SISTEMI DINAMICI S.p.A.

Financial Statement at 31.12.2019

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TABLE OF CONTENTS

REPORT ON OPERATIONS 2019

Dear Shareholders,

as is known, the merger of your Company by incorporation into Leonardo S.p.A., Helicopters Division, was completed during the financial year ended 31 December 2019, as per the resolution passed by the Extraordinary Shareholders' Meeting held on 27 September 2019. On 11 December 2019 the merger transaction was completed, with effect from 1 January 2020, by a deed drawn up by Mr De Santis, Notary Public, file no. 12575, register no. 6093 and registered with the Revenue Agency – Roma 4 Office - on 13 December 2019 under no. 39135, series 1T.

The merger described above, from both an industrial and a commercial point of view, is the natural culmination of the process of organisational and operational integration and interaction of the two Companies, which was started in 2016 with the acquisition by Leonardo S.p.A. of the entire share capital of Sistemi Dinamici S.p.A..

In fact the merger transaction will smooth the way for the development and certification of the AW HERO UAV (Unmanned Aerial Vehicle) by means of the integration of its operational facilities with those of Leonardo's Helicopters Division, thus reaping the benefits of greater know-how in subjects such as engineering, manufacturing processes, quality control, creating prototypes and, to follow, mass production.

While going on to a brief look at the main events in the financial period just ended, note the negative result for the year. The loss for the year amounted to Euro 2,528 thousand, after having accounted for amortisation and depreciation of Euro 223 thousand, write-downs of Euro 480 thousand, net financial costs of Euro 628 thousand, taxes of Euro 11 thousand and proceeds from the Parent Company for tax consolidation amounting to Euro 654 thousand. For more details on the requirements that determined this result in terms of operations, reference should be made to the paragraphs described hereinbelow.

The losses that accrued during the second half of the year and emerged after the usual computation of data for forecasts were so substantial that the Shareholders' Equity was negative (Euro -2,245 thousand), a position that takes the Company within the purview of Article 2447 of the Italian Civil Code. According to the implementing instructions for this Article:

"If capital falls below the minimum prescribed in Article 2327 owing to a loss of over one-third, the directors or the governing body or, if they do not act, the supervisory body, must call a general meeting without delay to resolve a capital reduction and a simultaneous rise in capital to a figure not lower than the said minimum or the transformation of the company."

Nevertheless, as minuted by the Extraordinary Shareholders' Meeting on 27 September 2019, it was deemed that the Company's merger by incorporation removes the need for and supersedes the resolutions referred to in the Civil Code and that these resolutions were therefore not passed.

From the point of view of operations, during the financial year that has just ended the production and development of the AW HERO continued, also in the form of engagement in the OCEAN 2020 study financed by the European Union.

Shareholder Leonardo S.p.A., which carried out management and coordination activities until the end of the year, funded the above work, providing the sums necessary on the basis of the requirements of the schedule

<u>The Company's business</u>

As in the previous financial years, the business conducted by the Company mainly consists of the production and development of the AW HERO product concerning the construction of a rotary-wing UAV system.

In detail, the work consisted in:

1) bringing the AW HERO system to fruition by means of test flights and solving the issues that came to light;
2) carrying out an "OCEAN 2020" demonstration in the Mediterranean. The Company is carrying out study and research in the "OCEAN 2020" project (Open Coordination for European mAritime awareNess) financed by the European Union in its capacity as a related party of the Parent Company Leonardo S.p.A. and participated in the demonstration with its AW HERO aircraft. The objectives set for the activities that combine leading specialist technicians in a team from 14 European countries are:

- to acquire greater situational awareness in a marine environment through the deployment and integration of unmanned systems;
- to confront the challenges of persistent surveillance and maritime interdiction;
- to realise a notably complex project in a short time through cooperation at EU level with end users, big industries, research institutes and small and medium-sized enterprises.

Sistemi Dinamici has been engaged in the work related to this study since April 2018. These activities, which took up a substantial part of the Company's time for most of the year, ended positively with an experimental test flight in the Mediterranean in November 2019;

3) the launching of the first five manufactured aircraft, within the scope of the contract awarded by the Parent Company in the previous year. Two of these five machines were completed during the year and used within the scope of the "OCEAN 2020" programme.

<u>Sales activities</u>

During the year the Company gained orders for Euro 722 thousand (Euro 6,054 thousand in 2018). The orders were received from the parent company Leonardo S.p.A., Helicopters Division, and from some of its Subsidiaries.

In detail, Leonardo S.p.A., Helicopters Division, commissioned work – with two orders dated 25 and 27 October 2019 worth Euro 162 thousand - on the development of methodologies (GYROX) for the simulation of aeroelastic rotor phenomena, one of the sectors in which the Company is most competent.

On the other hand, Leonardo MW Ltd, which is controlled by Leonardo S.p.A., Helicopters Division, commissioned work – with an order dated March 2019 for Euro 560 thousand – within the scope of the RUAV (Rotary-wing Unmanned Aerial Vehicle) concepts capability demonstration.

The financial year closed with an order backlog of about Euro 737 thousand (Euro 2,986 thousand at the end of 2018).

<u>Production activities</u>

The feature of the 2019 financial year was continued development of the AW HERO, with the financial support of the sole shareholder Leonardo S.p.A..

During 2019 total investments were recorded for Euro 6,405 thousand on the developments of the project, of which an amount of Euro 1,585 thousand (equal to about 25,230 hours worked) consisted of the manufacturing cost of labour, taking account of the use of workers seconded by the Parent Company. As regards the RUAVs, as reported in the paragraphs above, the Company has been engaged in the work concerning the "OCEAN 2020" study financed by the European Union, recording final total costs of Euro 1,720 thousand, of which an amount of Euro 940 thousand (equal to about 14,635 hours worked) consists of the manufacturing cost of in-house labour and workers seconded by the Parent Company.

Contract work brought sales of Euro 1,070 thousand, showing a slight fall for this category compared with the previous year. The hours of in-house labour and the labour of workers seconded by the Parent Company dedicated to contract works were about 11,245.

It should be noted, as detailed in the paragraphs below, that accidents were reported for two drones during the flight trial sessions during the year. The accident to the "AC1" aircraft occurred in May, while that suffered by the "AC3" aircraft occurred in August. The accidents caused delays in operations due to the analysis of the causes of the accidents and the solution of the issues that emerged, as well as to further flight trial sessions dedicated to testing the machines.

Research and development

The Italian Accounting Board principle OIC 24 defines development as the application of the results of basic research or of other knowledge possessed or acquired in a plan or project for the production of materials, devices, processes, systems or services, new or substantially improved, before commercial production or use starts.

Development costs consist of salaries, wages and other costs of the staff engaged in development activities; costs of materials and services used in development activities; the depreciation of property, plant and equipment to the extent that such assets are used in development activities; indirect costs, other than overheads and administrative costs and expenses, relating to development activities and other costs, such as the amortisation of patents and licences to the extent that such assets are used in development activities.

This item includes capitalised development costs, even if they are accounted for in financed studies and are then covered by capital grants.

Development work during 2019 was focused, as described above, on the design of the unmanned rotary-wing AW HERO system.

According to the Italian Accounting Board principle OIC 24, the fact that costs are related to a certain development project is not a sufficient condition for them to be lawfully capitalised. For this purpose, they must also meet the following specific requirements:

- they must be related to a clearly defined, identifiable and measurable product or process. This means that the company must be able to demonstrate, for example, that the development costs are directly attributable to the product, process or project for whose realisation they have been incurred. If there are doubts as to whether a generic cost can be attributed to a specific project, or to its day-to-day and recurring management, the cost shall not be capitalised but expensed in profit or loss;
- they must be related to a realisable project, i.e. one that is technically feasible for which the necessary resources are or can be available to the company. Whether the project is realisable, as a rule, depends on the result of a process of estimation that demonstrates the technical feasibility of the project or process and is related to the management's intention to produce and sell the product or use or exploit the process. The availability of resources to complete, use and obtain economic benefits from an intangible asset may be demonstrated, for example, by a company plan that sets out the necessary technical, financial and other types of resources and the company's ability to procure such resources. In some circumstances, the company may demonstrate the availability of external funding by having a lender confirm its willingness to finance the project;
- they must be recoverable, namely the company must have prospects of income, so that the revenues it expects to obtain from the project will be at least sufficient to cover the costs of its study after having subtracted all the other development costs, manufacturing costs and costs to sell that are to be sustained in order to put the product on the market.

Therefore all the costs of developing the AW HERO aircraft have been capitalised since they have the characteristics listed above. Particularly as regards the recoverability of the investment, on the basis of the 2018-2031 Business Plan prepared by the competent offices of the Parent Company and approved by the Investment Committee of Leonardo S.p.A. in June 2019 -, the costs of the development of the AW HERO programme are deemed to be recoverable by means of expected sales of the product. The results of the impairment test, which show a difference of Euro 30,284 thousand between value in use and carrying amount, allow it to be thought that the Company may consider itself safeguarded against any increases in research work.

It should be noted that analyses were performed with reference to three critical scenarios, in order to test the sensitivity of the Impairment Test results, both against a potential reduction in the plan of deliveries and against a reduction in the selling prices of AWHERO:

- reduction of 20% in whole-life deliveries;
- reduction of 30% in whole-life deliveries;
- reduction of 30% in whole-life deliveries and reduction by 10% in the basic price of products.

The results of the Impairment Test are positive in all the three scenarios, thus further confirming that the investment may be recovered.

The Company is carrying out study and research in the OCEAN 2020 project (Open Coordination for European mAritime awareNess) financed by the European Union in its capacity as a related party of the Parent Company Leonardo S.p.A. and participated in the demonstration with its AW HERO aircraft.

The project has financed Euro 613 thousand in costs, fully covered by non-refundable grants.

The Company has decided to recognise the cost of the work in the framework of OCEAN 2020, for which costs of Euro 1,721 thousand were recorded in 2019, corresponding to about 14,000 hours labour.

The reports will be presented by the merging company Leonardo S.p.A. during 2020.

The efforts devoted to research and development in recent years for the AW HERO product, which, in practice, constitutes the Company's almost total activity, induced the Directors to decide to take advantage of the R&D tax credit concessions under Decree Law 145 of 23 December 2013, as amended and converted into Law 9 of 21 February 2014 and subsequently amended by Law 190 of 23 December 2014, Law 232 of 11 December 2016 and Law 145 of 30 December 2018.

During the year the Company completed its calculations for estimating the amount of this credit for the years 2015, 2016, 2017 and 2018, applying the criteria set out in the regulations in force.

The total receivable recognised and reported in the 2018 tax return submitted in November 2019 amounted to Euro 2,158,900.

Personnel and operating sites

The financial year at 31 December 2019 closed with a workforce of 27 people, thus recording a decrease of 2 units compared to the previous year.

The tables below summarise the breakdown of workforce at 31 December 2019 and the turnover.

	Senior managers	Middle managers	Clerical employees	Manual labourers	Total
Men	2	3	17	1	23
Women	0	0	4	0	4
Total	2	3	21	1	27
Average age	**49**	**46**	**41**	**24**	**40**

	Senior managers	Middle managers	Clerical employees	Manual labourers	Total
Degree	2	3	18	0	23
Secondary-school diploma	0	0	3	1	4
Lower secondary-school diploma	0	0	0	0	0
Total	2	3	21	1	27

	Senior managers	Middle managers	Clerical employees	Manual labourers	Total
Long-term contracts	2	3	21	1	27
Fixed-term contracts	0	0	0	0	0
Total	2	3	21	1	27
Seniority in SD	13	11.37	9.29	3.85	9.38

	01.01.2019	New hires	Termination	Transformation	Promotion	31.12.2019
Senior managers	2	0	0	0	0	2
Middle managers	5	0	-2	0	0	3
Clerical employees	20	3	-2	0	0	21
Manual labourers	2	0	-1	0	0	1
Others	0	0	0	0	0	0
Total Long-term contracts	**29**	**3**	**-5**	**0**	**0**	**27**
Senior managers	0	0	0	0	0	0
Middle managers	0	0	0	0	0	0
Clerical employees	0	0	0	0	0	0
Manual labourers	0	0	0	0	0	0
Trainees	0	0	0	0	0	0
Total Fixed-term contracts	**0**	**0**	**0**	**0**	**0**	**0**
TOTALS	**29**	**3**	**-5**	**0**	**0**	**27**

	Senior managers	Middle managers	Clerical employees	Manual labourers	Total
Pisa	2	3	21	1	**27**
Varese	0	0	0	0	**0**
TOTALS	**2**	**3**	**21**	**1**	**27**

The Company operates at the following sites:

- Registered office located in Pisa, Località Ospedaletto, Via S. Cannizzaro no. 7. It should be noted that your Company has a lease agreement in place with All.Co S.p.A. in relation to this site;

- Local unit located in Cascina Costa di Samarate (VA), Via G. Agusta no. 520. It should be noted that your Company has entered into a lease agreement with Leonardo S.p.A. Helicopters Division, covering, in addition to the rent, charges for electricity and water resources and waste management, which are therefore the direct responsibility of the lessor.

Investments

In addition to the abovementioned investments in the development of the AW HERO aircraft, the Company recorded total investments of Euro 262 thousand, the main items of which are listed below:

- Euro 113,325 for improvements to and fitting out the new site. In detail, the alterations continued that began during the last year, necessary to adapt the premises in Via Cannizzaro to the Company's activities. The work that had started during 2018 to upgrade the existing plants to current legislation was completed. A licence was also obtained for the works necessary to have the ground floor of the factory certified as fit for occupancy and air-conditioning systems were also installed on the ground floor;
- Euro 66,572 relating to the purchase of equipment. Manufacturing equipment was acquired to adapt the existing tools to operating requirements that emerged during management activities;
- Euro 47,800 relating to the purchase of motor vehicles for flight operations: a commercial vehicle for the transport of AW HERO was bought.

Among the remaining expenses were investments in hardware and software applications and in office furniture and fittings.

