improvements measures that had started to be taken last year were systematically carried on with in 2016:

- monitoring of our energy consumption,
- the reduction of ozone-depleting gases in the systems serving the plant,
- the obligation to take training in safety at work was extended to all employees.

Communication, training and information

Since all levels in the Company must play a part in the correct management of safety and environmental issues, the Company wishes to foster internal and external communication, involving and consulting employees and all those who have roles in the Company's activities and making them aware of their responsibilities by means of awareness, information and training programmes.

Training in the Integrated Environment and Safety Management System continued in 2016, with the main aims of deepening knowledge of the System and extending training activities to the workers in operating departments as to key environmental issues (waste management and ADR [European Agreement concerning the International Carriage of Dangerous Goods by Road]).

Research and Development activities

During 2016 the Company strengthened its R&D investment policy, incurring total costs of about €mil. 6.9, about 6.4% of revenues.

The Company, whose corporate mission is to develop components for airborne systems, a high technology sector, has a considerable number of highly qualified resources who conduct innovative technology R&D work to enable it to remain one of the main world players in the supply of this type of products.

During 2016 the following new development work activities began and the development of the following previously acquired programmes was completed:

- work began on designing and developing the units (more than 40 new part numbers) composing the cockpit of next-generation OPVs (Offshore Patrol Vessels) (Naval Law), mainly consisting of high-resolution touchscreen displays (4K);
- work began on designing and developing the cockpit units and external lighting systems for the business jet of Pilatus PC24;
- work began on designing and developing the cockpit units of the Tilt-Rotor AW609 in the Helicopters sector of Leonardo;
- new displays started to be developed for military aircraft applications, with Japan opening up fresh market opportunities;

- the internal development of a Large Area Display (LAD) for applications in the cockpits of various types of aircraft began;
- internal research work started for the construction of a Laser Search Light with innovative state of the art technology;
- internal research work started for a future touchscreen display control board, which is also a graphic server, for an “Overhead panel” to be used in business jet aircraft;
- work continued on developing eBAU systems, Cockpit and Cargo Lighting systems, External Lighting systems, Aircraft Panels, Panels of General Systems and Dimmer Units, for the air transport aircraft C-27J in the Aeronautics sector of Leonardo;
- work continued and expanded its scope on the development of equipment for the basic one-engine trainer M-345, such as internal Lighting systems, external Lighting systems, Control GRIP and HOTAS directly with the Aeronautics sector of Leonardo, and other very complex equipment such as Multi-Functional Displays, UFCP, DVDR, LGCP-LGCU supplied to customers in the Electronics, Defence & Security Systems of Leonardo and MECAER AVIATION GROUP S.p.A.;
- development work was built on and expanded for the Chinese firm Xi’an Aircraft Company Limited of the AVIC (Aviation Industry Corporation of China) of Cockpit Lighting Systems, Cargo & Service Areas Lighting Systems and Emergency Lighting Systems, for the new MA-700 turboprop aircraft on the commercial market;
- work was completed on developing new controllers for De-Icing systems, such as the Pneumatic De-Icing System Controller (to be used on board the MA-700 turboprop aircraft) and the Timer Box (to be used on board the AG-600 amphibious seaplane of AVIC) for the customer ZODIAC AEROSAFETY SYSTEMS;
- work was completed on the development and approval of the Display Panel units LCD 3.7" and 5" for Airbus Defence and Space GmbH for multi-platform purposes;
- work was completed on the approval and certification of the LED lights “Search Light” for the US Army;
- work was completed on CDRs of External Lighting Systems and Cockpit Control Panels and Control Units for the SSJ100 aircraft of SCAC;
- work was completed on the approval and certification of units for the Cockpit Lighting System of new civil transport aircraft of Embraer, E-175, E-190, E-195, E-JETS E2, and for the Military transport aircraft KC390 Embraer.

Units with capacitive sensing touchscreens are being developed increasingly in the sector of airborne displays. The preparation of this equipment for airborne applications is constantly evolving and requires a substantial commitment to innovation.

Particularly to be mentioned is the development work carried out for Leonardo's Helicopters sector, with which Sirio Panel has always closely collaborated within the development of control and Lighting Systems for its characteristics of flexibility and technology innovation. Accordingly, during 2016 work was completed on the development, approval and certification of flight controls and internal and external lighting systems for AW169, AW189, AW101 and AW609 helicopters. Some equipment in the cockpits was also developed and personalised for existing helicopters (AW139, AW109, AW159).

In 2016 the Company's steady expansion in its sector took the form of acquisitions of additional complete systems, opening up to new markets and starting on internal research projects preparatory to the introduction of new expertise and technology. With programmes like the Pilatus business jet, the Tilt-RotorAW609, the new OPVs of the Navy, and internal development work on new products and technologies, the Company will be able to increase its penetration of the world airborne products market.

There were over 95 persons working in R&D, counting both internal and external resources, highly specialised mechanical, electronic, electro-optical and software development technicians. The Company also offers internships and subsidises the writing of degree theses at various Tuscan universities, and also follows, and is engaged in, various research work on both European and Italian projects.

As far as high technology R&D projects for companies in Tuscany are concerned, the Company completed research on a RCILS (Remote Control Integrated Lighting Systems) project, which enabled it to borrow this technology for use in the external lighting system of the Pilatus PC24 Business Jet and to develop a wireless remote control passenger cabin lighting system.

As regards other already existing research projects, technological work which came to fruition on plastic and metal materials and their treatment led to the creation of protective external light glazing, which also gave rise to a European Patent, and a study of touchscreens with the capacity to generate tactile feedback.

To support all these projects, the Company is constantly boosting the quality and extent of its R&D capacity in the lighting, airborne touchscreen display and complex data processing systems in order to heighten its ability to offer innovation and compete in the world airborne products market.

COMPANY'S OFFICES

Pursuant to Article 2428, paragraph 4, of the Italian Civil Code, it should be noted that the Company conducted its business at the premises of the registered office located in the district of the Municipality of Montevarchi (Province of Arezzo), at Via della Lama, 13 Loc. Levanella Becorpi.

CORPORATE GOVERNANCE

This section provides some information on the Corporate Governance system and structure in place at Sirio Panel S.p.A. as at 31 December 2016.

Ownership Structure

The Share Capital of Sirio Panel S.p.A. was only divided into ordinary shares, which are wholly held by Leonardo S.p.a..

Company Organisation:

The organisation of the Company, based on the traditional model, was structured as follows:

- BOARD OF DIRECTORS, vested with the broadest powers for the administration of the Company, with the power to perform any and all appropriate acts for the attainment of the corporate purpose, except for acts that are reserved by Law or the By-Laws to the Shareholders' Meeting;
- BOARD OF STATUTORY AUDITORS, whose duty was to oversee compliance with the law and with the memorandum of association, the principles of proper administration and especially the adequacy of the organisational, administrative and accounting structure adopted by the Company and its functioning in practice;
- SUPERVISORY BOARD, whose duties were to ensure that corporate risks are identified in order to comply with Legislative Decree 231/2001, as well as to assess the adequacy of the internal control system, to conduct audits in order to verify the efficiency of corporate processes and procedures and to support the governing body in deciding on and drawing up measures to be taken for the best implementation of organisational models;
- SHAREHOLDERS' MEETING which was competent to pass resolutions in ordinary and extraordinary meetings on the matters that are reserved to it by Law or the By-laws;
- INDEPENDENT AUDITORS, which were assigned the responsibility for the statutory audit of accounts, as permitted by the regulations in force.

Organisational, Management and Control Model pursuant to Legislative Decree 231/2001

In December 2015 activities were completed, with the approval from the Board of Directors, to bring the Organisational, Management and Control Model under Legislative Decree 231/2001 into line with the regulatory developments that were reported during the year.

Ernst & Young was appointed to review the Model and bring it up to date with the main changes made to the "general" and "special" parts.

PROPOSAL TO THE SHAREHOLDERS' MEETING

Financial Statements at 31 December 2016 of Sirio Panel S.p.A.; Report of the Board of Directors, Report of the Board of Statutory Auditors and Independent Auditors' Report. Resolutions related thereto. Presentation of the Financial Statements at 31 December 2016.

Dear Shareholders,

the 2016 financial statements, which we submit for your approval, close with a net profit of Euro 20,894,940.51.

In light of the foregoing, and in consideration of the merger by incorporation into Leonardo Società per Azioni with effect from 1 January 2017, we submit the following proposed resolution for your approval:

"The Ordinary Shareholders' Meeting:

- 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 S.p.A..

resolves

to approve the Directors' Report on operations and the financial statements at 31 December 2016 of Sirio Panel S.p.A."

