

# ***2017 Sustainability and Innovation Report***

*Consolidated Non-Financial Statement for 2017 in  
accordance with Italian Legislative Decree No. 254/2016*



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## ➤ Introduction

Leonardo is subject to the Italian Legislative Decree no. 254/2016, transposing the Directive 2014/95/EU of the European Parliament on the disclosure of non-financial information.

In accordance with the law, Leonardo has prepared the consolidated non-financial statement separately from the financial report, in the form of the Sustainability and Innovation Report 2017, which the company uses to communicate with stakeholders on its idea of sustainability and on its approach to value creation in the long term.

In this way, we aim to valorise the path undertaken by the Group over the last years and to interpret the constructive spirit of the Directive, whose purpose is to increase the comprehension and the level of disclosure of the non-financial information.

The document is drawn up according to the "G4 - Sustainability Reporting Guidelines" by GRI, adopting the option "in accordance core", and it is inspired by the International Integrated Reporting Council (IIRC) framework. A bridging table is published in the appendix to identify the contents required by the Legislative Decree no. 254/2016.

# LEONARDO

We are a global high-tech company in the  
**Aerospace, Defence and Security**

## Our **businesses**



Helicopters



Electronics,  
defence and  
security systems



Aeronautics



Space

## Our **commitment**

To create value for shareholders and for all other stakeholders  
through a path of long term sustainable growth,  
investing in the continuous improvement of our products and  
focusing on our key technologies



## How we create **value**

WITH OUR **CAPITALS**



**Financial resources**



**Operating assets**



**People and skills**



**Technologies and intellectual property**



**Collaborations and relationships with stakeholders**



**Energy and natural resources**



BY A **SOUND GOVERNANCE** AND  
A **RESPONSIBLE BUSINESS CONDUCT**



WITH OUR **PROCESSES**

**Continuous innovation**

**People & Community**

**Customer intimacy**

**Environment and climate change**

**Supply chain**

## Our **solutions for society and the environment**



SUSTAINABLE MOBILITY

EARTH CARE

PREVENTION AND MANAGEMENT OF EMERGENCIES

SECURITY FOR PEOPLE AND TERRITORY

CYBERSECURITY FOR CRITICAL INFRASTRUCTURES

## ➤ Letter to stakeholders

With this document we are pleased to show you the starting point of a development phase for our Group. After a path of change, today Leonardo is an international player with advanced technologies, people of value and a unique capacity of integrating knowledge and know-how, who is able to transform all this in effective, reliable and affordable solutions.

We did a lot in the last years: we focused in the core business, redefined the governance, changed the company name and launched the One Company model that, although it is still “young”, has made the decisional and operating processes more effective and has strengthened the base for a responsible business conduct.

During 2017 we faced some short-term, non-structural issues that have been addressed promptly by corrective actions.

With the new 5-year Industrial Plan 2018-2022, approved by the Board of Directors, we have started a new phase of evolution and sustainable growth, to leverage the full potential of our resources and to complete the implementation of the One Company, by working on our identity and fortifying the sense of “belonging”.

We are going to be a more integrated company, transparent and digital, driven by a people-centric strategy and by a business approach more oriented to our goals, in order to be closer to customers and able to provide innovative solutions that respond to market needs.

It is an ambitious but realistic plan that aims at reinforcing our fundamentals and thus able to bring us on a path of sound, continuous and sustainable growth over time.

The 2017 Sustainability and Innovation Report shows an increasing integration of the sustainability themes into the industrial strategy and responds to the new legislative requirements on non-financial information disclosure, providing an integrated vision of our capitals and processes to create shared value.

The document defines our approach on sustainability: the way we conduct our activities to be here and to be strong over the long term, by continuously balancing the resources available to us and the challenges we face on the markets.

It describes how we operate in a global scenario increasingly complex, with integrity of rules and responsible behaviours acting as the compass of our business conduct, not just for supporting our reputation, but also for boosting competitiveness and being the partner of choice.

It highlights our commitment to research and innovation, since we play a first tier role in the European programmes and we are recognised as a main player in the technological context that is designing the future, with an open innovation approach.

It shows our determination in offering solutions for the society and for the environment, that can help in preventing and managing emergencies and natural disasters, developing a sustainable mobility, facing the effects of climate change and providing for security of people, communications’ networks and infrastructures.

It reinforces our engagement to take action for the Sustainable Development Goals, through the role we play both in our industry – contributing to the growth of local clusters and to the development of suppliers’ competences – and in the communities where we operate, promoting a scientific citizenship and the dissemination of the STEM disciplines.

To move on this path of sustainable and long-term growth, it is fundamental to execute the Industrial Plan. We are confident that we can achieve this goal and, above all, we trust our people and their commitment, because they contribute every day to the prosperity and development of local community with a service-minded attitude, dedication and passion, and creates an inestimable heritage of competences and knowledge for the future generations.

The Chairman

*Giovanni De Gennaro*

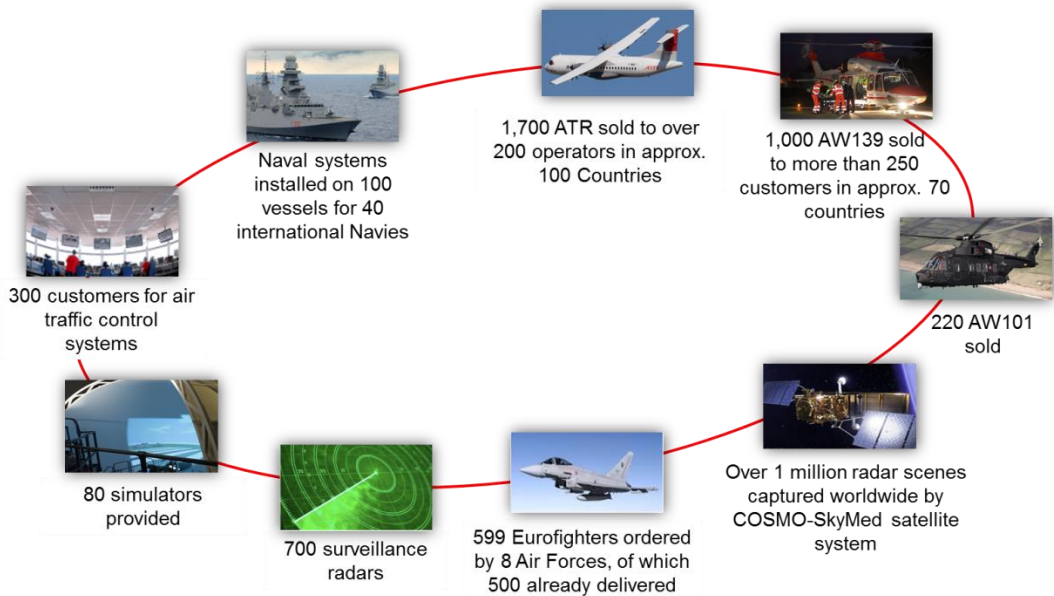
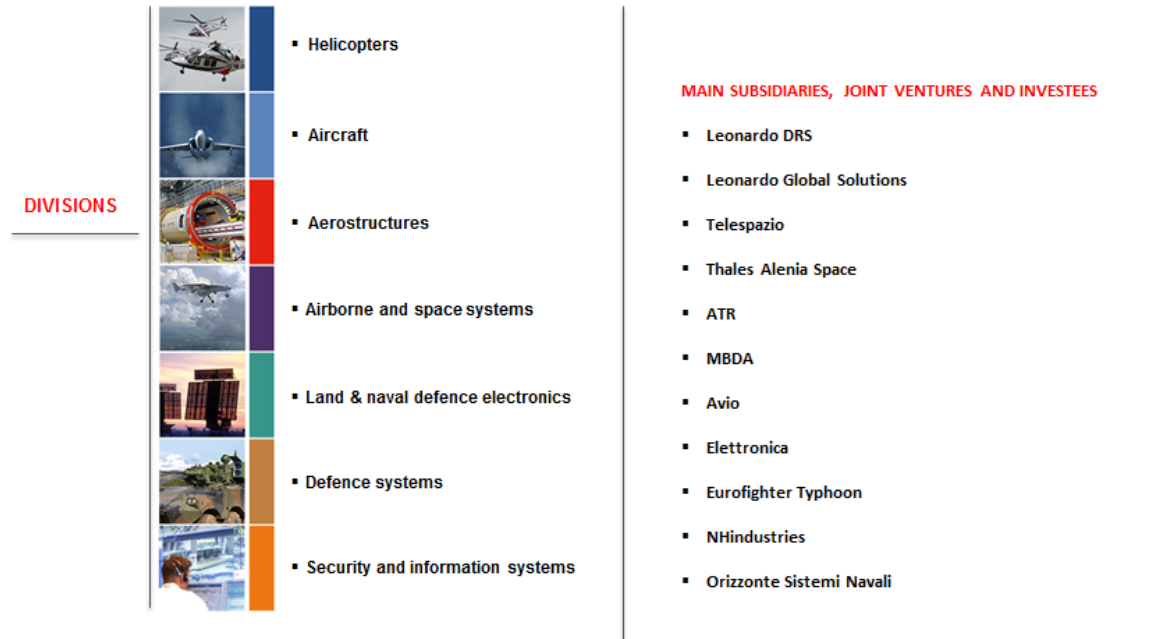
The Chief Executive Officer

*Alessandro Profumo*

# COMPANY PROFILE

Leonardo is one of the world's top 10 companies in the Aerospace, Defence and Security sectors and main industrial company in Italy. It is the synthesis of a great legacy and a solid commitment to technological excellence.

## Group structure





## Products, systems and solutions

- **SKY**

### **Air mission and air transport**

Latest-generation aircraft and helicopters for commercial, public service, security, training and defence applications. The offer includes proprietary mission systems, sensors and avionics, in addition to complete and fully integrated ground-based training systems to ensure high-quality training and strong operating efficiency.

- **LAND**

### **Strategic and tactical systems for land and air defence**

Integrated and interoperable systems to meet the most demanding applications in an intervention scenario. Strategic and tactical command and control systems, air defence systems, net-centric management systems for on-the-ground land troops.

- **SEA**

### **Naval superiority**

Integrated naval combat systems and state-of-the-art technology for naval vessels of all sizes, including radar sensors and proprietary optronic, communication and data link systems, warfare systems and integrated propulsion systems.

- **SPACE**

### **Space solutions**

Satellites and orbiting infrastructures, satellite systems, instruments, subsystems and high-tech sensory systems for applications ranging from Earth observation to atmospheric and ecosystem monitoring, from space and planetary exploration to navigation missions, telecommunications and in-orbit experiments.

- **CYBERSPACE**

### **Security, information and automation systems**

Homeland protection solutions to safeguard territories, urban centres, critical infrastructures, major events and sensitive areas. Air traffic, airport and maritime management systems. Solutions and services for network protection and data security for Governments and the private sector. Industry 4.0 systems.

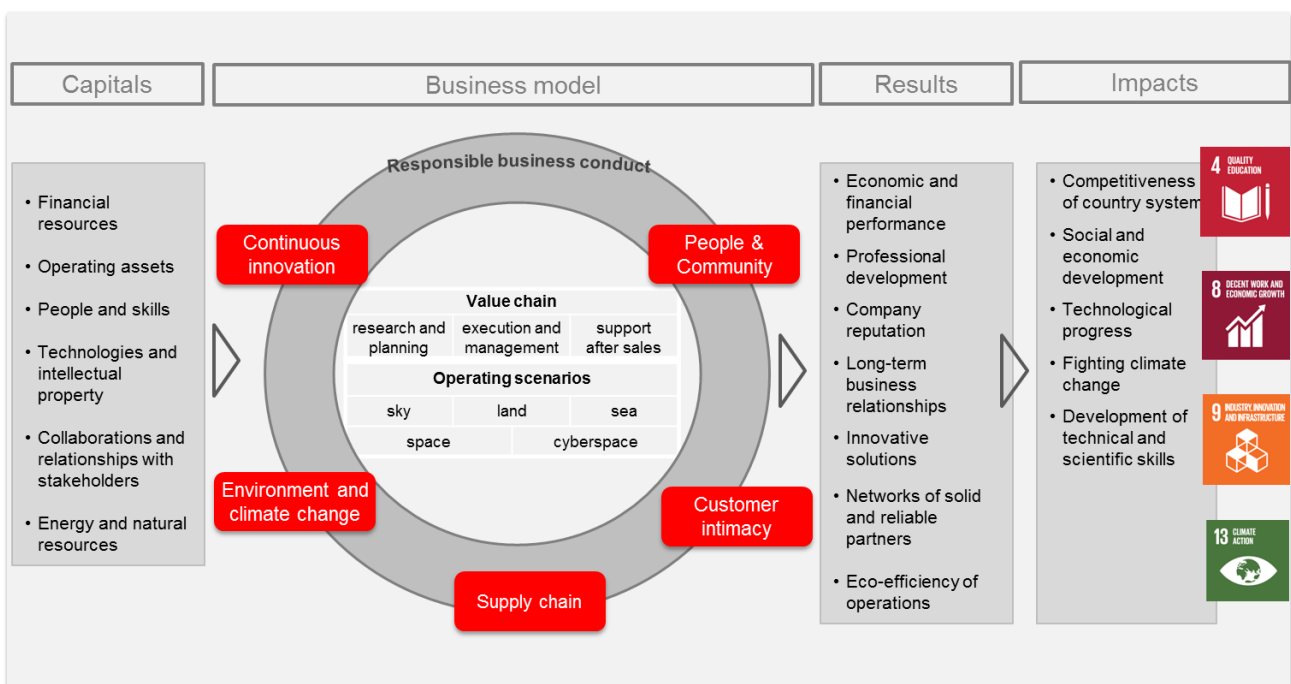
## ➤ Capitals and business model

Leonardo designs, manufactures and manages products, systems, services and integrated solutions for both defence and civil segments in order to meet the needs of Governments, institutions, companies and citizens in every possible intervention scenario: airborne and terrestrial, naval and maritime, space and cyberspace.

The responsibility, integrity and shared values guide the choices and behaviours in the conduct of the business and they contribute to increase consumers', suppliers', business and trade partners' and all stakeholders' confidence.

Through the management of knowledge and skills, customer intimacy, continuous innovation, supplier involvement and attention to environmental sustainability, Leonardo uses and transforms its capitals to generate results and improve the economic, social and environmental impacts, creating value in the long term.

### How Leonardo creates value



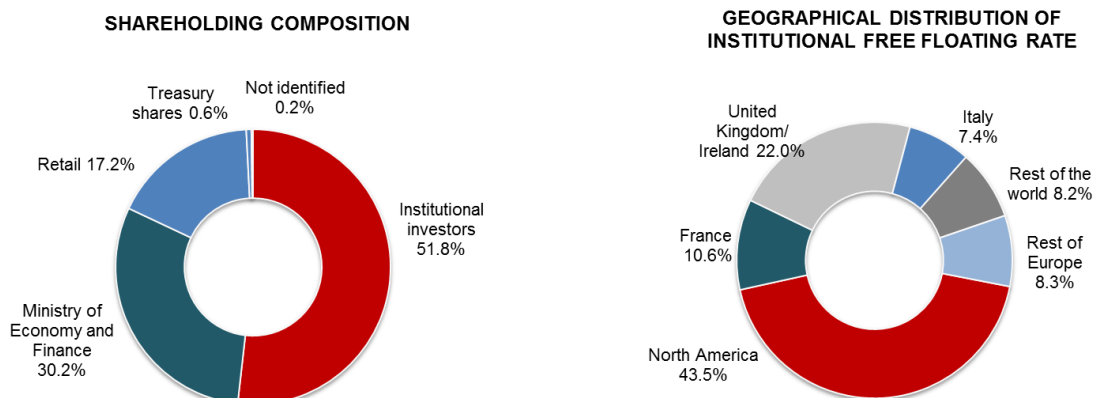
## ▪ Capitals



### Financial resources

Leonardo is listed on the Milan stock exchange, it has an international shareholding structure and over 90% of the institutional float is held by foreign funds. Approximately 30% of Leonardo's capital<sup>1</sup> is held by investors who are signatories of the PRI (Principles for Responsible Investment).

Leonardo also issues debt capital, mainly through bonds in euro and in the other main currencies. The average term of the debt is 6 years, with maturity scheduled to ensure financial stability and balance in the long term.



## Credit rating

Agency	Credit rating	Outlook	Latest update
Moody's	Ba1	Positive	Outlook revised from Stable to Positive on 23 May 2017
Standard & Poor's	BB+	Stable	Outlook revised from Negative to Stable on 28 April 2015
Fitch	BBB-	Stable	Outlook revised from Positive to Stable and Rating from BB+ to BBB-, on 25 October 2017

### Leonardo regains its investment grade rating

In October 2017, Fitch raised Leonardo's rating to investment grade (BBB-) based on the improvement of the business profile, thanks to the focus on core activities and on the improvement of the financial profile. One of Leonardo's strategic priorities is its investment grade rating, as it reflects the long-term stability of the business, thus providing the Group's customers, investors and counterparties with an extra guarantee.

<sup>1</sup>As of January 2018 Leonardo's share capital is equal to €2,543,861,738, represented by 578,150,395 ordinary shares with a nominal amount of €4.40 each.

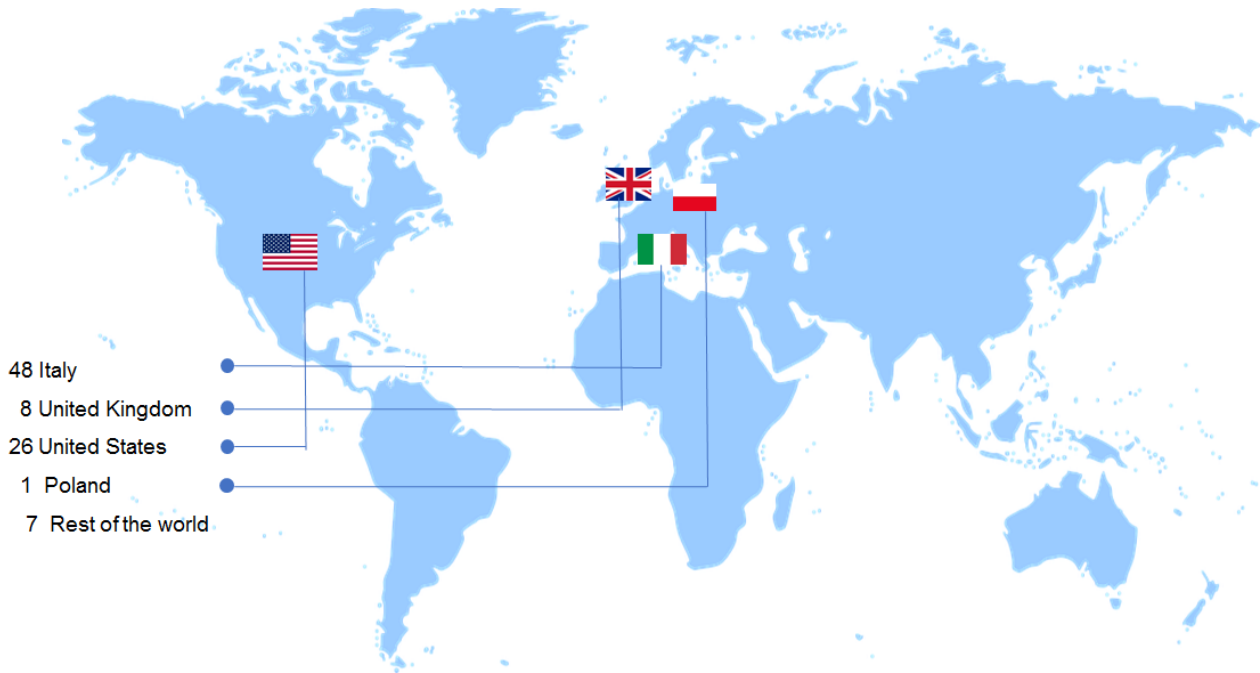


## Operating assets

Leonardo has a strong industrial presence in Italy, the United Kingdom, the United States and Poland, countries in which 98% of its human resources work and where its main supply chains, which provide around 75% of goods and services purchased, are based.

The Group's tangible assets amount to €2,233 million, equal to 19% of fixed assets.

### Main industrial sites<sup>2</sup>



#### **A new industrial hub was inaugurated in L'Aquila**

The site dedicated to the Group's avionic activities, which was badly damaged by the earthquake in 2009, was reopened in July 2017, also thanks to the aid provided by the Abruzzo region. The new site has been built in accordance with the higher anti-seismic and environmental standards.

Together with the Thales Alenia Space site, it represents the new production hub with more than 22,000 square metres is being built, spread between production segments, clean rooms, offices and other accessory buildings and with around 450 people, predominantly highly specialised engineers and technicians.

<sup>2</sup>These data are calculated using the environmental reporting scope. See the Methodological note.



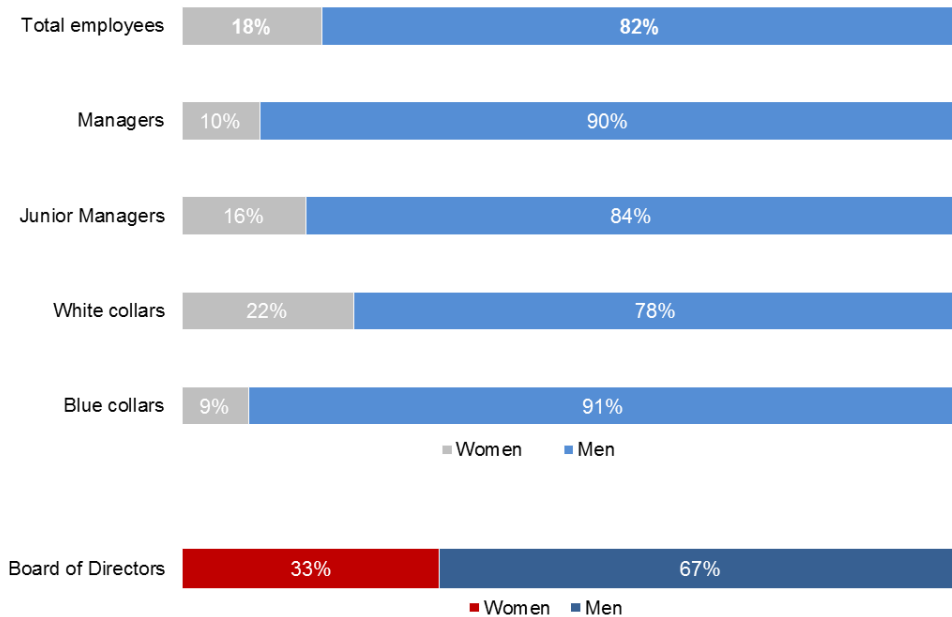
## People and skills

Leonardo employs 45,134 people including around 10,000 aeronautical, aerospace, electric, mechanic, IT and telecommunication engineers and around 12,000 specialised technicians.

Leonardo favours a multicultural work environment, by promoting the respect and values diversity. The average age of employees is 45 years and the average length of employment is equal to 17 years.



### GENDER DIVERSITY



### Commitment to reduce the Gender Pay Gap

For many years, Leonardo has been publishing information on the gender pay ratio, in accordance with the guidelines of the Global Reporting Initiative and, furthermore, in the United Kingdom it has introduced a Gender Pay Gap Report, in compliance with the new regulations on the matter.

In the Report, Leonardo MW describes its commitment to reach 30% female employment by 2025, through balanced and inclusive succession plans, welfare programmes for parents and STEM (Science, Technology, Engineering and Mathematics) activities for female students.

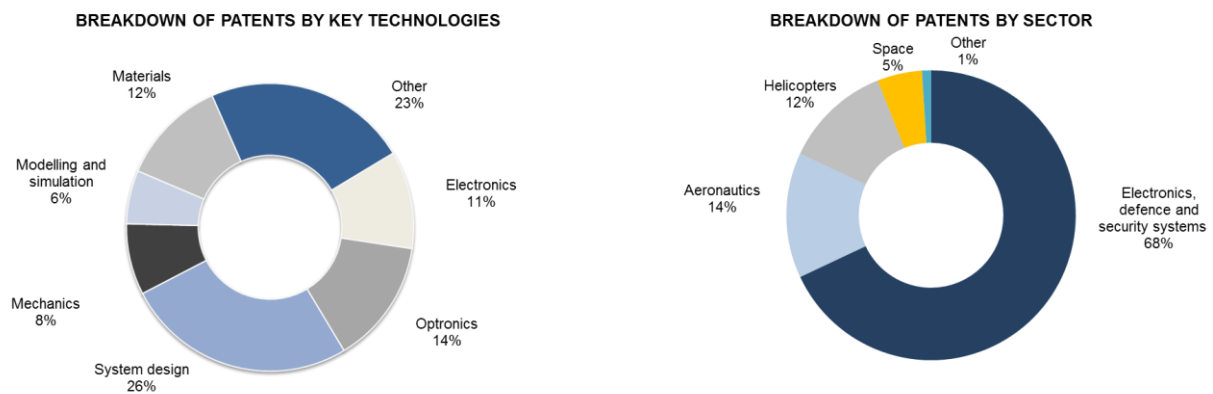


## Technologies and intellectual property

Leonardo has technologies that are key for its business growth and development: software, microelectronics, metamaterials, advanced mechanics, professional communications, cyber security, system engineering, optronics and advanced robotics. These technologies are being developed both internally and through collaborations with external partners, thanks to open innovation processes.

In the last decade, Leonardo's patent portfolio has consistently grown and has been characterised by greater selectivity with regard to technologies and industrial processes.

The Group's intangible fixed assets amount to €6,538 million, equal to 56% of fixed assets.



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### Leonardo is strengthening its foothold in the infra-red technology market

With the acquisition of Daylight Solutions Inc., the leading developer of quantum cascade laser-based products and technology, Leonardo has reinforced its position in the infra-red technology sector and, simultaneously, expanded its offer of advanced solutions for civilian and military customers around the world.

The integration of Daylight Solutions' laser technology into the core electro-optical and infra-red systems business will be used for dual-use applications, including aircraft protection systems and medical and industrial systems, such as imaging to diagnose cancer and chemical detection.

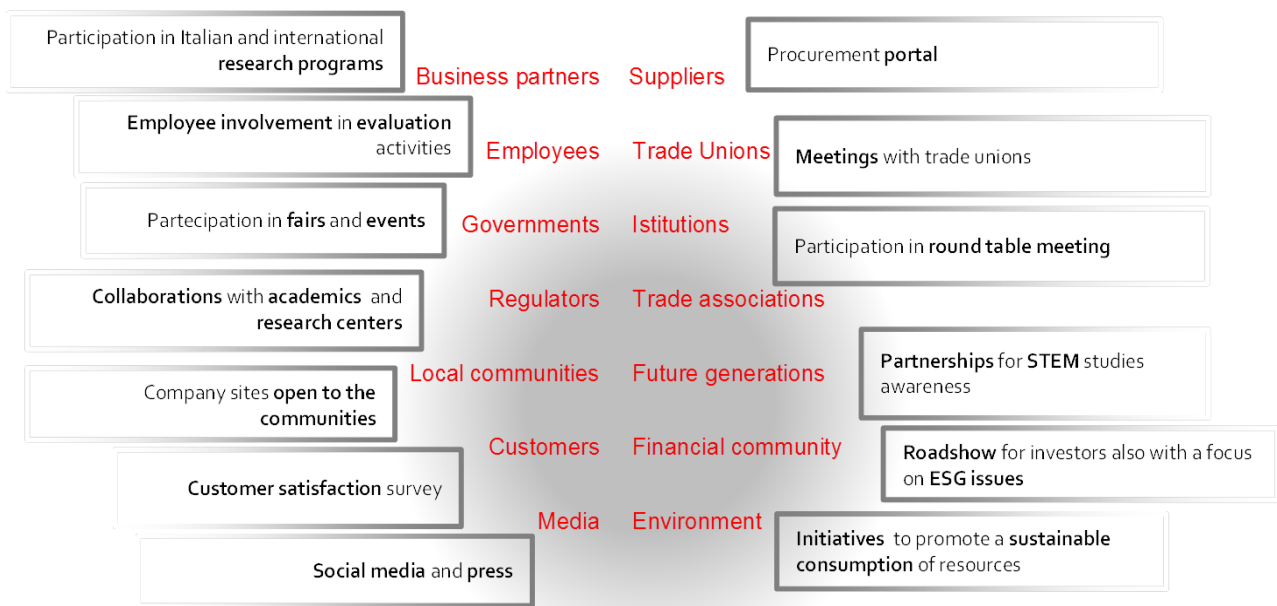


## Collaborations and relationships with stakeholders

Leonardo is part of a system in which companies, political and economic institutions and the world of science and culture interact, and it dialogues with its stakeholders for long-term cooperation.