Business and financial performance

As prescribed by Article 2428 of the Italian Civil Code, the paragraphs below analyse the Company's financial position, results of operations and cash flows separately, using appropriate indicators designed through the reclassifications of the Balance Sheet and of the Income Statement, reported below:

Reclassified balance sheet (financial approach)			
Aggregates	**2019**	**2018**	**2017**
Intangible assets	23,192,181	19,471,169	13,749,701
Property, plant and equipment	380,533	374,890	434,827
Financial assets	100,000	100,000	100,000
Fixed assets	**23,672,714**	**19,946,059**	**14,284,528**
Inventory	6,865,739	3,631,613	185.997
Deferred assets	5,249,624	4,843,834	1,384,117
Quick assets	115,228	155,337	123,589
Current assets	12,230,590	8,630,783	1,693,704
Capital invested	**35.903.304**	**28,576,843**	**15,978,233**
Share capital	200,000	200,000	200,000
Reserves (net of the portion of profit/loss to be distributed)	-2.445.124	83,527	43,123
Equity	**-2,245,124**	**283,527**	**243,123**
Consolidated liabilities	**1,437,198**	**10,617,958**	**1,329,691**
Current liabilities	36,711,230	17,675,358	14,405,416
Capital funding	**35,903,304**	**28,576,843**	**15,978,233**

Reclassified balance sheet (functional approach)*)*			
Aggregates	**2019**	**2018**	**2017**
Fixed assets *(net of provision for employee severance pay)*	23,180,566	19,316,412	13,668,995
Working capital	12,115,363	8,475,447	1,570,114
Cash and cash equivalents	115,227	155,337	123.589
Operating invested capital	**35,411,156**	**27,947,196**	**15,362,698**
Equity	-2,245,124	283,527	243,123
Operating liabilities	9,770,896	8,876,455	3,287,835
Financing liabilities	27,885,384	18,787,214	11,831,738
Capital funding	**35,411,156**	**27,947,196**	**15,362.698**

Reclassified income statement			
Aggregates	**2019**	**2018**	**2017**
Revenue from sales	1,070,047	1,580,298	802,195
Changes in work in progress	3,093,767	3,213,219	69,822
Other revenues and income	630,769	245,203	146,444
Capitalisation	6,405,441	5,566,621	4,315,511
Value of the operating production	**11,200,025**	**10,605,341**	**5,333,972**
External operating costs	10,809,543	7,422,581	3,162,026
Added value (AV)	**390,482**	**3,182,760**	**2,171,946**
Personnel costs	2,233,759	2,133,658	1,855,032
EBITDA	**-1,843,277**	**1,049,102**	**316,914**
Amortisation, depreciation and allocations	702,863	618,613	122,850
Operating profit (loss)	**-2,546,140**	**430,489**	**194,064**
Financial area result	**53**	0	1,258
Full EBIT	**-2,546,087**	**430,489**	**195,322**
Financial charges	627,774	318,544	**253,055**
Gross profit (Loss)	**-3,173,861**	**111,945**	**-57,733**
Income taxes	**645,210**	**-71,540**	**-28,582**
Net profit (Loss)	**-2,528,651**	**40,404**	**-86,316**

Analysis of the financial solidity

We propose the following financial ratios in order to analyse the Company's financial solidity and verify its capacity to maintain financial stability in the medium and long term:

- fixed-asset financing ratios: these enable the method of financing medium- and long-term investments to be analysed;
- financing structure ratio: these enable the composition of sources of finance to be analysed.

Indicators of non-current financing	2019	2018	2017
Primary margin EQUITY - NON CURRENT ASSETS	-25,917,838	- 19,662,532	-14,041,405
Primary ratio EQUITY/ NON CURRENT ASSETS	-0,09	0,01	0,02
Secondary margin (EQUITY+CONS.LIAB.)- NON CURRENT ASSETS	-24,840,640	-8,344,574	-12,711,714
Secondary ratio EQUITY+CONS.LIAB.)/NON CURRENT ASSETS	-0,03	0,58	0,11
Debt structure ratios			
Debt to equity ratio EQUITY/(CONS.LIAB+CURRENT LIAB.)	-0,06	0,01	0,02
Financial debt to equity ratio FINANCING LIAN./EQUITY	-12,42	66,26	48,67

As is known, work continued on the development of the AW HERO aircraft during the year in line with the forecasts under the 2019-2023 budget plan consolidated in the budget plan of the parent company Leonardo S.p.A..

The development of the product, which we estimate will be completed during the first half of 2020 when we obtain a military certification for the aircraft, required massive injections of capital, all of which Sistemi Dinamici raised by borrowing from shareholder Leonardo S.p.A..

This work was responsible for a steady increase in the capitalisation of system costs. In fact, the Company has recognised the development costs of the AW HERO system for Euro 22,811,302 in invested capital among intangible assets under development.

Below we submit a brief liquidity analysis which demonstrates the Company's capacity to maintain short-term financial stability.

Solvency ratios

		2019	2018	2017
Net Working capita	**CURRENT ASSETS-CURRENT LIABILITIES**	-2,480,640	-8,344,573	-12,711,712
Current ratio	**CURRENT ASSETS/CURRENT LIABILITIES**	33%	51%	12%
Net cash	**(DEFERED ASSETD+QUICK ASSET)-CURRENT LIABILITIES**	-31,346,378	-11,976,186	-12,897,710
Quick ratio	**(DEFERED ASSETD+QUICK ASSET)/CURRENT LIABILITIES**	15%	29%	11%

The Company concentrated its activities on the development and design of AW HERO in 2019 too, raising the necessary funds from the sole shareholder.

The absence of orders, together with the commitment to OCEAN 2020 activities described above, only partly funded by non-refundable grants, which, moreover, have not been collected yet, worsened the performance of the solvency ratios. The increased commitment to development activities both in-house and targeted at the financed "OCEAN2 020" study, together with technical problems arising from the supply of the engine, have caused the postponement of the delivery of the machines under construction under the contract signed with the Parent Company in 2018, thus actually diverting the expected cash flows and reducing the average profit margins of the contract.

Nevertheless the merger into Leonardo S.p.A., which became effective from 1 January 2020, allows us to consider that we can rule out the possibility of short-term financial difficulties in continuing with the project.

Income statement highlights

Profitability ratios		2019	2018	2017
Net ROE	NET RESULT/EQUITY	n.a. negative equity	14,25%	-35,50%
Gross ROI	GROSS RESULT/EQUITY	n.a. negative equity	39,48%	-23,75%
ROI	OPERATING RESULT/(INVESTIED CAPITAL - OPERATING LIAB.)	-9,93%	2,26%	1,61%
ROS	OPERATING RESULT/REVENUES FROM SALES	-237,95%	27,24%	24,19%

The loss recorded during the financial year led to a deterioration in profitability ratios.

As noted in the paragraphs above, the loss for the period accrued during the second half year; it had been highlighted when the forecast was drawn up and confirmed and set out in greater detail in the pre-closing estimate. Both analyses, forecast and pre-closing, were consolidated in the corresponding positions of parent company Leonardo S.p.A.’s accounts.

The reasons for the loss compared to the budget forecast that the Company would more or less break even, are summarised as follows:

- higher costs arising from the contract concerning the construction of five AW HERO aircraft ordered by Leonardo S.p.A., Helicopters Division, during 2018;

- higher costs were recorded than forecast in the budget for the OCEAN 2020 project financed by the European Union;
- lower profit margins were recorded as a result of the failure to obtain an order for the manufacturing of two AW HERO aircraft from Leonardo's Helicopters Division, budgeted for in the first half of 2019.

As regards the first point, the costs of executing the production order were higher mainly owing to problems arising from the supply of the engines for the aircraft that emerged during the year. These problems not only caused the margins from the order to be lower but delayed assembly time and therefore also delayed the delivery of the aircraft.

The higher costs recorded for the OCEAN 2020 programme were essentially due to an incorrect assessment of the financial commitment for the naval installation. In fact extra costs were incurred for the additional materials and labour necessary to correct originally underestimated technical aspects of the project.

Another factor was the accident to the "AC1" aircraft that occurred in May and the accident that occurred to the "AC3" aircraft in August. The financial impact of these events is to be gauged both in terms of unexpected financial commitments for redesigning the aircraft and manufacturing the new undercarriage ("AC3" aircraft") and for dedicated test flights (for both aircraft), and in terms of the delay in the programme as a result of these accidents. For both claims, for which a total write-down of Euro 480,000 has been recorded in the financial statements, an insurance refund has been applied for, the settlement of which appeared to be at an advanced stage of acceptance at 31 December 2019, although not yet formally completed with the insurance company.

Finally, it should be noted that rescheduling activities owing to changes in the availability of Italian Navy ships also marginally raised programme costs.

Finally, owing to delays in the deliveries of the first five aircraft and the greater financial commitment in the "OCEAN 2020" programme, another order from Leonardo's Helicopters Division for the purchase of two AW HEROs as forecast in the budget plan could not be obtained, so that the related profit margin was lost and the result of operations for the period was worse.

Related-party transactions

In compliance with the provisions of Article 2497-*bis* of the Italian Civil Code, it should be noted that the Company was subject to management and coordination by the Parent Company Leonardo S.p.A. until 31 December 2019. The highlights from the latest approved financial statements of Leonardo S.p.A. are shown in the appendix in the Notes to the Financial Statements.

For the sole purposes of additional disclosures to be provided in the Report on Operations in accordance with Article 5 of the CONSOB Regulation adopted by resolution no. 17221 of 12 March 2010 (related-party transactions), the definition of related parties shall be expressly referred to which is provided in the Procedure, applicable to all Group companies, which was approved by the Board of Directors of Leonardo S.p.A. on 26 November 2010, as subsequently updated on 13 December 2011 and 20 December 2016 and published on Leonardo's institutional website, as well as in the operating provisions set out in Directive 19 of 13 December 2011 - "Management of Related-party transactions carried out through and by subsidiaries."

The abovementioned transactions are detailed below:

PARENT COMPANY

Your Company is controlled by Leonardo S.p.A. which holds 100% of the share capital.

The relations maintained with the parent company are as follows:

- Provision of services rendered by Sistemi Dinamici S.p.A.: Euro 552,047.
- Provision of services rendered by Leonardo S.p.A.: Euro 2,434,322.
- Leasing assets from Leonardo S.p.A.: Euro 4,628.
- Proceeds from tax consolidation paid by Leonardo S.p.A.: Euro 655,920.
- Interest expense accrued on the shareholder loans granted by Leonardo S.p.A.: Euro 616,156.
- Receivables from Leonardo S.p.A. amounting to Euro 761,173, all of which relate to trade receivables from the Helicopters Division.
- Receivables for advances and proceeds from tax consolidation from Leonardo S.p.A. amounting to Euro 685,869.
- Payables to Leonardo S.p.A. amounting to Euro 2,610,317, entirely relating to trade payables to the Helicopters Division.
- Short-term borrowings and loans from Leonardo S.p.A. amounting to Euro 27,885,384.

ENTITIES CONTROLLED BY THE PARENT COMPANY

During the year your Company maintained relations with Leonardo MW Ltd., which is controlled by Leonardo S.p.A., Helicopters Division.

The abovementioned relations can be detailed as follows:

- Trade receivables for Euro 518,000.

Outlook

As noted in the paragraphs above, on 11 December 2019 the merger of your Company by incorporation into Leonardo S.p.A., Helicopters Division, was completed, with effective date on 1 January 2020.

We expect to continue developing the AW HERO programme as forecast in the budget plan of Leonardo S.p.A., Helicopters Division, in the 2020 financial year.

Furthermore, our Company will also be engaged in implementing and migrating data on the SAP operational system used by Leonardo S.p.A. during the early months of the year.

Risks and uncertainties

Sistemi Dinamici S.p.A. has not been exposed to financial risks associated with its operations; in particular the reasons for the following risks are analysed below:

- interest rate risks, relating to exposure to financial instruments: the Company has an intercompany current account with the Parent Company at EURIBOR plus a fixed spread, the medium/long-term loan with the Parent Company also has a fixed interest rate;
- exchange risks associated with trading in areas whose currency is not the Company's reporting currency: this exposure to foreign currencies is limited to certain purchase and sale transactions that are settled on expiry; no amounts were still outstanding at the end of the year;
- liquidity and credit risks associated with the availability of funds and access to the credit market: the Company is financed through the Parent Company;
- product risk: this risk is associated with the acceptance of the AW HERO product from the target market. However, the Parent Company, which is responsible for marketing the product, believes

that the expressions of interest submitted by potential institutional customers are such as to prevent this risk.

The Company does not hold treasury shares or shares or quotas of parent companies.

Significant post Balance Sheet events

Leonardo's Board of Directors acknowledged that the COVID-19 emergency will likely have an impact on the group’s ordinary course of business. This is despite mitigating actions promptly put in place by the Company and aimed primarily at preserving business and production continuity and fully ensuring the health and safety of employees.

At the current state of knowledge of the spread of the emergency, the main areas likely to be impacted by the Covid-19 emergency are the following:

- commercial campaigns
- continuity of supply chain
- respect of production times / flows
- respect of timing and acceptance processes of products/activities by customers

In this regard, Leonardo Board of Directors concluded that the current trend of the emergency, now classified by the WHO as a “pandemic”, accompanied by uncertainty related to further developments in terms of impact on public health and, consequently, on industrial, economic and social situation of Italy, does not allow any quantification of the potential effects on 2020 Group’s performance.

Leonardo has made and is making extensive and widespread use of remote working but cannot, at the moment, exclude selective and temporary partial and targeted suspension of operations of certain departments within production sites which by nature do not offer the possibility of remote working.

The company will promptly inform the market once the evolution of the situation allow a quantification of the possible impact, included recovery actions.

The Board of Directors believes that what is happening does not change the Group's solid medium-long term fundamentals.