Rome, 15 March 2017

For the Board of Directors of

Leonardo Società per Azioni

The Chairman

(Giovanni De Gennaro)

ACCOUNTING STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

SEPARATE INCOME STATEMENT

Euro	*Note*	***2016***	***of which with related parties***	***2015***	***of which with related parties***
Revenue	*24*	106,175,460	*36,779,606*	88,504,606	*38,191,211*
Other operating income	*25*	2,191,985		1,262,361	
Purchases and personnel expense	*26*	73,592,519	*5,922,321*	56,744,755	*6,095,126*
Ammortisation and depreciation	*27*	2,509,827		1,735,908	
Other operating expenses	*25*	4,366,700		2,947,471	
Income before tax and financial expenses		**27,898,399**		**28,338,834**	
Financial income	*28*	1,257,813	*3,308*	203,260	*3,308*
Financial expense	*28*	199,995	-	214,318	*2,525*
Operating profit (loss) before income taxes		**28,956,217**		**28,327,777**	
Income taxes	*29*	(8,061,276)		(7,047,809)	
Net profit/(loss) for the period		**20,894,941**		**21,279,968**	

STATEMENT OF COMPREHENSIVE INCOME

Euro	*Note*	***2016***	***2015***
Profit (loss) for the year		**20,894,941**	**21,279,968**
Other comprehensive income (expense)			
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:			
- Measurement of defined benefit plans:		-	-
. revaluation	*20*	*(34,941)*	*61,107*
Total other comprehensive income (expense), net of tax		**(34,941)**	**61,107**
Total comprehensive income (expense)		**20,860,000**	**21,341,075**

STATEMENT OF FINANCIAL POSITION

Euro	*Note*	**31 December 2016**	***of which with related parties***	**31 December 2015**	***of which with related parties***
ASSETS					
Intangible assets	*7*	8,398,311		9,226,400	
Property, plant and equipment assets	*8*	13,344,684		13,222,807	
Equity investments	*9*	-		6,990	
Receivables	*10*	6,235,284	-	6,705,539	
Deferred tax assets	*29*	2,270,106		1,574,777	
Non-current assets		**30,248,385**		**30,736,513**	
Inventories	*11*	23,886,372		20,582,442	
Contract work in progress	*12*	40,690,159		43,062,914	
Trade receivables	*13*	44,138,016	*21,209,102*	29,817,770	*18,456,245*
Loans and receivables	*13*	30,611,540	*30,611,540*	30,215,324	*30,215,324*
Income tax receivables	*14*	-		107,518	
Other assets	*15*	7,139,492	*5,147,895*	4,307,003	*2,592,743*
Cash and cash equivalents	*16*	3,071,261		3,927,386	
Current assets		**149,536,841**		**132,020,358**	
Total assets		**179,785,225**		**162,756,871**	
EQUITY AND LIABILITIES					
Equity					
Share capital		447,228		447,228	
Other reserves		122,596,794		121,728,532	
Total equity	*17*	**123,044,022**		**122,175,760**	
Loans and borrowings (non-current)	*18*	958,661		1,285,826	
Employee benefits	*20*	1,759,567		1,790,707	
Deferred tax liabilities	*29*	3,266,056		3,441,487	
Other non-current liabilities	*21*	6,038,575		3,947,109	
Non-current liabilities		**12,022,859**		**10,465,129**	
Progress payments and advances from customers	*12*	1,469,958	-	775,755	
Trade payables	*22*	30,987,732	*3,228,707*	20,438,373	*4,238,467*
Loans and borrowings (current)	*18*	327,819		214,994	
Income tax payables	*14*	144,911		-	
Provisions for short-term risks and charges	*19*	6,169,937		3,539,937	
Other current liabilities	*21*	5,617,988	*1,841,616*	5,146,924	*1,083,764*
Current liabilities		**44,718,345**		**30,115,983**	
Total liabilities		**56,741,204**		**40,581,111**	
Total liabilities and equity		**179,785,225**		**162,756,871**	

STATEMENT OF CASH FLOWS

Euro	*Note*	*2016*	*of which with related parties*	*2015*	*of which with related parties*
Gross cash flows from operating activities	*30*	35,961,051		33,530,755	
Change in working capital	*30*	(4,302,340)	(3,762,618)	(3,742,981)	142,055
Change in other operating assets and liabilities and provisions for risks and charges	*30*	(3,614,686)	2,56,760	86,866	40,124
Interest paid		(114,611)	(3,308)	14,970	4,064
Income taxes paid		(7,908,937)		(5,553,282)	
Cash flows generated (used) from operating activities		**20,020,577**		**24,336,328**	
Investments in property, plant and equipment and intangible assets		(2,003,304)		(1,983,398)	
Sales of property, plant and equipment and intangible assets		206,990	6,990	0	
Other investing activities		1,530,168		1,650,236	
Cash flows generated (used) from investing activities		**(266,146)**		**(333,162)**	
Dividends paid	*17*	(20,000,000)	(20,000,000)	(9,000,000)	(9,000,000)
Net change in other loans and borrowings		(610,556)	(396,216)	(15,991,455)	(15,991,455)
Cash flows generated (used) from investing activities		**(20,610,556)**		**(24,991,455)**	
Net increase (decrease) in cash and cash equivalents		(856,125)		(988,289)	
Cash and cash equivalents at 1 January		3,927,386		4,915,675	
Cash and cash equivalents at 31 December		**3,071,261**		**3,927,386**	

STATEMENT OF CHANGES IN EQUITY

Euro	**Share capital**	**Retained earnings**	**Reserve for *stock-option/ grant plans***	**Other reserves**	**Total Equity**
1° January 2015	**447,227**	**27,511,055**	**-**	**81,864,633**	**109,822,915**
Profit (loss) for the period	-	21,279,968	-	-	21,279,968
Other comprehensive income (expense)				61,107	61,107
Total comprehensive income (expense)	-	21,279,968	-	61,107	21,341,074
Dividends resolved	-	(9,000,000)	-	-	(9,000,000)
Change in stock option reserve			11,770		11,700
Total transactions with owners of the parent, recognised directly in equity	-	(9,000,000)	11,770	-	(8,988230)
Other changes		- 8,167,997		8,167,997	-
31 December 2015	**447,227**	**31,623,026**	**11,770**	**90,093,737**	**122,175,760**
1° January 2016	**447,227**	**31,623,026**	**11,770**	**90,093,737**	**122,175,760**
Profit (loss) for the period	-	20,894,941	-	-	20,894,941
Other comprehensive income (expense)				(34,941)	(34,941)
Total comprehensive income (expense)	-	20,894,941	-	(34,941)	20,860,000
Dividends resolved	-	(20,000,000)	-	-	(20,000,000)
Change in stock option reserve			8,262		8,262
Total transactions with owners of the parent, recognised directly in equity	-	(20,000,000)	8,262		(19,991,738)
Other changes					
31 December 2016	**447,227**	**32,517,966**	**20,032**	**90,058,796**	**123,044,021**

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

1. GENERAL INFORMATION

The Financial Statements at 31 December 2016, which are expressed in thousands of Euros, relate to **Sirio Panel S.p.A**., a company that is active in the design and production of command and control panels, keyboards, displays, electronic equipment and components for airborne system.
The Company was merged by incorporation into parent company Leonardo S.p.a. with effect from 1 January 2017.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 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 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 financial statements at 31 December 2016 were prepared on a going-concern basis and are made up of the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the explanatory notes.
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 items. Instead, the statement of cash flows was prepared using the indirect method.
The International Financial Reporting Standards (IFRS) used for preparing these financial statements are the same that were used in the preparation of the separate financial statements at 31 December 2015.
Preparation of the financial statements required management to make certain estimates.
Specifically, the Company makes use of sensitive estimates in the preparation of the financial statements as regards the final estimates of work in progress, which determine the margin attributed to the progress of works.
The Board of Directors of 15 March 2017 resolved to submit to shareholders the draft financial statements at 31 December2016.
These financial statements, which were prepared according to IFRSs, were subject to a statutory audit by KPMG S.p.A..

3. ACCOUNTING POLICIES ADOPTED

3.1 Currency translation

3.1.1 <u>Identification of the functional currency</u>

The financial statements have been prepared in Euros, which is the functional currency of Sirio Panel S.p.A..

3.1.2 <u>Translation of items denominated in a foreign currency</u>

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, except in the case of a continuing unfavourable performance of the relevant exchange rate; in this case foreign exchange differences are charged to profit or loss.

3.2 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 fixed assets 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.

3.2.1 <u>Development costs</u>

This account includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, 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, and in any case for a period not exceeding 10 years. If such costs fall within the scope of costs defined as "non-recurring costs", they are recognised in the specific item under intangible assets (Note 4.1).
Research costs, on the other hand, are expensed in the period in which they are incurred.

3.2.2 Industrial patent and intellectual property rights

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

3.2.3 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 and its range is between 3 and 15 years.

3.3 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 capital 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 Company for the various asset classes are as follows:

	Years
Land	indefinite useful life
Industrial buildings	useful life of 33 years
Light constructions	useful life of 10 years
Specific plants and machines	useful life of 6.5 years
Coating furnaces	useful life of 6.66 years
Furniture, fittings and ordinary office machines	useful life of 8.33 years
Electronic office machines	useful life of 5 years
Production equipment	useful life of 4 years

The estimated useful life and residual value are revised on a periodical basis.
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 distinct elements with useful lives that are significantly 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.

3.4 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.

3.5 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.
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.

3.6 Equity investments

The Company classifies its equity investments as follows:

- ‘subsidiaries’ in which the owner of the interest has the power to determine the financial and operating decisions and to receive the related benefits;
- ‘associates’ in which the owner of the interest exercises significant influence (which is assumed to exist when owner can exercise at least 20% of the votes in the ordinary shareholders' meeting). This also includes companies subject to joint control (joint ventures);
- “parents” if the Company owns shares of its parent;
- “other companies” that do not fall under any of the categories above.

Equity investments due to be sold and those purchased for the sole purpose of being sold within twelve months are classified separately under ‘assets held for sale’.

Subsidiaries (including those subject to joint control), associates and other companies, with the exception of those that are held for sale, are recognised at the cost of purchase or start-up. This amount is maintained in subsequent financial statements except in the event of impairment losses or the reversed thereof, following a change in its economic use or equity transactions. Equity investments held for sale are carried at the lower of the cost and fair value net of sales costs.

The Appendix to these explanatory Notes provides a summary of investees. Figures for subsidiaries are taken from the respective draft financial statements at 31 December 2016 approved by the Board of Directors; for associates and other companies, the carrying amounts of the equity investments were matched against the equities of the investees, as shown in the latest available financial statements approved.