Stakeholders are constantly engaged through the competent organisational structures and using schedules and methods that depend on the stakeholder. In 2017, a new integrated structure that manages external relationships, communications, relationships with Italian institutions and investors and sustainability in a synergetic way has been created in order to strengthen dialogue with stakeholders.

### Stakeholder engagement and main interactions



### Laboratory for scientific citizenship

i.lab Matematica is the result of the partnership between Leonardo and some local stakeholders of the city of Milan, including the Science and Technology Museum and the Polytechnic University and it aims to introduce younger generations to mathematics through experimentation. Stimulating interest in scientific disciplines is a priority for Leonardo and for the Aerospace, Defence and Security industry.

The laboratory is also a space that involves the entire city of Milan, promoting scientific citizenship thanks to a programme of activities that aims to attract the attention of a wide swathe of the public: students, teachers, families, adults and children.

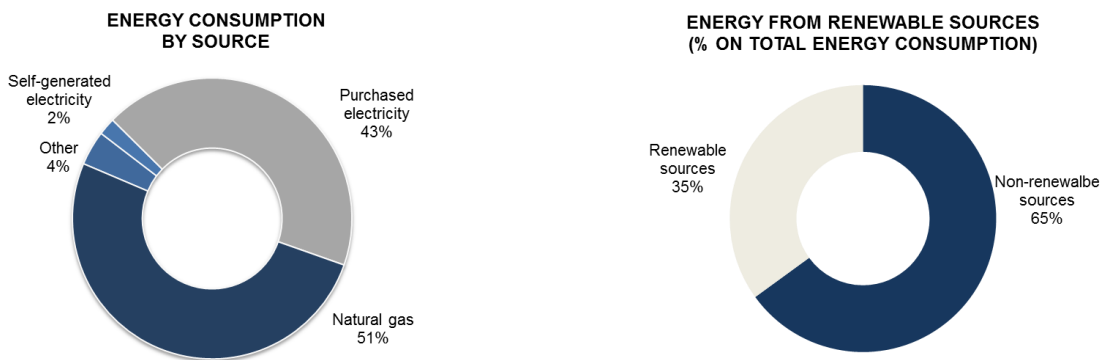


## Energy and natural resources

Leonardo respects the environment by using energy and natural resources in a sustainable manner.

In 2017, its energy consumption was equal to 5,725 TJ, mainly generated using natural gas, a source with a reduced environmental impact, with a significant portion of its electrical energy from renewable sources. Water withdrawal was equal to around 6 million cubic metres.

Leonardo carries out its activities while safeguarding protected areas and/or areas of high biodiversity: 31 industrial sites (17 in Italy; 4 in the United Kingdom; 7 in the United States and 3 in the rest of the world) are located in, or adjacent to, protected areas, with a surface area of 5.2 square kilometers.



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### Leonardo's commitment to the Alliance for water and climate change

Leonardo signed the Italian companies' Alliance for water and climate change together with 36 other Italian companies and associations. The initiative is promoted by the Ministry for the Environment and the Protection of the Land and the Sea. It is an innovative project that engages different skills, ensuring coordination between business and industrial companies to encourage the development of strategic guidelines and the identification of the right tools for a more efficient and rational management of water use.



## ➤ Performance in 2017

### Group results

(€ millions)	2017	2016	2015
Orders	11,595	19,951	12,371
Order backlog	33,578	34,798	28,793
Revenue	11,527	12,002	12,995
EBITA	1,066	1,252	1,208
Net result	274	507	527
Net debt	2,579	2,845	3,278
FOCF	537	706	307
ROS	9.2%	10.4%	9.3%
ROI	14.9%	16.9%	15.7%
ROE	6.2%	12.6%	6.2%
Direct emissions of CO <sub>2</sub> - scope I (tons CO <sub>2</sub> e)	256,878	270,689	272,914
Energy from renewable sources (% of total energy consumption)	35%	32%	34%
Accidents per 200,000 hours worked (no.)	1.0	0.9	1.6
Average training hours per employee (no.)	20	14	18
Investments in R&D (% of revenue)	13.4%	11.4%	10.9%
Workforce (no.)	45,134	45,631	47,156
Women in managerial positions (% of the total of managers and junior managers)	15%	14%	13%

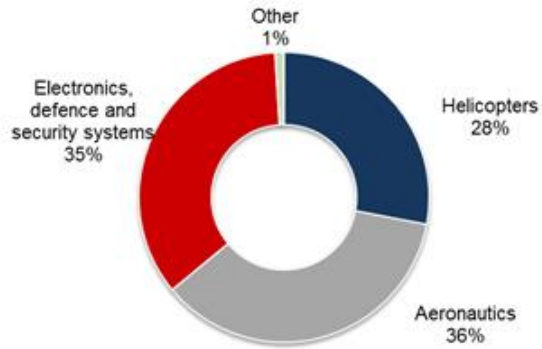
### Industrial Plan 2018-2022

The new 5-year Industrial Plan aims to return Leonardo to long-term sustainable growth.

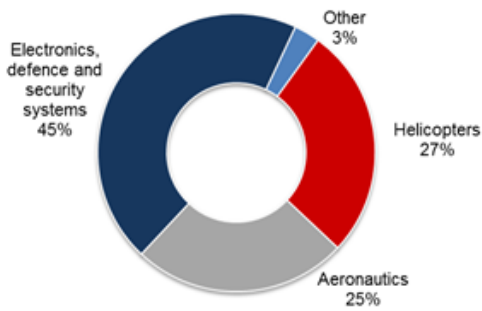
After the short-term issues in Helicopters business, already addressed by specific actions, Group revenue and EBITA guidance have been revised for 2017, in the occasion of the nine months results' approval.

The transformation process will be implemented in some key areas, as the operating model optimisation "Leonardo 2.0", the reinforcement of the Group identity and of the integrated resources management, and an increased customer intimacy. Investments will support growth by focusing on key products and technologies, by developing the commercial network and a cost transformation programme to enhance the products' competitiveness, as well as by reshaping the product portfolio.

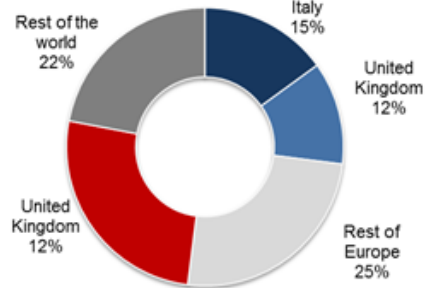
### ORDER BACKLOG BREAKDOWN BY SECTOR



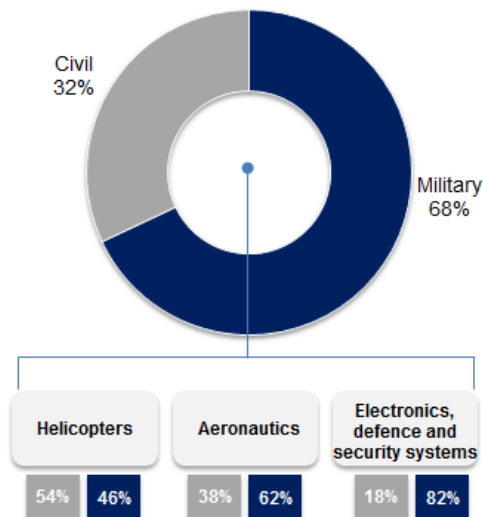
### REVENUES BREAKDOWN BY SECTOR



### REVENUES BREAKDOWN BY GEOGRAPHICAL AREA



### REVENUES BY MARKET



## Breakdown of added value

(€ millions)	2017	2016	2015
Revenue	11,527	12,002	12,995
Other revenues	569	742	823
Other operating costs and net accessory/extraordinary items	210	138	530
<b>Total added value generated</b>	<b>12,306</b>	<b>12,882</b>	<b>14,348</b>
Suppliers (cost for the purchase of goods and services)	7,454	7,570	8,827
Employee remuneration	3,111	3,159	3,301
Loan capital remuneration	529	498	498
Public administration remuneration	106	122	117
Total donations and sponsorships	6	5	3
<b>Company remuneration</b>	<b>1,100</b>	<b>1,528</b>	<b>1,602</b>
<b>Total value distributed</b>	<b>12,306</b>	<b>12,882</b>	<b>14,348</b>

### Tax transparency

Leonardo has been admitted into the “cooperative compliance” regime in Italy, which will increase certainty with regard to significant tax issues through ongoing dialogue and greater trust with the Italian tax office. Pursuant to Legislative Decree no. 128/2015, a pre-requisite for admission into the new regime is an adequate tax risk assessment, management and control system, in line with the international best practices (i.e., the so-called Tax Control Framework).

In 2017, Leonardo accounted 95% of its taxes in Countries in which it has main operating assets and in which 98% of its employees works (Italy, the United Kingdom, the United States and Poland).

## Recognition and awards

<b>Sustainability equity indices</b>	<b>Dow Jones Sustainability Indices</b> - Eighth consecutive year in the DJSI equity indices; one of the eight companies in the A&D industry and one of the eight Italian companies admitted. <b>ECPI</b> - included in the ECPI World and Euro ESG Equity indices.
<b>ESG disclosure</b>	<b>CDP (Carbon Disclosure Project)</b> - Ranking improved on the previous year, moving up from level B to level A-. <b>Defence Companies Anti-Corruption Index</b> - Ranked at level B in the Transparency International's ranking. <b>E&amp;S Quality Score</b> - Scored as having the lowest risk level with respect to environmental and social performance in the analysis performed by Institutional Shareholder Services (ISS).
<b>Innovation award</b>	<b>Innovation Award</b> - Given to the "electric propulsion for the helicopter tail rotors" project, in the Industry and Services category - Large industrial companies. <b>SMAU prize for innovation</b> - Given to Secure Connected Factory for Industry 4.0 in Lombardy and to MORPHEUS VR for maintenance and operating training with virtual reality technologies in Campania. <b>"Grover E. Bell" Award</b> - Given due to outstanding research and experimentation contribution to the field of vertical flight.
<b>People award</b>	<b>Best Employer of Choice 2018</b> - Ranked eighth in Italy; the best result since 2002, when the initiative began. <b>RateMyApprenticeship</b> - Confirmed fifth for apprenticeship schemes and school/work programmes in the United Kingdom. <b>Seal of Distinction Award</b> - Given to Leonardo DRS by WorldatWork for its work-life balance.
<b>Customer satisfaction</b>	<b>Pro Pilot</b> - Ranked second best global helicopter company, with a score of 7.32/10 for post-sale assistance.
<b>Safety award</b>	<b>Best HSE Implementation</b> - Recognised as best sub-contractor for safety of the construction of Line 3 of the new Riyadh metro.

## Digital identity

Leonardo is on LinkedIn, Twitter and YouTube, where it talks about the Group, its solutions and main events.  
In 2017, KWD Webranking Italy, which assesses the transparency of digital channels, ranked the website eleventh out of 112 listed Italian companies, with a score of 68.6 points out of 100, up 13 places.

**Followers**  
**+40%** LinkedIn  
**+85%** Twitter  
**+57%** YouTube

## ➤ Material issues

Leonardo's business strategy responds to key market dynamics and integrates the main environmental, social and governance aspects.

The Aerospace, Defence and Security sectors are influenced by geopolitical and macroeconomic developments, as well as Government spending policies and the needs of the private sector customers.

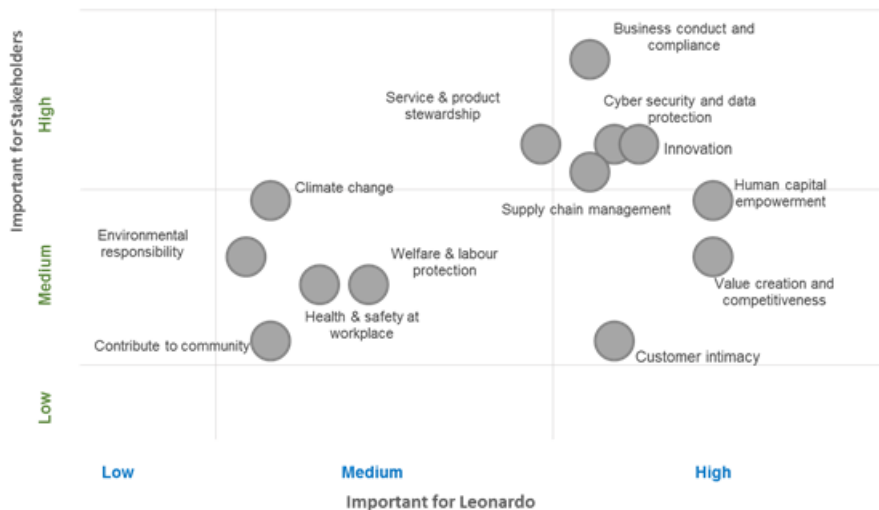
The material issues for Leonardo and its stakeholders, which are shown in the materiality matrix, establish both the main risk areas and the areas with the potential to create value over the short and medium-long term.

The materiality matrix was prepared based on a multidimensional analysis of the external context, including sector benchmarks and specific Aerospace, Defence and Security documents, analysis of press coverage, questionnaires and Leonardo's ESG (Environmental, Social and Governance) performance reports, conducted by independent assessment companies and the results from interviews with Group management.

*Being sustainable requires an extraordinary ability to balance the resources available to us with the challenges of the highly competitive markets in which we operate.*

**A. Profumo - Chief Executive Officer, message to employees**

## Materiality matrix



## Open to dialogue in the international think tanks

Leonardo actively participates in the discussions about economic, political and geopolitical issues by promoting activities of the main think tanks, such as the Italian Institute for International Political Studies (*Istituto per gli Studi di Politica Internazionale* - ISPI), the International Affairs Institute (IAI), the Chatham House and the Center for Strategic and International Studies (CSIS). The objective is to promote the dialogue on global issues in order to find shared solutions and better understand the expectations of the involved stakeholders.

Leonardo is also the main partner of the Forum Rome Med 2017 - Mediterranean Dialogues, promoted by the Ministry of Foreign Affairs and International Cooperation and ISPI. The forum involved around 800 international political and economic leaders in discussions about the future and the main dynamics in the Mediterranean area.

## Key sector trends

### Common European defence

The European defence creation process is accelerating. Following the regulatory measures on the Internal Market introduced in 2009, the European External Action Service's EU Global Strategy was recently approved. In addition, financial and other initiatives to promote the competitiveness and innovation of the European industrial and technological framework for defence include:

- Preparatory Action on Defence Research (PADR) with the first calls for military research;
- launch of the European Defence Action Plan, aimed at strategic autonomy for Europe, which includes the European Defence Fund;
- the EU Council's adoption of the Permanent Structured Cooperation (PESCO), which entails the convergence of national capabilities in collaboration with Europe, supported by European funding, for which the intention to prepare the first series of projects, four of which are under Italian leadership, has been expressed;
- proposal for a European Defence Industrial Development Programme (EDIDP) for the development of Europe's military capabilities.

### Pursuit for the skills for the future

By 2025, Europe will see an 8% increase in demand for human resources with STEM skills, for a total of 7 million jobs in this field (source: 2016 DESI Report). At the same time, of the approximate 120,000 engineers who graduate every year in Europe, only 10,000 choose to work in the Aerospace, Defence and Security sectors (source: CSG).

Attracting young people to these fields is a strategic factor to train and develop future generations so they may provide the human capital necessary for these sectors and to sustain the technological development and economic growth.

### Digitalisation and cyber security

Digital technologies have become an integral part of daily life: in 2025 there will be 80 billion connected devices generating 3.3 zettabytes of internet traffic (source: IDC).

Digital acceleration will transform the Aerospace, Defence and Security sectors: organisation, business processes and relationships with the supply chain and with business partners will all be affected. Products and solutions with new digital functionalities and innovative services based on big data analytics will penetrate all the markets.

The quality of the digital infrastructures and the ability to protect the cyber ecosystem will be some of the key factors for the protection of global economic and social prosperity. The impact of cyber threats is expected to cost USD8,000 billion over the next five years (source: Jupiter Networks) and 5 billion information files will be stolen in 2020.

### Decarbonisation and circular economy

With the Paris COP 21 and subsequent meetings, the trajectory towards a sustainable, low environmental-impact economic system has been outlined, with the adoption of production and consumption models that are more focused on the recovery, reuse and recycling of materials.

It's a global commitment to competitiveness and the creation of jobs. The principles of the transition towards a low carbon condition and a circular economy will be part of the research and development processes in the Aerospace, Defence and Security sectors, as reflected by the study promoted by the European Defence Agency, and will generate systematic and structural benefits for virtuous companies and for society.

## ➤ Contribution to SDGs

The 2030 Sustainable Development Goals (SDGs), promoted by the United Nations (UN) and aimed at achieving prosperity for people around the world, call for companies to play a vital role as partners involved in a systematic manner: such ambitious objectives require the skills, resources and financial capabilities that the private sector can effectively mobilise.

Leonardo directly contributes to achieving four SDGs through its commitment to the spreading of scientific citizenship, technological partnerships, innovation processes and the ongoing improvement of products and solutions for society and the environment.



### **Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**

In all the communities in which it operates, Leonardo strives to spread the culture of innovation and attract younger generations to STEM studies and fields, in order to help people grow, develop talent and update technical knowledge and abilities.



### **Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**

In the contexts in which it works, Leonardo contributes to economic and social progress, through manufacturing, technological development and investing in people and their skills, by creating qualified work opportunities and favouring the growth of small and medium-sized companies.



### **Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation**

Leonardo encourages technological development through an open innovation approach, by sharing resources, skills and structures with external partners, to generate stronger and more stable industrial, environmental and social development over time, to favour employment and to create value for all stakeholders.



### **Goal 13: Take urgent action to combat climate change and its impacts**

Leonardo is committed to fighting climate change through technological solutions used for Earth observation and monitoring natural phenomena, the reduction of its carbon footprint and the development of low environmental-impact products and systems.

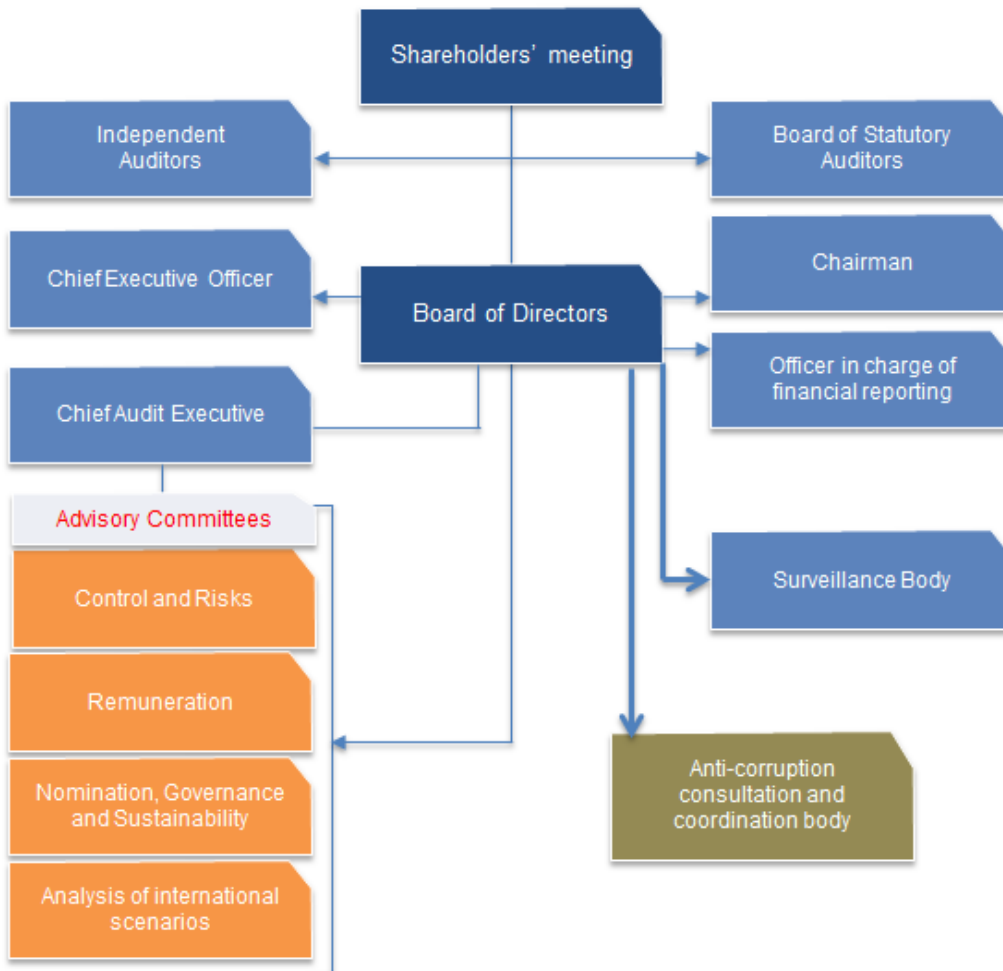
# GOVERNANCE AND BUSINESS ETHICS

## ➤ Corporate governance

Leonardo's corporate governance system is in line with the Corporate Governance Code for Listed Companies (approved by the Corporate Governance Committee and promoted by – *inter alia* – the Italian stock exchange Borsa Italiana) and with the international best practices for board diversity. The system aims to maximise value for shareholders, control business risks and achieve greater market transparency, as well as ensure integrity and proper conduct in its decision-making processes.

As part of this model, the Board of Directors (BoD) is the main body entrusted with the power to define business strategies and the Company's organisational and control structure. The BoD is supported by four Committees which make proposals and provide advice: the Control and Risks Committee, the Remuneration Committee, the Nomination, Governance and Sustainability Committee (as required by the Corporate Governance Code for Listed Companies) and the Analysis of International Scenarios Committee.

### The corporate governance model





## Board of Directors

The current BoD, appointed in May 2017, consists of 12 members, one more than the previous Board, and has appointed Alessandro Profumo as Chief Executive Officer.

Chairman Giovanni De Gennaro has no executive functions, but the BoD has confirmed his duties for institutional relations, security and Group internal audits and he has been made responsible for supervising the implementation of the corporate governance guidelines, with regard to the supervision of the execution of corporate governance rules related to integrity in corporate behaviours and fight to corruption.

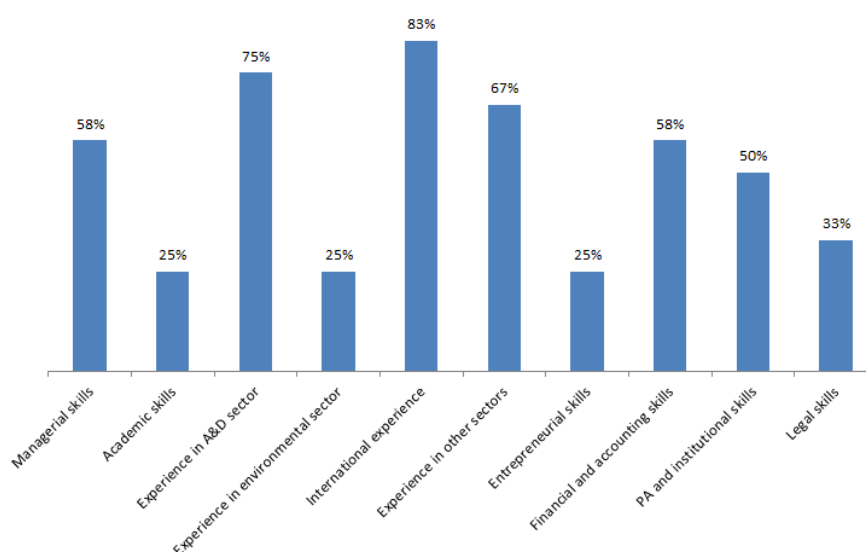
Leonardo's BoD members have a mix of diverse skills and experience, with significant international experiences and expertise in the industry. For further details, reference should be made to the Corporate Governance Report, paragraph Diversity policies.

### Numbers of the Board of Directors

	Leonardo BoD	Average FTSE-MIB <sup>3</sup>
Number of Directors	12	13
Directors appointed by minority shareholders	4	2
Women Directors	33%	29%
Average age	59	59
% independent Directors	75%	48%
Average number of positions for each Director (overboarding)	1.3	2 (*)
Attendance rate of the BoD	99%	92% (*)

(\*) Also includes companies belonging to FTSE Italia Small and Mid-Cap.

### Skills and experience of Directors



<sup>3</sup> Assonime data (2016 update).

## Committees

<b>Nomination, Governance and Sustainability Committee</b>	<b>Control and Risks Committee</b>	<b>Remuneration Committee</b>
<ul style="list-style-type: none"> <li>- Supports the assessments and decisions related to the size and the composition of the BoD and the maximum number of positions compatible with the function of director, and related to the appointment of the independent directors in the case of cooptation;</li> <li>- carries out specific advisory and recommendation duties about sustainability and corporate governance issues;</li> <li>- it examines the Corporate Governance Report and the Sustainability and Innovation Report, the completeness and transparency of disclosures and expresses a preliminary opinion thereon for the BoD's approval;</li> <li>- evaluates the pursuit of the objectives of the Sustainability Plan and that they are in line with the Group's Industrial Plan.</li> </ul>	<ul style="list-style-type: none"> <li>- Supports the assessments and decisions related to the internal control and risk management system and the approval of the financial reports;</li> <li>- monitors the independence, effectiveness and efficiency of the Internal Audit unit;</li> <li>- performs the duties of the Committee for Related-party Transaction;</li> <li>- evaluates the pursuit of the objectives of the Sustainability Plan and that they are in line with the Group's Industrial Plan, together with the Nomination, Governance and Sustainability Committee.</li> </ul>	<ul style="list-style-type: none"> <li>- Submits the proposals for the directors' and key management personnel's remuneration policy;</li> <li>- assesses the adequacy, consistency and application of the policy;</li> <li>- determines the financial remuneration of the delegated Directors and other Directors with particular functions;</li> <li>- supports the definition of the management policies of the Group's managerial resources.</li> </ul>
<p>No. of members: 7 (*), mostly independent            Number of meetings: 6            Attendance rate: 97%</p> <p>(* ) 5 until 16-5-2017.</p>	<p>No. of members: 5 (*), all independent            Number of meetings: 7            Attendance rate: 99%</p> <p>(* ) 4 until 16-5-2017.</p>	<p>No. of members: 4, mostly independent            Number of meetings: 9            Attendance rate: 94%</p>

<b>Analysis of International Scenarios Committee</b>
<p>Performs in-depth analysis of opportunities and geopolitical risks significant for the definition of the strategical guidelines.</p>
<p>No. of members: 4, all independent            Number of meetings: 4            Attendance rate: 93%</p>

## ➤ Responsible business conduct

CAPITAL	MAIN MATERIAL ISSUES
Financial resources Collaborations and relationships with stakeholders People and skills	Business conduct and compliance Value creation and competitiveness

Leonardo forges relationships with customers, suppliers, business partners and all stakeholders with integrity and in compliance with regulations, which are key factors to demonstrate its reliability and to preserve the value created over time.