Financial Statements as at 31.12.2019

(amounts in Euro)

BALANCE SHEET - *Assets*				31.12.2019	31.12.2018
(B)			**Non-current assets:**		
	I		**Intangible assets:**		
		4)	Concessions, licences, trademarks and similar rights	10,759	15,807
		6)	Fixed assets under development and advances	22,811,302	19,110,819
		7)	Others	370,119	344,544
			Total intangible assets	**23,192,181**	**19,471,169**
	II		**Property, plant and equipment:**		
		1)	Land and buildings	12,968	16,428
		2)	Plant and machinery	5,580	132
		3)	Industrial and business equipment	105,978	83,026
		4)	Other assets	256,007	262,754
		5)	Fixed assets under construction and advances	0	12,550
			Total property, plant and equipment	**380,533**	**374,890**
	III		**Financial assets:**		
		2)	Receivables:		
		d)	From others	100,000	100,000
			Total financial assets	**100,000**	**100,000**
Total non-current assets				**23,672,714**	**19,946,059**

(C)			**Current assets:**		
	I		Inventories		
		1)	Raw materials, supplies and consumables	428,880	75,851
		3)	Contract work in progress	6,417,133	3,323,365
		5)	Advances	19,726	232,396
			Totale inventories	***6,865,739***	**3,631,613**
	II		Receivables		
			within 12 months		
		1)	from customers	106,127	213,837
		3)	from associated companies	0	0
		4)	from parent companies	1,417,095	4,080,199
		5)	from entities controlled by the parent companies	518,000	0
		5-bis)	tax receivables	2,313,412	69,744
		5-ter)	deferred tax assets	117,417	128,127
		5-quater)	from others	712,655	287,760
			Total current receivables	***5,184,706***	**4,779,668**
	IV		Cash and cash equivalents		
		1)	Bank and postal deposits	112,647	154,782
		3)	Cash and cash equivalents on hand	2,581	555
			Total Cash and cash equivalent	**115,228**	**155,337**
	Total current assets			**12,165,673**	**8,566,617**
(D)			**Accrued income and prepaid expenses**		
			Prepaid expenses	64,918	64,167
			Total accrued income and prepaid expenses	**64,918**	**64,167**
	TOTAL ASSETS			**35,903,304**	**28,576,843**

BALANCE SHEET - Liabilities

			31.12.2019	31.12.2018
(A)		**Shareholders' Equity:**		
	I	**Share capital**	**200,000**	**200,000**
	IV	**Legal reserve**	**34,852**	**32,832**
	VII	**Other reserves**	**48,675**	**10,291**
		Extraordinary reserve	48,675	10,291
		Capital payments	0	0
		Euro rounding-off	0	0
	VIII	**Profits/Losses carried forward**	**0**	**0**
	IX	**Profit (Loss) for the year**	**-2,528,651**	**40,404**
	Total Shareholders' equity		**-2,245,124**	**283,527**
(B)		**Provisions for risks and charges**		
	2)	Provision for taxes also deferred taxes	0	0
	3)	Others	0	16,261
	Total		**0**	**16,261**
(C)		**Employee severance pay for subordinate employment**	**492,148**	**629,647**
(D)		**Payables**		
	3)	**Payables to shareholders for loans**	**27,885,384**	**18,787,213**
		a) within 12 months	27,885,384	9,760,213
		b) beyond 12 months	0	9,027,000
	4)	**Payables to banks**	**0**	**0**
		a) within 12 months	0	0
		b) beyond 12 months	0	0
	5)	**Payables to other lenders**	**945,050**	**945,050**

	a) within 12 months	245,050	245,050
	b) beyond 12 months	700,000	700,000
6)	**Advances**	**4,200,000**	**4,200,000**
	a) within 12 months	4,200,000	4,200,000
	b) beyond 12 months	0	0
7)	**Payables to suppliers**	**1,694,232**	**2,108,648**
	a) within 12 months	1,694,232	2,108,648
	b) beyond 12 months	0	0
11)	**Payables to parent companies**	**2,610,317**	**1,146,442**
	a) within 12 months	2,610,317	1,146,442
	b) beyond 12 months	0	0
11-bis)	**Payables to entities controlled by parent companies**	**0**	**4,050**
	a) within 12 months	0	4,050
	b) beyond 12 months	0	0
12)	**Tax payables**	**55,273**	**99,981**
	a) within 12 months	55,273	99,981
	b) beyond 12 months	0	0
13)	**Payables to social security institutions**	**77,091**	**80,262**
	a) within 12 months	77,091	80,262
	b) beyond 12 months	0	0
14)	**Other payables**	**188,933**	**275,761**
	a) within 12 months	188,933	275,761
	b) beyond 12 months	0	0
Total payables		**37,656,280**	**27,647,407**

TOTAL LIABILITIES	**35,903,304**	**28,576,843**

INCOME STATEMENT			31.12.2019	31.12.2018
(A)		**Value of production:**		
	1	Revenues from sales and services	1,070,047	1,580,298
	3	Change in contract work in progress	3,093,767	3,213,219
	4	Capitalisation of internal construction costs	6,405,441	5,566,621
	5	Other revenues and income	630,771	245,203
Total value of production			**11,200,027**	**10,605,342**
(B)		**Production costs:**		
	6	Raw materials, supplies, consumables and goods for resale	4,150,577	3,484,081
	7	Services	6,712,068	3,553,184
	8	Leases and rentals	256,154	354,183
	9	Personnel	2,233,759	2,133,658
		a. Wage and salaries	1,607,601	1.504.604
		b. Social security charges	194,503	191.295
		c. Employee severance pay	97,746	104.254
		e. Other costs	333,909	333.505
	10	Amortisation, depreciation and write-downs	702,863	602,352
		a. Amortisation of intangible assets	103,966	81.572
		b. Depreciation of property, plant and equipment	118,897	89.364
		c. Other write-downs of non-current assets	480,000	431.416
	11	Changes in inventories of raw materials, consumables and goods for resale	-353,029	0
	12	Provisions for risks	0	16,261
	14	Other operating costs	43,773	31,133
Total production costs			**13,746,167**	**10,174,852**
Difference between production value and costs			**-2,546,140**	**430,489**

(C)		**Financial income and costs:**		
	16	Other financial income	53	0
		d. Income other than the above	53	0
	17	Interest and other financial costs	-618,383	-306,221
	17-bis	Exchange gain and losses	-9,391	-12,323
	Total financial income and costs		**-627,7211**	**-318,544**
(D)		**Value adjustments to financial assets**		
	18	Revaluation	0	0
	19	Write-downs	0	0
	Total value adjustments to financial assets		**0**	**0**
	Income before taxes		**-3,173,861**	**111,945**
	20	Income taxes for the year, current taxes, deferred tax assets and liabilities:	**645,210**	**-71,541**
		a. current taxes	0	-92,619
		b. deferred tax assets and liabilities	-10,710	21,078
		d. income from tax consolidation mechanism	655,920	0
	21 PROFIT (LOSS) FOR THE YEAR		**-2,528,651**	**40,404**

CASH FLOW STATEMENT - indirect method OIC 10	31.12.2019	31.12.2018
A. Cash flow from operating activities (indirect method)		
Profit (loss) for the year	-2,528,651	40,404
Income taxes	10,710	71,541
Interest expense/(interest income)	627,721	318,544
(Dividends)		
(Gains)/losses on disposal of assets		
1. Profit (loss) for the year before income taxes, interest, dividends and gains/losses from disposal	***-1,890,220***	***430,489***
Adjustments for non-cash items that were not offset in the net working capital:		
Accruals to provisions	0	2,104
Amortisation/Depreciation of non-current assets	222,863	170,936
Impairment losses	480,000	431,416
Other adjustments for non-cash items	105,068	125,402
2. Cash flow before changes in net working capital	***807,931***	***744,015***
Changes in net working capital		
Decrease/(increase) in inventories	-3,234,126	-3,445,615
Decrease/(increase) in current receivables	-405,038	-3,469,377
Increase/(decrease) in current payables	910,701	5,341,465
Decrease/(increase) in accrued income and prepaid expenses	-751	9,659
Increase/(decrease) in accrued expenses and deferred income		
Other changes in net working capital		
3. Cash flow after changes in net working capital	***-2,729,214***	***-1,563,868***
Other adjustments	2,158,900	0
Interest collected /(paid)	-627,721	-318,544
(Income taxes paid)	0	-92,619
Dividends collected	0	0
Use of provisions	-169,761	-104,368
4. Cash flow after other adjustments	***1,361,418***	***-515,531***
Cash flows from operating activities (A)	**-2,450,084**	**-904,895**
B. Cash flow from investing activities		

Property, plant and equipment	*-138,113*	*-460,842*
(Investments)	-138,113	-460,842
Proceeds from disposal of assets	0	0
Intangible assets	*-6,529,936*	*-5,803,040*
(Investments)	-6,529,936	-5,803,040
Proceeds from disposal of assets	0	0
Financial assets	0	0
(Investments)	0	0
Proceeds from disposal of assets	0	0
Current financial assets	0	0
(Investments)	0	0
Proceeds from disposal of assets	0	0
Flusso finanziario dell'attività di investimento (B)	**-6,668,049**	**-6,263,882**
C. Cash flows from investing activities		
Borrowed capital		
Increase (decrease) in short-term payables to banks	0	-211
New loans	9,078,024	7,200,736
Repayments of loans	0	0
Equity	0	0
Paid increase in capital	0	0
Sale (purchase) of treasury shares	0	0
Dividends (and advances on dividends) paid	0	0
Cash flows from financing activities (C)	**9,078,024**	**7,200,525**
Increase (decrease) in cash and cash equivalents (a ± b ± c)	**-40,109**	**31,748**
Cash at 1° Jennuary	155,337	123,589
Cash at 31 December	**115,228**	**155,337**

Notes to the Financial Statements at 31 December 2019

Company that carries out coordination activities.

The management and coordination activities have been carried out by Leonardo S.p.A. with registered office in Rome - Piazza Monte Grappa no. 4, tax code and Rome Register of Companies no. 00401990585 and VAT no. 00881841001, which holds a stake of 100%.

The table below provides the highlights of the Balance Sheet and of the Income Statement of Leonardo S.p.A. for the financial year ended 31 December 2017.

Amounts in €/000

Leonardo S.p.A.

BALANCE SHEET	
ASSETS	
NON-CURRENT ASSETS	12,640,433
CURRENT ASSETS	10,932,563
NON-CURRENT ASSETS HELD FOR SALE	291,064
TOTAL ASSETS	**23,864,060**
LIABILITIES	
SHAREHOLDERS' EQUITY :	
- Share Capital	2,494,859
- Reserves and retained earnings	2,912,507
- Net profit (loss) for the period	(283,801)
	5,691,167
NON-CURRENT LIABILITIES	4,775,732
CURRENT LIABILITIES	13,391,444
LIABILITIES DIRECTLY RELATED TO ASSETS HELD FOR SALE	5,717
TOTAL LIABILITIES AND EQUITY	**23,864,060**
INCOME STATEMENT	
REVENUE	8,528,053
COSTS	(6,401,150)
NET FINANCE INCOME (COSTS)	114,681
INCOME TAXES FOR THE YEAR	47,050
(LOSS) PROFIT FROM DISCONTINUED OPERATIONS	
NET PROFIT (LOSS) FOR THE PERIOD	**283,801**

Leonardo S.p.A. prepares consolidated financial statements

Introduction

In accordance with the provisions of the Italian Civil Code governing separate financial statements and in compliance with the provisions of Article 2427, the following information is provided in addition to the accounting values in the Balance Sheet, Income Statement and Cash Flow Statement reported above.

Layout and general principles

These financial statements have been prepared in an ordinary form and are accompanied by the report on operations drawn up by the directors in accordance with Article 2428 of the Italian Civil Code.

Accounting standards and policies

The accounting standards and policies adopted for the preparation of the financial statements, which are consistent with those adopted in the previous financial year and are set out below, have been applied in accordance with the statutory regulations in force (Articles 2423, 2423-*bis*, 2426 of the Italian Civil Code) as supplemented by the Italian GAAPs approved by the Italian Accounting Board (OIC, *Organismo Italiano di Contabilità*) in the version that came into force on 1 January 2016.

In particular, the financial statements have been prepared in accordance with the general principles of prudence and accruals and on a going-concern basis, as well as by taking account of the economic function of the asset or liability element concerned.

The accounting principles and policies adopted are reported in the comments on each item making up the financial statements.

Each item of the Balance Sheet, the Income Statement and the Cash Flow Statement also shows the corresponding values at 31 December 2018. If the items are not comparable, those relating to the previous financial year have been adjusted by providing the relevant comments in the Notes to the Financial Statements for the relevant circumstances.

The Cash Flow Statement shows the changes, either positive or negative, in cash and cash equivalents that were recorded during the financial year and has been prepared according to the indirect method and using the format set forth in the Italian Accounting Board principle OIC 10.

The Balance Sheet, Income Statement, Cash Flow Statement and the Notes to the Financial Statements have been prepared in euro units, without decimals.

The items with an amount equal to zero both in the current and previous financial year are not shown in the schedules of the financial statements.

In applying the principle of materiality, pursuant to Article 2423, paragraph 4, of the Italian Civil Code, the comments on the items of the schedules of the financial statements have been omitted from the Notes to the Financial Statements, even if specifically required by Article 2427 of the Italian Civil Code or any other provision, in any case where both the amount of these items and related disclosure are immaterial in order to give a true and fair view of the Company's financial position, results of operations and cash flows.

For more details on the Company's business and transactions with subsidiaries, associates, parent companies, jointly-controlled companies and any other related party, reference should be made to the information provided in the Report on Operations, prepared by the Company's Directors to accompany these financial statements.

Sistemi Dinamici S.p.A. is controlled by Leonardo S.p.A., with registered office in Rome, which prepares the consolidated financial statements of the largest group of companies to which the Company belongs as a subsidiary. These consolidated financial statements are available on the website of Leonardo S.p.A. at the address web www.leonardocompany.com and filed with the Rome Chamber of Commerce.

It should be noted that, in accordance with Article 2497 and ff. of the Italian Civil Code, the Company has been subject to management and coordination by Leonardo S.p.A. and the Notes to the Financial Statements therefore provide a statement summarising the latter's highlights from the latest financial statements.

General basis of preparation

The items in the financial statements have been measured in accordance with the general principles of prudence and accruals, on a going-concern basis. The items have been recognised and stated by taking account of the substance of the transaction or contract, insofar as it is compliant with the provisions of the Italian Civil Code and the accounting principles issued by the Italian Accounting Board (OIC, *Organismo Italiano di Contabilità*). The assumptions of consistency in the criteria of measurement, materiality and comparability of information have been complied with too.