The "provision for risks on equity investments" includes any impairment losses exceeding the carrying amount. If the reasons for such impairment losses should cease to exist, the asset’s carrying amount is restored within the limits of the original cost.

3.7 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.

A precise analysis of stock is carried out in order to establish whether the value entered in the accounting statement is consistent with the provisions indicated above. Specifically, the amount of any slow moving goods is recognised under a specific provision for write-down that is taken as a direct reduction in the values of accounting inventories.

The Company classifies inventories into the following categories:

- Raw materials, supplies and consumables
- Work in progress and semi-finished goods
- Finished goods

- Merchandise
- Advances

Work in progress is valued at production cost by using the weighted average cost method, excluding financial and general structure costs.

3.8 Contract work in progress

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

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

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

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

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

Contracts with payments in a currency other than the functional currency (the Euro for the Company) 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 Company'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 Notes below are applied.

3.9 Receivables and Financial Assets

The Company 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.

3.9.1 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.

3.9.2 Financial assets held to maturity

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.9.3 Financial assets available for sale

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.10 Derivatives

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.11 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.

3.12 Equity

3.12.1 Share capital

hare capital consists of the capital subscribed and paid up. 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.

3.12.2 Treasury shares

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.12.3 Profit (loss) carried forward

These include net profits or losses for the year and for previous years that are not distributed or allocated to reserves (for profits) or covered (for losses). The item also includes transfers from other Equity reserves when the restrictions on their release cease to apply, as well as the effects of changes in accounting policies and material errors.

3.12.4 Other reserves

This item includes the reserve from actuarial components deriving from the measurement of defined benefit plans connected with their recognition at equity, as well as the stock option grant reserve relating to the recognition of defined-benefit plans in the form of equity.

3.13 Payables and other liabilities

Payables and other liabilities are initially recognised in the Financial Statements 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 Company has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

3.14 Taxation

The Company has joined the Group taxation regime (national tax consolidation) for the purposes of applying the IRES (Corporate Income) tax.

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

Current taxes are calculated in accordance with the existing fiscal legislation applicable to those countries in which the Company 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 in the consolidated accounts of assets and liabilities and their value for tax purposes. 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 are recognised to the extent that it is probable that, in the financial years in which the related temporary differences will be reversed, the Company will post taxable income equal at least to the amount of differences that will be reversed.

3.15 Employee benefit obligations

3.15.1 <u>Post-employment benefit plans</u>

The Company uses several types of pension and supplementary benefit plans, which can be classified as follows:

- *Defined-contribution plans* in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;
- *Defined-benefit plans* in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method. Accordingly, the Group recognises a liability for the same amount arising from the actuarial estimation, and recognises actuarial gains and losses in the period in which they occur in the statement of comprehensive income through a special equity reserve (in the "Remeasurement reserve"). To determine the amount to be entered in the balance sheet, the fair value of the plan assets is deducted from the current value of the obligation for the defined-benefit plans. This fair value is calculated using the interest rate adopted for discounting back the obligation.

3.15.2 <u>Other long-term benefits and post-employment benefits</u>

The Company 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.

3.15.3 <u>Benefits payable for the termination of employment and incentive plans</u>

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.

3.15.4 Equity compensation benefits

In case the Company uses stock-option and stock-grant plans to compensate the Top 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 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 or of interim position, an updated estimate of the number of instruments expected to be distributed.

3.16 Provisions for risks and charges

Provisions for risks and charges are recognised when, at the reporting date, the entity has a present obligation (legal or constructive) to other parties as a result of a past event, and it is probable that, in order to settle the obligation, whose amount can be reliably estimated, an outflow of resources will be required.
The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability. Changes in the estimates are recognised in the income statement of the year in which the change occurs. With regard to some disputes, the information required by IAS 37 "Provisions, contingent liabilities and contingent assets" is not reported, in order to not jeopardize the Company 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.

3.17 Leasing

3.17.1 The Company is the lessee under a finance lease

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.17.2 The Company is the lessor under a finance lease

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.17.3 Operating leases

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.18 Revenue

Revenue is recognised at the fair value of the amount received and receivable, inclusive of volume discounts and reductions.

Revenue also includes changes in work in process, the accounting policies for which were described in Note 3.8.

Revenue generated from the sale of goods is recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer; and when the value of the revenues can be reliably determined.

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

The change in work in progress is the portion of work performed for which there are not yet the conditions to recognise it as revenue.

3.19 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.

3.20 Costs

Costs are recorded in compliance with the accrual principle.

3.21 Financial income and expense

Interest is recognised in the income statement on an accruals basis using the effective interest rates 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 asset) are capitalised together with the related asset.

3.22 Dividends

Dividends are recognised 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 Sirio Panel S.p.A. 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.

3.23 Emission rights

The Financial Statements of Sirio Panel S.p.A. do not report amounts that can be reclassified to this item.

3.24 Related Party Transactions

Related party transactions are carried out at arm's length.

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 Company are summarised below:

IFRS – IFRIC Interpretation		**Effects on the Company**
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.
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.

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 leases in the financial statements of lessees.

4. SIGNIFICANT ISSUES AND CRITICAL ESTIMATES BY MANGEMENT

4.1 Non-recurring costs

The Group separately discloses as intangible assets the costs incurred in designing, prototyping and upgrading to the technical and functional specifications of clearly identified potential clients, if they are financed 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).

As regards “Other programmes”, non-recurring charges are entered under “non-recurring charges”, while the funds received are recognised as “Other liabilities” at their nominal value, 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 deferred under intangible assets and are amortised according to 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 some 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 capitalised non-recurring costs, for which an assessment on the part of the paying Entity is pending in relation to the fairness of these costs, is reported separately, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry. The value entered under “other non-current assets” is calculated based on an estimate made by management that reflects the reasonable probability 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 Estimate of revenue and final costs of long- term contracts

The Company 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 Company 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.

4.3 Impairment of assets

The Company's 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 Company 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.

4.4 Disputes

The Company'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

With effect from 1 January 2016, the Company adopted the amendments to IAS 16 "*Property, Plant and Equipment*" and IAS 38 "*Intangible Assets*", without recognising significant effects on this Annual Financial Report.

6. SIGNIFICANT POST BALANCE SHEET EVENTS

As noted in the report on operations, on 1 January 2017 Sirio Panel S.p.A. was merged by incorporation into parent company Leonardo S.p.a., with the consequent dissolution of the company.

7. INTAGIBLE ASSETS

	Development costs	Patent rights and similar	Concessions, licences and trademarks	Total
1° January 2015				
Cost	40,467	206	3,540	44,213
Amortisation and impairments	(32,846)	(142)	(1,497)	(34,485)
Carrying amount	**7,621**	**64**	**2,043**	**9,728**
Investments	-	14	69	83
Amortisation and impairments	(238)	(29)	(318)	(586)
31 December 2015 broken down as follows:	**7,383**	**49**	**1,795**	**9,226**
Cost	40,467	220	3,609	44,296
Amortisation and impairments	(33,084)	(171)	(1,815)	(35,069)
Carrying amount	**7.383**	**49**	**1,794**	**9,226**
1° January 2016				
Cost	40,467	220	3,609	44,296
Amortisation and impairments	(33,084)	(171)	(1,815)	(35,070)
Carrying amount	**7,383**	**49**	**1,794**	**9,226**
Investments	125	10	229	364
Amortisation and impairments	(840)	(22)	(330)	(1,192)
31 December 2016 broken down as follows:	**6,668**	**37**	**1,693**	**8,398**
Cost	40,592	230	3,838	44,659
Amortisation and impairments	(33,924)	(193)	(2,144)	(36,261)
Carrying amount	**6,668**	**37**	**1,694**	**8,398**

With reference to the analysis of the recoverability of recognised intangible assets (impairment test), the Company made technical and commercial evaluations for the purposes of maintaining them under “intangible assets”. The analysis was aimed at establishing whether, on 31 December 2016, there was any evidence of impairment, such as technology obsolescence or a non-use, thus confirming the effectiveness for the intended use and the consequent use on current products and expected sales.

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other	Total
1° January 2015					
Cost	12,326	6,570	4,337	1,163	**24,396**
Amortisation and depreciation	(2,424)	(5,088)	(3,441)	(967)	**(11,920)**
Carrying amount	**9,902**	**1,482**	**896**	**196**	**12,476**
Investments	205	899	761	35	**1,900**
Scrapping	-	(92)	(10)	(50)	**(152)**
Amortisation	(330)	(398)	(363)	(61)	**(1,152)**
Reversals	-	92	10	51	**153**
Reclassification	-	-	(2)	-	**(2)**
31 December 2015 broken down as follows:	**9,777**	**1,983**	**1,292**	**171**	**13,223**
Cost	12,531	7,378	5,086	1.148	**26,143**
Amortisation and depreciation	(2,754)	(5,395)	(3,794)	(977)	**(12,920)**
Carrying amount	**9,777**	**1,983**	**1,292**	**171**	**13,223**
1° January 2016					
Cost	12,531	7,378	5,086	1,148	**26,142**
Amortisation and depreciation	(2,754)	(5,395)	(3,794)	(977)	**(12,919)**
Carrying amount	**9,777**	**1,983**	**1,292**	**170**	**13,223**
Investments	351	951	308	30	**1,640**
Sales	-	(200)	(16)	-	**(216)**
Scrapping	-	375	(3)	(22)	**350**
Amortisation	(338)	(466)	(458)	(56)	**(1,318)**
Reversals	-	(375)	19	23	**(335)**
Reclassification	1	43	(43)	-	**1**
31 December 2015 broken down as follows:	**9,791**	**2,311**	**1,099**	**143**	**13,345**
Cost	12,883	8,547	5,332	1,155	**27,917**
Amortisation and depreciation	(3,091)	(6,236)	(4,233)	(1,012)	**(14,572)**
Carrying amount	**9,792**	**2,311**	**1,099**	**143**	**13,345**

The value entered under "Land and Buildings" relates to the purchase cost of the Land on which the Company's head office stands, as well as to the value of the Land that was acquired on 2012 for the construction of the new factory neighbouring the present one. During 2016 net investments of €th. 351 were entered under this item, mainly concerning the performance of refurbishment works and the completion of the two factories. Investments were also made in plant, equipment and other assets for a total of €th. 1,289.