Over the years, Leonardo has built a responsible business model in line with the Common Industry Standards of the AeroSpace and Defence Industries Association of Europe (ASD) and the Global Principles of Business Ethics for the Aerospace and Defence Industry of the International Forum on Business Ethical Conduct (IFBEC).

The model is based on a system of common rules and internal codes, including the Charter of Values, the Code of Ethics, the Anti-Corruption Code and the organisational, management and control models developed in accordance with the applicable regulations in each of the countries in which the Group operates<sup>4</sup>. It evolves to integrate emerging risks and improve management and control procedures for current risks, mainly through discussion between the various business units.

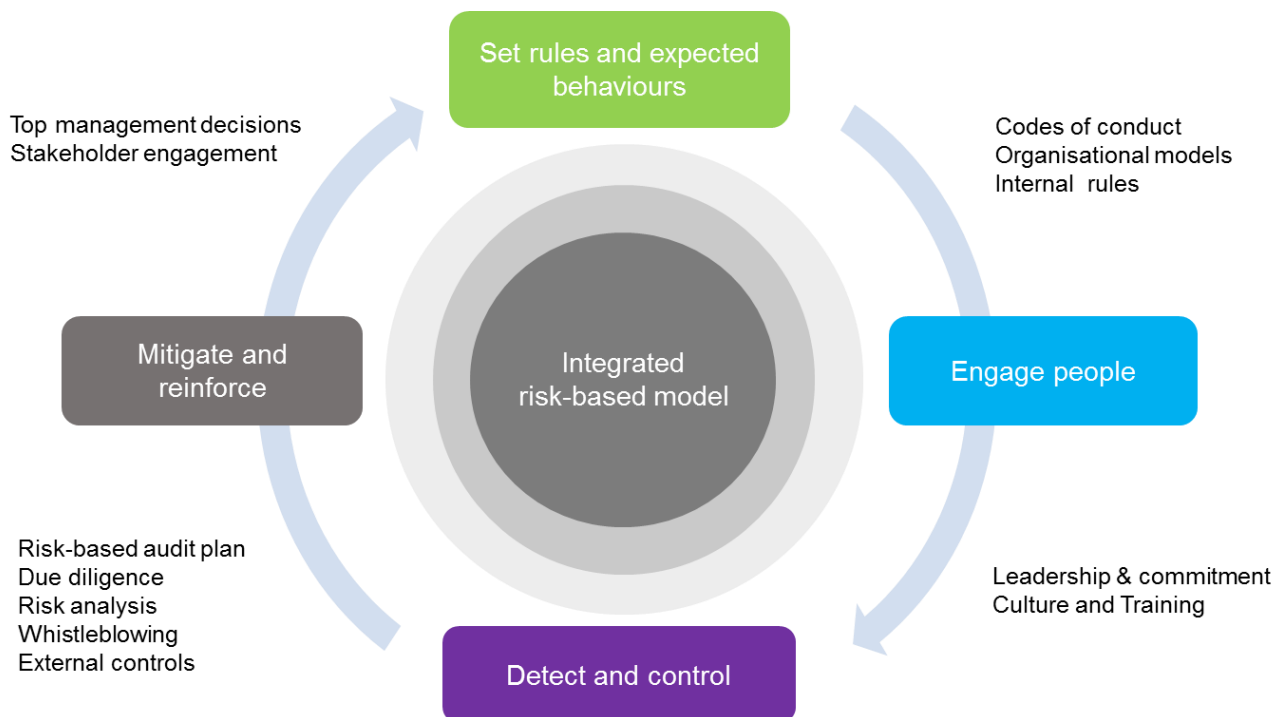
*Compliance is what guides all business activities.*

*G. De Gennaro, Chairman*

*Zero tolerance for anyone who violates the rules.*

*A. Profumo, Chief Executive Officer*

### Responsible business model



<sup>4</sup>Leonardo S.p.A. has adopted an Organisational, Management and Control model pursuant to Legislative Decree no. 231/2001.

## The integrated model in action: activities and results in 2017

### Set rules and expected behaviour

#### **Main policies, guidelines and directives issued**

Internal regulatory system procedure.  
Project Risk Management procedure.  
Guidelines for tax topics management.  
Policy for determination of transfer prices.  
Procedure for the financial management of proceeds from third-party customers.  
Investment procedure.  
Group social media policy.  
Safety guidelines .  
Management of the compliance with Law no. 262/2005 on the protection of savings and corporate governance.

### Mitigate and reinforce

#### **Risk assessment**

160 risk owners interviewed  
Systematic risk assessments on the ongoing projects

#### **System certifications**

ISO 27001 certification on cyber security  
Quality Assurance Review of the internal audit activities, in accordance with the Institute of Internal Auditors' (IIA) standards

#### **Shared best practices**

Second edition of the Compliance Council: 600 people involved.  
Trade & Business Compliance: 113 resources involved in two meetings with the professional community for a total of 678 hours.

#### **Definition of international standards**

Participation in TRACE International, an association with the objective of defining and implementing anti-corruption and compliance standards for multinational enterprises.

### Engage people

#### **Business Compliance**

Training for Divisions and the subsidiaries: 5,757 hours and 1,862 participants.

#### **Trade Compliance**

Training for Divisions and the subsidiaries: 8,526 hours and 2,875 participants .

#### **Anti-corruption**

81% of employees trained on the Anti-Corruption Code during the 2016-2017 two-year period.

#### **Risk Management**

700 hours of training to risk owners and risk managers with reference to enterprise risks.  
Over 500 people trained on the project risk management process and the dedicated IT tool (TERRA).

#### **Security of company information**

71% of employees completed the online course.

#### **Cyber security**

106 people trained in cyber risk.

### Detect and control

#### **Internal Audit**

110 audits and follow ups, of which:

- 24% satisfactory;
- 40% needs improvement of moderate effort and impact;
- 18% needs improvement of significant effort and impact;
- 6% not satisfactory.

#### **Due Diligence** (for Trade & Business Compliance):

190 evidence notices on commercial advisors and sales promoters produced.

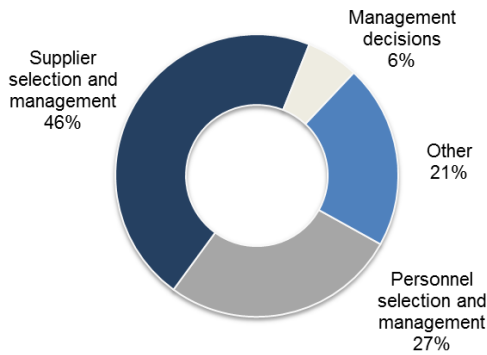
182 transactions monitored in sensitive countries.

#### **Whistleblowing**

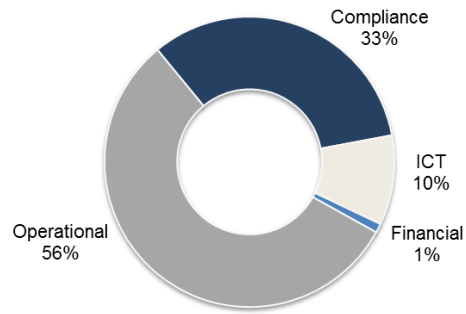
27 reports received during 2017:

- 70% of which were anonymous;
- 45% of which well- founded based on the checks carried out by the Disclosure Committee.

### SCOPE OF REPORTS RECEIVED



### SCOPE OF AUDITS / FOLLOW UPS



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### AEO-F customs certification

Leonardo has obtained the AEO-F (Authorized Economic Operator - Full) customs certification. Authorised economic operator status certifies a company's reliability based on the solidity of its internal control processes and gives the company numerous benefits, such as reduced costs and production and distribution times for supply chain and customs check (both physical and documental). The certification is valid in Europe and is part of the harmonisation process for international trade between countries who have signed the mutual recognition agreements.

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### A culture of integrity for sustainable business

In 2017, the second edition of the Compliance Council, annual event on compliance and ethics issues, took place over the course of two sessions, lasting three days each: from 26 to 28 September and from 11 to 13 December. Both sessions included an institutional general training day, in which the company's top management and many national and international speakers and sector experts participated. The objective of the first session on business compliance was "the culture of integrity as a key aspect of being a reliable long-term partner, for customers, suppliers and, more generally, all stakeholders"; while the second session, on trade compliance, aimed to raise awareness that compliance requires the whole company to act and think in an integrated manner, fostering everyday transparency with external parties, strengthening comparison and collaboration with supervisory authorities. Whereas the other days, which are dedicated to specialist training, were an opportunity to discuss about the evolution of Italian and international regulatory framework, Leonardo's regulatory system implementation status, critical issues and particular aspects of the process, which should be constantly monitored.

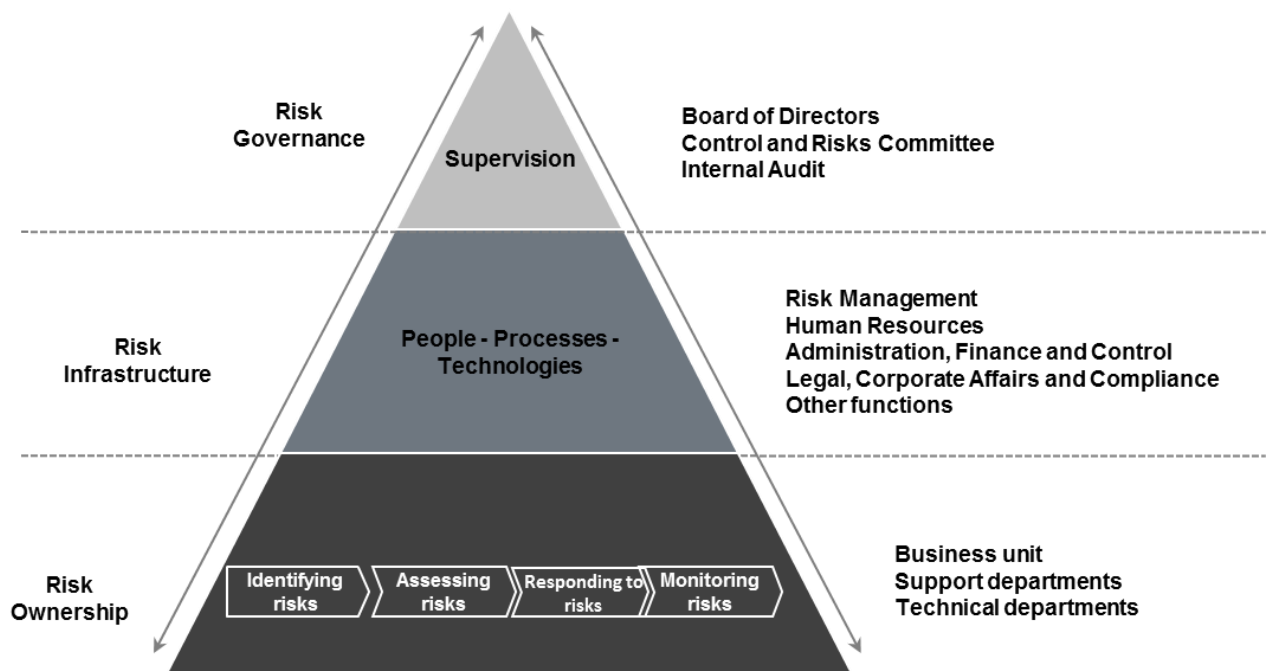
## ➤ Risk governance

In line with the rules of the Corporate Governance Code for Listed Companies and the international standards, Leonardo's risk management model establishes that:

- the Board of Directors supervises the internal control and risk management system and defines the guidelines;
- the control bodies (Control and Risks Committee, Board of Statutory Auditors, Supervisory body) have access to the information and have adequate visibility to risk management systems, in line with their supervisory responsibilities;
- the second level functions define the processes, procedures and methodologies to oversee the main risk areas (strategic, non-compliance, operational, financial and project risks);
- the business lines, technical departments and support departments identify, measure and handle risks using fixed objectives and managed processes, adequately reporting to management above them;
- the Risk Management department systematically communicates the results of the assessment and monitoring of business risks to the Internal Audit department, which then performs the consequent assessments to plan its control activities.

For further details, reference should be made to the Annual Financial Report, paragraph "Leonardo and risk management".

### Risk governance model



## Cyber risk governance

Cyber threats are an emerging global risk and Leonardo, leveraging on its skills and capabilities, has developed its own defence system to protect data and sensitive information. The system is based on a specific organisation and operating tools and is subject to continued updating. In 2017, a work group on Cyber Risk Management was established to strengthen the cyber risk assessment in the enterprise risk management. The training involved 106 people on the cyber security and around 1,000 on the Social Engineering Awareness programme addressed to employees more exposed to identity theft and manipulation risk. On this matter also a Lunch Time Seminar was carried out involving 150 people.

Leonardo obtained ISO 27001 certification for the cyber security scope.

The effectiveness and efficiency of the system are monitored using specific KPIs: in 2017, monitoring confirmed reductions in the average duration of incidents and the surface of attacks, an increase in knowledge of the scope and an improvement in cyber detection and cyber response capabilities.

Furthermore, Leonardo participates in initiatives and working groups at national and international levels with public and private sectors, including the Industry Partnership Agreement with NATO Communication and Information Agency (NCIA) and the Technological Hub on cyber, of which Leonardo is founder in collaboration with Prime Minister's office - Department for information safety and within which it participates in the Malware Analysis laboratory.

## The cyber protection model and the results in 2017

- +20% cyber threat detection systems on servers and work stations
- +10% knowledge of company networks



- +300% early warnings issued
- 20% response time and execution of remediation actions

- +200% incidents identified
- +6% accuracy of detection systems

## ➤ Respect for human rights

In the performance of its own activities and within its operating context, Leonardo is committed to upholding the human rights recognised in the Code of Ethics, the Anti-Corruption Code and the Group's Charter of Values, based on the UN's Universal Declaration of Human Rights, the ILO's (International Labour Organisation) Conventions, OECD guidelines, Charter of Fundamental Right of European Union and other relevant regulations. Leonardo's commitment to the protection of human rights includes three areas: employee management, relationships with suppliers and aspects related to the sale and distribution of products, considering the specific features of the business.

In compliance with the requirements of the Legislative Decree no. 254/2016, it is provided below a summary of obligations and commitments undertaken by Leonardo and the main related indicators.

Leonardo guarantees equal opportunities and fair treatment for everyone based on skills and abilities, prohibits all discrimination and exploitation of child, forced or illegal labour. Furthermore, it protects the dignity of people, guaranteeing the rights of political parties and trade unions and it respects privacy and promotes the health and safety of employees and co-workers.

**99%** of employees located in OECD countries.  
**83%** of employees covered by collective bargaining agreements.  
**34%** registered with trade unions.  
**56%** of employees work on OHSAS 18001-certified sites.

Leonardo expects its suppliers to accept and share the same commitment. For this reason, suppliers are asked to sign the Code of Ethics, the Anti-Corruption Code, the Organisational, Management and Control model and Leonardo's Supplier Code of Conduct, which prohibit forced labour and human trafficking and which require the protecting of health and safety in the work place. Furthermore, during the evaluation process, suppliers are assessed to verify that they meet further requirements related to the protection of human resources and of people.

**88%** of purchases from EU countries, the United States and Canada.  
**100%** of suppliers accept the Supplier Code of Conduct.  
**4,800** suppliers were screened, including on social and ethical issues.

Leonardo is not involved in the production, development, stocking, trade and/or sale of non-conventional weapons (e.g., cluster bombs, mines, chemical weapons, etc.). Furthermore, the company is committed to preventing the risk of illicit practices related to the sale of its products, through its Trade Compliance programme. In accordance with applicable regulations, Leonardo uses due diligence tools and processes, including the preliminary analysis of potential clients and end users, screening activities to check whether they are on black lists and other checks in the case of transactions with sensitive Countries. The list of such parties is regularly updated and is available on the company website.

**8,000** hours of training for **2,786** people.  
**31** sensitive countries monitored.  
**182** transactions monitored in sensitive Countries.

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### Implementation of the Modern Slavery Act in the United Kingdom

Leonardo is committed to eliminating the possibility of forced labour or human trafficking in its activities and, specifically, in its supply chain. All activities are performed in accordance with the Modern Slavery Act. The initial assessment, which comprised the collection of information to assess the country risk connected to supplies (based on the Walk Free Foundation's Global Slavery Index), identified a low-risk profile. This result was confirmed by the subsequent in-depth analysis carried out using self-assessment questionnaires provided to the most significant suppliers.



# TRANSFORMING RESOURCES INTO VALUE

## ➤ Continuous innovation

CAPITAL	MAIN MATERIAL ISSUES
Technologies and intellectual property Financial resources People and skills	Innovation Value creation and competitiveness

Innovation is the leading competitive factor for Leonardo, that invests in people and uses its own economic resources to transform ideas into increasingly effective, reliable, accessible and sustainable products, interpreting rapidly-changing international trends and market's needs, which require ever more efficiency, security and containment of costs and environmental impacts.

One of Leonardo's distinctive elements is its ability to enhance the value of technological innovation by a dual use approach, applying them in both civil and military areas.

Through its continuous and open innovation, Leonardo contributes to create value for all stakeholders, generating a solid economic, environmental and social development over time.

Leonardo, with about 13% of its 2017 revenues invested in Research and Development, is at the second place in Italy and at the fifth in the world for its sector.

*(Source: The 2017 EU Industrial R&D Investment: Scoreboard)*

### ▪ The governance of innovation

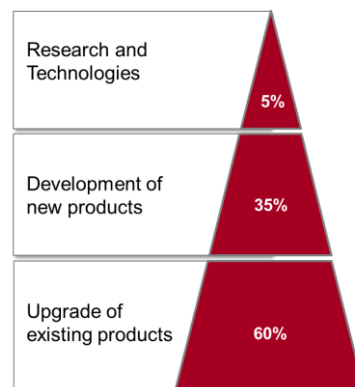
The innovation process is coordinated through a governance at Group level which guarantees the definition of technological strategies, validates and consolidates the Technological Plans of the Divisions and the subsidiaries and contributes to the assessment of investments and the definition of the product portfolio.

With the transition to the One Company model, Leonardo has also started the rationalisation of the Research and Development structure, to promote integration between the different business operations, with the common goals of technological development, thanks to the sharing of experiences, skills, methodologies and instruments.

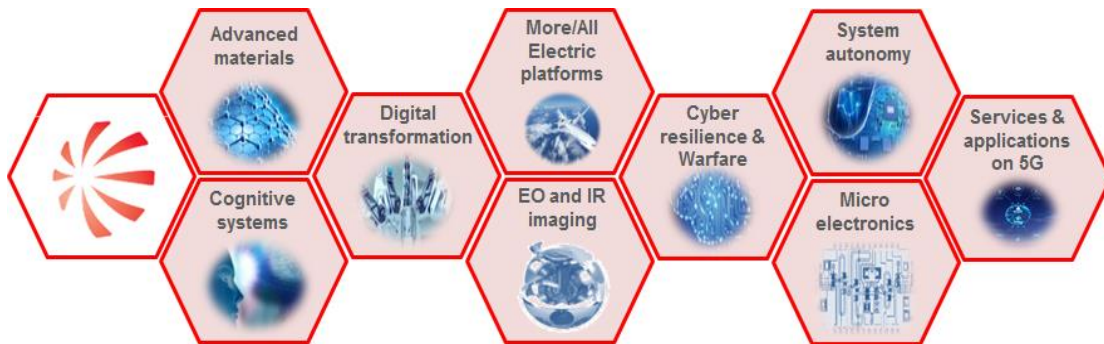
The strategic guidelines and the priorities for the development of future technologies are outlined in the technological roadmap defined by assessing the market's needs and the international community's requests, also with reference to the climate change aspects.

In order to effectively direct its efforts and focus its investments, Leonardo analyses the main aspects that affect technologies, identifying the potential economic impact of each, the market requirements, the enabling technologies and the possible applications to current and future products. In addition, the approach to acquire, develop and deploy technologies is identified to ensure and maximise the market return and the business impact.

Research and Development cost breakdown



## Priority technological areas



### From ideas to products

Based on the technological roadmap, Leonardo directs and governs all the successive phases of the innovation process, from the initial ideas and technical proposals to the technological development projects until the upgrade and generation of products and services.

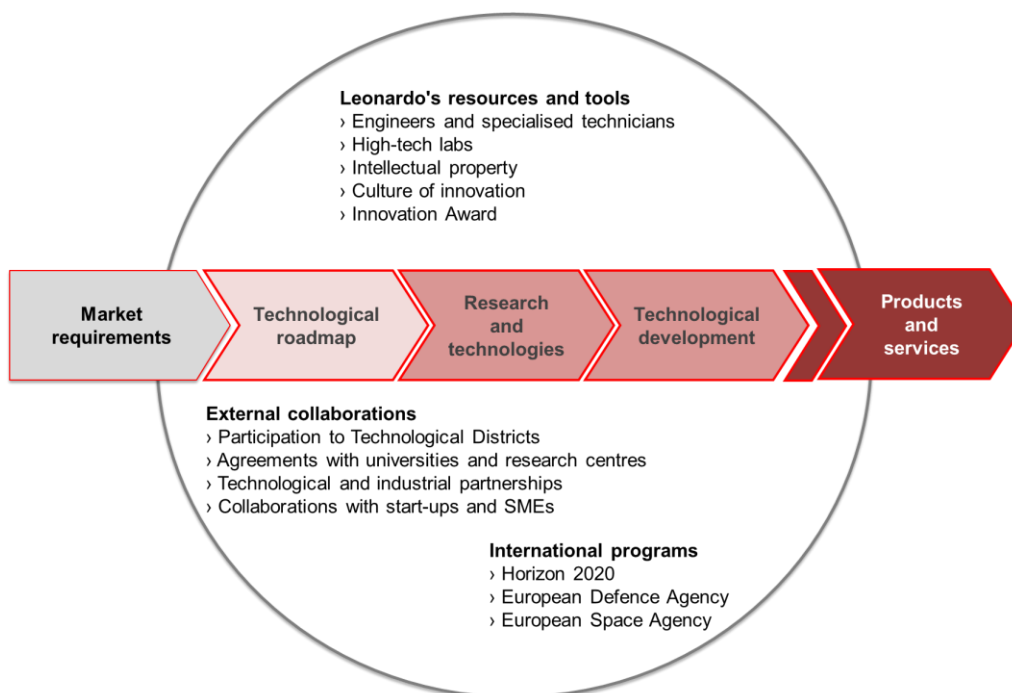
To achieve the roadmap objectives, Leonardo leverages on its people – motivating and rewarding creativity and commitment and investing in increasing the skills – while also creating and sharing know how and opportunities with universities, research centres, partner companies, suppliers and customers through an open innovation approach.

In conjunction with the goals of institutional stakeholders for smart, sustainable and eco-friendly growth, Leonardo participates to the programmes funded at national and European level, which guarantee the availability of the resources necessary for the research and, subsequently, for the implementation of the innovation produced.

Approximately  
10,000 resources  
employed in the  
R&D.

In 2017 over 200  
collaborations with  
universities and  
research centres.

### INNOVATION MODEL



## Innovation Award: 13 years of ideas

Developing and promoting the culture of innovation through investment in young people and research, awarding ideas and creativity, promoting debate on STEM activities: these are the core themes of the thirteenth edition of Leonardo's Innovation Award, which, since 2015, has been open also to university students, recent graduates and post graduates of the scientific faculties of all Italian universities.

In 2017, around 700 projects were presented by employees and more than 7,800 contacts were registered on the platform open to young people.

### The award in numbers:

- in 13 years, the Innovation Award has generated over 9,000 projects and 25,000 employees have been involved;
- projects sent from abroad increased from 10 in 2004 to 291 in 2017;
- 23% of Leonardo's patents come from proposals presented to the Innovation Awards, 97% of which were applied to systems, products and services.

### EMPLOYEES' WINNING PROJECTS

#### Incremental innovation

##### Unloader relief thermal valve, two stage protection

Development area: new generation of safety valves for helicopters, capable of automatically regulating hydraulic pressure, also taking the fluid temperature into consideration.

Benefits: reduced complexity and weight.

#### Best idea

##### PattErn Recognition SystEm for Underwater targetS

Development area: system to automatically recognise underwater targets for passive sonar systems, using modern audio algorithms, "fingerprinting", "speech recognition" and Bayesian "decision making" techniques.

Benefits: real-time recognition and differentiation of two or more targets on the same signal.

#### Radical innovation

##### Velograf

Development area: stealth radar solutions based on the inclusion of carbon nanostructures (graphene) in varnishes or composite materials.

Benefits: low observability of aerostructures.

#### Best patent

##### Radar Surveillance Systems

Development area: surveillance avionic radar capable of recognising and filtering radial interference echoes caused by sea clutter; already incorporated in the SeaSpray and Osprey radars.

Benefits: improved identification of underwater targets, allowing for aircraft surveillance to operate at higher altitudes while still maintaining the same degree of accuracy.

### YOUNG PEOPLE'S WINNING PROJECTS

First prize to post graduates

Testing of laminates in composite material reinforced with vegetable fibres for the construction sector.

Second prize to post graduates

Predictive method for the Fire Weather Index, to protect forest against fires by the use of an algorithm which integrates, in real-time, the data from satellites and the site-specific detection, performed using drones.

Third prize to post graduates

mAPPage - monitoring APP for building heritage risk assessment, through which any citizen can report any damage to monuments, archaeological sites and works of art in general.

First prize to students/recent graduates

Application of micro - SORS technology (Raman spectroscopy evolution) for the protection of cultural assets.

Second prize to students/recent graduates

EXALIBE - Bases of a display capable of interacting with a smartphone thanks to thermochromic coating.

Third prize to students/recent graduates

Quantum sensor for rotation speed measurement, by phase shift from rotational Doppler effect.

## Spreading the culture of innovation to employees

<p><b>POLARIS INNOVATION JOURNAL</b></p> <p>Quarterly journal to publicise the company's and the academic and scientific world's technological developments.</p> <p>31 issues published in eight years of activities.</p>	<p><b>POLARIS PAPERBACK</b></p> <p>Half-year monographs focusing on specific technological matters related to innovation.</p> <p>Since 2015 six issues have been published covering sustainability, intangible capital, software, UAV/RPAS and emerging technologies.</p>
<p><b>LUNCHTIME SEMINARS</b></p> <p>30-minute sessions, also by video conference, to present products and technologies during the lunch break. To date, there have been 70 seminars, with over 7,000 participants.</p>	<p><b>SHARED INNOVATION AREAS</b></p> <p>Spaces open to all employees, where they can enjoy free access to information and rapid-prototyping tools (3D printers, software defined radio and 3D scanners), such as the Maker Space in Luton and the Innovation Hub in Edinburgh.</p>

### ▪ The management of technological development

To limit the risks related to the innovation process, the contents of the research and development projects are selected on the base of a detailed and well thought-out evaluation of the indices of economic, strategic and specific risk impacts, so that resources can be concentrated on activities with the greatest financial return potential and the greatest commercial appeal.

The whole path of technological development is object of a careful monitoring of performance and investments.

<b>Product Life Cycle Management</b>	Application of PLCM methodologies to take into account related costs and environmental aspects in defining product requirements and to guarantee to customers the compliance with performance requirements.
<b>Project Management</b>	Planning and balancing of all technological development phases, to assure respect of the timing and the optimal insertion of the new technologies in new products and services.
<b>Risk Management</b>	Monitoring and reviewing of risks and related mitigation actions on a quarterly basis throughout all the duration of the projects to assure that objectives are achieved effectively and efficiently.
<b>Optimisation and validation</b>	Research of modularity and standardisation to improve the efficiency of production times and costs. Manufacturing of technological demonstrators, rigorously tested before the certification phase. Achievement of the standards required by legislation and sector certifications.