The application of the principle of prudence has led to the elements making up each asset or liability item to be measured individually, in order to avoid any set-off between losses that had to be recognised and any income that should not be recognised because it was not realised. In particular, profits have been included only if realised by the end of the financial year, while account has been taken of risks and losses accrued in the financial year, even if they were known after the reporting date.

The application of the accruals principle has led to the effect of the transactions being accounted for and attributed to the financial year to which they refer and not to the year in which the related receipts were collected and payments were made.

In the application of the abovementioned assumptions:

- The elements making up each asset or liability item have been measured separately, in order to prevent gains on some elements from being offset against losses on others. In particular, profits have been included only if realised by the end of the financial year, while account has been taken of risks and losses accrued in the year, even if known after the reporting date.
- Income and costs accrued in the financial year have been taken into account regardless of the date of collection or payment. Accrual is the time criterion with which any positive and negative income component has been recorded in profit or loss for the purposes of determining the result for the year.
- The rights, obligations and conditions have been identified on the basis of the contract terms of the transactions and of their comparison with the provisions of the accounting standards in order to establish whether balance sheet and income statement items have been recognised or derecognised in a correct manner.

The accounting policies have not been changed with respect to the previous financial year in order to make the Company's financial statements comparable over time.

During the financial year, no exceptional cases occurred which made it necessary to apply the derogation from accounting policies, referred to in Article 2423, paragraph 5, of the Italian Civil Code, as they were incompatible with the true and fair view of the Company's financial position, results of operations and cash flows. Furthermore, no revaluations of assets were carried out during the financial year in accordance with special laws governing the subject matter.

The preparation of the financial statements requires estimates to be made which have an impact on the values of assets and liabilities and the related disclosure in the financial statements. The actual results that will be recorded may differ from these estimates. Estimates are reviewed periodically and the effects of changes in estimates, where not resulting from incorrect estimates, are recognised in the income statement for the financial year in which the changes occur, if they affect that year only, as well as in subsequent years if the changes affect both the current and subsequent years.

It should be noted that on 11 December 2019 there was the completion of the merger of the Company by incorporation into its parent company Leonardo S.p.A., Helicopters Division, with effect from 1 January 2020, by a deed drawn up by Sandra De Franchis, Notary Public, filed under no. 12572 and registered with the Roma 4 Revenue Agency on 13 December 2019 under no. 39315 series 1T.

This non-recurring transaction led to the financial statements item of loans and borrowings from the Parent Company being classified in a different manner as detailed in the paragraphs below. Due to the effective date of the merger, scheduled on 1 January 2020, it was considered more appropriate to reclassify medium/long-term loans and borrowings from the parent company as short-term financial payables.

It should also be noted that the amount of the loss for the 2019 financial year, equal to Euro 2,528,651, which accrued during the second half of the year and emerged after the usual computation of data for forecasts, was so substantial that the Shareholders' Equity was negative (Euro -2,245,124). This has taken the Company within the purview of Article 2447 of the Italian Civil Code. According to the implementing instructions for this Article:

"If capital falls below the minimum prescribed in Article 2327 owing to a loss of over one-third, the directors or the governing body or, if they do not act, the supervisory body, must call a general meeting without delay to resolve a capital reduction and a simultaneous rise in capital to a figure not lower than the said minimum or the transformation of the company."

Nevertheless, as recorded in the minutes of the Extraordinary Shareholders' Meeting on 27 September 2019, it was deemed that the Company's merger by incorporation removes the need for and supersedes the resolutions referred to in the Civil Code and that these resolutions were therefore not passed.

As a result of the above, it was not necessary to obtain confirmation from the sole shareholder Leonardo S.p.A. of the financial and capital support it had provided for the purposes of the preparation of the financial statements for past financial years.

Accounting policies

Intangible assets

These are recorded, with the prior consent of the Board of Statutory Auditors where applicable, at purchase or production cost and are shown net of amortisation and write-downs (if any). The purchase cost also includes additional costs. The production cost includes all directly-attributable costs and other costs, for such amount as may be reasonably attributable, relating to the period of production and until such time as the asset can be used.

Leasehold improvements and value-increasing expenses are stated among other intangible assets if they cannot be separated from the assets themselves; otherwise they are recorded under specific items of property, plant and equipment.

Any advances to suppliers for the purchase of intangible assets are stated among balance sheet assets on the date on which the obligation to pay the related amounts arises. Intangible assets under development are recorded on the date when the first costs are incurred for the development of the asset and include both internal and external costs incurred for its realisation.

Intangible assets are amortised on a straight-line basis; amortisation allowances, which are charged to each financial period, refer to the allocation of any costs incurred over their entire useful life. Amortisation commences when the asset is available and ready for use. Systematic amortisation is instrumental to the correlation of expected benefits.

Intangible assets under development are not amortised. The amortisation process commences when these values are reclassified to the respective items of intangible assets.

Below are the amortisation rates:

Software products	33%
Leasehold improvements	Calcolated with reference to the residual duration of lease agreements to which leasehold improvements refer
Capitalisation of R&D costs	Calculated starting from the first sale as "francobollo" - depresation on the sales plan

Property, plant and equipment

According to the Italian Accounting Board OIC 24, these are recorded at purchase or production cost, as adjusted by their respective accumulated depreciation and write-downs (if any). The purchase cost is the cost that has been actually incurred for the acquisition of the asset and also includes additional costs, determined as follows:

- for assets acquired by contribution or incorporation, the asset is recognised at the contribution value established in the deeds on the basis of the expert's report findings;
- for assets purchased from third parties, the purchase cost consists of the price paid, plus additional charges incurred until the date on which the asset can be used;
- for assets constructed on a time and materials basis, the production cost includes all costs directly attributable to the asset, as well as manufacturing overheads, for the portion reasonably attributable to the asset, relating to the period of manufacture and until the asset is ready for use.

Production costs include all direct costs and general production overheads, for the portion reasonably attributable to the fixed asset, relating to the period of manufacture and until such time as the asset can be used.

Routine maintenance costs are recognised in profit or loss in the financial period in which they are incurred.

Costs incurred for improvements and asset value-increasing expenses, including non-routine maintenance costs, as well as costs for leasehold improvements that can be separated from the assets themselves, which produce a significant and measurable increase in the capacity, productivity or safety of the assets or extend their useful life, can be capitalised and are charged as an increase in the value of the assets to which they refer, within the limits of the recoverable value of the asset itself.

Property, plant and equipment, when they are held for sale, are reclassified to current assets and therefore measured at the lower of net book value and the realisable value that can be inferred from market trends, i.e. the selling price in the normal course of business, net of direct selling and disposal costs. In addition, assets held for sale are no longer subject to depreciation.

Obsolete assets and, more generally, assets that will no longer be used or usable in the production cycle on a permanent basis are measured at the lower of net book value and recoverable value and are no longer subject to depreciation.

Depreciation is calculated systematically and on a straight-line basis, based on the remaining useful life of the assets.

Depreciation commences when the asset is available and ready for use. In applying the principle of materiality under Article 2423, paragraph 4, of the Italian Civil Code, and the provisions of the relevant accounting standard, depreciation rates are reduced by half in the first year of depreciation.

Depreciation is also calculated on temporarily unused assets.

Below are the depreciation rates applied:

Light-weight construction	10%
Test Bench	10%
Furniture and fittings	12%
Research and test equipment	20%
Electronic office machines, computers and monitors, printers	20%
Equipment	20%
Other fixed assets, telephones and mobile phones	20%
General systems	20%
Motor vehicles	20%

Permanent impairment losses of property, plant and equipment and intangible assets.

At each reporting date the Company assesses whether there is any evidence that a fixed asset may be impaired. If such evidence exists, the Company estimates the recoverable value of the fixed asset and applies a write-down only if it is lower than the corresponding net book value. If there is no evidence of any potential impairment loss, the recoverable value is not determined.

In assessing whether there is evidence that an asset may have suffered a permanent impairment loss, the Company considers, at least, the following indicators:

- the market value of an asset has decreased significantly during the period, more than expected with the passage of time or the normal use of the asset concerned;
- significant changes have occurred during the period or will occur in the near future, with an adverse impact on the company in the technological, market, financial or regulatory environment in which the company operates or in the market at which the business is targeted;
- market interest rates or other rates of return on investments have increased during the period, and it is likely that such increases will affect the discount rate used in calculating the value in use of an asset and reduce its fair value;
- the book value of the company's net assets is higher than the fair value estimated by the company (such an estimate will be made, for example, in relation to the potential sale of all or part of the company);
- the obsolescence or physical deterioration of an asset becomes apparent;
- significant changes have occurred during the period which have an adverse effect on the company, or are expected to occur in the near future, to the extent or in the manner in which an asset is used or is expected to be used.

These changes include cases such as:

- the asset becomes unused,
- plans to divest or restructure the operating unit to which the business belongs,
- plans to dispose of the asset prior to the expected date,
- the remeasurement of the useful life of the fixed asset,

- from internal reporting it emerges that the asset’s economic performance is, or will be, worse than expected.

If there is evidence that an asset may have suffered a permanent impairment loss, this may make it appropriate to review its residual useful life, the criterion of its amortisation or depreciation or its residual value and adjust them accordingly, regardless of whether the loss is actually recognised or not.

If, at the reporting date, there are indications of permanent impairment losses of intangible assets and property, plant and equipment, their recoverable value must be estimated.

If their recoverable value, i.e. the greater of value in use and fair value, net of selling costs, is less than the corresponding net book value, the fixed assets are written down. When it is not possible to estimate the recoverable value of each fixed asset, this analysis is carried out with reference to the so-called "cash generating unit" (hereinafter the "CGU"), i.e. the smallest identifiable group of assets that includes the fixed asset being valued and generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets.

The value in use is determined on the basis of the present value of future cash flows that are expected to arise from the use of the fixed asset, resulting from the most recent plans approved by the governing body. The cash flows relating to subsequent periods with respect to those taken as a reference by these plans are determined through projections of the plans themselves.

Future cash flows are estimated with reference to the present conditions of the fixed assets and therefore do not include cash inflows or outflows that are expected to arise from future restructuring operations to which the Company has not yet committed itself, or from the improvement or optimisation of the return on the fixed asset.

The discount rate used to calculate the present value is the pre-tax rate that reflects current market valuations of the time value of money, as well as of the specific risks of the fixed asset for which the estimates of future cash flows have not yet been adjusted.

Permanent impairment losses are reversed if the reasons for them no longer apply. Impairment is reversed within the limits of the value that the asset would have had if the adjustment had never taken place, i.e. taking into account the amortisation or depreciation that would have been applied in the absence of any write-down. The write-down recorded on goodwill and long-term charges may not be reinstated.

Financial assets

Equity investments and debt securities that the Company intends to keep permanently among its assets as a result of the management's instructions and the Company's effective ability to hold them for an extended period of time are classified under non-current financial assets. Otherwise, they are recorded under current assets. Any change in the allocation between fixed assets and current assets, or vice versa, is recorded according to the accounting policies that are specific to the original portfolio.

Receivables are classified under non-current financial assets and current assets on the basis of their allocation with respect to recurring operations and, therefore, financial receivables are classified under non-current financial assets while trade receivables are classified under current assets, regardless of their maturity. The accounting policy for receivables is described below.

Inventories

Inventories are initially stated at purchase or production cost and subsequently measured at the lower of their cost and the corresponding realisable value that can be inferred from market trends.

The purchase cost is the actual purchase price plus additional charges. The purchase cost of materials also includes, in addition to the price of the material, transport costs, customs duties, as well as any other tax and costs directly attributable to that material. Returns, trade discounts, rebates and premiums are deducted from costs.

The realisable value that can be inferred from market trends is equal to the estimated selling price of goods and finished products in the normal course of business, net of any estimated costs of completion and direct selling costs. The rate of obsolescence and the time required for inventory turnover are, among others, taken into account when determining the realisable value that can be inferred from market trends.

Raw materials and supplies used in the manufacture of finished products are not written down if it is expected that these finished products may be realised for a value equal to or greater than their cost of production. However, if as a result of a decrease in the price of raw materials and supplies, we find that the cost of finished products exceeds their realisable value, raw materials and supplies are written down to their net realisable value, assuming their market price as the best estimate.

Inventories are therefore written down when their realisable value, which can be inferred from market trends, is lower than their related book value.

If the reasons for the write-down cease to apply, either in whole or in part, as a result of an increase in the realisable value that can be inferred from market trends, the value adjustment made is reversed within the limits of the cost that was initially incurred.

Contract work in progress

If there is a contract binding on the parties and the Company is able to measure the outcome of the job order reliably, contract work in progress is recognised on the basis of the stage of progress (or percentage of completion) according to which costs, revenues and profit margins are recognised on the basis of the work performed. The percentage of completion is determined by applying the "cost to cost" method.

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

Contract revenues include: contractually agreed fees, as well as any formal changes in works, price review, all required claims and incentives, insofar as these can be determined reliably and it is reasonably certain that they will be recognised.

Contract costs include: all costs that relate directly to the contract, indirect costs that are attributable to the entire production activity and that can be allocated to the contract itself, in addition to any other costs that can be specifically charged to the customer according to the contract clauses. Contract costs also include pre-operating costs, i.e. any costs incurred in the initial phase of the contract before the construction work or production process commences, and costs to be incurred after completing the job order.

If the outcome of a long-term contract cannot be determined reliably, the value of work in progress is determined on the basis of the costs incurred, when it is reasonable for them to be recovered, without any recognition of profit margins.

The fees collected on a definitive basis are recognised as revenues in profit or loss, while any change in contract work in progress, equal to the change in inventories for the work performed and not yet remunerated definitively at the beginning and end of the year respectively, is recognised in the appropriate item through profit or loss. They are recognised as revenues only when it is certain that any accrued revenue is paid definitively to the Company as a consideration for the value of the work performed. In any case of temporary invoicing, advances and prepayments must be considered as financial events, are irrelevant for the purposes of revenue recognition and are always stated among liabilities as they are not determined necessarily in relation to the value of the work performed. On the contrary, the relevant portion of advances and prepayments is reversed from liabilities in the event of the works being invoiced on a definitive basis.

If it is probable that the total estimated costs of each contract exceed total estimated revenues, the contract is valued at cost and the probable loss for completion of the job order is recognised as a decrease in contract work in progress in the financial period in which it becomes foreseeable, on the basis of an objective and reasonable assessment of existing circumstances and regardless of the stage of completion of the contract. If this loss is greater than the value of work in progress, a specific provision for risks and charges equal to the excess must be set aside.