9. EQUITY INVESTMENTS

At 31 December 2016 the Company did not hold any equity investment. The only equity investment that was wholly owned, held in Sirio Panel Inc., with operating office in Troy Ohio (USA), for a value of USD10,000, equal to Euro 6,990, was disposed of in November 2016.

10. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31 December 2016	*31 December 2015*
Security Deposits	23	23
Deferred grants under Law no. 808/85	6,212	6,682
	6,235	**6,706**

Guarantee deposits are made up of long-term deposits held with Public and Private Entities against supply and service contracts and the participation in tenders.

11. INVENTORIES

	31 December 2016	*31 December 2015*
Raw materials, supplies and consumables	15,864	14,840
Work in progress and semi-finished goods	7,924	5,575
Finished goods and merchandise	76	134
Advances to supplies	22	33
	23,886	**20,582**

12. CONTRACT WORK IN PROGESS AND PROGRESS PAYMENTS AND ADVANCES FROM CUSTOMERS

	31 December 2016	*31 December 2015*
Contract working in progress (gross)	40,690	44,181
Provision	-	(1,118)
Contract working in progress (net)	**40,690**	**43,063**
Progress payments and advances from customers	1,470	776
Progress payments and advances from customers	**1,470**	**776**
Net value	**39,220**	**42,287**

13. TRADE AND FINANCIAL RECEIVABLES

	31 December 2016		*31 December 2015*	
	Trade	*Financial*	*Trade*	*Financial*
Receivables	23,124	-	11,556	-
Cumulative impairments	(195)	-	(195)	-
Related party receivables	21,209	30,612	18,456	30,215
	44,138	**30,612**	**29,818**	**30,215**

The breakdown of assets by maturity, currency and geographical area is shown in Appendices to these Notes.

14. INCOME TAX RECEIVABLES AND PAYABLES

No income tax receivables were outstanding at 31 December 2016 (€th. 108 at 31 December 2015). Income tax payables, equal to €th. 145 at 31 December 2016 (0 at 31 December 2015) included the IRAP tax debt balance relating to the 2016 financial year, calculated in accordance with the tax regulations in force.

15. OTHER CURRENT ASSETS

	31 December 2016	*31 December 2015*
Prepaid – current portion	151	51
Receivables for grants	1,371	1,237
Receivables from employees and social security	58	60
Other assets	411	366
Other related party receivables	5,148	2,593
	7,139	**4,307**

The breakdown of receivables from related parties is reported in Note 30.

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4 and 5 to these Notes.

16. CASH AND CASH EQUIVALENT

	31 December 2016	*31 December 2015*
Cash	1	1
Bank deposits	3,070	3,926
	3,071	**3,927**

Cash and cash equivalents are made up of bank deposits in the current accounts held with various Credit Institutions and cash balances.

17. EQUITY

The equity broken down by available and distributable reserves is shown in Appendix no. 6 to these Notes.

Share Capital

At 31 December 2016 the share capital was divided into 86,672 ordinary shares, with a par value of Euro 5.16 each, and was fully subscribed, paid up and wholly owned by Leonardo S.p.a..

Reserve for stock-option plans

During 2016 the reserve showed an increase of €th. 8, following the award of shares provided for in the co-investment plans of the parent company.

Revaluation reserve

At 31 December 2016 this reserve showed a negative value of €th. 120, as a result of an actuarial loss recorded in 2016, equal to about €th. 35 thousand, in the defined-benefit plans directly recognised under equity in the financial year in which they are implemented.

Other reserves

Other reserves include:

- The Share Premium Reserve, equal to €th. 636 at 31 December 2016, which remained unchanged compared to the previous year;
- The Revaluation Reserve pursuant to Law 342/2000 for €th. 334, which had been set aside at the end of the 2000/01 financial year, following a revaluation of the industrial buildings owned by the Company. This Reserve was released for IRES tax purposes during 2005 and should be affected by IRAP (Regional Production Activity) tax only in the case of distribution; it remained unchanged during 2016;

- The Legal reserve of €th. 90 at 31 December 2016, which remained unchanged compared to the previous year. At the end of the 1997/98 financial year, the value of said reserve had already reached a fifth of the Share Capital as required by Article 18 of the Company's By-Laws;
- The net Extraordinary Reserve of €th. 90 at 31 December 2016, which has showed an increase during the current financial year as a result of the allocation of a portion of the 2015 net profit as per the Shareholders' Meeting resolution of 24 March 2016.

18. LOANS AND BORROWINGS

	31 December 16			*31 December 15*		
	Current	**Non current**	**Total**	**Current**	**Non current**	**Total**
Bank loans	1	-	1	1	-	1
Other loans and borrowings	327	959	1,286	214	1,286	1,500
	328	**959**	**1,287**	**215**	**1,286**	**1,501**

Below is the breakdown of loans and borrowings:

	1° January 2016	*Increases*	*Repayments*	*31 December 16*
Bank loans	1	1	1	1
Other loans and borrowings	1,500	-	214	1.286
	1,501	**1**	**215**	**1.287**
	1° January 2015	*Increases*	*Repayments*	*31 December 15*
Bank loans	1	1	1	1
Other loans and borrowings	1,500	-	-	1,500
	1,501	**1**	**1**	**1,501**

Other loans and borrowings include a 7-year loan of €mil. 1.5 million granted by the Tuscany Regional Government under the ROP (Regional Operational Programme) CReO (Creativity and Occupation) 2013-2017 at a fixed rate of 3%, the first two instalments of which were repaid during 2016.

Below is the financial information according to the scheme proposed under CONSOB communication DEM/6064293 of 28 July 2006:

	31 December 2016	*31 December 2015*
Cash	1	1
Bank deposits	3,070	3,926
LIQUIDITY	**3,071**	**3,927**
CURRENT LOANS AND RECEIVABLES	**30,612**	**30,215**
Current bank loans and borrowings	1	1
CURRENT FINANCIAL DEBT	**1**	**1**
NET CURRENT FINANCIAL DEBT (FUNDS)	**(33,681)**	**(34,142)**
Non current bank loans and borrowings and other loans and borrowings	1,286	1,500
NON-CURRENT FINANCIAL DEBT	**1,286**	**1,500**
NET FINANCIAL DEBT (FUNDS)	**(32,396)**	**(32,642)**

19. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Product guarantee	Taxes	Contracted liabilities	Total
31 December 2015	3,015	155	370	3,540
Allocations	2,630	-	-	2,630
31 December 2016	**5,645**	**155**	**370**	**6,170**

Provisions for risks and charges are classified in full under current liabilities.

20. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2016	*31 December 2015*
Severance pay provision	1,591	1,641
Other provisions for employee	168	150
	1,760	**1,791**

The TFR (staff severance pay) is typical of the Italian legislation and provides for the payment of all the amounts accrued for the benefit of the employee up to the day when he/she leaves the company, as determined based on the provisions of article 2120 of the Italian Civil Code, by applying a divisor of 13.5 on the fixed element of the salary. Law no. 296 of 27 December 2006, and the subsequent Decrees and Regulations issued in early 2007, within the supplementary pension scheme reform, significantly changed this institute, providing for the transfer of the TFR accrued subsequent to the date of the Reform of supplementary pension schemes or to the Treasury fund managed by INPS [*Istituto Nazionale della Previdenza Sociale*, National Social Security Institute].

Under defined-benefit plans the Company undertakes the obligation to pay, upon maturity, a certain amount of benefits to the employees involved in the scheme, guaranteeing any possible lower value of the assets serving the plan with respect to the amount of agreed benefits.

The severance pay provision recorded the following changes:

	31 December 2016	*31 December 2015*
	Present value of the obligation	Present value of the obligation
Opening balance	1,640	1,729
Net interest expense	22	26
Remeasurement	35	(62)
- *Actuarial losses (gains) through equity – financial assumption*	*45*	*(58)*
- *Actuarial losses (gains) through equity resulting from adjustments based on the experience*	*(10)*	*(4)*
Benefits paid	(106)	(53)
	1,591	**1,640**

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)	1.3309 %	1.7838 %
Inflaction rate	1.50 %	1.88 %

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

	31 December 2016		*31 December 2015*	
	-0,25%	*0,25%*	*-0,25%*	*0,25%*
Discount rate (annual)	1,638	1,548	1,688	1,596
Inflaction rate	1,564	1,619	1,669	1,669

The average duration of the severance pay is 12 years.

21. OTHER CURRENT AND NON-CURRENT LIABILITIES

	Non-current		**Current**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Employee obligations	-	-	1,941	2,042
Amounts due to social security institutions	-	-	1,153	1,035
Other liabilities	3,266	3,441	300	758
Payables due to MSE under Law 808/1985	3,135	2,049	382	228
Oher liabilities under Law 808/1985	2,903	1,898	-	-
Other payables to related parties	-		1,842	1,084
	9,305	**7,389**	**5,618**	**5,147**

"Payables due to MSE under Law 808/1985", totalling €th.3,135, includes payables for royalties accrued at 31 December 2016, under Law 808/1985, on programmes that are qualified as being of "National Security" or programmes treated as such. This debt is repaid according to preset repayment plans.
"Oher liabilities under Law 808/1985", totalling €th.2,903, includes the differential between royalties charged to the aforesaid programmes and the debt actually accrued on the basis of preset repayment rates.