### Leonardo awarded for excellence in development and experimentation

The "Grover E. Bell" Award of the American Helicopter Society (AHS) is assigned to companies that achieve outstanding results in research and experimentation in the rotorcraft sector. The 2017 Award was assigned to the Leonardo's multidisciplinary team which received Full Ice Protection System (FIPS) certification for the AW189. Indeed, in just four years since the launch of the programme, the FIPS has been integrated into the prototype helicopter, flight tests have been performed and, in 2016, the certification has been awarded. The development and certification team carried out the flight tests in Denmark, Sweden and the United States.

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## The innovation boost from start-ups

To generate an ecosystem of innovation based on a shared approach, Leonardo stimulates technological solutions from start-ups, spin-offs and innovative small and medium-sized enterprises (SMEs), helping them to grow.

In this area Leonardo is co-founder of "Fondazione Ricerca ed Imprenditorialità"- FR&I (Foundation Research & Entrepreneurship), a project that includes universities, large companies, banks and institutions. FR&I promotes the creation and development of new and innovative companies, activating a virtuous circle with the aim of building a system in Italy. With this objective, FR&I launched the "Programme for the development of innovative start-ups and SMEs" to attract projects from start-ups and SMEs based on different technological areas of direct interest to Leonardo, in order to create future cooperation.

### ▪ Collaborations with the Technological Districts

In the frame of the Technological Districts, platforms for the discussion and collaboration between public and private sector, Leonardo cooperates with its partners to conduct basic research and to identify, select and develop new technologies that meet the specific needs indicated in its roadmap.

Leonardo promotes and participates to the Technological Districts of its reference countries. The collaboration creates synergies with universities, institutes, research centres and SMEs thanks to the sharing of specialist human resources and the access to ideas, skills, laboratories and instruments through an open innovation approach, which allows to reach the critical mass necessary to compete on international markets.

These collaborations permit also SMEs to be involved in the value chain and to conserve and develop the technological capabilities and skills of the local communities, also creating training and employment opportunities.

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## Open innovation in the Aeronautical Districts

In 2017, two important results were achieved with regard to the tests on fuselage structures of the regional turboprop aircrafts, carried out thanks to an open innovation approach.

For the IMM (Interiors with Multifunctional Materials) project, the Large Structures Laboratory at Leonardo's site in Pomigliano D'Arco (Naples) performed tests of the vibro-acoustic comfort of interiors and innovative passenger seats, which were carried out in a full-size section of a fuselage. A very challenging aspect was assessing the physiological response of the people subjected to the noise and vibration sources, which entailed measuring their metabolic stress using advanced experimental devices. In the project the eco-friendly nature of the new materials was highlighted, particularly that of the panels of the passenger cabin.

The LISA laboratory of the Italian Aerospace Research Centre (*Centro Ricerche Aerospaziali* - CIRA), in Capua, performed the crash test on a full-size section of a fuselage manufactured by Leonardo, using only composite materials, in the frame of the Clean Sky programme. The crash test was carried out for the CERVIA project (*metodi di Certificazione e Verifica Innovativi e Avanzati* - Innovative and advanced certification and assessment methods) with the aim of validating the methodologies for analysing the capability of structures to protect passengers upon impact. The need for these methodologies is due to the increasingly strict certification requirements and the subsequent need to perform simulations during the conceptual phase of the planning, thus limiting the number of experimental tests and associated costs.

## ■ Participation in the European programmes

Leonardo actively participates to dialogue with the national and European industrial sector, also through the main sector associations, in the pursuit of common goals to be achieved through the development of an economy based on knowledge and innovation. In this context, the Group's technological development roadmap interfaces with the needs and opportunities that come from the international community.

Leonardo has a leading role in the aerospace programmes of Horizon 2020, the Framework Programme for Research and Innovation, through which the European Union intends to reduce environmental impacts to contrast climate change, leading technological development towards the realisation of a new generation of more efficient and more environmentally-friendly helicopters and regional aircraft and by taking part in the platform for the development of a common Air Traffic Management (ATM) infrastructures.

Programme	Field of development	Targets
<b>Clean Sky 2</b>	Demonstration of enabling technologies for the Next Generation Tiltrotor (NGTR) for civil use.	Reduction of the complexity of the engine installation and steering systems and improving of the rotor's performance; reduction of CO <sub>2</sub> emissions by 30-50% and of noise by around 50% in comparison with medium values of the helicopters currently on the market.  <b>Technological demonstrator</b> based on the AW609 platform which will allow for in-flight testing of key technologies underpinning the NGTR, aircraft that will operate like helicopter and airplane.
	Technological development of aeronautical materials and structures, advanced aerodynamics and solutions to electrify some aircraft systems and their integration in regional turboprop aircraft demonstrators.	Aircraft with 90 seats: reduction of CO <sub>2</sub> by 35-40%, NO <sub>x</sub> by 50% and noise by 60-70% in comparison with the same aircraft that uses state-of-the-art technologies in the 2000s. Aircraft with 130 seats: reduction of CO <sub>2</sub> by 46-52%, NO <sub>x</sub> by 57-63% and noise by 20-30% in comparison with a regional jet that is currently in service.  <b>Technological demonstrators:</b> fuselage in composite material made from very innovative materials and architectural structures aimed at demonstrating the reduced weight, maintaining the competitive edge for the production process; wing and control systems capable of increasing flight efficiency, cutting consumptions, improving on-board comfort and reducing noise produced by the aircraft; passenger cabin with elevated standards of comfort for passengers and control systems to allow a progressive electrification of the aircraft.
<b>SESAR 2020 (Single European Sky ATM Research)</b>	Developing and integrating technologies and validating them to implement the new European Air Traffic Management system.	Managing up to three times the current air traffic, while cutting costs by 50%, increasing flight safety by a factor of 10 and contributing to the 10% reduction of the environmental impact for each flight by reduction of fuel consumption, noise and emissions.
		<b>Helicopter field:</b> technological development and definition of operating concepts for precise navigation in areas of dense air traffic (airports or terminals) by making the most of the peculiarities of helicopter, such as the flight speed which is slower than aeroplanes and take-off and landing trajectories of steep type in SNI (simultaneous non-interfering) conditions.  <b>Aeronautic field:</b> development of innovative technological solutions for a more efficient integration of civil and military aircraft in the new air traffic management system, by carrying out demonstrations using flight simulators.

Leonardo is an excellence partner also in other prestigious European projects in Horizon 2020, in fields ranging from maritime surveillance, research and rescue to space technologies.

In the frame of the Graphene Flagship project, for example, parabolic flight tests have been performed simulating absence of gravity in order to check the quality of graphene in space. Previously, during the lab tests carried out in vacuum conditions, Leonardo already demonstrated that the use of graphene improves evaporation of a fluid, thus allowing for the improvement of the cooling down of the hottest parts of the satellites.

Furthermore, Leonardo participates to Galileo, one of the largest and most ambitious programmes in Europe, aimed at generating an extremely precise global satellite navigation system and a reliable positioning service, and Copernicus, the programme coordinated and managed by the European Commission to provide Europe with its own Earth observation capacity, complementary to the assets of certain member States, to monitor the environment, manage humanitarian emergencies, natural disasters, climate change and civil defence.

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### The European Commission approved the progress of the Clean Sky 2 programme

During the Annual Review of the demonstrative platform for a future “Green Regional Aircraft”, hosted by Leonardo as leader, the European Commission, with the support of independent external auditors, assessed the effectiveness and efficiency of the annual progress of aeronautical technologies planned in the development plan.

The complex management and technological integration of the project represents for Leonardo a great challenge and, at the same time, a clear recognition of its managerial skills by the European Commission.

Clean Sky 2 has a budget of over €4 billion for the 2014-2020 period.

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### New methods to assess environmental impacts

In the frame of the Clean Sky 2 programme, Leonardo continues to contribute to the development of ENDAMI software for the Life Cycle Assessment of aeronautical products. The software calculates the relevant impacts through the lifecycle of the product, allowing designers to evaluate the feasible alternatives thanks to a combination of different materials and technologies. In Clean Sky 2, the impacts of technologies developed by Leonardo continue to be assessed also by the Technology Evaluator, a tool that permits to calculate the reduction in CO<sub>2</sub> emissions, NO<sub>x</sub> emissions and noise per route, airport and fleet.

ENDAMI demonstrated that the Leonardo's eco-design technologies reduces environmental impacts well below the initial targets set in Clean Sky. (2016 Greener Aviation Conference)

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### Innovative solutions at the world ATM congress in Madrid

Leonardo presented its innovations in the air traffic management sector at the 2017 World ATM Congress in Madrid.

The Free Route solution, integrated in the Leonardo's LeadInSky latest-generation ATM system and compliant with SESAR and ICAO requirements, allows airlines to improve the planning of more efficient flight paths with a substantial reduction in costs, fuel consumption and environmental impacts.

The Data Link solution allows to move forward from voice to digital communication enhancing security and efficiency by eliminating any possibility of misunderstanding between pilots and air traffic controllers.

Leonardo has also presented the air traffic management platform for unmanned vehicles in urban airspace and the cyber security capabilities embedded in ATM solutions.

Free Route and Data Link are already used by ENAV, the Italian air navigation service provider.



## ➤ People & Community

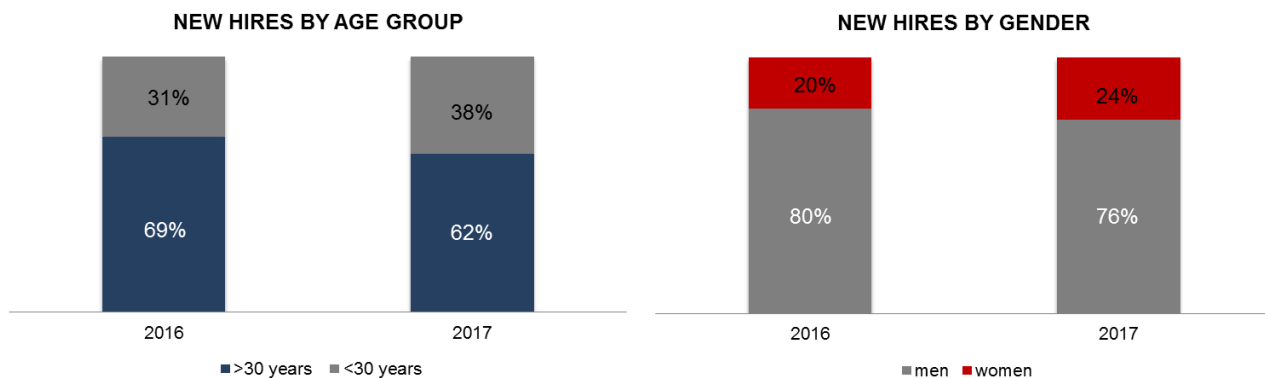
CAPITAL	MAIN MATERIAL ISSUES
People and skills Collaborations and relationships with stakeholders	Enhancing human capital Protection of human resources and welfare Employee health and safety Contribution to the community

People are Leonardo's best resources: they create value through responsible conduct thus strengthening the Company's reputation, and they participate in production and innovation processes and develop relationships with customers and all stakeholders.

Leonardo manages its strategic human capital with the aim of ensuring the necessary long-term skills and capabilities to tackle future challenges and achieve the results that determine the success of the business. It pursues this target through the enhancement of professional skills and talent, a transparent, fair and merit-based management and by paying close attention to younger generations.

Furthermore, Leonardo's people bring the company closer to local communities and territories in which the Group is present and facilitate collaboration with bodies, associations and foundations and non-profit organisations in order to implement social, cultural, environmental protection and well-being projects and initiatives.

The new Chief People, Organisation and Transformation Officer manages human resources, organisation and processes, ICT and transformation programmes in an integrated manner.



### Change in Action: the first selected projects are operational

Change in Action, a training and change management project for 50 top executives, has continued during 2017, with a total of approximately 1,000 training hours.

The eight project ideas identified in 2016 were further developed; three of these were considered priorities and become operational "work sites" aimed at setting out the guidelines for: integrated offer, process improvement policies and make or pay policies.

### Promoting social dialogue

Leonardo offers company welfare benefits aimed at improving the work/life balance of its personnel and ensuring they can fully exercise their union and political rights. 83% of employees are covered by collective bargaining agreements (100% in Italy) and 34% is registered to trade unions.

Within the framework of the single second-level supplementary contract, signed in 2016 with Italian trade unions, in 2017, 6,400 employees were involved in ten technical/professional training plans. The dialogues with trade unions developed over the course of six meetings at central level and 47 at Division level, while the Strategy Observatory, which was formed through the supplementary contract, met twice. In 2017, a flexible benefit plan was defined, setting out a package of goods and services for the well-being of all employees.

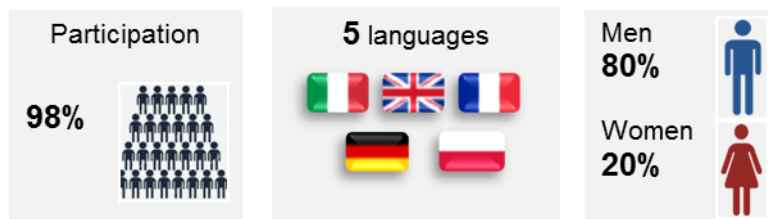
Leonardo paid its Italian employees performance bonuses worth approximately €103 million.



## ■ Growing talent and skills

**Performance evaluation** - Approximately 60% of Group employees were involved in an evaluation process. Specifically, the Performance & Development Management tool was used to evaluate approximately 22,000 employees, with a participation rate of 98% among the managers, junior managers and white collars concerned. The main new features introduced in 2017 regard the implementation of the tracking function for assigned objectives and a questionnaire to reveal the overall level of satisfaction with the evaluation experience.

### Performance & Development Management in numbers



**HR Review** - Over 5,000 employees, including managers, junior managers and white collars, were involved in the process which allows to steer the management and the enhancement of the high-potential resources, by summarising the results of the evaluation systems.

**Individual Appraisal** - 142 high-potential resources were individually evaluated using a specific evaluation methodology.

**Succession plans** - After the definition of the succession plans for the first level positions, the process for second level ones was launched, with the aim of ensuring the business continuity of the Divisions and the subsidiaries, starting from the analysis of the future challenges, the definition of the progressive replacement and the related actions.

**Internal mobility** - Over 45% of job postings published on the Group's portal are filled by internal candidates.

**E-learning** - 174,545 accesses on the Learning Management System platform, the single training instrument for the Group, which allows for the management, programming, direct provision (online), monitoring and registering of all training activities (online, classroom or blended).

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## The Leonardo Faculty

To share the knowledge and skills on core business aspects, Leonardo has created a list of internal experts which includes:

- 28 Subject Matter Experts, responsible for spreading knowledge and key values and involved in the main training, development and knowledge management initiatives;
- 16 Key Note Speakers, who speak at in-house meetings, conferences and lessons at universities and business schools;
- 23 In-House Trainers, who plan, develop and deliver company training and education.

## ▪ Leonardo and younger generations

Leonardo invests resources to spread the culture of innovation and attract younger generations to STEM studies, in order to respond to the growing need for technical skills for Aerospace, Defence and Security. Many of Leonardo's employees are involved in these activities as STEM ambassadors at educational outreach programmes (competitions, workshops and seminars).

In Italy, Leonardo works with institutions and secondary technical schools to enhance the industrial vocation of the territories and relaunch technical jobs. It also participates in working groups with other sector partners, such as the Aerospace and Defence Growth Partnership in the United Kingdom, aimed at promoting joint action in the sector and at inspiring young people.

In order to strengthen relationships with universities and to create a bridge with the labour market, Leonardo has set up conventions with the main universities for training placements and degree theses on subjects relating to its business. It also participates in a number of job fairs and orientation events. In the United Kingdom, Leonardo is committed to promoting the spreading and creation of apprenticeship programmes, through its participation in The 5% Club, as well as pre-apprenticeship programmes for secondary school students.

In 2017, Leonardo provided over 650 internships, apprenticeships and training programmes.

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### One of the top ten Best Employers of Choice 2018

Leonardo was ranked the eighth employer of choice by Italian graduates, up six places on the previous year and its best result since 2002, confirming the effectiveness of the recent rebranding campaign.

The Cesop Communication observatory analysed a sample of 2,500 graduates who rated approximately 100 national and multinational companies.

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### Attracting students to space missions

At the Paris Air Show, a memorandum of understanding was signed by the companies in the aerospace industry and the main international universities to set up the Advanced Student Team Research in space Industry (ASTRI), with the aim of organising a structured transition for students from training programmes to the world of work, by combined and coordinated efforts. Students from universities in different countries will be selected using international competitions and will develop projects in line with the priorities identified by the companies. Through Telespazio and Thales Alenia Space, Leonardo takes part in the "End-to-end earth observation constellation mission study".

## STEM projects to promote scientific citizenship



### i.lab Matematica

The new interactive laboratory at the Milan Science and Technology Museum was founded with the aim to introduce younger generations to mathematics with a scientific approach.

i.lab is the only public museum with a virtual wind tunnel, where visitors can experiment with fluid dynamics and the mathematical models applied to flight using simulation software. 4,000 students have already booked sessions, but it is estimated that there will be 16,000 visitors during the year.

### STEM at the DSEi congress in London

Leonardo Graduates attended the People and Skills Day to offer students an interactive experience, including technological briefing, informal games and meetings and a panorama of the different careers that Leonardo has to offer in the scientific, engineering and technological fields. DSEi is one of the biggest fairs for the defence sector.



### Robotic Games

Leonardo is the leading sponsor of the Rampaging Chariot Guild, a non-profit organisation that provides kits to construct radio-controlled robots to teams that take part in Robotic Games.

More than 100 teams from schools, colleges and air training cadets participated in the 2017 games in Southampton, Basildon, Luton and Edinburgh.

### The Big Bang Fair

This is the most important STEM fair in the United Kingdom for young people aged between 7 and 19 years, organised by Engineering UK, in collaboration with the Royal Academy of Engineering, in which over 200 organisations took part in 2017. Leonardo participated with a thermal camera used by the BBC to film numerous nature documentaries.



### National Women in Engineering Day

The Women's Engineering Society (WES) is a non-profit organisation that supports the professional development of young women who wish to pursue a career in engineering. One of WES's most significant campaigns is the National Women in Engineering Day for which Leonardo is one of the main supporters of the events targeting girls in secondary schools. In the last two years, UNESCO has sponsored National Women in Engineering Day.

### National and Scottish Apprenticeship Week

A week is dedicated to apprenticeship experiences to highlight the important role that they place on training young people and attracting new talents. Employers, apprentices, organisations supporting companies, teachers, colleges and schools across the United Kingdom hosted the event, organising activities and showing the advantages and results of an apprenticeship experience.

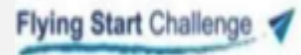


### Science festival in Genoa

This is one of the main international events dedicated to scientific knowledge, with meetings and events for researchers, enthusiasts, schools and families. During the 2017 event, the demonstrator "Cooperation system based on haptic perception", developed by the Land & Naval Defence Electronics Division, was presented. It translates information into stimuli which are felt by the user through touch.

### Flying Start Challenge

A competition managed by Leonardo together with other companies operating in the aerospace sector in the United Kingdom. It is designed to encourage and help students develop scientific and engineering skills and increase awareness of the careers available in engineering. The aim is for students to design and build a model glider for a flying competition against other schools held in the south west of the country.



### Under 35 innovators

Leonardo is one of the sponsors of the competition promoted by MIT Technology Review, in collaboration with Bologna Business School, which awards the best innovative ideas and applied research projects carried out by young Italians under the age of 35. In 2017 the prize was for robotics field.

### European Researchers' Night

Again in 2017 Leonardo took part in the events organised for the European Researchers' Night, promoted by the European Commission since 2005, held in Rome, Frascati, Milan, Turin and Aquila.



### Festival dello Spazio (Space Festival)

Leonardo is a technological partner of the *Festival dello Spazio*, which presents discoveries, successes, experiments and marvels of space exploration, through "edutainment" activities.

## ▪ Health and safety

Leonardo is committed to protecting the health and safety and it operates in compliance with the specific regulations' requirements of each country in which the Group is present. The commitment in this area, confirmed in the Environment, Health and Safety Integrated Policy, includes employees and contractors in working sites and offices of the Group and the employees travelling for work or seconded abroad (travel policy). Among the initiatives for the health and safety protection in workplaces, Leonardo implements management systems in compliance with international standards and involves its employees, contractors and service providers in promoting awareness and training activities.

Health and safety	Accidents	Travel security
<p><b>Investments in security</b> - €8.5 million (over €31 million in the past three years).</p> <p><b>Ongoing training</b> -149,000 hours of specialist health and safety training (+30% compared to 2016).</p> <p><b>Implementation of management systems</b> - 38 sites equipped with OHSAS 18001 certified health and safety management system, where 56% of the workforce operates<sup>5</sup>.</p>	<p><b>Employees</b> - The frequency rate<sup>6</sup> in 2017 was equal to 1.0 with a low increase on 2016 (0.9), due to a wider scope of the reporting.</p> <p><b>Suppliers</b> - Services provided by third parties were monitored at 30 sites (e.g. global services, logistics, ICT) for a total of over 300 suppliers and 73 accidents recorded.</p>	<p><b>Training</b> - 950 employees involved in courses in relation to abroad activities.</p> <p><b>Tools</b> - Property methodology to evaluate country risk level; periodical outlook and warnings; 24/365 health help desk.</p>

## Employee well-being

Leonardo is committed to protecting and promoting the well-being of its employees. In 2017, it signed a Group trade union agreement which introduced new integrated health assistance coverage for all Italian non-management employees and their families, completely funded by the company. In the United States, there is an Employee Assistance Programme (EAP) which offers all employees health counselling, financial and legal support and family support for parents. In the United Kingdom, Leonardo also offers services to support the health and wellbeing of its employees, including programmes to quit smoking and nutrition counselling.

<sup>5</sup> Calculated using the environmental reporting scope. See the Methodological note.

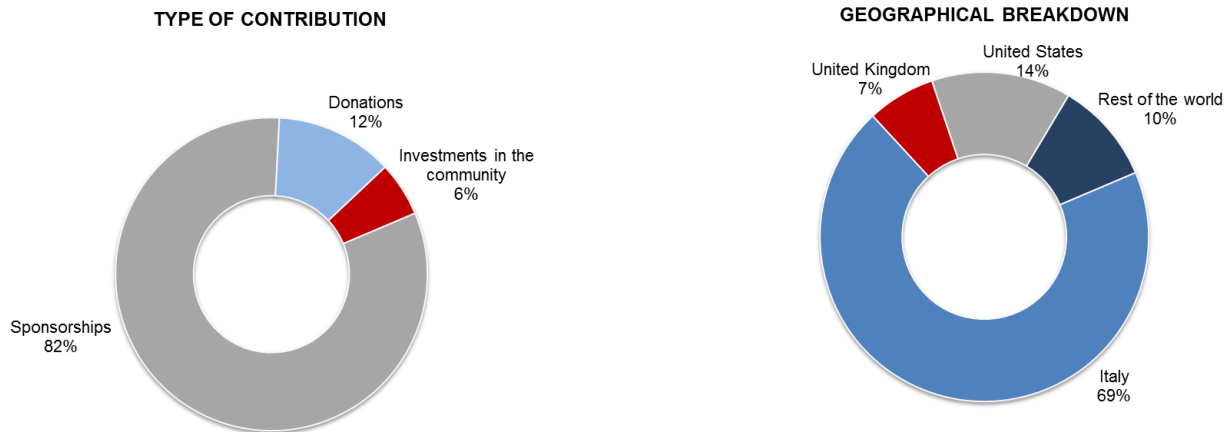
<sup>6</sup> The frequency rate is calculated as the ratio of the number of accidents in the year to hours worked, multiplying the result by 200,000.

## ▪ Social and cultural commitment

Leonardo contributes to the development of the communities and territories in which it operates, offering the heritage of its industrial culture, significant financial resources and the contribution of its employees.

€6 million invested in communities in 2017.

This ongoing commitment continues to evolve over time in line with changes in the social context, in order to have a positive impact on emerging social needs, in the cultural field as well as in the environmental protection and welfare support.



One of the main areas of social commitment is the promotion, enhancement and safeguarding of the culture, history, experience and industrial traditions of the companies that have contributed to Leonardo's history over decades.

Leonardo has provided an essential contribution to the growth of industry in Italy, developing extensive high-tech assets and expertise that have raised the bar, leading historical brands to excellence and enabling them to successfully compete on a global scale. Company museums effectively document history records and technology.

The four lively and dynamic company museums act as a point of reference for the local communities and the local areas, and their management involves employees, volunteers and seniors. The aim of the museums is to make them industrial cultural hubs, increasingly open to visitors, researchers, students and economic and cultural players. Leonardo's museums include: Agusta Museum (Cascina Costa), Melara Association Museum (La Spezia and Brescia), Officine Galileo Museum (Campi Bisenzio) and Radar Museum (Fusaro).

Furthermore, Leonardo has contributed to important industrial culture projects, such as Volandia in Somma Lombardo (Varese), the largest Italian museum park devoted entirely to aeronautics, and the Ansaldo Foundation in Genoa.

Leonardo contributed to the restoration of the only existing model of the Reggiane Re.2002 "Ariete II" aircraft, sent to the Italian Air Force Museum in Vigna di Valle (Bracciano).

### A space for young people to cycle

Leonardo will donate an area to Federciclismo for the transformation of an old armoured-vehicle testing area into a cycling track. The 800 metre-long asphalt track will be in the Sarzana municipality (La Spezia) and, after some restructuring, will allow young people to cycle in a safe space, far from road traffic.

This is one example of Leonardo's community involvement, achieved through collaboration with local organisations, which will create a free-to-use sport venue, thanks to urban redevelopment and regeneration.

## Main initiatives

### For culture

**LEONARDO'S MUSIC PRIZE** - For the second year running, the prize was given in collaboration with the Santa Cecilia Academy, of which Leonardo is a founding partner, and was awarded to two young musicians from the JuniOrchestra, the first orchestra for children and youths created by the Italian symphonic-operating foundations, which is currently composed of around 300 musicians.

**NATURAL...MENTE SCUOLA** - Leonardo is a partner in this project, which discusses entrepreneurialism, environmental sustainability and technological innovation. Over 35,000 students, 800 teachers and 350 secondary schools in the regions of Puglia and Campania have been involved in the ninth editions of the project.

**ISTITUTO ENCICLOPEDIA TRECCANI (TRECCANI ENCYCLOPEDIA INSTITUTE)** - Leonardo joined the ownership structure of the institute to support the development of new projects in the education field.

**ACADEMIES, THEATRES AND FOUNDATIONS** - Leonardo helped to support some museums, such as the Galleria d'Arte Moderna and the Museo del Novecento in Milan, in addition to providing support to some of the most important Italian music institutions during their high season, such as the San Carlo Theatre in Naples, the Regio Theatre in Turin and Santa Cecilia Academy in Rome. Furthermore, it supported scientific guidance initiatives, such as "Mars: up-close meetings with the Red Planet" exhibit held in Rome and Matera, and educational laboratories organised by MAXXI in Rome for the Gravity exhibition, which involved around 700 students from primary and secondary schools.

### For research

Leonardo, in occasion of the Christmas festivities, supported the Telethon Foundation, a non-profit organisation engaged in biomedical research for the treatment of rare genetic diseases, sharing the Italian hearth and the continuous commitment in the research. The charitable contribution has allowed to support researchers and fellowships involved in research activities in Italy and abroad.