Receivables

Receivables recorded in the financial statements constitute rights to collect fixed or determinable amounts of cash and cash equivalents from customers or other parties, at an identified or identifiable maturity date.

Receivables from the sale of goods and the provision of services are recognised according to the requirements set out in the paragraph commenting on revenues. Receivables originating for reasons other than the exchange of goods and services can be accounted for if there is a "title" to the credit, i.e. if they actually constitute a third-party obligation to the Company.

Receivables must be recognised according to the amortised cost method, taking account of the time factor and their presumed realisable value.

The amortised cost method is not applied when its effects are irrelevant, generally for short-term receivables or when transaction costs, any commission paid between the parties and any other difference between initial value and value at maturity of the receivable are not significant.

Moreover, in accordance with Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has made use of the right not to apply the amortised cost method and discounting-back to all those receivables that arose before 1 January 2016.

These receivables are initially recorded at their nominal value, net of premiums, discounts, rebates agreed as per contract or otherwise granted and subsequently are always measured at their nominal value, plus any interest calculated at the nominal interest rate, less any amount collected on account of principal and interest and net of estimated impairment and losses on receivables accounted for in order to adjust the receivable at its presumed realisable value.

Financial discounts and allowances, which did not contribute to the determination of the presumed realisable value because they were not foreseeable at the time of the initial recognition of the receivable, are recognised upon collection as financial costs.

Cash and cash equivalents

They are made up of credit balances of bank and postal deposits, cheques, money and cash on hand at the end of the financial period. Bank and postal deposits and cheques are measured at their presumed realisable value, while cash and revenues stamps are measured at their nominal value, while liquid assets in foreign currency are measured at the exchange rate prevailing on the reporting date.

Accrued income and prepaid expenses, accrued expenses and deferred income

Accrued income and expenses are made up respectively of portions of income or costs accrued in the financial period that will be received or paid in subsequent years.

Prepaid expenses and deferred income are made up respectively of portions of costs or income that were paid or received during the financial period or in previous financial periods but which will accrue in one or more subsequent years.

Therefore, only portions of costs or income, which are common to two or more financial periods, the amount of which varies in relation to the physical or economic time, are recorded under these items.

At the end of each financial period, it must be established whether the conditions that led to their initial recognition have been fulfilled and, if required, the necessary value adjustments are made. In particular, in addition to the passage of time, the presumed realisable value must be considered for accrued income, while the existence of any future economic benefit linked to deferred costs must be considered for prepaid expenses.

Shareholders' equity

Transactions between the Company and its shareholders (acting as shareholders) may give rise to receivables from or payables to shareholders. The Company recognises a receivable from shareholders when these assume an obligation to the Company while it recognises a payable when it assumes an obligation to shareholders.

Payments made by shareholders which are not subject to a repayment obligation are recorded under the relevant item of shareholders' equity, while any shareholder loan which is subject to a repayment obligation is stated among payables.

Provisions for risks and charges

Provisions for risks and charges are set aside to cover liabilities which are determined and whose existence is certain or probable, but whose amount or timing cannot be determined. In particular, provisions for risks and charges consist of liabilities that are determined, are likely to arise and whose values are estimated, while provisions for charges are made up of liabilities that are determined and whose existence is certain, which are estimated in terms of amount or date of occurrence and which are linked to obligations that had already been assumed at the reporting date, but which will occur in financial terms in subsequent financial periods.

Any accrual to provisions for risks and charges are firstly recorded under the income statement items of the relevant classes, with the criterion of classification by nature of costs prevailing. The amount of accruals to provisions is measured by making reference to the best estimate of costs, including legal costs, at each reporting date and is not discounted to present values.

If the measurement of accruals results in the determination of a range of variability of values, the provision then constitutes the best feasible estimate between maximum and minimum limits of the range of variability of the values.

Any subsequent use of the provisions is made directly and only for those expenses and liabilities for which the provisions were originally set aside. Any negative difference or surplus with respect to the costs actually incurred is recognised through profit or loss in line with the initial provision.

Employee severance pay

The employee severance pay (*Trattamento di Fine Rapporto*, TFR) consists of the benefit to which subordinate staff are entitled in any case of termination of their employment relationship, in accordance with Article 2120 of the Italian Civil Code and taking into account any regulatory changes provided for by Law 296/2006 (2007 Budget Law), which brought in the rules for employee severance pay accrued as from 1 January 2007. As a result of the supplementary pension reform:

➢ the portions of severance pay accrued until 31 December 2006 have remained in the Company;

- the portions of severance pay accrued as from 1 January 2007 have been, at the employee's discretion, either explicitly or tacitly agreed:
    - to be intended for supplementary pension schemes;
    - to be kept in the company, which has transferred the portions of severance pay to the Treasury Fund set up by INPS (Italian Social Security Institute).

The amounts accrued as from 1 January 2007 continue to be shown under item B9 c) Employee severance pay of the income statement. In terms of balance sheet, item C Employee severance pay for subordinate employment consists of the remaining amount of the fund existing at 31 December 2006, as properly revalued as required by law. Item D13 Payables to social security institutions includes the liability accrued at the end of the period in relation to the portion of Employee severance pay still to be paid to pension funds and social security institutions.

It consists of total accrued indemnities, considering any form of remuneration paid on a continuous basis, net of advances paid and partial prepayments made under collective or individual contracts or company agreements, which are not required to be repaid.

The liability for severance pay is equal to the amount that would have had to be paid to employees had the employment relationship been terminated on the reporting date. The amounts of severance pay which relate to employment relationships terminated on the reporting date and which are paid in the subsequent financial periods are classified under payables.

Payables

Payables consist of liabilities that are determined and whose existence is certain, which constitute obligations to pay fixed or determinable amounts of liquid assets to lenders, suppliers and other parties.

Payables arising from the purchase of goods are recognised when the production process of the goods is completed and the ownership has been substantially transferred, assuming the transfer of risks and rewards as a reference parameter. Payables arising from services are recognised when the latter are received, i.e. when the performance has been delivered. Loans and borrowings and payables arising for reasons other than the acquisition of goods and services are recognised when the Company's obligation to make payments to the counterparty arises. Payables for advances from customers are recorded when the right to receive the advance payment arises.

The amortised cost method is not applied when its effects are irrelevant, generally for short-term payables or when transaction costs, any commission paid between the parties and any other difference between initial value and value at maturity of the payable are not significant.

Moreover, in accordance with Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has made use of the right not to apply the amortised cost method and discounting-back to all those payables that arose before 1 January 2016.

These payables are initially recorded at their nominal value, net of premiums, discounts, rebates agreed as per contract or otherwise granted and subsequently are always measured at their nominal value, plus any interest expense calculated at the nominal interest rate, less any amount paid on account of principal and interest.

In any case of early repayment, any difference between the remaining book value of the payable and the disbursement of the repayment is recognised among financial income and costs in profit or loss.

Financial discounts and allowances, which did not contribute to the determination of the initial entry value because they were not foreseeable at the time of the initial recognition of the payable, are recognised upon payment as financial income.

Foreign currency transactions, assets and liabilities

Assets and liabilities arising from a foreign currency transaction are initially recognised in Euro by applying to the foreign currency amount the spot exchange rate between the Euro and the foreign currency applicable at the date of the transaction.

Monetary items in foreign currency, including provisions for risks and charges relating to foreign currency liabilities, are converted in the financial statements at the spot exchange rate prevailing at the reporting date. Any related foreign exchange gains and losses are charged to the profit or loss for the period.

Non-monetary assets and liabilities in foreign currency remain recorded in the balance sheet at the exchange rate prevailing at the time of their acquisition and therefore any positive or negative exchange difference does not give rise to an independent and separate recognition.

Any net profit arising from exchange rate adjustments to monetary items in foreign currency contributes to the formation of the result for the period and is recorded in a specific non-distributable reserve upon the approval of the financial statements and consequent allocation of the result. If the net result for the period is less than the unrealised gain on foreign currency items, the amount stated in the non-distributable reserve is equal to the result of operations for the period.

If items denominated in foreign currency are designated as hedged items or hedging instruments in a hedging relationship, the accounting models described in the paragraph on "Derivatives " shall apply.

Commitments and guarantees

In consideration of the changes brought in by Legislative Decree 139/2015, the memorandum accounts are no longer required to be reported, also with reference to the previous period, in relation to which information is provided in these notes to the financial statements, as required by the new wording of Article 2427 of the Italian Civil Code. These items are recorded at nominal value or the actual commitment.

Costs and revenues

Revenues and income, costs and expenses are stated net of returns, discounts, rebates and premiums, as well as of any tax directly connected with the sale of products and the provision of services, in accordance with the principles of accruals and prudence. Revenues from sales of goods are recognised when the production process of the goods has been completed and the exchange has already taken place, i.e. the substantial and informal transfer of ownership has taken place, assuming the transfer of risks and rewards as a reference parameter. Revenues from services are recognised when the service is rendered, i.e. the performance has been delivered.

Revenues and income, costs and expenses relating to foreign currency transactions are determined at the spot exchange rate on the date on which the related transaction is carried out.

Income and expenses relating to purchase and sale transactions with reconveyance obligation, including the difference between forward price and spot price, are recorded for the portions accrued in the year.

Any revenue or cost item of an exceptional amount or impact is commented on in a specific paragraph of these Notes to the Financial Statements.

Government operating grants

Where government grants are awarded by a formal resolution and, in any case, when the right to their payment is considered to be final because there is reasonable certainty that the company will comply with the conditions for their collection and that the grants will be actually collected, they are recognised on an accrual basis in direct correlation with the costs incurred.

Operating grants are recognised in the period in which it is certain that the right to receive them has actually arisen.

Financial income and costs

All positive and negative components of the results of operations for the period relating to the entity's financial transactions are recognised on an accruals basis.

Income and costs arising from derivatives are accounted for in profit or loss according to the methods described above.

Gains and losses arising from the translation of foreign currency items are credited and debited to item C.17 bis Foreign exchange gains and losses of the Income Statement, respectively.

In particular, if the adjustment at the exchange rates prevailing at the end of the year shows a net profit, this amount is allocated to a specific non-distributable reserve until it is actually realised.

Income taxes

Current taxes are calculated on the basis of a realistic forecast of taxable income for the period, which is determined as required by tax legislation and using the tax rates applicable at the reporting date. The related tax liability is recognised in the balance sheet net of advances paid, withholdings and tax credits that can be offset and are not required to be repaid; if the advances paid, withholdings and credits exceed tax payables, the related tax credit is recognised. Tax receivables and payables are measured at amortised cost, except when they are due and payable within 12 months.

The Company has joined the national tax consolidation scheme of the parent company Leonardo S.p.A. for IRES (*Imposta sul Reddito delle Società*, Corporate Income) tax purposes. The balance sheet therefore includes receivables from and payables to the consolidating company arising from the quantification of tax benefits attributed and received.

Deferred tax assets and liabilities are calculated on the cumulative amount of all temporary differences existing between the values of assets and liabilities determined in accordance with statutory accounting policies and their value recognised for tax purposes, which are expected to reverse in subsequent financial periods.

Deferred tax assets and liabilities are recognised in the financial period in which temporary differences arise and are calculated by using the tax rates applicable in the period in which temporary differences will reverse, if these rates are already defined at the reporting date; otherwise, they are calculated on the basis of the rates applicable at the reporting date.

Deferred tax assets on deductible temporary differences and the benefit associated with carrying forward tax losses are recognised and kept in the accounts only if there is reasonable certainty of their future recovery, through the forecast of taxable income or the availability of sufficient taxable temporary differences in the financial periods in which deferred tax assets will reverse.

A deferred tax asset not accounted for or reduced in previous financial periods, because it did not meet the requirements for its recognition or maintenance in the financial statements, is recorded or reinstated in the financial period in which these requirements are met.

In the balance sheet, deferred tax assets and liabilities are offset when the conditions are met (possibility and intention to offset); any offset balance is recorded under specific items of current assets, if it consists of a credit, and of provisions for risks and charges, if it consists of a debt.

The notes to the financial statements present a statement of the temporary differences that led to the recognition of deferred tax assets and liabilities, specifying the rate applied and the changes compared to the previous financial period, the amounts debited or credited to profit or loss or equity and the items excluded from calculation, as well as the amount of deferred tax assets accounted for in relation to losses for the period or previous periods and the amount of tax not yet accounted for.

Significant events after the year-end

The events that occurred after the end of the financial period, which show conditions that were already existing at the reporting date and which require changes in the values of assets and liabilities, as provided for in the relevant accounting standard, are recognised in the financial statements in accordance with the accruals basis of accounting, to reflect the effect that these events had on the financial position, results of operations and cash flows at the reporting date.

The events that occurred after the end of the financial period, which indicate situations that arose after the reporting date and which do not require a change in the carrying amounts, as provided for in the relevant accounting standard, since they will accrue in the following financial period, are not recognised in the schedules of financial statements but are illustrated in the notes to the financial statements, if they are considered relevant for a more complete representation of the Company's affairs.

The time limit by which the event must occur for it to be taken into account is the date of preparation of the draft financial statements on the part of the Directors, except when events occur between that date and the date scheduled for approval of the financial statements on the part of the Shareholders' Meeting which are such as to have a material effect on the financial statements.

Analysis of each item

Balance sheet

Intangible assets

They are stated at purchase cost or contribution value net of amortisation allowances calculated in relation to their residual useful life. There are no intangible assets whose useful life is considered to be indefinite.

Software products have been amortised using a rate of 33.33%.

Leasehold improvements, where present, are amortised using rates commensurate with the residual term of the lease.

The amount of Euro 22,811,302, recorded under item B6 "Fixed assets under development and advances" refers to costs incurred for the development of the "AW HERO" programme.

Costs have been capitalised taking into account the business plan of the product that was presented by the parent company Leonardo, Helicopters Division, to the Investment Committee of Leonardo S.p.A. in June 2019 and was then approved by the latter.

The business plan drawn up on the AW HERO product shows discounted future cash flows that justify the capitalisation value of the project.

In addition, the impairment test carried out on the data in the business plan confirms that the investment may be recovered.