The breakdown of liabilities by maturity, currency and geographical area is shown in the Appendices to these Notes.

22. TRADE PAYABLES

	31 December 2016	*31 December 2015*
Suppliers	27,759	16,200
Trade payables to related parties	3,229	4,238
	30,988	**20,438**

The breakdown of liabilities by maturity, currency and geographical area is shown in the Appendices to these Notes.

23. GUARANTEES AND OTHER COMMITTMENTS

Guarantees

At 31 December 2016 the Company held Sureties given to third parties as security for the performance of contracts for €th. 742 (€th.2,269 at 31 December 2015).

At 31 December 2016 the sureties given to third parties amounted to €th. 742 and concerned guarantees released by Credit Institutions and Insurance Companies in favour of Public Entities for the award to the Company of procurement contracts and for Guarantees given to the Roma 2 and Arezzo Customs Agencies for temporary import operations.

24. REVENUE

	2016	***2015***
Revenue from sales	67,515	49,775
Revenue from services	4,446	3,624
Change in work in progress	(2,373)	(3,084)
Revenue from related parties	36,587	38,191
	106,175	**88,506**

The breakdown of revenues and related changes are detailed in the report on operations, to which reference should be made for more details.

Below is the breakdown of the main contracts and their contribution to revenues for the year:

CONTRACTS/PROGRAMS	CUSTOMER	REVENUE	%
AW101 AW129AW139 AW149/189 AW109 AW169 AW609	LDO HELICOPTER/MECAER/HONEYWELL	21,574	20%
A320 A350 A400M	AIRBUS/GOODRICH	30,975	29%
ATR-42 ATR-72 NGTP	ATR	9,081	8%
EFA/NH90/A400M	LDO SAS	13,234	13%
M-346 C27-J	LDO VELIVOLI	3,685	3%
PC-21 PC-24	PILATUS	2,924	3%
EFA	BAE/DIEHL/ROCKWELL	3,724	3%
JSF	LOCHKEED MARTIN	5,671	5%
UFCPs Various Programs	ELBIT-ELOP	1,248	1%
AMX-ALX-170-190-KC390	EMBRAER	328	n.s
A380 SSJ100 A350 AlphaJet	THALES AVIONICS	131	n.s
MC-21	IRKUT	1,026	1%
UH-60	Support Systems Assoc.	2,342	2%
Other programs	Various	12,604	12%
		108,547	100%
	Change in work in progress	**(2,372)**	
	TOTAL REVENUE	**106,175**	

25. OTHER OPERATING INCOME (EXPENSES)

	2016		***2015***	
	Income	**Expenses**	**Income**	**Expenses**
Exchange rate difference on operating items	776	1,050	812	842
Indirect taxes	-	136	-	128
Other operating income/expenses	1,416	3,305	450	1,977
	2,192	**4,491**	**1,262**	**2,947**

26. PURCHASES AND PERSONNEL EXPENSES

	2016	*2015*
Purchase of materials from third parties	44,812	30,263
Change in inventories of raw materials	(3,315)	(3,469)
Costs for purchases from related parties	2,284	2,984
Purchases	**43,781**	**29,778**
Services rendered by third parties	7,836	6,994
Royalties	2,628	1,801
Software fees	51	47
Services rendered by related parties	3,639	3,111
Costs of rents and operating leases	7	8
Rental fees	177	263
Services	**14,338**	**12,224**
Wages and salaries	11,347	10,796
Social security contributions	3,266	3,093
Costs related to defined-contribution plans	735	714
Other personnel expenses	88	90
Personnel expenses	**15,436**	**14,693**
Internal work capitalised	**(87)**	**49**
Total purchases and personnel expenses	**73,468**	**56,744**

The overall increase of about €mil. 16.1 in costs for purchases and services was attributable to increased revenues recorded during 2016, while the percentage impact of these costs on total revenues came to 54.8% in 2016 against 47.5% in 2015.

During 2016 labour cost came to €th.15,436, recording an increase of €th. 743 (+ 5.1%) in absolute values, while it came to about 14.5% of total revenues from sales and services in 2016 against 16.6% in 2015.

The table below reports the average and exact workforce at 31 December 2016, the increase in which was attributable to higher revenues recorded during the previous year:

	Average workforce			*Total workforce*		
	2016	*2015*	*Changes*	*2016*	*2015*	*Changes*
Senior managers	5	6	(1)	5	6	(1)
Middle managers	20	20	-	21	20	1
Clerical employees	134	131	3	135	134	1
Manual labourers	135	127	8	139	134	5
	294	**284**	**10**	**300**	**294**	**6**

The average cost per capita recorded during 2016, equal to about €th. 52.5, was substantially in line with the value posted in 2015.

27. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2016	*2015*
Amortisation of intangible assets:		
development costs	67	67
non-recurring costs	774	172
other	351	347
Depreciation of property, plant and equipment	1,318	1,151
	2,510	**1,737**

28. FINANCIAL INCOME AND EXPENSES

	2016			2015		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Discounting of receivables, payables and funds	1,240	-	1,240	181	-	181
Interest and commissions	-	(41)	(41)	-	(76)	(76)
Financial income (expense) – related parties	3	(1)	2	3	(3)	-
Other financial income and expense	14	(157)	(143)	19	(136)	(117)
	1,257	**(199)**	**1,058**	**203**	**(215)**	**(12)**

29. INCOME TAXES

La voce imposte sul reddito è così composta:

	2016	*2015*
IRES (corporate income tax)	7,693	6,748
IRAP (reg. tax on production)	1,239	1,094
Deferred tax - net	(871)	(795)
	8,061	**7,047**

The IRES taxable income, equal to €th. 28,956, was subject to the ordinary rate of 27.5% in full.

The IRAP tax was calculated by applying the following rates to an overall value of production of €th. 31,744: 4.82% for the Lazio Regional Government for a value of €th. 111 and 3.9% for the Tuscany Regional Government for a value of production of €th. 31,633. The breakdown was based on the weight of the distribution of the entire company staff's taxable base for social security purposes on a regional basis.

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

	2016		*2015*	
	currency	**%**	**currency**	**%**
Profit (loss) before income taxes	28,956		28,328	
Theoretical tax	7,963	27.5%	7,790	27.5%
Permanent differences not to reverse in subsequent years	(270)		(1,043)	
Timing differences to reverse in subsequent years	(871)		(794)	
IRAP	1,239	4.3%	1,094	3.9%
Effective rate	**8,061**	27.8%	**7,047**	24.9%

Deferred tax and related receivables and payables at 31 December 2016 arose from the following temporary differences:

	Separate income statement 2016			**Separate income statement 2015**		
	Income	Expense	Net	Income	Expense	Net
Other	(1,223)	352	(871)	(1,206)	411	(795)
Total	**(1,223)**	**352**	**(871)**	**(1,206)**	**411**	**(795)**

	Balance sheet 2016			Balance sheet 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses						
Severance and retirement benefits	39	28	11	39	28	11
Provision for risks and impairment	2,086	2,564	(478)	1,188	2,514	(1,326)
Other	145	674	(529)	348	899	(551)
Total	**2,270**	**3,266**	**(996)**	**1,575**	**3,441**	**(1,866)**

“Others” essentially relate to the temporary differences that arose as a result of a different accounting and tax treatment of non-recurring costs incurred until 31 December 2005.

30. CASH FLOWS FROM OPERATING ACTIVTIES

	For the 12 months ended 31 December	
	2016	***2015***
Net result	20,895	21,280
Amortisation, depreciation and impairment losses	2,510	1,737
Income taxes	8,061	7,048
Net allocations to the provisions for risks and inventory write-downs	2,925	1,655
Net financial expense/(income)	(1,058)	12
Other non-monetary items	2,628	1,799
Gross cash flows from operating activities	**35,961**	**33,531**

Below is the breakdown of changes in working capital, net of effects arising from acquisitions and disposals of companies and translation differences:

	2016	***2015***
Inventories	(3,599)	(3,777)
Contract work in progress and progress payments and advances from customers	3,066	3,546
Trade receivables and payables	(3,769)	(3,513)
Change in working capital	**(4,302)**	**(3,744)**

31. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are carried out at arm’s length, as is settlement of interest-bearing receivables and payables, if they are not regulated by specific contract terms and conditions. Below are the balance sheet and income statement amounts:

RECEIVABLES AT 31.12.2016	**Current loans and receivables**	**Trade receivables**	**Other current receivables**	**Total**
Parent				
Leonardo S.p.A.	30,611	16,995	5,148	**52,754**
Associates (*)				**-**
AgustaWestland Philadelphia CO.	-	1,197	-	**1,197**
SC Elettra Communications SA	-	696	-	**696**
Selex ES Elektronik Turkey AS	-	1,712	-	**1,712**
Larimart S.p.A.	-	72	-	**72**
AgustaWestland Ltd.	-	537	-	**537**
Total	**30,611**	**21,209**	**5,148**	**56,968**

RECEIVABLES AT 31.12.2015	Current loans and receivables	Trade receivables	Other current receivables	Total
Parents				
Selex ES S.p.A.	30,215	3,315	-	**33,530**
Leonardo S.p.A.			2,593	**2,593**
Associates (*)				**-**
Alenia Aermacchi S.p.A.	-	2,294	-	**2,294**
AgustaWestland S.p.A.	-	6,961	-	**6,961**
AgustaWestland Philadelphia CO.	-	2,802	-	**2,802**
SC Elettra Communications SA	-	503	-	**503**
Selex ES Elektronik Turkey AS	-	1,883	-	**1,883**
Larimart S.p.A.	-	166	-	**166**
AgustaWestland Ltd.	-	532	-	**532**
Total	**30,215**	**18,456**	**2,593**	**51,264**