### For welfare and solidarity

**AGAINST FOOD WASTE** - Through Responsible Canteens Programme, started four years ago, food surplus produced by canteens at 19 of the Group's biggest Italian sites is collected in favour of non-profit organisations, thus transforming the food into resources for those most in need. The programme is managed in partnership with the Fondazione Banco Alimentare non-profit organisation, through the Siticibo programme and in collaboration with the suppliers of canteen services. In 2017, 200,000 portions of food were distributed, worth around €350,000.

**SUPPORT TO MILITARY AND VETERANS** - Leonardo DRS pursues many initiatives to support United States Armed Forces' members and their families, in addition to a series of activities to improve the military education and many health and social care plans for veterans and their families.

### For families

**OPEN DAY** - At the sites in Vergiate, Cascina Costa, Lonate Pozzolo and Sesto Calende, the employees' families and guests (around 9,000 people) visited the assembly line and took part in the helicopter flight exhibit.

1,500 people were welcome at the Turin Airport to learn about the structure and meet the airport community. During the tour, there was also a visit to the site in Caselle Sud, where visitors could see historic aircrafts, from the Tornado to the C-27J.

At Leonardo's United States sites, the "Take our daughters and sons to work day" involved employees' children aged between 5 and 16, in a day dedicated to science.

## ➤ Customer intimacy

CAPITAL	MAIN MATERIAL ISSUES
People and skills Operating assets Technologies and intellectual property Collaborations and relationships with stakeholders	Customer intimacy Service & product stewardship Cyber security and data protection

Leonardo intends to respond to the challenges of the highly-competitive markets in which it works by strengthening its culture of customer intimacy throughout the life cycle of products and relationships.

In addition to the quality and technological content of the products, Leonardo is also able to respond to the needs of its customers by providing customised solutions, involving them from the start of the design stage, offering reliability in the execution of contracts on time and on budget and reinforcing after-sale support, for a top performance over time.

Leonardo aims to strengthen its market penetration on target markets, by enhancing its commercial presence around the world, its diplomatic network and relationships with international institutions.

The new commercial structure, led by the Chief Commercial Officer, aims to develop business by accompanying customers throughout the entire life cycle of the product.

### Participation in 2017 events





## ▪ The customer as a priority

Leonardo demonstrates its reliability and operational excellence with customers through its execution and delivery capabilities, helping to strengthen the customer intimacy and its market reputation.

Leonardo collaborates with customers from the initial development phases of new programmes, defining the specifications and requirements, through to the final testing and validation, with the aim of maximising development costs and respecting contractual milestones.

To strengthen its delivery capacity, Leonardo invests in training the people involved in the management of contracts. The E2-PM Project Management programme, the result of the partnership between Leonardo and the Graduate Business School at the Polytechnic of Milan, has reached its third edition and targets project managers, risk managers and members of the contract team. In the 2017 programme contest, the "Project Management for Prime Contractor Organisations" course got underway for senior project managers who work on complex programmes.

Over 670 people involved in the E2-PM programme since 2015 until today.

With a view to improving dialogue with customers, for years Leonardo has been developing Joint Customer Training programmes, which involve personnel from different institutions, such as senior officials from Italian Air Force and Italian Finance Police, and employees, to strengthen managerial and technical skills and to deepen mutual knowledge.

### Execution and Delivery - Some 2017 milestones

- > The OPTSAT-3000 satellite was launched by the Italian Ministry of Defence. The entire system was provided by Telespazio, the prime contractor in an international group of companies in an international cooperation agreement between Italy and Israel.
- > The new AW101 training hub for pilots and crews was opened in Norway and the first SAR (Search And Rescue) model was delivered to the Norwegian Ministry of Justice and Public Security.
- > The 500th model of the Typhoon was delivered to the Italian Air Force. It is the biggest industrial collaboration programme in Europe and is managed by the Eurofighter consortium.
- > The sixth FREMM frigate class was delivered to the Italian Navy, for which Leonardo is the integrator of the combat system.
- > The maiden flight of the first Super Lynx Mk21B helicopter of the Brazilian Navy was successfully executed, after an update to extend its life cycle. The Brazilian Navy has been operating Lynx helicopters since 1978.
- > The AW109 Trekker helicopter was certified by the European Aviation Safety Agency (EASA). It is the newest light twin-engine helicopter offering greater capability, versatility and operating effectiveness for public utility duties. 40 aircraft have already been ordered by customers worldwide.

### Together with the Italian Navy

Leonardo collaborated with the Italian Navy on the SADO4 project, a fourth generation command and control system, through new system engineering and software engineering methodologies that involved the customer from the design stage up to the technical and operational validation. The project introduced important innovative elements to support the life cycle of the new naval units over the next twenty years, including state-of-the-art human interaction mechanisms. Thanks to the high level of customer intimacy, in just two years, the first versions of the system were installed at the customer's sites.

Furthermore, to allow the Navy to carry out its civil and security missions, such as humanitarian operations, more effectively, in the contest of the Naval Law, Leonardo is developing onboard electronics for new Multipurpose Offshore Patrol Vessels and Multirole Amphibious Dock.

## ▪ Value creation with customer support

During the life cycle of the products, the support activities are fundamental as Leonardo transforms them into opportunities and value to share with the customer.

Specifically, in the aeronautic and helicopter sectors, Leonardo integrates the supply of aircrafts with training services to guarantee higher performance and security standards. Pilot training, mainly based on high-quality aircraft simulators with greater simulation precision, allows them to cut back on real flight hours, resulting into a great impact on cutting costs, as well as on environmental and noise pollution reduction. Leonardo also provides specific training to operators in charge of search and rescue and emergency medical transport onboard helicopters, by providing knowledge of operating scenarios to develop the most efficient solutions for the management of missions together with the customer.

In order to keep the fleet efficient, Leonardo provides logistical services, updates, repairs, and revamps, to extend the life cycle of the products.

With a view to continuous improvement, Leonardo organises periodic meetings about the main products and solutions with its personnel, some groups of customers (user groups), suppliers of services and systems and sub-providersto exchange important information about logistics, effectiveness of use and experiences and to identify possible synergies.

Over 8,600 pilots and operators trained at Leonardo's training centres positively evaluated their experience, reporting a satisfaction rate of 95 out of 100.

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### The highest level of qualification has been reached for the AW139 in Brazil

The AW139 simulator, installed in Brazil and developed jointly by CAE-Líder and Leonardo's Helicopter Division, has achieved the Level D qualification, the highest for flight simulators, from the Brazilian National Agency for Civil Aviation (ANAC). Based on this qualification, one hour of flying in the virtual environment is recognised as an hour of real helicopter flying.

The simulator supports initial, periodic and offshore transport training services for AW139 pilots in São Paulo in Brazil and in the rest of South America.

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### Good practices of sharing in customer support: the case of the Spartan User Group

The community of the C-27J (Spartan User Group) pilots carried out a fundamental role in the constant improvement of the efficiency and security of the use of the aircraft. Every year, there is a plenary meeting to exchange information, accumulated during the year, related to the use of the C-27J and to identify the opportunities to improve in the future.

The meeting is focused on the presentation of logistical operating aspects related to the fleet, improvements implemented by Leonardo, services and systems of the suppliers and providers, as well as the creation of some working groups for users useful for sharing experiences and highlighting problems. The results are summarised in a final document that will represent the guidelines for improvements to be made in the logistical and operating fields in the following year.

## ▪ The relationship that becomes a partnership

Leonardo's missions abroad are carried out with the support of institutions and Italian embassies and, in some cases, on the occasion of official visits in strategic countries by representatives of the Italian Government, in close coordination with the Prime Minister's office, the Ministry of Foreign Affairs and International Cooperation and the Ministry of Defence.

The synergy between Government and Leonardo is a fundamental element in representing and protecting the Company's interests at an international level and, therefore, promoting sales.

In some cases, these interests can be turned into larger collaboration programmes to promote investments in research and development and technological sharing, with repercussions for the local supply chains as well.

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### Collaboration with the UK's Ministry of Defence

For the ICARUS programme, Leonardo was selected by the British Government's Defence Science and Technology Laboratory, to guide a team of companies that will work on a project to protect British Army vehicles from current and future threats.

Group members include BAE Systems, Lockheed Martin UK, Ultra Electronics, Frazer-Nash, Abstract Solutions, Role Manor Research, SCISYS and the University of Brighton.

Furthermore, Leonardo is the first company to collaborate with the United Kingdom's new aeronautical Rapid Capability Office with a project aimed at developing the new-generation countermeasures based on radio frequencies and the use of Leonardo's BriteCloud system, which has already demonstrated in testing phase that it effectively protects against radar-guided missiles.

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### Strengthening Leonardo's presence in Australia

Over time, Leonardo has developed a strong relationship with the country, providing solutions, products and services to the military and civil sectors. The new site in Rockingham, in the south of Perth, has been added to those in Melbourne, Victoria and New South Wales. It will give new impulse to engineering, integration, installation and assistance activities for ongoing naval programmes for the update of the units of the Royal Australian Navy and will network the Australian armed forces.

For the purposes of capacity building, the new site will facilitate collaboration between the companies in Western Australia to help develop specialist skills, particularly in defence electronics,, to complement the already strong shipbuilding capabilities in the area.

## ➤ Supply chain

CAPITAL	MAIN MATERIAL ISSUES
Financial resources Operating assets	Value creation and competitiveness Supply chain management Service & product stewardship

Suppliers are strategic partners in the creation of added value and their contribution is fundamental to guarantee quality of products, on-time execution of projects and risk control: at the same time, they often play an active role in Leonardo's open innovation processes, where knowledge, skills and technologies are shared.

Leonardo chooses its suppliers based on the quality and competitiveness of the products and services they offer, but also based on the sharing of company values and compliance with the ethical, social and environmental standards, expressed in the Supplier Code of Conduct. In managing the supply chain, Leonardo enhances collaboration with local suppliers, nurturing the social and economic development of the areas in which the supply chains are based.

### Code of Conduct: what does Leonardo expect from its suppliers

- ✓ promoting dignity, freedom and equality for all workers
- ✓ no relationships with organisations associated with human trafficking, child labour or forced labour
- ✓ guaranteeing the protection of workers' health and safety
- ✓ complying with the anti-corruption laws and regulations, Leonardo's Code of Ethics and Anti-Corruption Code
- ✓ respecting trade compliance laws and regulations
- ✓ ensuring the quality of supplies, without defects or second-hand, counterfeit or copied parts or parts containing minerals from conflict zones
- ✓ respecting environmental regulations and actively protecting the environment
- ✓ keeping all know-how and confidential company and personnel information private
- ✓ reporting founded or potential ethical issues through the whistleblowing system



## Being Leonardo's suppliers

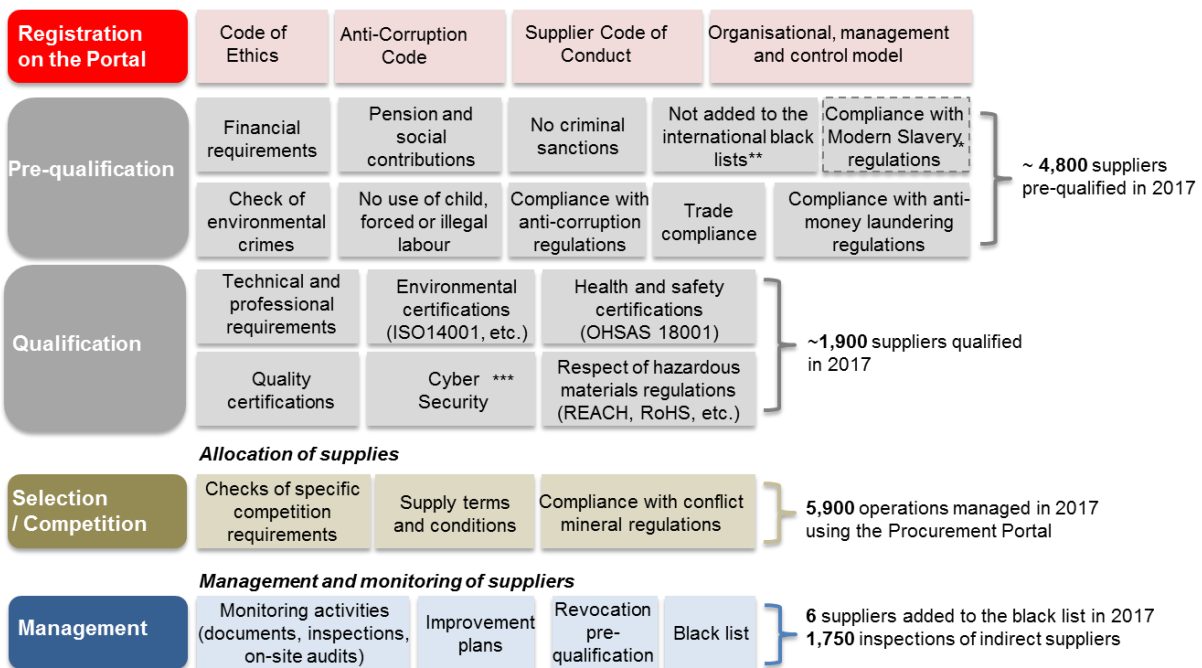
Collaboration with Leonardo requires suppliers to make precise commitments, meet rigorous financial, ethical/legal, social and environmental requirements, which are verified during the pre-qualification phase through a questionnaire, and have technical and operational capabilities that are specific to each supplier and verified in the subsequent qualification phase.

From 2018, the evaluation of suppliers will also include cyber security aspects.

All process phases are managed through the Procurement Portal, which guarantees transparency and traceability of information. In 2017, an e-collaboration tool was added to the Portal, which enhances continued dialogue and greater integration, at the same time as digitalising many processes related to purchasing, thus cutting back on the use of paper documents.

### Supplier vetting

#### Commitments and requirements requested by suppliers



(\*) 2015 Modern Slavery Act in the United Kingdom and Code Title 22, chapter 78 in the US  
 (\*\*) Check only carried out for suppliers in at-risk countries  
 (\*\*\*) Checks launched from 2018

### Engaging suppliers in project management

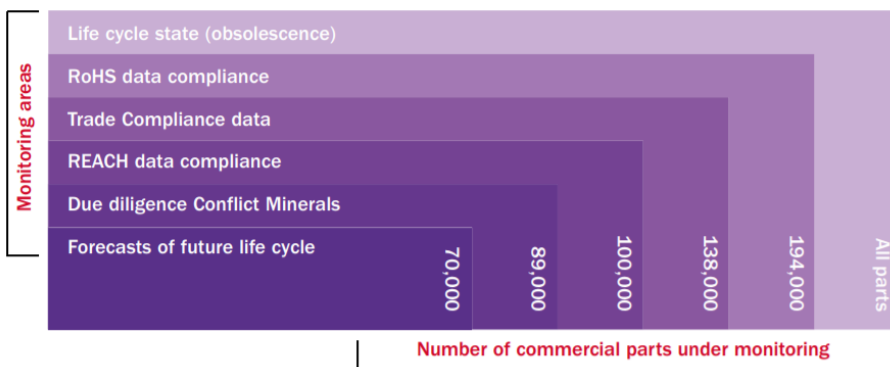
During 2017, the Supply Chain Risk Management process was designed and put in place, following the positive conclusion of the pilot project carried out with twelve suppliers. This project, which involved the specific training of suppliers about Leonardo's Project Risk Management during a workshop, provided an opportunity to share the standards for the Supply Chain Project Risk Management process and highlighted the need to exchange the risk registers of shared-interest projects, in order to guarantee full visibility and convergence of the management and mitigation actions for such risks. A requirement to this extent will be included in the contractual supply documentation, improving the quality and competitiveness of the entire industrial section.

- Traceability and monitoring of supplies

Leonardo monitors the areas of risk related to the supply chain by implementing specific actions that ensure compliance with existing environmental and social regulations and prevent procurement issues or risks starting from the designing phases.

For direct supplies to be used in products, during the procurement phase the compliance requirements of components and materials are checked. Traceability is ensured using specific instruments, including the Component Management System (CMS), which maps the dangerous materials, in compliance with REACH and RoHS regulations, conflict materials, the lifecycle and the international trade requirements.

### The Component Management System



For the indirect supplies, inspections are carried out to check compliance with the agreed performance levels and, where necessary, aspects related to environmental sustainability, such as waste management, and safety provisions and procedures. In 2017, there were 1,750 inspections.

If performance levels are not satisfactory, suppliers are subject to contractual penalties and engaged in implementing improvement plans.

#### Quality, effectiveness and safety of supplies

Leonardo is a member of the International Aerospace & Defence Quality Group (IAQG), the most important industry association in terms of quality. IAQG develops and manages the "series 9100" standards for the ongoing improvement of product and service quality provided to the customers, in terms of efficiency, effectiveness and safety. In 2017, Leonardo became a member of the Strategic Working Group, the leading governing body of the IAQG around the world, as a sponsor of Product & Supply Chain Improvement initiatives, which also include the development of the Supply Chain Management Handbook, a large collection of management best practices in terms of business excellence.

85% of employees operate in sites where the industrial processes are certified in accordance with the series 9100 standards.

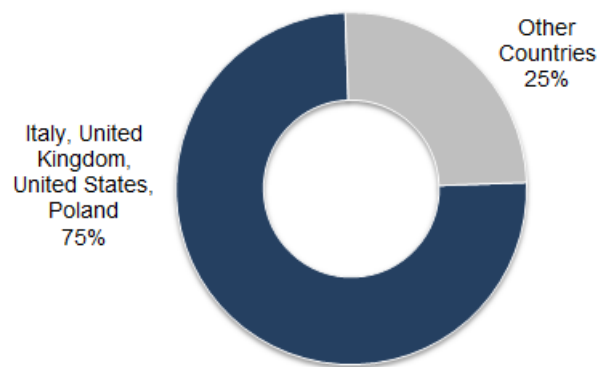
Sharing experiences, together with the ICOP (Industry Controlled Other Party) quality certification scheme, managed by IAQG and founded on its 9100 standards for quality, represents fundamental support and stimulation for the sector's supply chain.

## ▪ Development of supply chain

Leonardo purchases approximately 75% of goods and services from suppliers based in the main countries where it operates and supports the industrial areas, which in many cases were started and developed around Leonardo's operations.

With regard to local clusters, Leonardo contributes to the development of the state-of-the-art technologies and the exchange of knowledge and experience and promotes the effective use of resources and capabilities, specifically by participating in sector initiatives which aim to develop supply chains.

### GEOGRAPHICAL BREAKDOWN OF PURCHASES



#### Italy

Approximately 70% of Leonardo's Italian suppliers consists of SMEs, mainly based in five main districts (Piedmont, Lombardy, Lazio, Campania and Puglia). In such districts there are around 600 enterprises involved in the A&D industry, accounting 42,000 employees. The added-value per employee is equal to around €100,000, 71% more than the average of the Italian economy (sources: OpenEconomics 2016; AIAD 2016).

#### United States

45% of Leonardo DRS' suppliers consists of SMEs.

With the aim of enhancing diversity and creating a competitive edge, Leonardo DRS promotes partnership with minority businesses, SMEs managed by women, veterans, disabled people and native Americans. It also carries out mentorship activities to search for opportunities and improve the competitiveness of SMEs.

#### United Kingdom

Approximately 60% of Leonardo MW's suppliers consists of SMEs and 190 are involved in the 21st Century Supply Chain programme, 32 of which are directly sponsored by Leonardo.

The 21st Century Supply Chain is a sector initiative that helps SMEs to improve their performance, in order to build a more competitive and sustainable supply chain.

#### Poland

70% of PZL-Świdnik suppliers are Polish, mainly based in the Aviation Valley, the south-east region of the country. In this areas, PZL has set up the Lublin Cluster for Advanced Aerospace Technology which aims to increase the region's contribution to the development of Poland's aerospace sector.

## ➤ Environment and climate change

CAPITAL	MAIN MATERIAL ISSUES
Energy and natural resources People and skills Technologies and intellectual property	Climate change Environmental responsibility

Leonardo has been pursuing a path of sustainability which integrates environmental issues with business strategies. For this purpose, it has established the Environment, Health and Safety Integrated Policy and the Energy Management Policy, which aim to:

- enhance environmental responsibility and eco-efficiency of operations in the running of the business in order to reduce greenhouse gas emissions and use energy and natural resources in a sustainable manner;
- adopt measures to continuously reduce and prevent pollution and waste, minimising waste production and promoting recycling and reuse;
- identify and assess environmental risks and aspects related to activities, monitoring and improving the management standards;
- spread and promote environmental sustainability through internal and external communications, awareness campaigns, information and training activities.

Leonardo's new single energy management model, to structurally reduce energy absorption at sites and the related emissions, is now operational.

### Investments and environmental costs

- > Planned, launched and partly completed approximately 70 projects worth about €18 million, of which 72% related to energy efficiency and 28% to improve waste and water cycle management.
- > A further €19.5 million invested in property management activities, of which one third helped reduce the environmental impact.
- > €16.2 million spent for waste management, costs for the personnel in charge of environmental management and environmental training, certifications and the trading greenhouse gas emission certificates.

### Environmental training

- > Over 18,000 hours (+33% compared to 2016).

### Management systems

- > 45 sites with Environmental Management Systems (EMS) ISO 14001: 2004-certified, one of which with EMAS Regulation (Eco-Management and Audit Scheme), covering 66% of the workforce<sup>7</sup>;
- > 6 sites with Energy Management System ISO 50001:2011-certified.
- > 115 audits carried out in order to obtain or maintain the certifications of sites' management systems, and for the purposes of checking and assessing environmental risk management<sup>8</sup>.
- > Actions began to make the EMS compliant with the new ISO 14001:2015 standard.

In line with its commitment and its policies, Leonardo takes part in international initiatives in which institutions, companies and other stakeholders share ideas and collaborate to define strategic guidelines for environmental sustainability and on fighting climate change.

### Leonardo in the Task force on Climate-related Financial Disclosures

In 2017, Leonardo joined the Task force on Climate-related Financial Disclosures (TCDF), an initiative promoted by the Financial Stability Board (FSB), started by the G20 Finance ministers and Governors of the Central Banks. Together with 200 international companies, Leonardo is committed to voluntarily disclose information on activities and risks related to climate change, in four areas: Governance, Strategy, Risk Management and Metrics and objectives.

<sup>7</sup> Calculated using the environmental reporting scope. See the Methodological note.

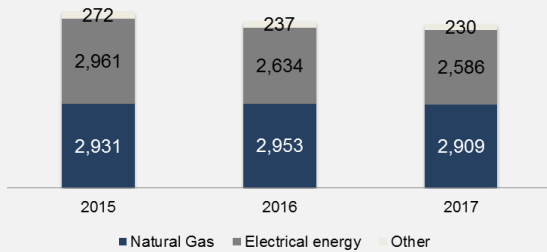
<sup>8</sup> Of these, 33 were carried out by Leonardo Global Solutions to assess environmental risks.



- Energy efficiency and carbon footprint

### Energy consumption

ENERGY CONSUMPTION BY SOURCE (TJ)



**Energy consumption:** in 2017, energy consumption was equal to 5,725 TJ (around -2% on 2016). Natural gas, whose consumption decreased by 1.5% on 2016, is the Group's main source of energy, making up 51% of the total.

**Electrical energy :** total consumption decreased by around 2% compared to 2016 and by 13% in the last two years.

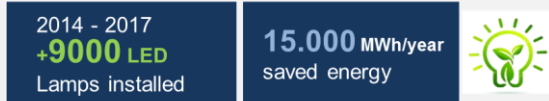
**Renewable sources:** 83% of the electrical energy purchased (75% in 2016) came from renewable sources<sup>9</sup> (100% for the Italian sites).

RENEWABLE ENERGY VS TOTAL ENERGY CONSUMPTION



### Initiatives for reducing environmental impacts

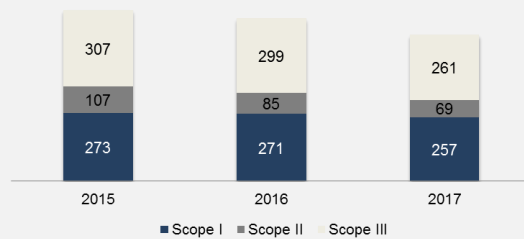
#### PLANT LIGHT EFFICIENCY PROGRAMME



**Energy efficiency programme:** from 2014 to 2017 over 9,000 LED lights have been installed, resulting into energy saving of around 15,000 MWh/year.

### CO<sub>2</sub>e<sup>10</sup> emissions

CO<sub>2</sub>e EMISSIONS (TONNES x 1,000)



**Scope I:** 256,878 tonnes of CO<sub>2</sub>e (-5% on 2016);  
**Scope II<sup>11</sup>:** 69,422 tonnes of CO<sub>2</sub>e (-18% on 2016);  
**Scope III:** approximately 261,331 tonnes of CO<sub>2</sub>e (-13% on 2016).

In total, CO<sub>2</sub>e emissions, which were equal to 587,631 tonnes of CO<sub>2</sub>e, decreased by around 10% on 2016.

**Carbon intensity:** calculated as the ratio between total Scope I and Scope II emissions and revenues, is equal to 28 tonnes per € million (- 4.4% on 2016).

GHG REDUCTION (SCOPE I+II)



### Green Mobility

BUSINESS TRAVEL



**Business Travel:** increase in the kilometers travelled by train compared to planes on 2013.

**Carpooling:** started the first phase of the project with 18 recharge stations and 20 electric cars delivered.

**Car fleet:** 20% of the new long-term rental vehicles are hybrid.

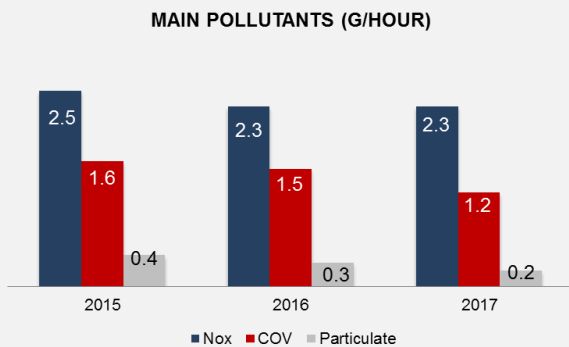
<sup>9</sup> Covered by Guarantees of Origin of renewable energy.

<sup>10</sup> Scope I: direct emissions deriving from own sources or controlled by the company. Scope II and III: indirect emissions related, respectively, to the generation of electrical energy purchased and deriving from sources not controlled by the company, for instance, extraction of raw materials, transport of goods and employee travel.

<sup>11</sup> Scope II emissions are calculated using the market-based methodology, which attributes a conversion factor equal to zero (0) to electrical consumption from renewable sources.

## ■ Main environmental highlights

### Atmospheric emissions



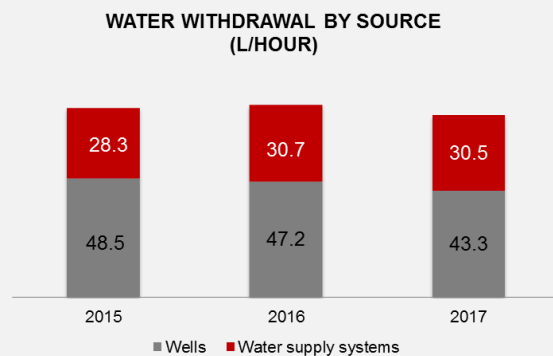
**NO<sub>x</sub> emissions** : 180 tonnes (unchanged on 2016).

**Volatile Organic Compounds (VOC)**: 95 tonnes (-19% compared to 2016).

**Particulates**: 18 tonnes (-11% compared to 2016).

There were almost no SO<sub>2</sub> emissions (mainly related to diesel combustion), Volatile Inorganic Compounds (VIC) and heavy metals.