This impairment test, which estimates the sale of 200 helicopters in the period from 2020 to 2031, shows a Net Present Value of Euro 54,491 million compared to a Carrying Value of Euro 24,206 million, posting a profit of Euro 30,284 million.

Cash flows have been discounted by using a WACC of 7.7%.

It should be noted that a sensitivity analysis was performed on this impairment test for three critical scenarios:

- the first scenario reduces whole-life deliveries by 20% from 200 to 160;
- the second scenario reduces whole-life deliveries by 30% from 200 to 140;
- the third scenario, in addition to reducing whole-life deliveries by 30% as in the second scenario, reduces the basic price of AWHERO by 10% from Euro 1.4 million to Euro 1.26 million.

In this way, the sensitivity of the Impairment Test results is tested both in relation to a reduction in the delivery plan in the event of failure to achieve the expected potential market share, and to a reduction in AWHERO selling prices that could be imposed by the competitiveness of the market in which AWHERO will be sold. In all three scenarios, the Impairment test results are positive, thus confirming that the investment may be recovered in full, as there are no other critical elements that are required to be subjected to sensitivity tests.

It should be noted that the amounts calculated in relation to the R&D tax credit under Decree Law 145 of 23 December 2013, as amended and converted into Law 9 of 21 February 2014 and subsequently amended by Law 190 of 23 December 2014, Law 232 of 11 December 2016 and Law 145 of 30 December 2018, have been reversed from the capitalisations described above. These amounts, calculated for the 2015, 2016, 2017 and 2018 years, have been included in the Tax Return for the 2018 tax year and in the additions to the Tax returns for the 2015, 2016 and 2017 tax years and amount to Euro 2,158,900.

The table below show the changes in intangible assets:

	Software Products	Leasehold improvements	Fixed assets under development - R&D	R&D advances	Totals
Balance at 1 January 2019	**15,807**	**344,544**	**19,044,761**	**66,058**	**19,471,170**
Acquisitions/Capitalisations - 2019	11,169	113,325	6,405,441		**6,529,935**
Uses of the Amortisation Fund/Reversals for tax credit under Decree Law 145 of December 2013	-	-	2,158,900	66,058	**2,224,958**
Write-downs (item B 10 letter C)			480,000		**480,000**
Changes in 2019	11,169	113,325	3,766,541	-66,058	**3,824,977**
Amortisation for 2019	16,216	87,750	-	-	**103,966**
Historical cost	721,896	542,870	22,811,302	0	**24,076,068**
Amortisation fund	711,137	172,751	-	-	**883,888**
Amount at 31 December 2019	**10,759**	**370,119**	**22,811,302**	**-**	**23,192,180**

The write-downs relating to " *fixed assets under development - R&D* " refer to the write-down made following the accidents that occurred to two AWHERO aircraft in June and August 2019. For both accidents, the Company has applied for insurance refund, the settlement of which, although at an advanced stage of agreement, had not been yet formalised by the insurance company at the reporting date.

Property, plant and equipment

The table below shows the changes in property, plant and equipment:

	Land and buildings Lightweight constructions	Plant and machinery - General systems	Industrial and business equipment	Other assets Computers and monitors, Printers	Other assets Furniture and fittings	Other assets Telephones and Mobile phones, Other fixed assets	Other assets Motor vehicles	Fixed assets under construction and advances	Total
Amount at 1 January 2019	**16.428**	**132**	**83.026**	**96.500**	**59.529**	**73.257**	**32.445**	**12.500**	**373.817**
Acquisitions/Capitalisations - 2019	-	6.200	68.065	5.211	9.261	1.577	47.800		**138.114**
Uses of the Depreciation Fund for Disposals/Sales	-			-	-	-		12.500	**12.500**
Depreciation for 2019	3.460	752	45.113	29.811	9.065	16.647	14.050	-	**118.898**
Changes in 2019	- 3.460	5.448	22.952	- 24.600	196	- 15.070	33.750	- 12.500	**6.716**
Historical cost	43.599	7.521	617.923	282.359	117.357	95.770	94.150	-	**1.258.679**
Depreciation fund	30.631	1.941	511.945	210.459	57.632	37.583	27.955	-	**878,146**
Amount at 31 December 2019	**12.968**	**5.580**	**105.978**	**71.900**	**59.725**	**58.187**	**66.195**	**-**	**380.533**

The rates for goods purchased during the year were reduced by half.

Financial assets

These include the guarantee deposit of Euro 100,000 paid to All.Co S.p.A. in 2017 following the execution of the lease agreement involving the property located in Pisa, località Ospedaletto, Via Cannizzaro no. 7.

Current assets

Inventories

Consumables are stated at purchase cost and the value can be inferred from the related purchase invoices.

Contract work in progress is recognised according to the percentage-of-completion method, according to which costs, revenues and profit margins are recognised with reference to the ratio of costs incurred at the end of the year to total costs (determined on the basis of the best available estimate) expected on the programme. Work in progress has been measured at the percentage of completion.

Below are the changes recorded in the amount of inventories compared to the previous year:

	31.12.2019	31.12.2018	Changes
Raw materials, supplies, consumables and goods for resale	428.880	75.851	353.029
Contract work in progress	6.417.133	3.323.365	3.093.768
Advances	19.726	232.396	-212.670
Total Inventories	**6.865.739**	**3.631.612**	**3.234.127**

Receivables

Receivables are stated at their presumed realisable value, which coincides with their nominal value since they are considered to be collectable in full. All receivables are due and payable within 12 months. The Italian Accounting Board OIC 15 provides for the receivables to be recognised according to the amortised cost method, while the principle of materiality is considered to be applicable to the receivables claimed by Sistemi Dinamici: therefore, "it is not necessary to comply with the obligations in terms of recognition, measurement, presentation and disclosure when their fulfilment has irrelevant effects in order to give a true and fair view of the accounts." Since the trade receivables recorded in the financial statements are short term, without transaction costs and without differences between initial value and value at maturity, it is plausible to consider that, since the effects of the application of amortised cost and discounting-back were irrelevant, they have therefore been disapplied in order to come back to using the methods of realisable value and nominal value.

The breakdown by geographical area fully concerns receivables claimed from entities resident in Italy, except for the item of "Receivables from subsidiaries of parent companies" relating to trade receivables due from companies based in the United Kingdom.

The table below shows the break down of changes that were recorded in each item of receivables compared to the previous year:

	31.12.2019	31.12.2018	Changes
Within 12 months			
Due from customers	106.127	213.837	-107.710
Due from parent companies	1.417.095	4.080.199	-2.663.104
Due from entities controlled by parent companies	518.000	-	518.000
Due from the Tax Office	2.313.412	69.744	2.243.668
Deferred tax assets	117.417	128.127	-10.710
Due from others	712.655	287,760	424,895
Total receivables	**5.184.706**	**4,779,668**	**405,038**

“Receivables due from parent companies” consist of trade receivables relating to services rendered to Leonardo S.p.A., Helicopters Division, for Euro 731,226 and receivables from Leonardo S.p.A. for advances and income under the tax consolidation scheme for Euro 685,869.

“Receivables due from entities controlled by parent companies” relate to amounts claimed from Leonardo MW Ltd.

“Receivables due from customers” are made up of trade receivables due from customer Ge Avio S.r.l..

“Receivables due from the Tax Office”, equal to Euro 2,313,412, are mainly made up of the R&D Tax Credit relating to the development of the AW HERO programme for the research years 2015, 2016, 2017 and 2018. The receivable, which has been set at Euro 2,158,900, has been reported in the 2018 tax return transmitted on 29 November 2019 and in the documents additional to the tax return relating to the 2015, 2016 and 2017 tax years which were also submitted on 29 November 2019.

The remaining amount of this item includes the VAT credit accrued at 31 December 2019 stated for Euro 112,742 and IRAP (*Imposta Regionale sulle Attività Produttive*, Regional Production Activity) tax advances paid for Euro 41,717 during the year.

“Receivables due from others” mainly includes the assessment of the non-refundable grant of the "Ocean 2020" programme funded by the European Union. The programme ended in November 2019 with positive results in line with the call for tender. The report of the costs incurred will be submitted to the Paying Entity in March 2020.

Receivables for deferred tax assets

The table below shows the breakdown of tax receivables for deferred tax assets stated under no. 5-*ter* of the Balance Sheet.

	Amount of temporary differences	Tax rate	Tax effect
- Early amortisation	3,605	24%-4.25%	1,035
- Excess interest expense (prior to approval of tax consolidation)	470,174	24.00%	112,842
- Excess non-deductible maintenance costs	56,073	24.00%	13,458
- 4/5 Amount of capital grant	-41,320	24.00%	-9,917
Total deferred tax assets			**117,417**

Deferred tax assets have been calculated by assuming an IRES tax rate of 24% and an average IRAP tax rate of 4.25% for the next financial years.

Cash and cash equivalents

These are cash values certain in nature that are recognised at their nominal value and are broken down as follows:

	31.12.2019	31.12.2018	Changes
Money and cash on hand	2,581	555	2,026
Bank deposits	112,647	154,782	-42,135
Total	**115,228**	**155,337**	**-40,109**

Accrued income and prepaid expenses

These are calculated according to the matching principle and on an accruals basis in the application of the principle of correlation of costs and revenues for the year and include costs that are common to two or more financial years.

Prepaid expenses are broken down in the table below:

	31.12.2019	31.12.2018	Changes
Service, maintenance and utilisation fees	46,278	45,525	753
Others	18,640	18,642	-2
Total	**64,918**	**64,167**	**751**

Equity

The table below reports the changes in Equity and its breakdown at the end of the year:

	Share capital	Legal reserve	Capital payments	Extraordinary reserve	Result for the year	Total
Balance at 31 December 2016	200.000	32.752	3.626	458.760	1.599	696.737
Result for FY 2016					**-367.299**	**-367.299**
Balance at 31 December 2016	200.000	32.752	3.626	458.760	-365.699	329.439
Shareholders' Meeting of 10 February 2017						
- allocation of the profit for FY 2015		**80**		**1.519**	**-1.599**	**0**
Shareholders' Meeting of 28 March 2017						
- coverage of loss for 2016				-367.299	367.299	0
- reclassification			-3.626	3.626		-
Result for FY 2017					-86.316	**-86.316**
Balance at 31 December 2017	200.000	32.832	0	96.607	-86.316	243.123
Shareholders' Meeting of 22 March 2018						
- allocation of the profit for FY 2017				**-86.316**	**86.316**	**0**
Result for FY 2018					40.404	**40.404**
Balance at 31 December 2018	200.000	32.832	0	10.291	40.404	283.527
Shareholders' Meeting of 2 April 2019						
- allocation of the profit for FY 2018		**2020**		**38.384**	**-40.404**	0
Result for FY 2019					-2,528,651	**-2,528,651**
Balance at 31 December 2019	**200.000**	**34.852**	**0**	**48.675**	**-2,528,651**	**-2,245,124**

The result for the 2019 financial year consists of a loss of Euro 2,528,651, which shows a negative value of Equity. The amount of the loss, which arose as from the second half of the year, is mainly attributable to the greater financial commitments recorded by the "Ocean 2020" programme funded by the European Union, which was successfully concluded in November 2019. In addition, higher costs were recorded within the scope of the contract of sale for the supply of five AW HERO aircraft, awarded to Leonardo S.p.A., Helicopters Division, in 2018, a portion of which concerns the supply of the engine.

The merger process that commences in June and was completed on 11 December 2019, by a deed drawn up by Mr De Franchis, Notary Public, registered under file no. 12572 and register no. 6093, led to the provisions of Article 2447 of the Italian Civil Code becoming no longer applicable.

The table below provides information on the origin of each item of Equity and its possible use and availability, as well as its possible use in previous years.

				Uses made in the three previous years	
	Amount	Possible use	Available share	For loss coverage	For other reason
Share capital	**200,000**				
Revenue and capital reserves:					
- legal reserve	34,852	B		34,852	
- extraordinary reserve	48,675	B		48,675	
Total	**83,527**			**83,527**	
Non-distributable portion	83,527				
Distributable portion	-				

Key:
A - for capital increases
B - for loss coverage
C - for distribution to shareholders

Provision for Risks and Charges

No Provision for Risks and Charges was set aside in 2019.

Employee severance pay for subordinate employment

The liability for employee severance pay of subordinate staff is adequate to the remuneration accrued at the end of the year in accordance with the provisions of law and contract in force, net of advances paid to employees.

The uses of the provision recorded during the year related to the payment of the indemnities due to resigning staff.

The table below shows the changes recorded in the Provision during the period:

	Opening balance	Uses	Accruals	Closing balance
Provision for Employee Severance Pay	629,647	-235,245	97,746	492,148

Payables

These are shown at their nominal value, which is considered equal to their presumed repayment value and represent the Company's actual exposure; there are no payables which are backed by collateral on corporate assets. Short-term payables consist of the debt incurred due to the absence of transaction costs and with no difference between initial value and value at maturity. It has been therefore deemed plausible to consider that, since the effects of the application of amortised cost and discounting-back to present value are irrelevant, they have therefore been disapplied in order to come back to using the methods of realisable value and nominal value.