PAYABLES AT 31.12.2016	Trade payables	Other current payables	Total
Parent			
Leonardo S.p.A.	807	1,842	**2,649**
Associates (*)			
AgustaWestland Philadelphia CO.	26	-	**26**
SC Elettra Communications SA	1,911	-	**1,911**
Selex Galileo Inc.	440	-	**440**
Leonardo Global Solutions S.p.A	3	-	**3**
Companies subject to the control or considerable influence of the MEF			**-**
ENEL S.p.A.	37	-	**37**
ENI S.p.A.	1	-	**1**
Poste Italiane S.p.A.	3	-	**3**
Total	**3,228**	**1,842**	**5,070**

PAYABLES AT 31.12.2015	Trade payables	Other current payables	Total
Parents			
Selex ES S.p.A.	2,669	1,084	**3,753**
Leonardo S.p.A.	37		**37**
Associates (*)			
AgustaWestland Spa	3	-	**3**
AgustaWestland Philadelphia CO.	52	-	**52**
SC Elettra Communications SA	1,161	-	**1,161**
Selex Galileo Inc.	33	-	**33**
Selex ES Elektronik Turkey AS	188	-	**188**
Leonardo Global Solutions S.p.A	2	-	**2**
Companies subject to the control or considerable influence of the MEF			**-**
ENEL S.p.A.	89	-	**89**
ENI S.p.A.	1	-	**1**
Poste Italiane S.p.A.	3	-	**3**
Total	**4,238**	**1,084**	**5,322**

"Current financial receivables from related parties" relate to the credit balance of the transaction account held with Parent Company Leonardo S.p.a..

"Other current receivables from related parties" are made up of current receivables from Leonardo S.p.a. for:

- Group VAT, €th. 4,971;
- IRES tax from previous years requested for a refund of €th. 165;

- Interest Income for requests for deduction of IRAP tax from previous years for €th. 12.

"Other current payables to related parties", equal to €th. 1,842, is made up of the current IRES tax debt to parent company Leonardo S.p.a..

2016	**Revenue**	**Costs**	**Financial income**	**Financial expense**
Parent				
Leonardo S.p.A.	31,074	(1,164)	3	-
Subsidiaries				
Sirio Panel Inc.	-	(208)	-	-
Associates (*)				
Larimart S.p.A.	66	-	-	-
SC Elettra Communications SA	887	(3,799)	-	-
Selex ES Elektronik Turkey AS	1,206	-	-	-
Selex Galileo Inc	-	(425)	-	-
AgustaWestland Ltd.	1,683	-	-	-
Agusta Aerospace Services SA	3	-	-	-
AgustaWestland Philadelphia CO.	1,860	-	-	-
Companies subject to the control or considerable influence of the MEF				
ENI S.p.A	-	(14)	-	-
ENEL S.p.A	-	(306)	-	-
Poste Italiane S.p.A	-	(7)	-	-
Total	**36,779**	**(5,923)**	**3**	**-**

2015	**Revenue**	**Costs**	**Financial income**	**Financial expense**
Parents				
Selex ES S.p.A.	6,544	(1,854)	3	-
Leonardo S.p.A.	-	(15)	-	(3)
Subsidiaries				
Sirio Panel Inc.		(282)		
Associates (*)				
Alenia Aermacchi S.p.A.	6,430	-	-	-
Leonardo Global Solutions S.p.A	-	(1)	-	-
MBDA S.p.A.	12	-	-	-
Larimart S.p.A.	144	-	-	-
SC Elettra Communications SA	800	(3,428)	-	-
Selex ES Elektronik Turkey AS	1,557		-	-
Selex Galileo Inc	-	(147)	-	-
AgustaWestland Spa	19,338	(2)	-	-
Agusta Westland Ltd	907	-	-	-
Agusta Aerospace Services SA	2	-	-	-
AgustaWestland Philadelphia CO.	2,457	-	-	-
Companies subject to the control or considerable influence of the MEF				
ENI S.p.A	-	(36)	-	-
ENEL S.p.A	-	(320)	-	-
Poste Italiane S.p.A	-	(10)	-	-
Total	**38,191**	**(6,095)**	**3**	**(3)**

(*): companies subject to control and coordination by Leonardo S.p.a.

32. FINANCIAL RISK MANAGEMENT

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

- Market risks, related to the Company's exposure on interest-generating positions (exchange rate risk) and to the operations in currency areas other than that of 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 specifically monitors each of these financial risks, with the objective of promptly minimising them.

The sections below provide an analysis, including through a 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 period 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 management

No interest rate hedging transactions were in place at 31 December 2016.

The rate applied by Leonardo to the financial position held with its subsidiaries is notified on a monthly basis and is also used by the Company to regulate debt and credit transactions on the transaction account with its own Subsidiaries.

Exchange rate risk management

As a result of commercial operations, the Company is exposed to the risk of fluctuations in exchange rates in which a portion of its order backlog is denominated (specifically US$ and, to a lesser extent, GBP).

The exchange rate risk is managed in relation to the main currency exposures arising from invoices against purchase and sales orders in foreign currency.

The Company seeks to operate under a substantial regime of setoff of cash inflows and outflows mainly as regards the US Dollar, which is reported in both sales and purchasing invoices and on the basis of periodical currency balances; however, hedging transactions (if any) would be carried out with the help of the cash pooling function of the Parent Company.

At 31 December 2016 the Company had no transactions in place to hedge exchange rate risks.

The sensitivity analysis provided for the calculation of the effects of 5% changes on the USD/GBP exchange rate. Should Euro have appreciated (depreciated) by 5% compared to US$ at 31 December 2016, the net result would be lower (higher) than €th.377 and the equity would be higher (lower) by a total of €th.- 377. Should Euro have appreciated (depreciated) by 5% compared to GBP at 31 December 2016, the net result would be lower (higher) than €th.6 and the equity would be higher (lower) by a total of €th - 6.

Liquidity risk

The liquidity risk, i.e. the risk of not being able to finance the normal trade and investment programmes efficiently in addition to not being able to repay debts when they fall due, is faced by the Company through a careful planning and management of receipt and payment flows.

The Company also holds an interest-bearing transaction account with Parent Company Leonardo S.p.a..
At present the Company is not exposed to any liquidity risk as its net financial position is steadily positive.

Credit risk management

The Company manages credit risks through a careful examination of the payment terms and systems, considering the contract amount, as well as the customer's credit rating and the country.
In the case of sales made in foreign developing countries, the credit risk is limited by providing for payments terms based on stand-by or confirmed irrevocable letter of credit.
In the case of sales made in countries or to customers that are particularly at risk, a credit insurance cover is considered which would be taken out in the forms made available by the market through the Export Credit Agencies, including SACE for medium- to long-term transactions and SACE BT for short-term transactions, as well as LLOYDS, or through a request for issue of Guaranteed Letters of Credit.
The Group's policy also provides for medium- to long-term insurance covers for financing transactions, any costs and risks being borne by the customer, such as buyers credit, suppliers credit.
The table below reports a statement of trade receivables from third parties in thousands of Euros, broken down into Governmental Institutions and Other Customers, by geographical area and maturity:

2016	**Public Institutions**	**Other customers**			**Total**
	Europa Area	**Europe area**	**America area**	**Other**	
- Portion not yet due	22	13,532	2,594	2,006	18,154
- Portion due for less than 1 year	368	2,205	859	1,343	4,775
Total	**390**	**15,737**	**3,453**	**3,349**	**22,929**

2015	**Public Institutions**	**Other customers**			**Total**
	Europa Area	**Europe area**	**America area**	**Other**	
- Portion not yet due	-	7,320	709	543	8,572
- Portion due for less than 1 year	398	1,891	129	372	2,790
Total	**398**	**9,211**	**838**	**915**	**11,362**

33. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to Directors, who do not work as executives for the Company, amounted to €th. 40 in 2016 (against €th. 28 in 2015).
Fees due to statutory auditors amounted to € 69,450 in 2016 (€ 49,441 in 2015).

These fees include the emoluments and any other amount payable on account of remuneration, social security and welfare contributions for the performance of duties as Director or statutory auditor for the Company.

Fees due to the members of the Supervisory Body amounted to € 50,021 in 2016 (€ 50,035 in 2015).