### Water withdrawal and wastewater

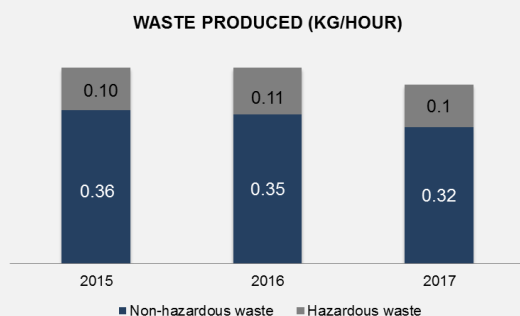


**Withdrawal** : 6 million cubic metres (-5% on 2016), 56% from wells, 39% from water supply systems and 5% from other sources (specifically, rain water collected in storage tanks or reservoirs).

**Utilisation**: 5.5 million cubic metres, 43% for civil use, 44% for industrial use and 13% for other uses (irrigation, fire prevention).

**Wastewater**: 4.2 million cubic metres of wastewater generated, 59% from domestic and similar use and 41% from industrial and processing use. 93% goes to public sewers, 6% discharged in surface waterways, in compliance with regulations, and less than 1% disposed of in other ways (on soil, pursuant to the authorisations issued by the supervisory and control bodies, or disposed of as waste liquid).

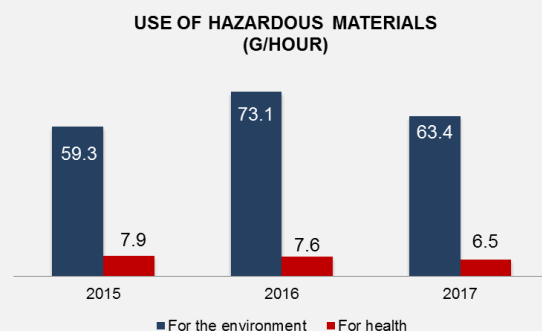
### Waste



**Waste produced**: 32,487 tonnes of special waste was produced (-9% compared to 2016) of which 23% was classified as hazardous and 77% non-hazardous.

**Recycling and disposal**: 55% of waste produced is recovered (of which 44.1% recovered, 10.5% recycled, 0.4% reused, 0.3% composted) and 45% is disposed of.

### Hazardous materials



**Hazardous for the environment** : 4,943 tonnes (-13% compared to 2016).

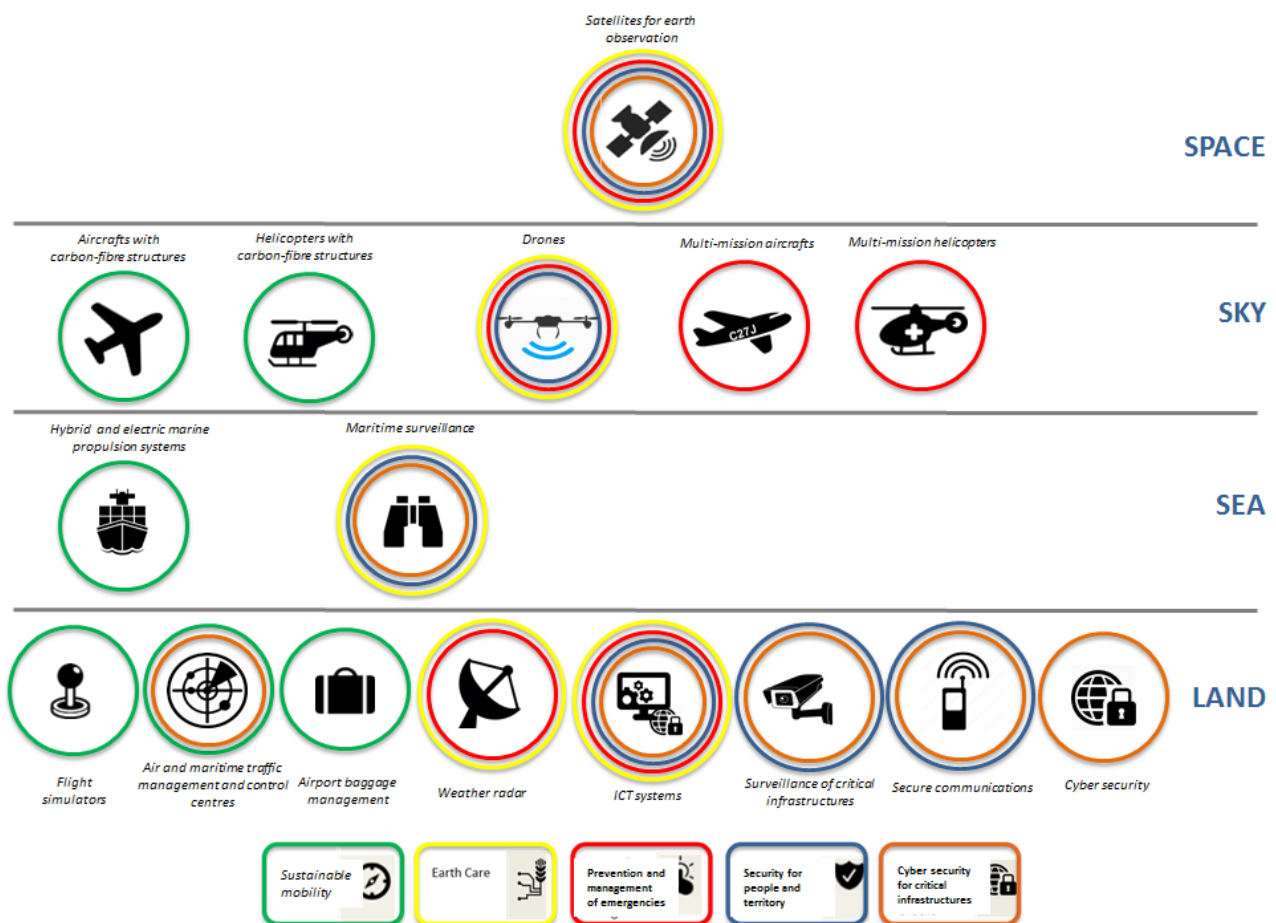
**Hazardous for health**: 503 tonnes (-15% compared to 2016).

# SOLUTIONS FOR SOCIETY AND THE ENVIRONMENT

In a rapidly changing international scenario, in which markets require increasing effectiveness, safety and reduced environmental impacts, Leonardo has highly technological solutions, result of the development processes, that can operate in an integrated and synergistic way to respond to the emerging global needs.

Specifically, Leonardo enhances its technologies by a dual use approach, applying them to the civil sector, with repercussions in many areas of interest for everyday life, and to the military sector, intercepting transversal needs, from the public to the private sector and from communities to individuals.

## Connectivity Map



## ➤ Sustainable mobility

The need to contrast climate change is leading to an increasing demand for products and services that may allow to contain environmental impacts, specifically with regard to the mobility of people and goods. In this respect, Leonardo is already active for several years in researching, developing and supplying solutions to the aeronautical and marine sectors which generate benefits for the environment thanks to significant operating efficiency and the use of cutting-edge technologies.

In the aeronautic sector, one of the most effective solution is the use of carbon fibre to replace metal materials, which reduces fuel consumption by 10-15% and cuts greenhouse gas emissions by approximately 20%, while extending the structural life of the products thanks to its resistance against wear, cutting back on maintenance works and related costs. Leonardo produces many structures in carbon fibre, such as for helicopters and aircrafts both civil, including sections 44 and 46 of the fuselage and the horizontal tail planes of the Boeing 787 and the ATR's tail planes, and military, such as the left wing of the Eurofighter, parts of the JSF (Joint Strike Fighter) and of the C-27J.

Leonardo's flight simulators provide pilots with training about how to manage all situations in complete safety, generating a significant reduction in costs and avoiding excess of CO<sub>2</sub> production: an example is the AW169 simulator that is the only in Italy dedicated to training healthcare personnel who operate on rotorcrafts. Furthermore, the hybrid and electrical systems used in Leonardo DRS's marine propulsion systems will significantly reduce CO<sub>2</sub> over their life cycle.

Cutting-edge Air Traffic Management and Vessel Traffic Management and Information Systems also contribute to achieve the sustainable mobility objectives by reducing environmental impacts thanks to the optimisation of the air and maritime traffic.

All Leonardo's civil aircrafts and helicopters are certified in accordance with the environmental and noise specifications by ICAO (International Civil Aviation Organisation).

ATR 72-600 produces around 40% fewer emissions compared to the sector average.

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### Electric propulsion for the helicopter tail rotor to reduce environmental impact

In the frame of the Clean Sky programme, Leonardo worked on the development of an electric propulsion for the helicopter tail rotor.

The electric propulsion applied to the rotor is innovative in many ways: from the degree freedom of the speed, which now is independent thanks to the electrical technology, to the higher level of safety and reliability and reduced carbon emissions compared to the conventional mechanical solution. In addition to the development of technologies, the project also led to a full-scale test version of the AW139 helicopter tail, in order to check the functioning of the electric engine and, more in general, of the entire tail rotor actuation system and its controls. Thanks to the skills developed in this area, Leonardo will be able to participate in the designing of the helicopter's engine, creating new make or buy opportunities for the future.

The Leonardo's project was awarded the National Innovation Award, set up by the Italian Government through the National Technological Innovation Foundation (COTEC).

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### Contribution to the energy transition in the aeronautics sector

ATR is a partner of the DEMETER project (metropolitan demonstrator for energy transition and the reduction of emissions in the aeronautics sector), which brings together different local and regional institutions and important companies from the sector in France, providing a platform for the collaboration and development of initiatives for energy effectiveness and the reduction of pollutants, following the objectives set by the law on the energy transition for the green growth. Demeter focuses on four main areas: sustainable and planning mobility, green growth, atmospheric pollution and climate change and circular economies.

Among the various initiatives under study, ATR is working on the development of a bio fuels' network (Biohub) in Toulouse, a project to alleviate the congestion around airports and the improvement of process for the dismantling and recycling aircraft at the end of its life.

The first ever flight of an ATR 72-600 using biofuels (45% recycled cooking oil) was carried out between Stockholm and Umeå in February 2017.

## ➤ Earth Care

Leonardo's satellite systems and drones, by Earth observation and monitoring, produce data which can be used to assess the impact of greenhouse gases in the atmosphere, the hydrogeological situation and that of water and natural resources, checking critical zones such as the Amazon forest and Arctic ice.

The added value of Leonardo's technologies lies in its ability to produce a single integrated view of the areas analysed through remote sensing of the ecosystems and the atmospheric phenomena thanks to collection, simulation and supervision systems, which can connect the different types of the acquired data.

In the frame of the Italian companies' Alliance for water and climate change, Leonardo can provide a very important contribution thanks to its technologies. The satellites, drones and weather radars are, in fact, effective both for studying, preventing and mitigating extreme weather events, such as droughts or flooding, and monitoring the levels of the rivers and artificial lakes, providing measurable and comparable data, useful for the sustainable management of water resources.

Leonardo is already committed to projects that contribute to the protection of the marine ecosystem through the development of maritime surveillance abilities at a European level, such as MARSUR, EUCISE2020, MARISA, Blue Mass Med and SeaBILLA which regard, for example, the illegal disposal of waste and the unchecked extraction of natural resources from the seabed.

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### Monitoring the Amazon

The radar sensors on COSMO-SkyMed satellites allow for the constant monitoring day and night and in all weather conditions, making them the ideal solution for the Amazon territory which is characterised by frequent rains and constant cloudiness for most part of the year. The COSMO-SkyMed data were successfully used in Brazil to monitor and protect the environment (oil spills from the sea platform, checking landslides), to support agriculture and for defence application.

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### Identifying urban heat islands

"Urban heat islands", areas where very high temperatures persist for several days and nights, are caused by urbanisation, the quantity of man-made ground, the intensity of the anthropic activities and the production of atmospheric pollutants.

The harmful effects for health start when daytime temperatures rise above 35 °C and night time temperatures do not drop below 25 °C for several consecutive days.

With Leonardo's satellite Earth observation systems, it is possible to identify the areas and neighbourhoods of cities where urban heat islands are formed. The images are analysed for daily monitoring of the temperatures of the whole urban territory to identify the zones in the urban areas where the effects of the heat wave may be the most noticeable.

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### A new meteorological radar in Sardinia

Installed on Monte Rasu (Sassari), on top of a 38-metre tall tower, the METOR 735C is a new and precious technological outpost, which will allow to the regional agency for environmental protection in Sardinia to identify, monitor and manage weather events with greater precision.

The new radar will improve weather analysis thanks to the use of a high-power, dual polarised microwave beam. The receiver will, therefore, collect much more accurate data, as there will be less risk of losing reception. The system is equipped with the latest version of the meteorological software, Rainbow5®, developed by Leonardo and globally recognised as some of the best meteorological software on the market.

## ➤ Prevention and management of emergencies

Leonardo provides modular and scalable technologies and solutions, which help to prevent critical situations and make it possible to intervene during emergencies caused by extreme meteorological phenomena, such as mudslides, flooding and other natural disasters, and to organise rescue missions for affected populations.

Based on the different situations, satellite systems and unmanned aircrafts to survey the affected areas, the IT and telecommunication systems to coordinate rescue missions, SAR (Search And Rescue) aeroplanes and helicopters to transport crews can be used in an integrated way to provide an accurate analysis of the situation and ensure the effectiveness of the interventions.

The COSMO-SkyMed satellite system, one of the most innovative programmes in the Earth observation field, performs a crucial role in this context. A constellation that operates using four radar satellites: eyes that scan the Earth day and night in any atmospheric condition thanks to high-resolution X-band radars, financed by Agenzia Spaziale Italiana (ASI - Italian Space Agency), the Italian Ministry of Defence and the Italian Ministry of Education, University and Research. The constellation was constructed over time, following the launch of the first satellite in June 2007.

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### Leonardo's systems for monitoring and rescue activities

During 2017, the COSMO-SkyMed satellites, the C-27J tactical transport aircrafts and the AW139 helicopters (Leonardo's Disaster Squad) have all played an important role in the monitoring and rescue missions in the areas hit by hurricanes Harvey and Irma.

Since the beginning of the emergency, the e-GEOS Disaster Room has monitored the zone hit by Irma, following and forecasting movements and mapping the areas before and after the hurricane. Experts on the #RapidMappingTeam identified 12 areas, including the Antilles, Haiti and the Dominican Republic hit by the hurricane, which was then heading towards Cuba and Florida. The COSMO-SkyMed radar satellites used by e-GEOS were chosen because they allow you to "see" the affected areas, even at night and in cloudy conditions.

The promptly provided images from the COSMO-SkyMed satellite were also used in Texas to monitor the impact of hurricane Harvey and to check for the effects of flooding along the Gulf coast of Texas.

The US Coast Guard's C-27J aircrafts were used to transport teams, resources and medical supplies, while the AW139 helicopters were used for rescue missions to the affected populations.

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### ASKme! Flood: the e-GEOS app to monitor flooding

ASKme! Flood is the innovative solution which lets you create integrated images, gaining a detailed picture of the areas hit by the disaster and providing information about the impact both as it happens and afterwards.

The platform, provided by e-GEOS, allows for images from the constellation of COSMO-SkyMed satellites to be combined with radar and optic data (e.g. Sentinel-1, Sentinel-2) and other information, within maps and analyses. ASKme! Flood includes satellite data distributed as part of the open source policy, such as that provided by the Copernicus programme which increases the European Union's ability to act independently within the security and environmental sectors through the use of satellites.

The platform also makes it possible to assess damage, by using, among other things, alternative data sources, such as conversations on social media.

## 10 years of COSMO-SkyMed

COSMO-SkyMed (CONstellation of small Satellites for Mediterranean basin Observation), the most ambitious Earth observation satellite programme ever built by Italy for the prevention of environmental disasters, the study of the Earth's surface and the security, celebrated ten years: on 7 June 2007, the first satellite of the constellation was successfully launched from the Vandenberg base in California.

The COSMO-SkyMed constellation, which became fully operational in 2010 with the launch of the fourth and final satellite, is the first Earth satellite observation system designed for dual purposes, civil and military. Its four satellites are equipped with X-band radars that can peer at the Earth from space, meter by meter, day and night, in all weather conditions.

The second generation of COSMO-SkyMed will guarantee a general leap in terms of technology, performance and operational life of the system. The launch of the first satellite of the second generation is expected by 2018 and the second one after one year.

Leonardo participates in the programme through the joint ventures between Thales Alenia Space and Telespazio and the Airborne & Space Systems Division.

## ➤ Security for people and territory

To ensure increasingly higher levels of safety for people, Leonardo offers to its customers surveillance systems and advanced solutions for reliable and efficient information to be used in contexts concerning public safety, emergency services, civil protection and the safeguarding of critical infrastructures.

Specifically, for major events – such, in the past, Expo Milano and the G7 summit in Taormina – Leonardo provides encrypted communications with widespread radio coverage using the latest-generation radio terminals and multimedia stations.

Furthermore Leonardo is one of the few companies in the world to own a wide range of UAS (Unmanned Aerial System) technologies for land monitoring, including helicopters and drones for surveillance and the information gathering - such as SD-150 Hero, Falco and Sky-Y – and small exploration rovers, and it is the only European company capable of providing unmanned aircraft solutions for ISTAR (Intelligence, Surveillance, Target Acquisition and Reconnaissance), integrating radar and electronic sensor platforms with mission and ground control systems.

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### Italian Defence satellite for Earth observation

In August 2017, the Italian Defence's OPTSAT-3000 Earth observation satellite was successfully launched by the VEGA European launcher, produced by AVIO. The whole system is supplied by Leonardo through Telespazio, as prime contractor.

OPTSAT-3000 will guarantee full high-resolution images of the whole Earth, providing Italy with an autonomous national capability of Earth observation from space.

Starting from 2018 OPTSAT-3000 will jointly operate with the second-generation COSMO-SkyMed system of radar satellites, integrating optical and radar data to provide the Italian Defence with information characterised by extreme accuracy, resolution and completeness and with state-of-the-art analysis and operational tools.

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### TETRA network for civil protection

The city of Buenos Aires has recently commissioned Leonardo, in collaboration with Telecom Argentina, to install a new TETRA (TErrestrial Trunked RAdio) communications network. Covering the metropolitan area of Buenos Aires, the new network will be based on digital IP technology and integrated with the Buenos Aires police's existing network. The network will be used by the city's emergency and security services, by the Metro – which is the largest underground system in Latin America – and by other forms of local transportation: a multiservice infrastructure able to guarantee secure and protected communications.

During major events, TETRA has ensured full operating conditions for the various forces involved to protect the interested area and keep people safe.

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### New frontiers of the maritime surveillance

Leonardo is involved in the European CLOSEYE project, in which it carried out tests to provide an innovative technological system for maritime surveillance. Specifically, the data collected by the passive radar AULOS that can detect targets without emitting electromagnetic pollution have been integrated with the satellite images of the COSMO-SkyMed system and the information from the radars installed on the twin-engine lightweight aircraft used for sea patrol missions. The information so obtained then have been sent via satellite to the Italian Navy's inter-ministerial operating centre with the aim of improving the control of areas outside the range of coastal radars.

CLOSEYE is based on the integration of satellite systems and operational units aimed at improving surveillance and intervention capabilities in the Mediterranean Sea.



## ➤ Cyber security for critical infrastructures

With over 30 years of experience in cyber security, Leonardo develops and offers solutions, technologies and services that guarantee the safeguarding of data, networks and systems for critical infrastructures, Government institutions, intelligence agencies, police forces and companies. Thanks to the integrated and systematic approach that covers the entire life cycle of the programmes, Leonardo is the chosen partner for many national and international institutions such as NATO, the UK Ministry of Defence, the Italian public administration and the European Space Agency.

The NATO NCIRC - FOC (Computer Incident Response Capability - Full Operational Capability) programme is a key project of Leonardo. It guarantees the cyber security of information and ICT infrastructures at NATO's main sites at all operating levels, from individual portable devices to full networks. The programme was planned, developed and managed by Leonardo and the NCIA (NATO Communications and Information Agency) and, in 2017, the services were extended to alliance's new headquarters.

The NCIRC - FOC programme provides cyber protection to 70,000 NATO users in 29 countries.

Furthermore, Leonardo recently founded, together with other industrial and Government partners, the European Cyber Security Organisation (ECSO), a public-private partnership which aims to create synergies in European investment programmes and to promote the growth of the sector. Leonardo is also a member of the European Organisation for Security (EOS), a platform for collaboration and the exchange of ideas and best practices between European institutions, industries, research centres and universities and sector associations.

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### Leonardo for the cyber security of space infrastructures

Satellite-based assets play a major role in the daily lives of citizens and for national critical infrastructures, from communications to transportation and defence. Leonardo has been chosen by the European Space Agency (ESA) to develop a benchmark architecture and define requirements and processes for managing the information security of the Galileo satellite navigation programme, in accordance with recent European cyber regulations.

Leonardo has been a key industrial partner throughout the life of the Galileo programme, providing operational and logistical management from Telespazio, through Spaceopal, focusing on the development of innovative services, especially for Government customers and operators with special security requirements. Leonardo also provides the attitude sensors which control the position of the satellites and the hydrogen atomic clocks that accurately mark the time, as well as the safe receiver Public Regulated Services (PRS).

Galileo guarantees reliable and precise satellite services for residents, transport, telecommunications, security, emergency management, search and rescue, companies, banks and utilities.

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### A new defence against ransomware

At the Public Administration forum dedicated to innovation themes, Leonardo presented an innovative cyber intelligence solution to counter and prevent the threat of ransomware, a type of virus which encodes user data and then demands a ransom to release the data.

The new solution stops the virus from being propagated, intercepting execution attempts and preventing the encoding of user and system data. The solution also allows data to be restored via a sophisticated recovery method should a new type of ransomware manage to circumvent the recognition systems.

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### Leonardo promotes the safety of the southern corridor gas pipeline

In the frame of the cooperation between Italy and Azerbaijan in the field of security, automation and professional communications, Leonardo and the Azeri state-owned oil company SOCAR have signed an agreement to increase the protection, both physical and IT, of the infrastructures that allow supplies energy and to increase the efficiency of SOCAR activities through the use of Leonardo technologies. The agreement is an important milestone in Leonardo's commitment for building a long-term relationship with the Republic of Azerbaijan, also through the establishment of a garrison in the country.

## ▪ Industry 4.0

Leonardo helps the manufacturing sector to seize the opportunities offered by the new technology trends of Industry 4.0, from the Internet of Things to mixed reality, developing innovative systems with the aim to make the processes more intelligent and to optimise the performance and the safety of production facilities and factories.

In 2017, Leonardo and Microsoft signed an agreement to introduce on the market the Secure Connected Factory (SCF) for the comprehensive control of industrial processes and assets. Using complete digital transformation logic, the solution includes Leonardo's security-by-design approaches and Microsoft technology, in particular for advanced business and mixed reality components, which provide real-time strategic information based on data collected from installations and comprehensive control of assets and industrial processes. Using predictive maintenance features, it is also possible to reduce unscheduled machine shutdowns, while further minimising lost time by using real-time scheduling and tracking tools to plan the deployment of technical teams.

The unified, real-time cyber security vision and the great analytical capabilities at the base of the SCF architecture provide a complete and functioning system to check for industrial attacks and threats.

Secure Connected Factory enables businesses to increase the efficiency of their production processes and reduce the time and cost of development.

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### Manifesto for Industry 4.0

Leonardo has collaborated in writing the "Social responsibility for Industry 4.0" manifesto launched by Confindustria, the main organisation of Italian companies. The manifesto is for companies and promotes sustainability as a factor for competitiveness, through concrete commitments, including innovative business models and the development of business strategies to achieve SDGs, the development of training programmes, sustain to research for tackling sustainable development problems and support for management policies and systems that guarantee responsible conduct and that fight against corruption.

# APPENDIX

## ➤ Methodological note

Leonardo's 2017 Sustainability and Innovation Report was prepared in accordance with the "G4 - Sustainability Reporting Guidelines" by GRI, in line with the "in accordance core" reporting option. It is also based on the International Integrated Reporting Council (IIRC) framework, with the objective to represent Leonardo's abilities to create economic, environment and social value through its business model.

The Sustainability and Innovation Report is prepared annually. This document covers 2017 (1 January 2017 - 31 December 2017) and was submitted to Leonardo S.p.A.'s Board of Directors on 14 March 2018. The document is published on the company website [www.leonardocompany.com](http://www.leonardocompany.com).

### ▪ Materiality analysis

The aspects reported in this document were identified in accordance with the principle of materiality and considering the principles that set the content and the quality of sustainability reporting (stakeholder inclusiveness, completeness, sustainability context, balance, comparability, clarity, timeliness, reliability and accuracy).

The materiality analysis is based on the analysis conducted for the 2016 Sustainability and Innovation Report, completed in February 2017. The internal and external materiality of each issue was defined, considering, for stakeholders, sector benchmarks and specific Aerospace, Defence and Security documents, analysis of press coverage, questionnaires and reports on Leonardo's ESG (Environmental, Social and Governance) performance reports issued by independent assessment companies and the results of interviews with managers of the various Divisions and organisational units. The results of the analysis were validated by Leonardo's top management and included in the materiality matrix.

### ▪ Reporting scope

The reporting scope of the 2017 Sustainability and Innovation Report matches that of the 2017 Annual Financial Report.

Personnel data refer to 99.9% coverage of the 2017 Annual Financial Report. Any limitations are indicated in this document.

Environmental data<sup>12</sup> scope is based on the number of employees and the materiality of Leonardo S.p.A.'s and its subsidiaries' operating sites (plants/offices): the 2017 environmental reporting covered 90 Group sites around the world (two fewer than in 2016 due to the sale and closing of sites and the company reorganisations that affected, in particular, Leonardo DRS). The number of employees included in the Leonardo S.p.A.'s environmental scope in 2017 was equal to 44,623 (corresponding to 98.9% coverage of the 2017 Annual Financial Report) rose up from 2016 (44,432) with an increase in worked hours. Figures about worked hours are used in the calculation of the main performance indicators.

In order to ensure consistency with the consolidation criteria of the 2017 Annual Financial Report, the environmental figures for the year do not include those of the MBDA and Telespazio joint ventures, nor did they in 2016. Figures from 2015 include joint ventures. Reference should be made to the separate table on MBDA's and Telespazio's environmental figures for the past three years.

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<sup>12</sup> The environmental figures, reported through the Group's web-based system (specifically those on energy consumption), were derived from:

- direct measurements (e.g., meters and consumption measurement systems);
- calculations (e.g., bills; purchase orders/invoices);
- estimates based on the number of employees and/or activities performed.

Specifically, when the sites have atmospheric emission monitoring systems (e.g., industrial sites), these are calculated using the laboratory analyses performed during the year. When the analyses are not available (e.g., sites housing offices and/or when the production processes do not give rise to atmospheric emissions), the Group's reporting system automatically calculates the NO<sub>x</sub> and SO<sub>2</sub> emissions considering the annual consumption of natural gas and diesel oil to generate energy/heat and emission ratios available from public reports.