The table below shows the breakdown and changes of each item:

	31.12.2019	31.12.2018	Changes
Due to Shareholders for loans	27,885,384	18,787,213	9,098,171
Due to other lenders	945,050	945,050	-
Advances	4,200,000	4,200,000	-
Due to suppliers	1,694,232	2,108,648	-414,416
Due to parent companies	2,610,317	1,146,442	1,463,875
Due to entities controlled by parent companies	0	4,050	-4,050
Tax payables	55,273	99,981	-44,708
Due to social security institutions	77,091	80,262	-3,171
Others	188,933	275,761	-86,828
Total payables	**37,656,280**	**27,647,407**	**10,008,873**

The tables below report the breakdown of payables by maturity and geographical area:

Payables by maturity	**Within 12 months**	**Beyond 12 months**	**Beyond 5 years**	**Total**
Due to Shareholders for loans	27,885,384	-	-	**27,885,384**
Leonardo S.p.A.	*27,885,384*	-	-	27,885,384
Due to other lenders	245,050	700,000	-	945,050
Due to suppliers	1,694,232	-	-	1,694,232
Advances	4,200,000	-	-	4,200,000
Due to parent companies	2,610,317	-	-	2,610,317
Due to entities controlled by parent companies	-	-	-	-
Tax payables	55,273	-	-	55,273
Due to social security institutions	77,091	-	-	77,091
Others	188,933	-	-	188,933
Total payables	**36,956,280**	**700,000**	-	**37,656,280**

Payables by geographical area	**Italy**	**EU countries**	**Non-EU countries**	**Balances**
Due to shareholders for loans	27,885,384	-	-	27,885,384
Due to other lenders	700,000	245,050	-	945,050
Advances	4,200,000	-	-	4,200,000
Due to suppliers	1,647,742	44,266	2,224	1,694,232
Due to parent companies	2,610,317	-	-	2,610,317
Tax payables	55,273	-	-	55,273
Due to social security institutions	77,091	-	-	77,091
Others	188,933	-	-	188,933
Total payables	**37,364,740**	**289,316**	**2,224**	**37,656,280**

In analysing each item making up total payables, the following information is provided:

Payables to shareholders for loans

This item includes short-term loans disbursed by the Sole Shareholder Leonardo S.p.A..

The main items of this item are detailed below.

On 3 January 2017 the opening of an inter-divisional current account held with the Shareholder Leonardo S.p.A., Helicopters Division, was requested and obtained. The purpose of the opening of this current account is to support the Company, which is engaged in the development of the "AW HERO" programme. On the basis of this relationship, Sistemi Dinamici has submitted requests for credit in line with forecast cash flows.

On 7 December 2018 a loan of Euro 9,000,000 was disbursed by the parent company Leonardo S.p.A.. The loan is in the form of a conversion of pre-existing short-term debt into medium/long-term debt. The purpose is to correlate the hedges to the investments relating to the development costs of the AW HERO product which will be recovered from the sales of aircraft, and, therefore, in the medium- to long-term period.

The loan has a term of five years and may be repaid in a lump-sum at maturity.

The loan accrues interest at a fixed rate of 4.5% on an annual basis in line with market interest rates. The contract does not provide for transaction costs.

The above debt has been recognised as short-term debt and reclassified with respect to its nature as per contract. This reclassification is the result of having completed the merger by incorporation, already mentioned in the paragraphs above, which became effective from 1 January 2020. In accordance with Article 1253 of the Italian Civil Code, since the titles of the creditor and debtor have merged into the same entity, the obligation has been discharged, and the third parties who provided security for the debtor have been relieved of any obligation. Therefore, as part of the consolidation of accounting balances, the merging company will derecognise mutual receivables and payables that are extinguished due to confusion.

The financed amounts have accrued interest totalling Euro 616,156 which has been stated under item C17 “Interest and other financial costs” of the Income Statement.

Payables to other lenders

These include payables of Euro 700,000 relating to the loan obtained from IDS Ingegneria dei Sistemi

S.p.A., which was a shareholder of the company until 22 December 2016.

Under the agreements that have regulated the transfer of stakes from IDS Ingegneria Dei Sistemi S.p.A. to Leonardo S.p.A. the abovementioned loan must remain in place until Sistemi Dinamici S.p.A. has gained orders for at least fifteen AW HERO aircraft.

More precisely, the loan shall be repaid in two tranches of equal amount:

- The first tranche upon Sistemi Dinamici receiving an order for five units of AW HERO aircraft;
- The second tranche after having received an additional order for at least ten units of AW HERO aircraft.

The loan will not accrue interest.

It should be noted that a simulation has been made to assess the effects arising from the recognition of the debt at its discounted value as required by the Italian Accounting Board principle OIC 19 governing amortised cost. On the basis of the present information on the sales plan of AW HERO aircraft, which provides for the execution of the first agreements with third-party customers in 2020, we have concluded that the effects of discounting-back the debt can be considered to be irrelevant and we have then stated the debt at its nominal value.

This item includes “Loans and borrowings from third parties” of Euro 245,050 relating to loans on the OCEAN 2020 programme funded by the European Union.

Sistemi Dinamici has taken part in the project as a related party of the parent company Leonardo S.p.A.. As mentioned in the paragraphs above, the operations were completed in November 2019 and will be reported in March 2020.

Payables to parent companies

This item consist of trade payables to Leonardo S.p.A..

Advances

These include amounts of Euro 4,200,000 obtained from customer Leonardo S.p.A., Helicopters Division, under a contract for the supply of five AW HERO aircraft. The contract, for a total value of Euro 6,000,000, was ratified by the Board of Directors on 12 October 2018 and provides for the invoicing of advances linked to various steps of the production plan.

Tax payables

This item mainly consists of payables for IRPEF (*Imposta sul Reddito delle Persone Fisiche*, Personal Income tax) withholdings on the wages and salaries paid to subordinate employees; payables to social security institutions include amounts to be paid to INPS (*Istituto Nazionale della Previdenza Sociale*, Italian Social Security Institute) and INAIL (*Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro,* Italian Institute for Insurance against Accidents at work) and IRAP tax payables.

Other payables

This item is mainly made up of payables to subordinate employees for wages and salaries due in December, the refund of expenses and sundry pay accruals. This item also includes the fees paid and to be paid to the Board of Statutory Auditors and to the Board of Directors, the cost of which amounts to Euro 74,693.

Income statement

Costs and revenues

These are recognised according to the matching principle and the principle of prudence.

Revenues from sales and services

These are broken down as follows:

	31.12.2019	31.12.2018	Changes
Provision of services to Customers	172,127	850,731	-678,604
Provision of services to Parent companies	379,920	729,567	-349,647
Provision of services to Entities controlled by parent companies	518,000	-	518,000
Total	**1,070,047**	**1,580,298**	**-510,251**

In accordance with Article 2427, paragraph 22-*bis*, of the Italian Civil Code, it should be noted that related-party transactions were carried out at arm’s length.

It should be noted that, as regards geographical areas, all revenues are claimed from entities incorporated in Italy, except for those stated among *“Provision of services to entities controlled by parent companies”*, relating to receivables claimed from Leonardo MW Ltd, a Company established in the United Kingdom.

Change in contract work in progress

This item is broken down as follows:

	31.12.2019	31.12.2018	Changes
Contract work in progress	3,093,767	3,213,219	- 119,452
Total	**3,093,767**	**3,213,219**	**- 119,452**

Capitalisation of internal construction costs

This item includes the capitalisation of activities carried out during the year within the scope of the AW HERO project.

These costs have been capitalised according to the Italian accounting Board principle OIC 24 for an amount of Euro 6,405,441.

Other Revenues and Income

Below is the breakdown of item A5 of the Income Statement:

	31.12.2019	31.12.2018	Changes
Sundry revenues	8,356	5,762	2,594
Rounding-offs receivable	26	3	23
Recurring contingent assets	9,762	605	9,157
Charge of fines to employees	-	138	-138
Insurance refunds	-	224,539	-224,539
Proceeds from grants under the EU Ocean 2020 programme	612,625	-	612,625
Use of the provision for general risks	-	14,158	-14,158
Total Other Revenues and Income	**630,771**	**245,203**	**385,568**

It should be noted that non-refundable grants accrued on the “OCEAN 2020” programme and recognised under “Other Revenues and Income”, the breakdown of which is reported above, have not yet been paid by the Paying Entity (.e. the European Union) but recognised on accruals basis petence.

Costs for raw materials, supplies and consumables

Below is the breakdown of item B6 of the Income Statement:

	31.12.2019	31.12.2018	Changes
Materials	4,049,049	3,452,937	596,112
Materials from Group companies	-	11,610	- 11,610
Fuels	6,440	9,278	-2,838
Sundry consumables	95,088	10,257	84,831
Total	**4,150,577**	**3,484,081**	**666,496**

Costs for Services

Costs for services stated under item B7 of the Income Statement are broken down as follows according to the schedules reported below**:**

	31.12.2019	31.12.2018	Changes
Manufacturing services	2.798.594	1.718.661	1.079.933
Administrative advice	191.791	118.787	73.004
Fees due to statutory auditors, independent auditors and directors	123.368	86.326	37.042
Services from group companies	2.434.322	869.950	1.564.372
Others	1.163.993	759.460	404.533
Total	**6.712.068**	**3.553.184**	**3.158.884**

There was a general increase in costs for services, especially with reference to "*Manufacturing Services*" and "*Services from Group Companies*".

This increase was essentially due to higher work volumes in the development of the AW HERO product in line with the forecasts of the budget plan. During the year, as in the previous year, there was an increase in the number of Leonardo staff members transferred and seconded to Sistemi Dinamici with a view to greater integration of Sistemi Dinamici's staff with that of Leonardo Helicopters Division, with the aim of exploiting the specific skills and experience of both companies. This resulted in an increase in related costs.

The use of third-party consultants on development activities that are not considered to be strategic generated an increase in "Manufacturing Services".

Finally, the increase in "Others" refers to higher management costs for the new headquarters which, compared to the previous year, affected the whole year rather than 6 months only.

Costs for leases and rentals

Below is the breakdown of item B8 of the Income Statement:

	31.12.2019	31.12.2018	Changes
Lease of premises	204.628	300.615	-95.987
Rentals	51.526	53.568	-2.042
Total	**256.154**	**354.183**	**-98.029**

The decrease in the cost of leasing premises was a consequence of the fact that in the previous year the Company had kept the former headquarters' premises leased for most of the year.

The item "rentals" is in line with the values assumed in the previous year.

The Company has not entered into any finance lease agreement.

Personnel costs

Item B9 (broken down into wages and salaries, social security charges and accrual to the provision for employee severance pay and other costs) includes all expenses for subordinate staff, including merit pay increases, changes in category, length of service increments, the cost of untaken holidays and provisions set aside by law and under collective agreements.

The breakdown of this item reflects the following schedule:

	31.12.2019	31.12.2018	Changes
Wages and salaries	1.607.601	1.504.604	102.997
Social security charges	194.503	191.295	3.208
Employee severance pay	97.746	104.254	-6.508
Temporary work	331.563	332.620	-1.057
Other costs	2.346	885	1.461
Total	**2.233.759**	**2.133.658**	**100.101**

Amortisation of intangible assets and depreciation of property, plant and equipment

These items relate to the share accrued in the year and are consistent with the tax provisions in force. The criteria are detailed in the first part of the notes to the financial statements in the comments on fixed assets.

Below is a table explaining each item making up total amortisation and depreciation:

	31.12.2019	31.12.2018	Changes
Ammortisation of Intangible Assets	103.966	81.572	22.394
Depresation of Poperty, Palnt and Equipment	118.897	89.364	29.533
Impeirment of Intangible Assets	480.000	-	480.000
Impairment of Poperty, Palnt and Equipment	-	431.416	-431.416
Total	**702.863**	**602.352**	**100.511**

The item of "*Impairment of intangible assets*" includes write-downs applied to R6D Fixed assets under development following the accident that occurred to the two aircraft, as described in the paragraphs above.

Change in inventories of raw materials, supplies and consumables

Item B11 shows the change in opening and closing inventories of materials recognised under B6.

	31.12.2019	31.12.2018	Changes
Raw materials, supplies, consumables and goods for resale	428,880	75,851	353,029
Total	**428,880**	**75,851**	**353,029**

Accruals to provisions for risks

Item B12 reports the change in the provisions for risks accrued in the year stated in class B of the Balance Sheet liabilities.

Other operating costs

Item B14 of the Income Statement is broken down as follows:

	31.12.2019	31.12.2018	Changes
Non-income taxes and duties	10,966	8,260	2,706
Membership and category fees	1,326	3,216	-1,890
Other costs	31,481	19,657	11,824
Total	**43,773**	**31,133**	**12,640**

Financial income and costs

These have been fully stated in profit or loss and reported in the table below:

Financial income

	31.12.2019	31.12.2018	Changes
For interest on current bank accounts	53	-	53
Total	**53**	**-**	**53**

Financial costs

	31.12.2019	31.12.2018	Changes
Interest expense on current bank accounts	30	-	30
Interest expense on shareholder loans	616,156	305,989	310,167
Commissions on sureties	916	-	916
Interest on tax charges	1,158	-	1,158
Interest expense on payables to suppliers	123	232	-109
Total interest expense	**618,383**	**306,221**	**312,162**
Total Foreign Exchange losses	**9,391**	**12,323**	**-2,932**
Total financial costs	**627,774**	**318,544**	**309,230**

Foreign Exchange losses relate to Exchange differences on commercial operations.

Income taxes for the year

Current income taxes are determined on the basis of a realistic forecast of the charges to be paid in accordance with current tax legislation. Current tax payables are stated among "Tax payables", net of advances paid, or among other receivables if the advances exceed the tax burden for the year.

Deferred tax assets or liabilities are calculated, taking into account the presumed reversal rate, on the temporary differences between book values and tax values of assets and liabilities.

No provision for taxes was set aside during 2019, due to the strongly negative result.

As is known, as from 12 April 2017 the Company joined the national tax consolidation scheme of the parent company Leonardo S.p.A. for IRES tax purposes for the three-year period from 2017 -2018-2019 in accordance with Articles 117 to 119 of the TUIR (*Testo Unico delle Imposte sui Redditi*, Consolidation Act on Income Taxes). As per Section 2b) of the consolidation agreement, the losses of the Consolidated company for the periods of consolidation will be used to offset positive taxable income of the Consolidating company and will be measured by the Consolidating company through the allocation of a cash amount and/or the attribution of tax values equal to the IRES tax rate applied to the loss for the period.

The Consolidating company has therefore notified the recognition of a consolidated income of Euro 655,920.

This income has been recorded among current taxes in the Income Statement.

Finally, it should be noted that on 20 December 2019 an application for admission to the ruling procedure was submitted to the Revenue Agency – Tuscany Regional Head Office in accordance with Article 1, paragraph 39, of Law 190 of 23 December 2014, as amended, as well as with Article 12 of Ministerial Decree of 30 July 2015, as amended by Ministerial Decree of 28 November 2017, and the Revenue Agency’s Order under file no. 2015/154278 of 1 December 2015, aimed at the preliminary definition of methods and criteria for the calculation of income arising from a direct use of intangible assets referred to in Article 6 of Ministerial Decree of 30 July 2015, as amended by Ministerial Decree of 28 November 2017.