Rome, 15 March 2017

For the Board of Directors

Leonardo Società per Azioni

The Chairman

(Giovanni De Gennaro)

APPENDICES

Appendix no. 1 – EQUITY INVESTMENTS

%	*Euro*	31 December 2015 Cost	31 December 2015 Impairment	31 December 2015 Carring amount	Liquidation (d)	31 December 2016 Cost	31 December 2016 Impairment	31 December 2016 Carring amount
	Equity investments in subsidiaries							
100%	**SIRIO PANEL INC**	6,990	-	6,990	**(6,990)**	**-**	-	-
		6,990	**-**	**6,990**	**(6,990)**	**-**	**-**	**-**
	TOTALE EQUITY INVESTMENTS	**6,990**	**-**	**6,990**	**(6,990)**	**-**	**-**	**-**

Appendix no. 2 – NON-CURRENT RECEIVABLES

	31 December 2015 Residual nominal amount	31 December 2015 Impairment	31 December 2015 Carring amount	Reclassifications	31 December 2016 Residual nominal amount	31 December 2016 Impairment	31 December 2016 Carring amount
Receivables							
- Other receivables	6,706	-	6,706	(471)	6,235	-	6,235
Total receivables	**6,706**	**-**	**6,706**	**(471)**	**6,235**	**-**	**6,235**

Appendix no. 3 – ASSETS BROKEN DOWN BY MATURITY

	31 December 2016 Amounts due: from 2nd to 5th subsequent year	31 December 2016 Amounts due: beyond 5th year	31 December 2016 Amounts due: Total	31 December 2015 Amounts due: from 2nd to 5th subsequent year	31 December 2015 Amounts due: beyond 5th year	31 December 2015 Amounts due: Total
Receivables						
Financial receivables	4,488	1,724	6,212	4,883	1,800	6,683
Other receivables	23	-	23	23	-	23
Total receivables	4,511	1,724	6,235	4,906	1,800	6,706
Other non-current assets	-	-	-	-	-	-
Total non-current assets	**4,511**	**1,724**	**6,235**	**4,906**	**1,800**	**6,706**

Appendix no. 4 - FOREIGN CURRENCY ASSETS

	31 December 2016			31 December 2015		
	In foreign currency	In Euro	Total	In foreign currency	In Euro	Total
Receivables	-	-	-	-	-	-
Other receivables	-	6,235	6,235	-	6,706	6,706
Total receivables	**-**	**6,235**	**6,235**	**-**	**6,706**	**6,706**
Deferred tax	-	2,270	2,270	-	1,575	1,575
Total non-current assets	**-**	**8,505**	**8,505**	**-**	**8,281**	**8,281**
Loans and receivables from related parties	-	30,612	30,612	-	30,215	30,215
	-	**30,612**	**30,612**	**-**	**30,215**	**30,215**
Trade receivables	12,252	10,677	22,929	6,503	4,859	11,362
Trade receivables from related parties	292	20,917	21,209	628	17,828	18,456
	12,544	**31,594**	**44,138**	**7,131**	**22,687**	**29,818**
Deferred tax assets	-	-	-	-	108	108
Other assets	-	1,992	1,992	-	1,714	1,714
Other receivables from related parties	-	5,148	5,148	-	2,593	2,593
	-	**7,140**	**7,140**	**-**	**4,307**	**4,307**
Cash and cash equivalents	-	**3,071**	3,071	-	**3,927**	3,927
Total current assets	**12,544**	**72,417**	**84,961**	**7,131**	**61,136**	**68,267**

Appendix no. 5 – 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										
Loans and receivables	6,212	-	-	-	**6,212**	6,683	-	-	-	**6,683**
Other receivables	23	-	-	-	**23**	23	-	-	-	**23**
Total receivables	**6,235**	**-**	**-**	**-**	**6,235**	**6,706**	**-**	**-**	**-**	**6,706**
Deferred tax	2,270	, -	-	-	**2,270**	1,575	-	-	-	**1,575**
Total non-current assets	**8,505**	**-**	**-**	**-**	**8,505**	**8,281**	**-**	**-**	**-**	**8,281**
Loans and receivables from related parties	30,612	-	-	-	**30,612**	30,215	-	-	-	**30,215**
	30,612	**-**	**-**	**-**	**30,612**	**30,215**	**-**	**-**	**-**	**30,215**
Trade receivables	6,396	9,731	3,453	3,349	**22,929**	1,652	8,032	838	839	**11,361**
Trade receivables from related parties	17,067	696	1,734	1,712	**21,209**	12,736	1,035	2,802	1,883	**18,456**
	23,463	**10,427**	**5,187**	**5,061**	**44,138**	**14,388**	**9,067**	**3,640**	**2,722**	**29,817**
Other assets										
Other receivables from related parties	5,148				**5,148**	2,593				**2,593**
	5,148	**-**	**-**	**-**	**5,148**	**2,593**	**-**	**-**	**-**	**2,593**
Income tax receivables	-	-	-	-	-	108	-	-	-	**108**
Other assets	1,992	-	-	-	**1,992**	1,606	-	-	-	**1,606**
Cash and cash equivalents	3,071	-	-	-	**3,071**	3,927	-	-	-	**3,927**
Total current assets	**64,286**	**10,427**	**5,187**	**5,061**	**84,961**	**52,729**	**9,067**	**3,640**	**2,722**	**68,267**

Appendix no. 6 – AVAILABLE AND DISTRIBUTABLE RESERVES

Amount in thousand of Euro **Nature/description**	**Amount**	**Possible use** **[Insert A, B, o C]**	**Available portion**
Share Capital	**447**		-
Capital reserves:			
Share premium reservei	636	**A – B - C**	636
Revenue reserves:			
Legal reserve	90	**B**	-
Extraordinary reserve	96,679	**B - C**	96,679
Revaluation reserve	334	**B - C**	334
Stock option/grant reserve	20		-
Reserve for actuarial gains (losses) in equity	(133)		-
Other reserves – for retained earnings”	(6,283)		(6,283)
Deferred tax recognised through equity	14		-
Retained earnings	31,240	**B - C**	20,895
Total	**123,044**		**112,261**

Legend
A for capital increase
B for loss coverage
C for distribution to shareholders

Appendix no. 7 – NON-CURRENT LIABILITIES BROKEN DOWN BY MATURITY

	Amounts due 31 December 2016			**Amounts due 31 December 2015**		
	from 2nd to 5th subsequent year	beyond 5th year	**Total**	from 2nd to 5th subsequent year	beyond 5th year	**Total**
Other non-current liabilities	12,023	-	12,023	10,465	-	10,465
Other non-current liabilities from related parties	-	-	-	-	-	-
Total non-current liabilities	**12,023**		**12,023**	**10,465**		**10,465**

Appendix no. 8 – FOREIGN CURRENCY LIABILITIES

	31 December 2016			31 December 2015		
	In foreign currency	**In Euro**	**Total**	**In foreign currency**	**In Euro**	**Total**
Non-current loans and borrowings	-	959	959	-	1,286	1,286
	-	**959**	**959**	**-**	**1,286**	**1,286**
Other non-current liabilities	-	7,798	7,798	-	5,738	5,738
	-	**7,798**	**7,798**	**-**	**5,738**	**5,738**
Deferred tax	-	3,266	3,266	-	3,441	3,441
Total non-current liabilities	**-**	**12,023**	**12,023**	**-**	**10,465**	**10,465**
Loans and borrowings	-	328	328	-	215	215
Loans and borrowings to related parties						
	-	**328**	**328**	**-**	**215**	**215**
Trade payables	4,822	22,937	27,759	1,742	14,458	16,200
Trade payables to related parties	268	2,961	3,229	34	4,204	4,238
	5,090	**25,898**	**30,988**	**1,776**	**18,662**	**20,438**
Other liabilities	-	3,776	3,776	-	4,063	4,063
Other payables to related parties	-	1,842	1,842	-	1,084	1,084
Income tax payables	-	145	145	-	-	-
Other	-	7,639	7,639	-	4,316	4,316
Total current liabilities	**5,090**	**39,628**	**44,718**	**1,776**	**28,340**	**30,116**

Appendix no. 9 – 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**
Non-current loans and borrowings	959	-	-	-	**959**	1,286	-	-	-	**1,286**
Other non-current liabilities	7,798	-	-	-	**7.,798**	5,738	-	-	-	**5,738**
	8,757	**-**	**-**	**-**	**8,757**	**7,024**	**-**	**-**	**-**	**7,024**
Deferred tax	**3,266**	**-**	**-**	**-**	**3,266**	**3,441**	**-**	**-**	**-**	**3,441**
Total non-current liabilities	**12,023**	**-**	**-**	**-**	**12,023**	**10,465**	**-**	**-**	**-**	**10,465**
Loans and borrowings	328	-	-	-	**328**	215	-	-	-	**215**
	328	**-**	**-**	**-**	**328**	**215**	**-**	**-**	**-**	**215**
Trade payables	23,508	1,691	2,115	445	**27,759**	10,767	771	1,056	3,606	**16,200**
Trade payables to related parties	853	1,911	465		**3,229**	2,801	1,161	87	189	**4,238**
	24,361	**3,602**	**2,580**	**445**	**30,988**	**13,568**	**1,932**	**1,143**	**3,795**	**20,438**
Other liabilities	3,776	-	-	-	**3,776**	4,063	-	-	-	**4,063**
Other payables to related parties	1,842	-	-	-	**1,842**	1,084	-	-	-	**1,084**
	5,618	**-**	**-**	**-**	**5,618**	**5,147**	**-**	**-**	**-**	**5,147**
					-					
Income tax payables	145	-	-	-	**145**	**-**	-	-	-	**-**
Other	7,639	-	-	-	**7,639**	4,316	-	-	-	**4,316**
Total current liabilities	**38,091**	**3,602**	**2,580**	**445**	**44,718**	**23,246**	**1,932**	**1,143**	**3,795**	**30,116**

Appendix no. 10

KEY FIGURES FROM THE MOST RECENTLY APPROVED FINANCIAL STATEMENTS OF THE COMPANY PERFORMING MANAGEMENT AND COORDINATION ACTIVITIES (Article 2497-bis of the Italian Civil Code)

	Euro thousands
LEONARDO S.P.A.	
BALANCE SHEET	
ASSET	
NON-CURRENT ASSETS	7,828,603
CURRENT ASSETS	4,687,259
TOTAL ASSETS	**12,515,862**
LIABILITY	
EQUITY:	
- Capital	2,522,471
- Reserves and retained earnings	1,213,884
- Profit for the year	443,927
	4,180,282
NON-CURRENT LIABILITIES	3,780,296
CURRENT LIABILITIES	4,552,284
TOTAL LIABILITIES	**12,512,862**
INCOME STATEMENT	
REVENUE	64,722
COSTS	(159,549)
FINANCIAL INCOME/EXPENSE	511,409
INCOME TAXES	27,345
PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	-
PROFIT FOR THE YEAR	**443,927**
LEONARDO S.P.A. PREPARE CONSOLIDATED ACCOUNTS	

For the Board of Directors

Leonardo Società per Azioni

The Chairman

(Giovanni De Gennaro)

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING AT 31 DECEMBER 2016

SIRIO PANEL S.P.A.