	2017	2016	2015		2017	2016	2015
<b>Number of sites covered by the environmental reporting scope</b>	<b>90</b>	<b>92</b>	<b>105</b>	Italy	48	48	59
Sites MBDA and Telespazio	6	6	7	United Kingdom	8	9	10
Total	96	98	112	United States	26	27	27
				Rest of the world	8	8	9
				<b>Number of sites covered by the environmental reporting scope</b>	<b>90</b>	<b>92</b>	<b>105</b>
				Italy (MBDA and Telespazio)	6	6	7
				Total	96	98	112

The environmental reporting scope includes the following sites:

Division	2017 scope	2016 scope
Helicopters	Yeovil, Cascina Costa di Samarate, Vergiate, Frosinone, Brindisi, Lonate Pozzolo, Anagni, Sesto Calende, Venice, Benevento, Philadelphia	Yeovil, Cascina Costa di Samarate, Vergiate, Frosinone, Brindisi, Lonate Pozzolo, Anagni, Sesto Calende, Venice, Benevento, Philadelphia
Aircraft	Venegono Superiore, Campo Volo, Caselle Nord and Caselle Sud, Turin, Venice, Cameri	Venegono Superiore, Campo Volo, Caselle Nord and Caselle Sud, Turin, Venice, Cameri
Aerostructures	Pomigliano, Foggia, Nola, Grottaglie	Pomigliano, Foggia, Nola, Grottaglie
Airborne & Space Systems	Pomezia - via dell'Industria, Cisterna di Latina, Aquila (new address compared to the site included in the 2016 reporting scope), Nerviano, San Maurizio Canavese, Ronchi dei Legionari, Palermo, Edinburgh, Luton, Farnham (joined the scope in 2017)	Pomezia - via dell'Industria, Cisterna di Latina, L'Aquila, Nerviano, San Maurizio Canavese, Ronchi dei Legionari, Palermo, Edinburgh, Luton
Land & Naval Defence Electronics	Abbadia San Salvatore, Catania, Pisa, Basildon Lambda House, Campi Bisenzio, Carsoli, Basildon Sigma House, Southampton, Fusaro Bacoli, Giugliano, Rome - Via Tiburtina, Taranto	Abbadia San Salvatore, Catania, Pisa, Basildon Lambda House, Campi Bisenzio, Carsoli, Basildon Sigma House, Southampton, <b>Portsmouth</b> , Fusaro Bacoli, Giugliano, Rome - via Tiburtina, Taranto
Security & Information Systems	Genoa - via Puccini, Rome - via Laurentina, Chieti, Bristol Building 430	Genoa - via Puccini, Rome - via Laurentina, Chieti, Bristol Building 430
Defence systems	La Spezia, Brescia, Livorno, Pozzuoli	La Spezia, Brescia, Livorno, Pozzuoli

Subsidiaries	2017 scope	2016 scope
Leonardo Corporate Center	Rome	Rome
Leonardo Global Solutions	Rome	Rome
Selex Service Management	Rome	Rome
Leonardo DRS	Fort Walton Beach - Anchor St., St. Louis, Melbourne Babcock St., Dallas Expressway, Dallas Sherman, Johnstown Airport, Huntsville, Milwaukee, Bridgeport North Av., West Plains, Elizabeth City, Danbury, Herndon Ds, Cypress, Hauppauge, High Ridge, Dayton, Largo, Fitchburg, Chesapeake, Arlington, Bedford, Lemont Furnace, Germantown, Ottawa, San Diego (joined the scope in 2017)	Fort Walton Beach - Anchor St., St. Louis, Melbourne Babcock St., Dallas Expressway, Dallas Sherman, Johnstown Airport, Huntsville, Milwaukee, Bridgeport North Av., West Plains, Elizabeth City, Danbury, Herndon Ds, <b>Florence</b> , Cypress, Hauppauge, High Ridge, Dayton, Largo, Fitchburg, <b>Cincinnati</b> , <b>Farnham</b> , Chesapeake, Arlington, Bedford, Lemont Furnace, Germantown, Ottawa
Agusta Aerospace Services	Grâce Hollogne	Grâce Hollogne
PZL-Świdnik	Świdnik	Świdnik
Larimart	Rome	Rome
Sirio Panel	Montevarchi	Montevarchi
Selex ES Inc.	Overland Park	Overland Park
Selex ES Romania	Ploiesti	Ploiesti
Selex ES Turkey	Ankara	Ankara
Selex ES GmbH	Neuss	Neuss
Oto Melara Iberica	Loriguilla	Loriguilla
TOTAL	90	92

Sites which are no longer included in the 2017 environmental reporting scope are in **bold**.

## Environmental reporting on MBDA and Telespazio - scope and environmental highlights

Company	Certifications	2017 scope	2016 scope	2015 scope
MBDA	ISO 14001; OHSAS 18001	Rome, Bacoli, La Spezia	Rome, Bacoli, La Spezia	Rome, Bacoli, La Spezia
Telespazio	ISO 14001; OHSAS 18001	Rome, Fucino, Lario	Rome, Fucino, Lario	Rome, Fucino, Lario, Naples

Company	2017	2016	2015
<b>Energy consumption (TJ) - Electrical energy and natural gas</b>			
MBDA	70.3	66	87
Telespazio	129.2	127.6	129.5
<b>Water withdrawal (cm)</b>			
MBDA	45,664 (of which 33,275 from water supply systems and 12,389 from wells)	37,165 (of which 29,899 from water supply systems and 7,266 from wells)	37,832 (of which 26,726 from water supply systems and 11,106 from wells)
Telespazio	46,301 (of which 42,929 from water supply systems and 3,372 from wells)	65,379 (of which 59,668 from water supply systems and 5,711 from wells)	58,860 (of which 53,318 from water supply systems and 5,542 from wells)
<b>Total special waste generated (tonnes)</b>			
MBDA	270.80 (of which 90.63 hazardous and 180.17 non-hazardous)	381.82 (of which 101.79 hazardous and 280.03 non-hazardous)	360.05 (of which 227.52 hazardous and 132.53 non-hazardous)
Telespazio	95.7 (of which 3.1 hazardous and 92.6 non-hazardous)	115.92 (of which 6.00 hazardous and 109.92 non-hazardous)	241.80 (of which 50.35 hazardous and 191.45 non-hazardous)
<b>CO<sub>2</sub>e (tonnes)<sup>13</sup></b>			
MBDA	3,262 (*)	8,222.8	9,459.9
Telespazio	3,158	3,304.6	2,835.9

\*CO<sub>2</sub> equivalent for electrical energy and methane.

<sup>13</sup> Scope II emissions are calculated using the market-based methodology, which attributes a conversion factor equal to zero (0) to electrical consumption from renewable sources.

## ➤ Bridging table with Legislative Decree no. 254/2016

Leonardo's 2017 Sustainability and Innovation Report, drawn up in accordance with the "G4 - Sustainability Reporting Guidelines" by GRI and based on the International Integrated Reporting Council (IIRC) framework, represents the consolidated non-financial statement, pursuant to Legislative Decree no. 254/2016, prepared separately from the Financial Report.

The following bridging table has been created to make it easier to identify the requirements of the Decree and the indicators GRI-G4 reported.

Requirements Legislative Decree no. 254/2016	Field	Reference		GRI-G4 indicators reported
<b>Reporting standard and materiality analysis</b>		Sustainability and Innovation Report	§ Material issues § Methodological note	G4-17; G4-18; G4-19; G4-20; G4-21; G4-32; G4-33
<b>Business model</b> for the management and organisation of the company activities	Environment, Social, Employees, Human rights, Corruption	Sustainability and Innovation Report	§ Company profile § Capitals and business model § Responsible business conduct § Corporate governance § Risk governance § People & Community § Supply chain § Environment and climate change	G4-4; G4-6; G4-7; G4-8; G4-9; G4-12; G4-13; G4-14; G4-15; G4-16; G4-24; G4-26; G4-27; G4-34; G4-58; DMA EN; DMA LA; DMA SO
		Annual Financial Report	§ Leonardo and risk management § Leonardo and Sustainability § Corporate Governance	
		Corporate Governance Report	§ Organisational model as per Legislative Decree no. 231/01 § Additional corporate governance practices	
		Anti-Corruption Code		
<b>Company policies, including due diligence procedures, outcomes and related fundamental non-financial performance indicators</b>	Environment	Sustainability and Innovation Report	§ Capitals and business model § Participation in the European programmes § Supply chain § Environment and climate change § Sustainable mobility	DMA EN; G4-EN3; G4-EN5; G4-EN8; G4-EN11; G4-EN15; G4-EN16; G4-EN17; G4-EN18; G4-EN19; G4-EN21; G4-EN22; G4-EN23; G4-EN27; G4-EN29; G4-EN31; G4-EN32
		Annual Financial Report	§ Leonardo and Sustainability/The Environment	
	Social	Sustainability and Innovation Report	§ Capitals and business model § Responsible business conduct § Respect for human rights § Supply chain	G4-6; G4-12; G4-24; G4-25; G4-26; G4-27; G4-EC9; DMA SO; G4-LA12; G4-LA14; G4-PR1; G4-PR6; G4-PR8
	Employees	Sustainability and Innovation Report	§ Capitals and business model § Performance in 2017 § Respect for human rights § People & Community	G4-10; G4-6; G4-11; DMA LA; G4-LA1; G4-LA3; G4-LA4; G4-LA6; G4-LA9; G4-LA10; G4-LA11; G4-LA12; G4-LA13

Requirements Legislative Decree no. 254/2016	Field	Reference		GRI-G4 indicators reported	
		Annual Financial Report	§ Leonardo and Sustainability /Human Resources		
	Human rights	Sustainability and Innovation Report	§ Capitals and business model § Responsible business conduct § Risk governance § Respect for human rights § People & Community § Supply chain	DMA HR; G4-6; G4-11; G4-12; G4-LA14; G4-HR4; G4-PR8	
		Code of Ethics			
	Corruption	Sustainability and Innovation Report	§ Responsible business conduct	G4-56; G4-58; DMA SO; G4-SO4; G4-SO5; G4-SO6; G4-SO7; G4-SO8	
		Annual Financial Report	§ Provisions for risks and charges and contingent liabilities		
		Corporate Governance Report	§ Additional corporate governance practices		
		Anti-Corruption Code			
	<b>Principal risks,</b> generated or undergone, related to the abovementioned matters, coming from business activities, products or services, commercial relationships, including, where relevant, the supply chain	Environment, Social, Employees, Human rights, Corruption	Sustainability and Innovation Report	§ Material issues § Risk governance	
			Annual Financial Report	§ Leonardo and risk management	
			Anti-Corruption Code		
<b>Diversity in management and supervisory bodies</b>		Sustainability and Innovation Report	§ The Board of Directors	DMA LA; G4-40; G4-LA12	
		Corporate Governance Report	§ Diversity policies		



## ➤ **Task Force on Climate-related Financial Disclosures**

In 2017 Leonardo joined the Task force on Climate-related Financial Disclosures (TCFD), an initiative promoted by the Financial Stability Board, started by the G20 Finance ministers and Governors of the Central Banks. Together with 200 international companies, Leonardo is committed to voluntarily disclosing the risks and opportunities associated with climate change, following the four areas of TCFD recommendations.

### **Governance**

The Board of Directors, through the Nomination, Governance and Sustainability Committee, together with the Control and Risks Committee, evaluates the pursuit of the Sustainability guidelines in line with the Group's Industrial Plan. The centralised innovation governance guides the development of technologies to fight climate change within in the scope of the sector's main national and European programmes. To contain its carbon footprint, Leonardo operates in accordance with the Environment, Health and Safety Integrated Policy and the Energy Management Policy, which were centrally defined and coordinated and then implemented at a divisional level, based on the proximity principle of the business. For further details on the Integrated Policy, refer to the paragraph Environment and climate change and the 2017 Annual Financial Report at paragraph Leonardo and Sustainability (The Environment).

### **Strategy**

Leonardo's environmental management responds to the legislative requirements of the countries in which it operates and to the trends that influence the sector and the market, becoming an integral part of the broadest long-term sustainability vision. The strategy on fighting the climate change integrates two fundamental aspects: the first one related to the eco-efficient and performing technologies and solutions and the second one related to the eco-efficiently management of the operations to reduce the environmental impacts. For additional information about technologies' portfolio, refer to the chapter Solutions for society and the environment (Sustainable mobility and Earth Care) and for details on eco-efficient operations, refer to the paragraph Environment and climate change.

### **Risk management**

Leonardo has adopted an integrated approach to identify, assess, manage and monitor strategic, financial, operating risks and those associated with compliance with the ruling regulations. Environmental risks related to operations are monitored and managed at different levels, using centrally-defined instruments and technical/managerial solutions based on the specifics of the sites and production process. For further details of the main risks, refer to the 2017 Annual Financial Report, paragraphs Leonardo and risk management and Leonardo and Sustainability (The Environment).

With regard to the opportunities, Leonardo is committed to develop a portfolio of green technologies and solutions. They are referred to aircrafts and helicopters with a lower weight, due to carbon fiber aerostructures, and therefore with lower consumptions, and electric and hybrid electric ship propulsion systems, that contribute to the reduction of the GHG emissions. In the same direction, the training services to pilots allow to train the people in safety conditions and at the same time to reduce the atmosphere pollution related to the real flight hours, reduced by 50%. With a view to circular economy and to the transfer from product to service, Leonardo offers to its clients also flight-hours as alternative to the purchase of an helicopter. Furthermore, Leonardo is able to extend the product life cycle through a continuous update of its on board systems, fostering the reuse of materials and thus limiting the impacts of its industrial activities. Finally, through solutions for Earth observation, for hydrogeological risk management and for the intervention in case of natural disasters, Leonardo makes information and enabling technologies available to specialised players in order to monitor and limit the impacts related to climate change.

### **Metrics and Targets**

Leonardo reports the impacts and performance related to climate change in accordance with the metrics defined by the GRI guidelines (refer to the GRI Content Index EN15, EN17 and EN18). For additional information, reference should be made to the paragraph Environment and climate change and the GRI tables on environmental indicators. From 2010 to 2017, total GHG emissions decreased by a total of 45%. In 2017, Leonardo improved its CDP (Carbon Disclosure Project) valuation on the previous year, up from level B to level A-.

## ➤ GRI Content Index

The GRI table is in line with the “in accordance core” reporting option, as set out by the GRI “G4 – Sustainability Reporting Guidelines”. It refers to the 2017 Sustainability and Innovation Report, the 2017 Annual Financial Report, the 2017 Corporate Governance Report, the Code of Ethics and the Anti-Corruption Code. KPMG S.p.A. carried out a limited assurance engagement on the Leonardo Group’s 2017 Sustainability and Innovation Report as at and for the year ended 31 December 2017, as a whole and in accordance with the criteria established by ISAE 3000 (revised). For additional information about the scope of the work and the procedures performed by the independent auditors, reference should be made to the “Independent auditors’ report” on the Sustainability and Innovation Report. The information summarised in the GRI Content Index is included in the scope of the limited assurance engagement.

Key:

SIR = 2017 Sustainability and Innovation Report

AFR = 2017 Annual Financial Report

CGR = 2018 Corporate Governance Report (2017)

General standard disclosures		Reference	Page/ note
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Statement from the most senior decision-maker about the relevance of sustainability to the organisation and the organisation’s strategy for addressing sustainability	SIR	p. Letter to stakeholders
<b>ORGANISATIONAL PROFILE</b>			
G4-3	Name of the organisation	Leonardo S.p.A.	
G4-4	Brands, products and services	SIR	p. Company profile
G4-5	Location of the organisation’s headquarters	Leonardo S.p.A.’s registered office is in piazza Monte Grappa, 4 - Rome (Italy)	
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	SIR	p. Operating assets; p. People and skills
G4-7	Nature of ownership and legal form	SIR	p. Financial resources
G4-8	Markets served	SIR	p. Company profile p. Performance in 2017
G4-9	Scale of the organisation	SIR	p. Performance in 2017
G4-10	Total number of employees by employment contract, gender, region and employment type	SIR	p. People and skills p. Table G4-10 Data about contract workers is not available for 2017.
G4-11	Percentage of total employees covered by collective bargaining agreements	SIR	p. People & Community p. Respect for human rights
G4-12	The organisation’s supply chain	SIR	p. Being Leonardo’s suppliers p. Development of supply chain p. Performance in 2017
G4-13	Significant changes during the reporting period regarding the organisation’s size, structure, ownership or its supply chain	SIR	p. Methodological note
G4-14	How the precautionary approach is addressed by the organisation.	SIR	p. Responsible business conduct p. Risk governance
		AFR	p. Leonardo and risk management
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	<ul style="list-style-type: none"> <li>• Corporate Governance Code for Listed Companies - Borsa Italiana</li> <li>• Global Principles for Business Ethical Conduct - IFBEC</li> <li>• Common Industry Standards - Aerospace Defence Security and Space (ASD)</li> <li>• OECD guidelines for multinationals</li> <li>• Task force on Climate-related Financial Disclosures (TCFD)</li> <li>• Italian Companies’ Alliance for water and climate change</li> <li>• Social responsibility for Industry 4.0 manifesto</li> </ul>	
G4-16	List of memberships of associations	<ul style="list-style-type: none"> <li>• International Forum on Business Ethical Conduct - IFBEC</li> <li>• Italian industries federations for aerospace, defence and security (AIAD)</li> <li>• Aerospace Defence Security and Space (ASD)</li> <li>• International Aerospace &amp; Defence Quality Group (IAQG)</li> </ul>	

		<ul style="list-style-type: none"> <li>• Aerospace Industries Association (AIA)</li> <li>• Royal Aeronautical Society</li> <li>• TRACE International</li> <li>• European Cyber Security Organisation (ECISO)</li> </ul>
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**MATERIAL ASPECTS AND BOUNDARIES**

G4-17	List of all entities included in the organisation's consolidated financial statements and those not covered by the sustainability report	SIR	p. Methodological note
		AFR	p. Attachment: scope of consolidation
G4-18	Explanation of the process for defining the report content and how the organisation has implemented the applicable reporting principles	SIR	p. Methodological note
G4-19	List of all the material aspects identified	SIR	p. Material issues
G4-20	For each material aspect, report the aspect boundary outside the organisation	<p>For each GRI aspect related to the material aspects identified, the related impacts, current or potential, were considered, depending on whether they took place within or outside the Group. This analysis considered the significant impacts generated by Leonardo's value chain that take place outside the Group's action area (e.g., outsourced activities) as "external". The impacts on the material aspects set out in the matrix are all referred to within the Group. For the following aspects, the impacts outside the Group were also considered:</p> <ul style="list-style-type: none"> <li>• "Occupational Health &amp; Safety" for the suppliers operating at Leonardo's sites, whose health and safety performance is reported (LA6, LA14, EN32 indicators, p. Health and safety);</li> <li>• "Anti-corruption" for suppliers, consultants and business promoters operating on behalf of Leonardo, whose activities carried out during the year are reported (p. Being Leonardo's suppliers; p. Responsible business conduct).</li> </ul>	
G4-21	For each material aspect, report the aspect boundary within the organisation:		
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	SIR	p. Methodological note
		Any restatements or adjustments of information are indicated in the document from time to time.	
G4-23	Significant changes to the scope and aspect boundaries	SIR	p. Methodological note

**STAKEHOLDER ENGAGEMENT**

G4-24	List of stakeholder groups engaged by the organisation	SIR	p. Collaborations and relationships with stakeholders
G4-25	Basis for identification	SIR	p. Methodological note
G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by type	SIR	p. Collaborations and relationships with stakeholders
G4-27	Key topics that have been raised through stakeholder engagement, and how the organisation has responded	SIR	p. Material issues; p. Collaborations and relationships with stakeholders

**REPORT PROFILE**

G4-28	Reporting period for information provided	SIR	p. Methodological note
G4-29	Date of most recent previous report	2016 Sustainability and Innovation Report	
G4-30	Reporting cycle	Annual	
G4-31	Contact point for questions regarding the report	<a href="mailto:ir@leonardocompany.com">ir@leonardocompany.com</a>	
G4-32	The "in accordance" option the organisation has chosen and GRI Content Index for the chosen option	SIR	p. Methodological note
G4-33	Assurance	SIR	p. Methodological note p. Independent auditors' report

**GOVERNANCE**

G4-34	Governance structure of the organisation, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental and social impacts	SIR	p. Corporate governance; p. Board of Directors
G4-36	Appointment of an executive-level position with responsibility for sustainability and relevant reporting line	Chief Stakeholder Officer (External relations, Communication and Italian Institutional Affairs, Investor Relations and Sustainability) who reports to the Chief Executive Officer	
G4-38	Composition of the highest governance body and its committees (executive or non-executive, independence, other tenures, etc.)	SIR	p. Corporate governance p. Board of Directors
		CGR	p. The composition of the Board of Directors
G4-39	Executive functions of the Chairperson	SIR	p. Board of Directors
G4-40	Selection processes for the highest governance body and its committees, including whether diversity and independence are considered	CGR	p. Diversity policies
G4-42	The highest governance body's and senior executives' roles in the development of the organisation's purpose, value or	SIR	p. Board of Directors

	mission statements, policies and goals		
G4-48	The highest committee that approves the Sustainability and Innovation Report and ensures that all material aspects are covered	SIR	p. Board of Directors
G4-50	Nature and total number of critical concerns that were reported to the highest governance body and the mechanisms used to address and resolve them	SIR	p. The integrated model in action: activities and results in 2017
G4-53	How stakeholders' views are sought and taken into account regarding remuneration	In accordance with applicable regulations, Leonardo's shareholders expressed an advisory vote on the Remuneration Report.	

ETHICS AND INTEGRITY			
G4-56	The organisation's values, principles and norms of behaviour	SIR	p. Responsible business conduct <a href="http://www.leonardocompany.com/documents/63265270/6387117/charter_of_values.pdf">http://www.leonardocompany.com/documents/63265270/6387117/charter_of_values.pdf</a>
G4-58	Mechanisms for reporting concerns about unethical or unlawful behaviour and for promoting ethical behaviour	SIR	p. Responsible business conduct For more information on the reporting processes and mechanisms, reference should be made to the "Whistleblowing management guidelines" <a href="http://www.leonardocompany.com/documents/63265270/63873320/body_Linee_di_indirizzo_Gestione_delle_Segnalazioni_EN.pdf">http://www.leonardocompany.com/documents/63265270/63873320/body_Linee_di_indirizzo_Gestione_delle_Segnalazioni_EN.pdf</a> Since they were issued, the Whistleblowing management guidelines have been circulated within and outside the Group to ensure maximum publicity. Furthermore, Leonardo DRS implements an Ethics Helpline available 24/7 managed by a third-party company <a href="https://drs.alertline.com/gcs/welcome">https://drs.alertline.com/gcs/welcome</a> .

Specific standard disclosures		Reference	Page /notes
<b>LABOUR PRACTICES AND DECENT WORK</b>			
<b>ECONOMIC PERFORMANCE</b>			
DMA		Leonardo operates to create shared value for the company and its stakeholders in order to guarantee growth and sustainable development in the medium/long-term.  Leonardo fully complies with the tax regulations in force in the countries where it is active. Correct fulfilment of tax obligations is ensured by the company's internal procedures that identify roles and responsibilities, operational and control activities and the necessary information flows. To further confirm its commitment, Leonardo has an open and transparent dialogue with the Tax authorities through: <ul style="list-style-type: none"> <li>• compliance with the rules and standards for financial reporting to provide information and communications;</li> <li>• definition of decision-making procedures for investments in tax havens, based on compliance with the principle that these investments must have valid economic reasons and not be made for tax evasion and/or planning purposes;</li> <li>• adoption of transfer pricing policies that comply with the ruling regulations;</li> <li>• compliance with regulations about tax returns and payments, both of which are checked by the independent auditors.</li> </ul>	
		SIR	p. Performance in 2017
EC1	Direct economic value generated and distributed	SIR	p. Performance in 2017
EC3	Coverage of the organisation's defined benefit plan obligations	AFR	The pension plans offered to employees are of a defined benefit nature. For additional information, reference should be made to the "Employee benefit obligations" paragraph.
<b>INDIRECT ECONOMIC IMPACTS</b>			
DMA		Leonardo creates value indirectly mainly through industrial supply chains and collaboration programmes that promote investments in research and development and technological sharing in the countries of interest. Leonardo has management structures and process for offsetting activities to ensure the business effectiveness, while pursuing risk mitigation (including in terms of compliance) and cost savings goals.	
		SIR	p. Capitals and business model/How Leonardo creates value

EC7	Development and impact of infrastructure investments and services supported	SIR	p. Performance in 2017; p. Social and cultural commitment; p. Development of supply chain; p. The relationship that becomes a partnership
<b>PROCUREMENT PRACTICES</b>			
DMA		SIR	p. Being Leonardo's suppliers
EC9	Policies, practices and proportion of spending on local suppliers	SIR	p. Being Leonardo's suppliers; p. Development of supply chain
<b>ENVIRONMENTAL</b>			
<b>ENERGY</b>			
DMA		SIR	p. Environment and climate change
EN3	Energy consumption within the organisation broken down by primary source	SIR	p. Table EN3; p. Energy efficiency and carbon footprint
EN5	Energy intensity	SIR	p. Table EN5; p. Main environmental highlights
<b>WATER</b>			
DMA		SIR	p. Environment and climate change
EN8	Total water withdrawal by source	SIR	p. Main environmental highlights p. Table EN8
<b>BIODIVERSITY</b>			
DMA		SIR	p. Energy and natural resources
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	SIR	p. Energy and natural resources 13 sites located in Italy, within 2 km of the landscape restrictions, also of an archaeological nature (buffer strips, areas of public interest, etc.).
<b>EMISSIONS</b>			
DMA		SIR	p. Environment and climate change
EN15	Direct greenhouse gas emissions (scope I)	SIR	p. Table EN15; p. Energy efficiency and carbon footprint Source: GHG Protocol Global
EN16	Energy indirect greenhouse gas emissions (scope II)	SIR	p. Table EN16; p. Energy efficiency and carbon footprint Reporting method based on the principles of the GHG Protocol new Scope 2 reporting guidance, using the following coefficients: <ul style="list-style-type: none"> <li>• Average Grid US, Source: EPA - United States Environmental Protection Agency;</li> <li>• Average Grid Europa, Source: TERNA - ENERDATA 2015 data;</li> <li>• Residual Mix US and Canada, Source: 2017 Green-e Energy Residual Mix Emissions Rates;</li> <li>• Residual Mix Europa, Source: AIB - Association of Issuing Bodies - European Residual Mixes 2016.</li> </ul>
EN17	Other indirect greenhouse gas emissions (scope III)	SIR	p. Table EN 17; p. Main environmental highlights Source: GHG Protocol Global
EN18	Greenhouse gas emissions	SIR	p. Table EN18; p. Main environmental highlights
EN19	Reduction of greenhouse gas emissions and reductions achieved	SIR	p. Energy efficiency and carbon footprint
EN21	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions by type and weight	SIR	p. Table EN21; p. Main environmental highlights Source: GHG Protocol Global
<b>EFFLUENTS AND WASTE</b>			
DMA		SIR	p. Environment and climate change
EN22	Total water discharge by quality and destination	SIR	p. Table EN22; p. Main environmental highlights
EN23	Total weight of waste by type and disposal method	SIR	p. Table EN 23; p. Main environmental highlights
<b>PRODUCTS AND SERVICES</b>			
DMA		SIR	p. Sustainable mobility; p. Participation in European programmes

EN27	Extent of impact mitigation of environmental impacts of products and services	SIR	p. Sustainable mobility; p. Participation in the European programmes
<b>COMPLIANCE</b>			
DMA		SIR	p. Environment and climate change
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	In 2017, there were six violations of environmental regulations according to control bodies (three in 2016 and 10 in 2015), none of them resulted in fines. During the year, an administrative fine of €6.6 thousand was imposed for the excess wastewater assessed in 2016.	
<b>OVERALL</b>			
DMA		SIR	p. Environment and climate change
EN31	Total environmental protection expenditures and investments	SIR	p. Environment and climate change
<b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>			
DMA specific	Supplier Environmental assessment	SIR	p. Being Leonardo's suppliers
EN32	Percentage of new suppliers that were screened using environmental criteria	SIR	p. Being Leonardo's suppliers
<b>LABOUR PRACTICES AND DECENT WORK</b>			
<b>EMPLOYMENT</b>			
DMA		SIR	p. People & Community
LA1	Total number of new employee hires and employee turnover by age group, gender and region	SIR	p. Table LA1
LA3	Return to work after parental leave, by gender	SIR	p. Table LA3 In Italy, parental leave related aspects are ruled by the Legislative Decree no. 151/2001 and other laws on the matter
<b>LABOUR / MANAGEMENT RELATIONS</b>			
DMA		SIR	p. People & Community
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Leonardo applies the mechanisms allowed by the regulations and the agreements with the trade unions. In Italy, this issue is covered by and managed as part of the national collective labour and any supplementary-company level agreements.	
<b>OCCUPATIONAL HEALTH &amp; SAFETY</b>			
DMA		SIR	p. Health and safety
LA6	Rates of injury, occupational diseases, lost days, and absenteeism and total number of work-related fatalities, by geographical area	SIR	p. Table LA6
<b>TRAINING AND EDUCATION</b>			
DMA		SIR	p. Growing talent and skills
LA9	Average hours of training per year per employee by gender and by employee category	SIR	p. Performance in 2017/Group results; p. Table LA9
LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	SIR	p. Growing talent and skills
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	SIR	p. Growing talent and skills
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
DMA		SIR	p. Respect for human rights
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	SIR	p. Board of Directors p. People and skills p. Table LA12
<b>EQUAL REMUNERATION FOR WOMEN AND MEN</b>			
DMA		SIR	p. Respect for human rights
LA13	Ratio of base salary and remuneration of women to men by employee category, by significant locations of operation	SIR	p. Table LA13