Profit (loss) for the year

As noted in the previous paragraphs, the financial year closed with a loss of Euro 2,528,651. The loss accrued during the second half of the year and was mainly due to the higher costs recorded on the European Union-funded "OCEAN 2020" programme, as well as to an increase in engine supply costs that affects the profit margins of the construction contract for five AW HERO aircraft acquired by the Parent Company during 2018.

The amount of the loss led to negative Shareholders' Equity values. This event, which had already emerged during the presentation of forecasts, was promptly reported and minuted by the governing body. The advanced stage of the Company's merger into Leonardo S.p.A. has, in fact, made the requirements of Article 2447 of the Italian Civil Code unnecessary.

Significant events after the year-end

As described in the paragraphs above, by a deed drawn up by Mr De Franchis, Notary Public, the merger of the Company by incorporation into Leonardo S.p.A., Helicopters Division, was completed on 11 December 2019.

It should be noted that, as of 22 December 2016 Leonardo S.p.A., which already held 40% of the Company's share capital, acquired the remaining 60% of the Company's share capital from shareholder I.D.S. Ingegneria dei Sistemi S.p.A., thus becoming its sole shareholder, with the aim of strengthening Leonardo's position in the sector of Unmanned Aerial Vehicles (hereinafter "UAVs"), as well as expanding its range in the market characterised by steady growth in recent years and destined to increase in the near future.

The merger of Sistemi Dinamici by incorporation into the Helicopters Division of Leonardo S.p.A. is to be sought for financial and organisational reasons and, more generally, falls within the scope of the broader "One Company" project for the strategic and corporate rationalisation of some assets in the Aerospace, Defence and Security core business.
In the first months of the year, there was the migration of the Company's data to the SAP management software of the Helicopters Division which had started in autumn 2019. Furthermore, the necessary actions were taken to train Pisa personnel to use the management software itself.

Information that may affect the amount, timing and certainty of flows

In the light of the merger by incorporation mentioned above, no events or circumstances are reported which might affect future cash flows generated by the activities carried out.

Other information

During the current year the fees due for the work performed by the Board of Directors were approved for a gross annual amount of Euro 35,000, while the fees allocated for the Board of Statutory Auditors amounted to a total of Euro 39,325.

The audit engagement for the three-year period from 2017 to 2019 was awarded to KPMG S.p.A.. This company was also appointed to audit the expenses incurred by Sistemi Dinamici S.p.A. in the financial year ended 31 December 2018 for the purposes of determining the Tax credit provided for in Law 145 of 23 December 2013, as amended and converted into Law 9 of 21 February 2014 and subsequently amended by Law 190 of 23 December 2014, Law 232 of 11 December 2016 and Law 145 of 30 December 2018.

For the current financial year, the fees allocated to KPMG S.p.A. against the work described above amount to Euro 48,675 of wich euro 12,000 for the audit activity.

Related-party transactions

We specify that the transactions with related parties, as detailed in the appropriate paragraph of the Report on Operations, were carried out at arm’s length.

Subordinate staff

The table below shows the average employment levels by site of work (Pisa and Varese) recorded during the year:

Average Workforce - 2019

	January	February	March	April	May	June	July	August	September	October	November	December	Average
Pisa	28	28	28	28	28	28	27	27	27	28	28	27	**27.67**
Varese	2	0	0	0	0	0	0	0	0	0	0	0	**0.17**
	30	28	28	28	28	28	27	27	27	28	28	27	**27.83**

Commitments and potential risks and liabilities

No potential risks and liabilities are recognised in the accounts.

Information on assets and loans intended for specific businesses

The Company has not set aside assets intended for specific businesses or allocated loans to specific businesses in accordance with the articles of association in force.

Share capital composition

The share capital is divided into 20,000 ordinary shares with a par value of Euro 10 each.

Treasury Shares

In accordance with Article 2428, paragraphs 3) and 4) of the Italian Civil Code, it should be noted that, as at 31 December 2019, neither treasury shares nor shares of the parent company held by the Company through trust companies or third parties and that neither treasury shares nor shares of the Parent Company had been purchased and/or sold by the Company during the year, including through trust companies or third parties.

Allocation of the result for the year

The 2019 financial year closed with a loss of Euro 2,528,651 and with a negative equity of Euro 2,245,124. The loss will be covered by the Merging Company at the time of the merger, which, as is known, will become effective as from 1 January 2020.

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

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

*To the shareholders of
Leonardo S.p.a. (into which its wholly-owned
subsidiary Sistemi Dinamici S.p.A. merged)*

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sistemi Dinamici S.p.A. (the "company"), which comprise the balance sheet as at 31 December 2019, the profit and loss account and cash flow statement for the year then ended and notes thereto.

In our opinion, the financial statements give a true and fair view of the financial position of Sistemi Dinamici S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the Italian regulations governing their preparation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to that disclosed by the directors in the "General basis of preparation" section of the notes to the financial statements, where they state that Sistemi Dinamici S.p.A. was merged into its parent, Leonardo S.p.a., with effect from 1 January 2020.

We did not qualify our opinion in this respect.

Management and coordination

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

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Leonardo S.p.a. for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian regulations governing their preparation and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The directors of Leonardo S.p.a. are responsible for the preparation of a directors' report at 31 December 2019 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's financial statements at 31 December 2019 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2019 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Florence, 13 March 2020

KPMG S.p.A.

(signed on the original)

Matteo Balestracci
Director of Audit

SISTEMI DINAMICI S.P.A.

Sole-shareholder company subject to direction

and coordination by LEONARDO S.p.A.

*   *   *

BOARD OF STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS AT 31.12.2019

Dear Shareholders,

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

It should be noted in advance that, within the project of the strategic/corporate rationalization project of some assets into the Aerospace, Defence and Security core business of the LEONARDO Group, with effect, from 1 January 2020, also for accounting and tax purposes, the company Sistemi Dinamici S.p.A. (hereinafter also referred to as "SISTEMI DINAMICI") was merged by incorporation into the Parent Company Leonardo S.p.A., (hereinafter also referred to as "LEONARDO") with the consequent dissolution of the SISTEMI DINAMICI and its corporate bodies.

This report is therefore released by the LEONARDO Board of Statutory Auditors that expresses itself, to the extent under its responsibility, referring in any case to the controlling activities carried out by the Board of Statutory Auditors of SISTEMI DINAMICI (hereinafter also referred to as the "previous Board of Statutory Auditors") during the 2019 financial year, as per the report signed on 6 November 2019 and subsequently integrated with the report of 23 December 2019.

During the year ended 31.12.2019, the previous Board of Statutory Auditors reports to have carried out its supervisory duties in compliance with the conditions and the terms provided for by current legislation.

Specifically, the previous Board of Statutory Auditors:

a. cheeked the compliance with the Law and the articles of association, as well as the observance of the principles of correct administration;

b. held n. 9 meetings and attended the meetings of the Board of Directors and the Shareholders' Meeting, which took place in compliance with the rules provided for in the articles of association, laws and regulations that govern their proceedings: in this regard, the Board of Statutory Auditors has ensured that its resolutions were always passed in compliance with the Law and the articles of association;

c. explained that SISTEMI DINAMICI was not provided with a Supervisory Body and that, due to the size and business of the company, this was not a suitable element to configure the inadequacy of the organizational system;

d. acquired knowledge and supervised the adequacy and functioning of the corporate organizational, administrative and accounting system and its concrete operation, as well as the reliability of the latter to correctly represent management events, by obtaining the necessary information from the top management, from the person in charge of the statutory audit of the accounts and from the examination of the corporate documents.

e. obtained information from the Directors about the general performance of operations and its outlook, as well as on the most significant transactions, due to their characteristic dimensions, which were carried out by the company and, therefore, the previous Board of Statutory Auditors has been able to ensure that the transactions were carried out in compliance with the law and the articles of association and have not been manifestly imprudent, risky, in potential conflict of interest or in conflict with the Board resolutions.

   On this point, the previous Board of Statutory Auditors, in the Board of

Directors meeting of SISTEMI DINAMICI of 19 July 2019, was informed that SISTEMI DINAMICI had edited a 2019 half-year financial situation with some costs not previously foreseen, both in the production of the aircrafts and in the participation to the "Ocean 2020" program.

The net impact of these extra costs for 2019 brought the net assets of SISTEMI DINAMICI as at 31 December 2019 to a negative value of € 2,245,124, potentially configuring the situation of reduction of the capital below the legal limit as set forth in Article 2447 of the Italian Civil Code.

The previous Board of Statutory Auditors considered that, although the case was not formally contemplated by the provisions of Article 2447 of the Italian Civil Code, the merger by incorporation into the Parent Company substantially integrated the obligations placed on the Board of Directors in situations of reduction of the share capital below the legal minimum amount, since these losses have no significant effects on the net worth of the acquiring company.

The previous Board of Statutory Auditors believed that, even in the new post-merger structure, careful and reasoned assessments of the future prospects of the margins obtainable from the marketing of the aircrafts under development, and the consequent impairment assessments of the values capitalized at company level will be of essential importance;

f. met periodically with the managers of the Independent Auditors in charge of the legal audit of the SISTEMI DINAMICI accounts. During these meetings, the previous Board of Statutory Auditors was informed, among other things, of the periodic accounting audits carried out, of the regular keeping of the accounts, of the level of updating of the accounting records and of the correct accounting representation of the corporate facts as well as of the fulfilment of the tax and social security obligations. During these meetings, no facts or behaviours deemed reprehensible or worthy of reporting by the Independent Auditors emerged;

g. explained that it had not received reports of alleged irregularities and that there were no legal disputes of any kind, even during the preliminary ruling phase;

h. deemed SISTEMI DINAMICI adequately structured for the dissemination and application of the directives received from the Parent Company;

i. examined the procedure relating to the merger by incorporation of the company into Leonardo S.p.A. with effect from 1 January 2020 and took note (i) of what was resolved by the Board of Directors of SISTEMI DINAMICI in the meeting of 27 June 2019, with the approval of the merger by incorporation plan, (ii) of what was resolved by the Extraordinary Shareholders' Meeting of SISTEMI DINAMICI on 27 September 2019 and (iii) of what established in the merger deed drawn up on 11 December 2019.

The previous Board of Statutory Auditors also certified, with the report of 23 December 2019 for the events that occurred to that date, that during the supervisory activity and the outcome of the checks carried out, no omissions, reprehensible facts or significant irregularities emerged such as to require mention in the report referred to above.

Lastly, the previous Board of Statutory Auditors reported that, except as detailed in the item e) above, during the 2019 year, there were no significant events in corporate management such as to be mentioned.

The Board of Statutory Auditors of LEONARDO S.p.A. also confirms that the merger by incorporation of SISTEMI DINAMICI S.p.A. by the acquirer LEONARDO S.p.A. took effect from 1 January 2020.

* * *

Having ceased, as a result of the effectiveness of the merger, all the corporate bodies of the SISTEMI DINAMICI, we have examined the draft financial statements ended on 31.12.2019 approved by the Board of Directors of LEONARDO S.p.a. at the meeting held on 12 March 2020 and delivered to the Statutory Auditors together with the prospectuses and supporting documents and the management report.

The draft financial statements for the year ended 31.12.2019 of SISTEMI DINAMICI S.p.A. has been prepared in application of the principles and valuation criteria adopted for the drafting of the financial statements required by current statutory regulations (articles 2423, 2423-bis, 2426 C.C.) as supplemented by approved national accounting standards by the OIC.

The draft financial statements as at 31.12.2019, consisting of the balance sheet, the income statement, the cash flow statement, the notes to the financial statements and the directors' report on operations, closed with a loss of Euro 2,528,651 and a negative shareholders' equity of Euro 2,245,124, which, if the merger had not taken effect on 1.1.2020, would have brought the Company within the scope of Article 2447 of the Italian Civil Code with the obligation for the Directors to call the Shareholders' Meeting for the necessary deliberations.

With regard to the result for the 2019 financial year, the Board of Directors has set out in detail in the Report on Operations and in the Explanatory Notes the formation of the result and the events that generated it.

Since we are not responsible for the analytical control of the content of the financial statements, we have supervised the general approach given to the financial statements, its general compliance with the law with regard to its formation and structure and the process of preparation and presentation of the financial statements to the Shareholders' Meeting and in this regard we have no particular observations to make.

We have also verified compliance with the provisions of the law concerning the preparation of the report on operations and also in this regard we have no particular observations to report.

We have also verified compliance with the Law relating to the preparation of the Report on operations and also, in this regard, we have no particular comments to report.

To the best of our knowledge, the Directors have not departed from the provisions of the law on the preparation of financial statements pursuant to Article 2423, paragraph five, of the Italian Civil Code.

The independent auditors KPMG S.p.A., appointed to carry out the statutory audit, are responsible for expressing an opinion on the financial statements pursuant to art. 14 of Legislative Decree 27 January 2010 n. 39.

We have noted that the report issued by the independent auditors on 13 March 2020 contains the opinion on the financial statements at 31.12.2019 without comments, certifying that it provides a true and fair view of the Company's financial position, results of operations and cash flows.

The independent auditors point out in a specific reference to the information provided that its judgment does not extend to the merger operation.

The independent auditors' report also provides a positive opinion on the consistency of the report on operations with the financial statements at 31.12.2019 and certifies that it has been prepared in accordance with the law.

We have also verified the consistency of the financial statements with the facts and information of which we are aware as a result of the performance of our duties and have no comment in this regard.

We have also verified the compliance of the financial statements with the facts and information that we are aware of following the fulfilment of our duties and we have no comments in this regard.

The financial statements file shows - pursuant to Art. 2497 bis, paragraph 4, of the

Italian Civil Code - the summary statement of the essential data of the latest approved financial statements - relating to the 2018 financial year - of LEONARDO Società per azioni, a company that carries out direction and coordination activities.

In light of the above and to the extent of its competence, on the basis of the activities carried out by the previous Board of Statutory Auditors, which informed us of the activities carried out in 2019, the Board of Statutory Auditors does not find any reasons to oppose the proposal to approve the draft financial statements as at 31.12.2019, as drafted by the Directors.

13 March 2020

For the BOARD OF STATUTORY AUDITORS

The President

Dott. Luca Rossi