Sole-shareholder company subject to direction

and coordination by LEONARDO S.p.a.

* * *

<u>BOARD OF STATUTORY AUDITORS' REPORT</u>

<u>ON THE FINANCIAL STATEMENTS AT 31.12.2016</u>

Dear Shareholders,

this report was prepared by the Board of Statutory Auditors pursuant to Article 2429 – paragraph 2 – of the Italian Civil Code.

Since SIRIO PANEL S.p.A. (hereinafter also referred to as "SIRIO PANEL") was controlled directly by LEONARDO S.p.a. – a joint-stock company listed on regulated markets (hereinafter also referred to as "LEONARDO") until 31 December 2016, it is subject to the provisions laid down in Section VI – Auditing, Chapter II, Title III, Part IV (except for Article 157) of Legislative Decree no. 58/1998 *("Draghi Act")*.

With effect from 1 January 2017 SIRIO PANEL S.p.A. was merged by incorporation into the parent company LEONARDO S.p.a., with the consequent dissolution of the company and of the Corporate Bodies, within the broader process of structuring the LEONARDO Group into divisions: therefore, this report is issued by the Governance Body of LEONARDO, which gives its opinion, within the sphere of its competence, making reference to the work performed by the previously serving Board members during the 2016 financial year as per the report signed on 19 December 2016 and subsequently supplemented by information about the events that occurred after the end of the financial year.

During the financial year ended 31 December 2016, the previously serving members of the Board of Statutory Auditors performed their supervisory duties within the time limits set out in the regulations in force for the 2016 financial year; subsequently and until today's date, the merging Company's Board of Statutory Auditors continued to perform, for the purposes of this report, its supervisory duties in implementing the relevant regulations and in compliance with the rules of conduct recommended by the Italian Accounting Profession (*Dottori Commercialisti ed Esperti Contabili*).

Specifically, the previously serving members of the Board of Statutory Auditors:

- oversaw compliance with the law and the memorandum of association, as well as with the principles of proper administration;
- attended the Board of Directors' and the Shareholders' meetings, which were held in accordance with the rules provided for in the articles of association, laws and regulations that govern their proceedings: in this regard, the Board of Statutory Auditors has ensured that its resolutions were always passed in compliance with the law and the Company's articles of association;
- obtained from the Directors information about the general performance of operations and its outlook, as well as about the most significant transactions, in terms of their size or characteristics, which were carried out by the Company; therefore, the Board has been able to ensure that the transactions were carried out in compliance with the law and the articles of association and were not manifestly imprudent or reckless, nor in a potential conflict of interest or in contrast with the resolutions passed by the shareholders' meeting or such as to compromise the integrity of the corporate assets;
- established that the Company did not carry out any atypical and/or unusual transaction, including intragroup or with related parties;

- met, during the quarterly audit meetings, the managers acting for the Independent Auditors appointed to perform the audit of accounts. During the exchange of information, KPMG S.p.A. confirmed that the management events had been recognised in a correct manner and that the Company's accounting records had been duly kept, as well as the reliability of the internal control system; the previously serving members of the Board of Statutory Auditors also established, during periodical meetings with the managers acting for the Independent Auditors, that the latter had duly performed their auditing duties;
- assessed and supervised the adequacy and operation of the Company's organisational structure and administrative and accounting system, as well as the system's reliability in reporting the management events in a correct manner, obtaining any necessary information from the top management, the managers responsible for the functions concerned and the entity appointed to carry out the statutory audit of accounts, as well as from an examination of corporate documents: in this regard, the Board had no specific observations to report;
- took note of, and obtained information from the Supervisory Board about, any organisational activity and procedure performed pursuant to Legislative Decree 231 of 8 June 2001;
- examined the procedure relating to the merger of the Company by incorporation into Leonardo S.p.a. with effect from 1 January 2017 and acknowledged the resolutions passed by the Board of Directors of Sirio Panel S.p.A. at the meeting held on 23 June 2016, with the approval of the plan of merger by incorporation, as well as the resolutions passed by the

Extraordinary Shareholders' Meeting of Sirio Panel S.p.A. on 28 July 2016.

The previously serving members of the Board of Statutory Auditors also attested, in a report dated 19 December 2016, as subsequently supplemented by information concerning the events that occurred until the end of the financial year, that:

- no complaints were submitted by the shareholders pursuant to Article 2408 of the Italian Civil Code during the 2016 financial year;
- no omissions, reprehensible actions or significant irregularities emerged during the supervisory work and at the end of the audits carried out, which were such as to require a mention in the report referred to above.

Finally, the previously serving members of the Board of Statutory Auditors have reported that no significant management events occurred during the 2016 financial year which are worthy of mention in this report.

The appointed Supervisory Body:

- duly reported to the previously serving members of the Board of Statutory Auditors on the work done during the 2016 financial year;
- duly reported to the previously serving members of the Board of Statutory Auditors on the correct adoption of the directives issued by the Parent Company.

The Board of Statutory Auditors of the merging company Leonardo S.p.a. hereby attests, also based on the information provided by the previously serving members of the Board of Statutory Auditors, that:

- no complaints were submitted by the shareholders pursuant to Article 2408 of the Italian Civil Code during the year and until the date of this report;
- no omissions, reprehensible actions or significant irregularities emerged

during the supervisory work and at the end of the audits carried out, which were such as to require a mention in this report.

The Board of Statutory Auditors of Leonardo S.p.a. also confirms that the merger of Sirio Panel S.p.A. by incorporation into Leonardo S.p.a. became effective on 1 January 2017 and no other significant events have occurred as at the date of this report.

* * *

We have examined the draft financial statements at 31 December 2016, which were made available to us within the time limits set out in Article 2429 of the Italian Civil Code as to which we report the following information.

As we are no responsible for carrying out the statutory audit of accounts, we supervised the general layout of the financial statements, the general compliance with laws governing their preparation and structure and we have no particular observations to make in this regard. On 17 March 2017 the appointed Auditing Firm issued its unqualified report on the financial statements, including an emphasis of matter paragraph.

The Board of Statutory Auditors has examined the draft financial statements for the financial year ended 31 December 2016, which were approved by the Board of Directors of Leonardo S.p.A. at the meeting held on 15 March 2017 and delivered to the Statutory Auditors on this date, together with the schedules, the supporting documents and the report on operations.

The draft financial statements at 31 December 2016 of SIRIO PANEL S.p.A. were prepared - in the application of Regulation (EC) 1606/2002 of 19 July 2002 – according to the International Accounting Standards (IAS / IFRS), as endorsed by the European Commission and supplemented by the related interpretations issued by the International Accounting Standard Board and in force at the end of the financial year.

The draft financial statements are made up of the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the explanatory notes.

The draft financial statements under examination were prepared by using the same accounting standards and basis of preparation as those adopted to prepare the financial statements at 31 December 2015.

As regards taxation, SIRIO PANEL has joined the Group tax regime (National tax Consolidation) for the purposes of the application of IRES (Corporate Income) tax.

We have also supervised compliance with the provisions of law governing the preparation of the report on operations and we have no particular observations to report in this regard as well.

To the best of our knowledge and as reported by the Directors, related-party transactions were carried out at arm's length, as are interest-bearing receivable and payable transactions, where they are not regulated by specific contract terms and conditions.

We have also established that the financial statements are consistent with the facts and information which we became aware of following the performance of our duties and we have no observations in this regard.

The financial statements also include– pursuant to Article 2497-*bis*, paragraph 4, of the Italian Civil Code – the statement summarising the key figures from the most recently approved financial statements (FY 2015) of Leonardo - Finmeccanica – Società per azioni, the company that carries out management and coordination activities.

On the basis of the activities carried out by the previously serving members of the Board of Statutory Auditors, who have promptly provided us with complete information, and 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.

As regards the result for the 2016 financial year, which showed a profit of €20,894,940, 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.

As to development costs in an amount of €125,000, which fully relate to the ATR Piantana programme, the Board gives its favourable opinion about the recognition of said long-term costs under balance sheet assets (Article 2426, paragraph 5, of the Italian Civil Code).

While taking account of the above considerations and within the sphere of its responsibilities, the Board of Statutory Auditors does not report any impediment to the proposed approval of the draft financial statements at 31 December 2016, as prepared by the Directors.

Rome, 17 March 2017

THE BOARD OF STATUTORY AUDITORS

Riccardo Raul Bauer

Niccolò Abriani

Luigi Corsi

Daniela Savi

Francesco Perrini

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016 IN ACCORDANCE WITH ART. 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ART. 165 OF LEGISLATIVE DECREE NO.58 OF 24 FEBRUARY 1998

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and to article 165 of Legislative decree no. 58 of 24 February 1998

To the shareholders of
Leonardo S.p.a. (into which its fully controlled subsidiary Sirio Panel S.p.A. was merged)

Report on the financial statements

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

Directors' responsibility for the financial statements

The directors of Leonardo S.p.a. are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union.

Independent auditors' responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

Emphasis of matter

Without modifying our opinion, we bring your attention to note 6. "Events after the reporting date", disclosing that Sirio Panel S.p.A. was incorporated into its parent, Leonardo S.p.a., with effect from 1 January 2017.

Other matters – Management and coordination

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Sirio Panel S.p.A. does not extend to such data.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report with the 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, which is the responsibility of the directors of Leonardo S.p.a., with the financial statements. In our opinion, the directors' report is consistent with the financial statements of Sirio Panel S.p.A. as at and for the year ended 31 December 2016.

Florence, 17 March 2017

KPMG S.p.A.

(signed on the original)

Matteo Balestracci
Director of Audit