<b>SUPPLIER ASSESSMENT FOR LABOUR PRACTICES</b>			
DMA		SIR	p. Being Leonardo's suppliers
LA14	Percentage of new suppliers that were screened using labour practices criteria	SIR	p. Being Leonardo's suppliers
<b>HUMAN RIGHTS</b>			
<b>FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
DMA		Code of Ethics	p. 6
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	SIR	p. Respect for human rights p. People & Community
<b>SOCIETY</b>			
<b>ANTI-CORRUPTION</b>			
DMA		Anti-Corruption Code	p. 3-4
SO4	Communication and training on anti-corruption policies and procedures	SIR	In the main countries in which it operates, Leonardo also provides anti-corruption training in compliance with the ruling regulations and governance systems, including: <ul style="list-style-type: none"> <li>• In Italy, in accordance with the 231/2001 organisational, management and control model;</li> <li>• In the United States, in accordance with the U.S. Federal Acquisition Regulation (FAR) Mandatory Disclosure Rule;</li> <li>• In the United Kingdom, in accordance with the UK Bribery Act.</li> </ul> p. The integrated model in action: activities and results in 2017
SO5	Confirmed incidents of corruption and actions taken	AFR	p. Provisions for risks and charges and contingent liabilities
<b>PUBLIC POLICY</b>			
DMA		Leonardo manages relationships with institutions and public and private players so as to achieve commercial objectives and liaises with large international organisations that carry out activities for the regulatory, policy and commercial plan. These activities are carried out in compliance with the Leonardo's Code of Ethics, and respecting the regulations of the bodies.	
SO6	Total value of political contributions by country and recipient/beneficiary	Code of Ethics	The Group does not make any direct or indirect contributions whatsoever to political parties, movements, committees and political or trade union organisations, to their representatives and candidates, except as set forth in specific laws - p. 14.  In the United States of America, corporations are prohibited from making direct or indirect political contributions or expenditures, in connection with federal elections. Leonardo DRS has properly established an employee funded Political Action Committee ("PAC"). Contributions to the PAC are strictly voluntary. Code of Ethics and Business conduct (Leonardo DRS) - p. 13.
<b>ANTI-COMPETITIVE BEHAVIOUR</b>			
DMA		The Leonardo Group operates in line with the requirements of the applicable legislation and best international practices.	
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	No legal actions were commenced in 2017 related to anti-competitive behaviour, anti-trust and monopoly practices.	
<b>COMPLIANCE</b>			
DMA		SIR	p. Responsible business conduct
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	AFR	p. Provisions for risks and and contingent liabilities

<b>PRODUCT RESPONSIBILITY</b>			
<b>CUSTOMER HEALTH AND SAFETY</b>			
DMA		Leonardo ensures the highest qualitative and safety standards, required by legislation and sector certifications (e.g., EASA; IATA; ICAO) and end customers.	
PR1	Percentage of significant product and service categories for which health and safety impacts are assessed	All Leonardo's products are subjected to health and safety checks.	
		SIR	p. Collaborations with the Technological Districts p. Value creation with customer support p. Sustainable mobility
<b>MARKETING COMMUNICATIONS</b>			
DMA		The Leonardo Group operates in line with the requirements set forth by applicable laws on the matter.	
PR6	Sale of banned or disputed products	SIR	p. Respect for human rights
<b>CUSTOMER PRIVACY</b>			
DMA		SIR	p. The customer as a priority
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	No complaints about privacy violations or data loss were reported by customers in 2017.	



## ➤ GRI data and indicators tables

### GOVERNANCE INDICATORS

Governance bodies and committees				
	Unit	2017	2016	2015
<b>G4-34</b>				
<b>Board of Directors</b>				
No. of members	No.	12	11	11
<i>of whom, non-executive</i>	No.	11	10	10
<i>of whom, independent</i>	No.	9	9	9
<i>of whom, without voting rights</i>	No.	-	-	-
<i>of whom, appointed from minority lists</i>	No.	4	4	4
<b>Meetings held</b>	No.	12	11	14
<b>Attendance rate (*)</b>	%	99	99	95
<b>Meetings held by the group of independent directors</b>	No.	2	3	5
<b>Control and Risks Committee</b>				
No. of members(**)	No.	5	4	4
Meetings held	No.	7	10	8
Attendance rate (*)	%	99	90	88
<b>Analysis of International Scenarios Committee</b>				
No. of members	No.	4	4	4
Meetings held	No.	4	3	3
Attendance rate (*)	%	93	83	92
<b>Remuneration Committee</b>				
No. of members	No.	4	4	4
Meetings held	No.	9	5	6
Attendance rate (*)	%	94	100	88
<b>Nomination, Governance and Sustainability Committee (***)</b>				
No. of members(****)	No.	7	5	5
Meetings held	No.	6	6	3
Attendance rate (*)	%	97	97	87
<b>Board of Statutory Auditors</b>				
Members (standing)	No.	5	5	5
<i>Of whom, appointed from minority lists</i>	No.	2	2	2
Meetings held	No.	17	20	19
Attendance rate (*)	%	99	94	95

(\*) Calculated as the number of attendees/number of meetings.

(\*\*) 4 until 16-5-2017

(\*\*\*) On 29 September 2016, the functions of the Nomination Committee were integrated with additional advisory and recommendation duties about sustainability and corporate governance.

(\*\*\*\*) 5 until 16-5-2017.

## ENVIRONMENTAL INDICATORS

Energy					
Energy consumption within the company	Unit	2017	2016	2015	G4-EN3
<b>Consumption of non-renewable energy</b>	TJ	<b>3,128</b>	<b>3,178</b>	<b>3,184</b>	
Natural gas	TJ	2,909	2,953	2,931	
Diesel oil for energy and/or heat generation	TJ	3	5	9	
Fuel oil	TJ	-	-	-	
Other (LPG, fuels used for product tests)	TJ	216	220	244	
<b>Energy purchased for electricity and district heating</b>	TJ	<b>2,454</b>	<b>2,497</b>	<b>2,873</b>	
Electrical energy from conventional sources	TJ	414	609	784	
Electrical energy from renewable sources	TJ	2,029	1,876	2,070	
District heating	TJ	11	12	19	
<b>Self-generated electrical energy</b>	TJ	<b>143</b>	<b>149</b>	<b>107</b>	
<b>Energy sold</b>	TJ	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total</b>	TJ	<b>5,725</b>	<b>5,824</b>	<b>6,164</b>	

Energy intensity	Unit	2017	2016	2015	G4-EN5
Energy consumption/worked hours	GJ/worked hours	0.073	0.075	0.069	

Water withdrawals by source	Unit	2017	2016	2015	G4-EN8
Water supply systems	thousands of m <sup>3</sup>	2,379	2,390	2,543	
Wells	thousands of m <sup>3</sup>	3,377	3,666	4,363	
Other sources	thousands of m <sup>3</sup>	278	298	-	
<b>Total</b>	thousands of m <sup>3</sup>	<b>6,034</b>	<b>6,355</b>	<b>6,906</b>	

Emissions					
CO <sub>2</sub> e emissions	Unit	2017	2016	2015	G4-EN15/16/17
Direct emissions (Scope I)	tons CO <sub>2</sub> e	256,878	270,689	272,914	
Indirect emissions (Scope II) (*)	tons CO <sub>2</sub> e	69,422	84,668	107,315	
Other indirect emissions (Scope III)	tons CO <sub>2</sub> e	261,331	298,698	307,009	
<b>Total scopes I, II, III</b>	tons CO <sub>2</sub> e	<b>587,631</b>	<b>654,055</b>	<b>687,238</b>	

CO <sub>2</sub> e emission intensity	Unit	2017	2016	2015	G4-EN18
Direct emissions (Scope I)/worked hours	Kg/worked hour	3.33	3.48	3.04	
<b>Total emissions (Scope I - Scope II - Scope III)/worked hours</b>	Kg/worked hour	<b>7.54</b>	<b>8.41</b>	<b>7.64</b>	

Other emissions	Unit	2017	2016	2015	G4-EN21
NOx	tons	<b>180</b>	179	221	
SO <sub>2</sub>	tons	<b>3</b>	3	4	
VOC	tons	<b>95</b>	117	143	
VIC	tons	<b>1</b>	5	2	
Heavy metal	tons	<b>0.2</b>	1	0.1	
Particulate	tons	<b>18</b>	20	33	

(\*) Scope II emissions are calculated using the market based methodology, which attributes a conversion factor equal to zero (0) to electrical consumption from renewable sources.

<b>Wastewater and waste</b>					
<b>Total wastewater by use</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>G4-EN22</b>
Sewers	thousands of m <sup>3</sup>	3,936	3,438	3,470	
Surface water	thousands of m <sup>3</sup>	262	1,144	1,900	
Other use	thousands of m <sup>3</sup>	23	78	40	
<b>Total</b>	<b>thousands of m<sup>3</sup></b>	<b>4,221</b>	<b>4,660</b>	<b>5,410</b>	

<b>Waste produced by use</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>G4-EN23</b>
<b>Non-hazardous</b>	tons	<b>24,963</b>	<b>26,908</b>	<b>32,657</b>	
Recovered	tons (%)	15,757 63%	14,497 54%	18,638 57%	
Disposed	tons (%)	9,206 37%	12,412 46%	14,019 43%	
<b>Hazardous</b>	tons	<b>7,524</b>	<b>8,928</b>	<b>9,368</b>	
Recovered	tons (%)	2,040 27%	1,826 20%	2,118 23%	
Disposed	tons (%)	5,484 73%	7,102 80%	7,249 77%	
<b>Total waste produced (hazardous and non-hazardous)</b>	tons	<b>32,487</b>	<b>35,837</b>	<b>42,025</b>	

## EMPLOYEE INDICATORS

<b>Employment</b>					
<b>Total number of employees by employment type, employment contract, gender and region</b>	<b>Unit</b>	<b>2017</b>	<b>2016<sup>14</sup></b>	<b>2015<sup>15</sup></b>	<b>G4-10</b>
<b>Total employees</b>	<b>No.</b>	<b>45,134</b>	<b>45,402</b>	<b>41,379</b>	
<b>Men</b>	<b>No.</b>	<b>37,134</b>	<b>37,441</b>	<b>34,521</b>	
<b>Women</b>	<b>No.</b>	<b>8,000</b>	<b>7,961</b>	<b>6,858</b>	
<b>Permanent employment contracts</b>	<b>No.</b>	<b>44,711</b>	<b>44,647</b>	<b>40,438</b>	
Men	No.	36,769	36,837	33,673	
Women	No.	7,942	7,810	6,765	
<b>Fixed-term contracts</b>	<b>No.</b>	<b>423</b>	<b>755</b>	<b>941</b>	
Men	No.	365	604	848	
Women	No.	58	151	93	
<b>Full-time contracts (permanent)</b>	<b>No.</b>	<b>43,594</b>	<b>43,568</b>	<b>40,425</b>	
Men	No.	36,604	36,683	34,431	
Women	No.	6,990	6,885	5,994	
<b>Part-time contracts (permanent)</b>	<b>No.</b>	<b>1,117</b>	<b>1,079</b>	<b>954</b>	
Men	No.	165	154	90	
Women	No.	952	925	864	

<sup>14</sup> The 2016 figures refer to 99.5% coverage of the Group's entire scope.

<sup>15</sup> The 2015 figures refer approximately to 88% coverage of the Group's entire scope.

<b>Employees by employment type</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Managers</b>	<b>No.</b>	<b>1,091</b>	<b>1,081</b>	<b>1,065</b>
Men	No.	985	982	971
Women	No.	106	99	94
<b>Junior managers</b>	<b>No.</b>	<b>5,467</b>	<b>5,249</b>	<b>4,448</b>
Men	No.	4,584	4,450	3,821
Women	No.	883	799	627
<b>White collars</b>	<b>No.</b>	<b>26,489</b>	<b>26,881</b>	<b>24,809</b>
Men	No.	20,574	20,905	19,403
Women	No.	5,915	5,976	5,406
<b>Blue collars</b>	<b>No.</b>	<b>12,047</b>	<b>12,150</b>	<b>11,018</b>
Men	No.	10,951	11,063	10,287
Women	No.	1,096	1,087	731
<b>Pilots</b>	<b>No.</b>	<b>40</b>	<b>41</b>	<b>39</b>
Men	No.	40	41	39
Women	No.	-	-	-

<b>Employees by country and gender</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Italy</b>	<b>No.</b>	<b>28,892</b>	<b>29,103</b>	<b>29,271</b>
Men	No.	24,192	24,374	24,499
Women	No.	4,700	4,729	4,772
<b>USA</b>	<b>No.</b>	<b>5,812</b>	<b>5,555</b>	<b>1,006</b>
Men	No.	4,380	4,234	779
Women	No.	1,432	1,321	227
<b>UK</b>	<b>No.</b>	<b>6,784</b>	<b>6,976</b>	<b>7,296</b>
Men	No.	5,703	5,900	6,147
Women	No.	1,081	1,076	1,149
<b>Poland</b>	<b>No.</b>	<b>2,609</b>	<b>2,821</b>	<b>3,044</b>
Men	No.	2,122	2,261	2,460
Women	No.	487	560	584
<b>Other countries</b>	<b>No.</b>	<b>1,037</b>	<b>947</b>	<b>762</b>
Men	No.	737	672	636
Women	No.	300	275	126

<b>Employment</b>				
<b>Total number and percentage of new employee hires and employee turnover by age group, gender and region</b>				<b>G4-LA1</b>
	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Total hires and gender breakdown</b>	No.	<b>2,469</b>	<b>2,016</b>	<b>1,124</b>
Percentage of hires on total employees	%	5%	4%	3%
Men	No.	1,868	1,615	938
	%	76%	80%	83%
Women	No.	601	401	186
	%	24%	20%	17%
<b>Number and percentage of hires by age group</b>				
< 30 years	No.	942	631	587
	%	38%	31%	52%
30-50 years	No.	1,011	883	424
	%	41%	44%	38%
> 50 years	No.	516	502	113
	%	21%	25%	10%
<b>Number and percentage of hires by country</b>				
Italy	No.	516	646	328
	%	21%	32%	29%
USA	No.	1,332	718	141
	%	54%	36%	13%
UK	No.	439	498	477
	%	18%	25%	42%
Poland	No.	51	39	96
	%	2%	2%	9%
Other countries	No.	131	115	82
	%	5%	6%	7%
<b>Total employees leaving</b>	No.	<b>2,799</b>	<b>3,123</b>	<b>2,393</b>
Percentage of employees leaving on total employees	%	6%	7%	6%
Men	No.	2,275	2,560	2,016
	%	81%	82%	84%
Women	No.	524	563	377
	%	19%	18%	16%
<b>Number and percentage of employees leaving by age group</b>				
< 30 years	No.	406	305	275
	%	15%	10%	12%
30-50 years	No.	947	1,050	769
	%	34%	34%	32%
> 50 years	No.	1,446	1,768	1,349
	%	52%	57%	56%
<b>Number and percentage of employees leaving by country</b>				
Italy	No.	692	1,276	1,236
	%	25%	41%	52%
USA	No.	1,098	870	143
	%	39%	28%	6%
UK	No.	700	582	680
	%	25%	19%	28%
Poland	No.	259	267	186
	%	9%	9%	8%

<b>Employment</b>					
<b>Total number and percentage of new employee hires and employee turnover by age group, gender and region</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>G4-LA1</b>
Other countries	No.	50	128	148	
	%	2%	4%	6%	
<b>Return to work and retention rates after parental leave, by gender</b>					
	<b>Unit</b>	<b>2017</b>	<b>2016<sup>16</sup></b>	<b>2015</b>	<b>G4-LA3</b>
<b>Rate of return to work by gender</b>	%	<b>94%</b>	<b>96%</b>	<b>87%</b>	
Men	%	98%	97%	87%	
Women	%	91%	95%	87%	
<b>Retention rate by gender</b>	%	<b>97%</b>	<b>97%</b>	<b>98%</b>	
Men	%	98%	95%	98%	
Women	%	97%	99%	98%	
<b>Employees who took parental leave during the reporting period, by gender</b>	No.	<b>1,609</b>	<b>1,728</b>	<b>1,010</b>	
Men	No.	723	997	516	
Women	No.	886	731	494	
<b>Employees who returned to work at the end of the parental leave during the reporting period, by gender</b>	No.	<b>1,422</b>	<b>1,553</b>	<b>1,125</b>	
Men	No.	679	930	534	
Women	No.	743	623	591	
<b>Employees who returned to work at the end of the parental leave and continued to work 12 months after their return, by gender</b>	No.	<b>1,298</b>	<b>1,020</b>	<b>830</b>	
Men	No.	594	464	410	
Women	No.	704	556	420	

<sup>16</sup> The 2016 figures refer approximately to 98% coverage of total employees.

Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities, by gender and by region					G4-LA6
RATE OF INJURY (RI)	Unit	2017	2016	2015	
<b>Total Group rate</b>	i	<b>1.0</b>	<b>0.9</b>	<b>1.6</b>	
Men	i	1.1	0.9	1.7	
Women	i	0.6	0.7	1.5	
<b>Italy</b>					
<b>Rate</b>	i	<b>1.2</b>	<b>0.9</b>	<b>2.0</b>	
Men	i	1.2	0.9	2.1	
Women	i	0.9	0.7	1.3	
<b>USA</b>					
<b>Rate</b>	i	<b>1.1</b>	<b>1.5</b>	<b>0.9</b>	
Men	i	1.4	1.5	0.5	
Women	i	0.2	1.3	2.2	
<b>UK</b>					
<b>Rate</b>	i	<b>0.4</b>	<b>0.4</b>	<b>1.0</b>	
Men	i	0.4	0.4	0.7	
Women	i	0.3	0.3	2.6	
<b>Poland</b>					
<b>Rate</b>	i	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	
Men	i	0.9	0.8	0.7	
Women	i	0.0	0.2	0.8	

The accident frequency rate is calculated using the following formula:  $RI = (\text{Total accidents} / \text{Total worked hours}) * 200,000$ .

OCCUPATIONAL DISEASES - Occupational disease rate (ODR)				
	Unit	2017	2016	2015
<b>Total Group rate</b>	i	<b>0.06</b>	<b>0.10</b>	<b>0.02</b>
Men	i	0.07	0.09	0.02
Women	i	0.00	0.14	0.02
<b>Italy</b>				
<b>Rate</b>	i	<b>0.08</b>	<b>0.04</b>	<b>0.03</b>
Men	i	0.09	0.04	0.03
Women	i	-	-	-
<b>USA</b>				
<b>Rate</b>	i	-	-	-
Men	i	-	-	-
Women	i	-	-	-
<b>UK</b>				
<b>Rate</b>	i	-	<b>0.48</b>	<b>0.02</b>
Men	i	-	0.40	-
Women	i	-	0.96	0.11
<b>Poland</b>				
<b>Rate</b>	i	<b>0.13</b>	-	-
Men	i	0.16	-	-
Women	i	-	-	-

The occupational disease rate is calculated using the following formula:  $ODR = (\text{Total cases of occupational disease} / \text{Total worked hours}) * 200,000$ .

<b>LOST DAYS - Lost Days Rate (LDR)</b>				
	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Total Group rate</b>	<b>i</b>	<b>27.8</b>	<b>46.2</b>	<b>111.5</b>
Men	i	28.5	48.2	105.4
Women	i	24.2	35.3	145.3
<b>Italy</b>				
<b>Rate</b>	<b>i</b>	<b>37.7</b>	<b>58.3</b>	<b>48.3</b>
Men	i	37.8	60.8	53.9
Women	i	36.7	42.9	15.9
<b>USA</b>				
<b>Rate</b>	<b>i</b>	<b>14.5</b>	<b>23.0</b>	<b>6.5</b>
Men	i	19.2	23.8	8.4
Women	i	0.1	20.2	-
<b>UK</b>				
<b>Rate</b>	<b>i</b>	<b>3.7</b>	<b>11.0</b>	<b>402.0</b>
Men	i	4.0	9.7	345.2
Women	i	2.1	18.4	747.2
<b>Poland</b>				
<b>Rate</b>	<b>i</b>	<b>28.6</b>	<b>20.9</b>	<b>11.2</b>
Men	i	21.2	24.8	11.7
Women	i	59.9	4.2	8.9

The Lost Days Rate is calculated using the following formula:  $LDR = (\text{Total days of lost work} / \text{Total worked hours}) * 200,000$ .

<b>ABSENTEEISM RATE (AR)</b>				
	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Total Group rate</b>	<b>i</b>	<b>2.8%</b>	<b>3.1%</b>	<b>2.9%</b>
Men	i	2.7%	3.0%	2.8%
Women	i	3.4%	3.8%	3.7%
<b>Italy</b>	<b>i</b>	<b>3.4%</b>	<b>4.1%</b>	<b>7.3%</b>
Men	i	3.2%	3.7%	7.0%
Women	i	4.5%	6.0%	9.3%
<b>USA</b>	<b>i</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.2%</b>
Men	i	0.1%	0.1%	0.2%
Women	i	0.1%	0.1%	0.1%
<b>UK</b>	<b>i</b>	<b>2.7%</b>	<b>3.5%</b>	<b>0.4%</b>
Men	i	2.6%	3.5%	0.3%
Women	i	3.4%	3.9%	0.6%
<b>Poland</b>	<b>i</b>	<b>3.4%</b>	<b>2.8%</b>	<b>4.1%</b>
Men	i	3.2%	2.8%	4.0%
Women	i	4.5%	2.8%	4.8%

The absenteeism rate is calculated using the following formula:  $AR = (\text{Total days of absence} / \text{total working days}) * 100$ .

<b>WORK-RELATED FATALITIES</b>				
	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015 (*)</b>
<b>Total Group</b>	<b>No.</b>	<b>-</b>	<b>-</b>	<b>2</b>
Men	No.	-	-	2
Women	No.	-	-	-
<b>Italy</b>	<b>No.</b>	<b>-</b>	<b>-</b>	<b>2</b>
Men	No.	-	-	2
Women	No.	-	-	-

(\*) The two accidents occurred in 2015 relate to an aircraft accident while testing prototypes.



<b>Training</b>					
<b>Average hours of training per employee by gender and by employee category</b>					<b>G4-LA9</b>
	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	
<b>Training hours</b>					
Men	average hours	20	13	18	
Women	average hours	18	13	17	
Managers	average hours	16	44	18	
Junior managers	average hours	20	12	33	
White collars	average hours	18	10	20	
Blue collars	average hours	23	16	35	

<b>Diversity and equal opportunities</b>					
<b>Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity</b>					<b>G4-LA12</b>
	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	
<b>Composition of governance bodies</b>					
Men	%	67%	64%	64%	
Women	%	33%	36%	36%	
< 30 years	%	0%	0%	0%	
30-50 years	%	17%	18%	27%	
> 50 years	%	83%	82%	73%	
<b>Breakdown of employees per category and gender</b>					
<b>Men</b>					
Managers	%	90%	91%	91%	
Junior managers	%	84%	85%	86%	
White collars	%	78%	78%	78%	
Blue collars	%	91%	91%	93%	
Pilots	%	100%	100%	100%	
<b>Women</b>					
Managers	%	10%	9%	9%	
Junior managers	%	16%	15%	14%	
White collars	%	22%	22%	22%	
Blue collars	%	9%	9%	7%	
Pilots	%	0%	0%	0%	
<b>Breakdown of employees per category and age group</b>					
<b>&lt; 30 years</b>					
Managers	%	0%	0%	0%	
Junior managers	%	1%	1%	1%	
White collars	%	7%	8%	12%	
Blue collars	%	15%	18%	28%	
Pilots	%	0%	2%	3%	
<b>30-50 years</b>					
Managers	%	32%	33%	38%	
Junior managers	%	42%	44%	47%	
White collars	%	56%	58%	58%	
Blue collars	%	52%	52%	50%	
Pilots	%	42%	49%	62%	
<b>&gt; 50 years</b>					
Managers	%	68%	67%	62%	
Junior managers	%	57%	55%	52%	
White collars	%	37%	34%	30%	
Blue collars	%	33%	29%	22%	
Pilots	%	58%	49%	36%	

<b>Employees belonging to minorities, by category and gender on professional category</b>	<b>Unit</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Managers	%	1 %	1%	7%
Junior managers	%	4 %	3%	7%
White collars	%	5 %	5%	9%
Blue collars	%	7 %	6%	6%

<b>Equal remuneration for women and men</b>					
<b>Ratio of basic salary of women to men by employee category</b>	<b>Unit</b>	<b>2017</b>	<b>2016<sup>17</sup></b>	<b>2015</b>	<b>G4-LA13</b>
<b>Italy</b>					
Managers	%	86%	78%	n.a.	
Junior managers	%	96%	97%	n.a.	
White collars	%	98%	98%	n.a.	
Blue collars	%	97%	96%	n.a.	
<b>USA</b>					
Managers	%	82%	92%	n.a.	
Junior managers	%	83%	85%	n.a.	
White collars	%	74%	71%	n.a.	
Blue collars	%	85%	84%	n.a.	
<b>UK</b>					
Managers	%	88%	90%	n.a.	
Junior managers	%	88%	97%	n.a.	
White collars	%	77%	80%	n.a.	
Blue collars	%	79%	84%	n.a.	
<b>Poland</b>					
Managers	%	93%	87%	n.a.	
Junior managers	%	115%	113%	n.a.	
White collars	%	85%	86%	n.a.	
Blue collars	%	95%	95%	n.a.	

<b>Ratio of remuneration of women to men by employee category</b>	<b>Unit</b>	<b>2017</b>	<b>2016<sup>18</sup></b>	<b>2015</b>
<b>Italy</b>				
Managers	%	79%	74%	80%
Junior managers	%	96%	96%	97%
White collars	%	92%	92%	96%
Blue collars	%	84%	85%	92%
<b>USA</b>				
Managers	%	92%	93%	72%
Junior managers	%	74%	90%	82%
White collars	%	83%	72%	75%
Blue collars	%	88%	88%	76%
<b>UK</b>				
Managers	%	98%	78%	88%
Junior managers	%	86%	92%	91%
White collars	%	77%	70%	75%
Blue collars	%	77%	76%	81%
<b>Poland</b>				
Managers	%	92%	87%	81%
Junior managers	%	114%	111%	113%
White collars	%	77%	77%	85%
Blue collars	%	92%	91%	96%

<sup>17</sup> The 2016 figures refer approximately to 95% coverage of total employees in Italy and 93% coverage of total employees in the United Kingdom.

<sup>18</sup> The 2016 figures refer approximately to 95% coverage of total employees in Italy and 93% coverage of total employees in the United Kingdom.

➤ **Independent auditors' report**