

VITROCISSET S.P.A.

FINANCIAL STATEMENTS AT 31 DECEMBER 2021

Disclaimer

This Financial Statement 2021 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.





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CORPORATE BODIES AND COMMITTEES

BOARD OF DIRECTORS

Appointed by the Shareholders' Meeting of 8 May 2019

(for the period 2019/2021)

Marco De Fazio – Chairman

Paolo Solferino – Chief Executive Officer

Amalia Onorato – Director

BOARD OF STATUTORY AUDITORS

Appointed by the Shareholders' Meeting of 8 May 2019

for the period 2019/2021

Ines Gandini – Chairman

Giacomo Cavallo – Standing Auditor

Paolo Grecco – Standing Auditor

Sara Fornasierio – Alternate Auditor

INDEPENDENT AUDITORS

(for the period 2021/2023)

Appointed by the Shareholders' Meeting of 14 April 2021

EY S.p.A. – hereinafter also referred to as Ernst & Young S.p.A.

The members of the Board of Directors and the Board of Statutory Auditors ceased to hold office on 1 January 2022, following the subsequent merger by incorporation into the parent company Leonardo Società per Azioni. Consequently, these financial statements are approved by the Corporate Bodies of Leonardo Società per Azioni, and the report of the Board of Statutory Auditors to the Shareholders' Meeting is prepared by the Board of Statutory Auditors of Leonardo Società per Azioni (Chairman: Luca Rossi and Standing Auditors: Sara Fornasierio, Amedeo Sacrestano, Leonardo Quagliata and Anna Rita De Mauro).



REPORT ON OPERATIONS

COMPANY PROFILE

Vitrociset S.p.A. (hereinafter Vitrociset or the Company) became a wholly-owned subsidiary of Leonardo S.p.A. on 31 January 2019.

The 2021 financial year was characterized by the spin-off of the Space BU in Telespazio and the consolidation of the integration process within the Group, in line with its competitive positioning.

This integration process saw its natural completion in 2021 following the merger of the Company by incorporation into the Parent Company Leonardo S.p.a. with effect from 1 January 2022. With regard to issues from a more strictly economic point of view, the merger will generate a reduction in overheads and costs associated with the legal and administrative obligations of a legally separate Legal Entity; furthermore, the transaction will make it possible to optimise the use of resources and expertise at Leonardo and to contribute to the full exploitation of its market potential.

With regard to the Business, Vitrociset has further pursued its focus on "Smart Logistics", which is substantiated in the cross-sector streams reported below.

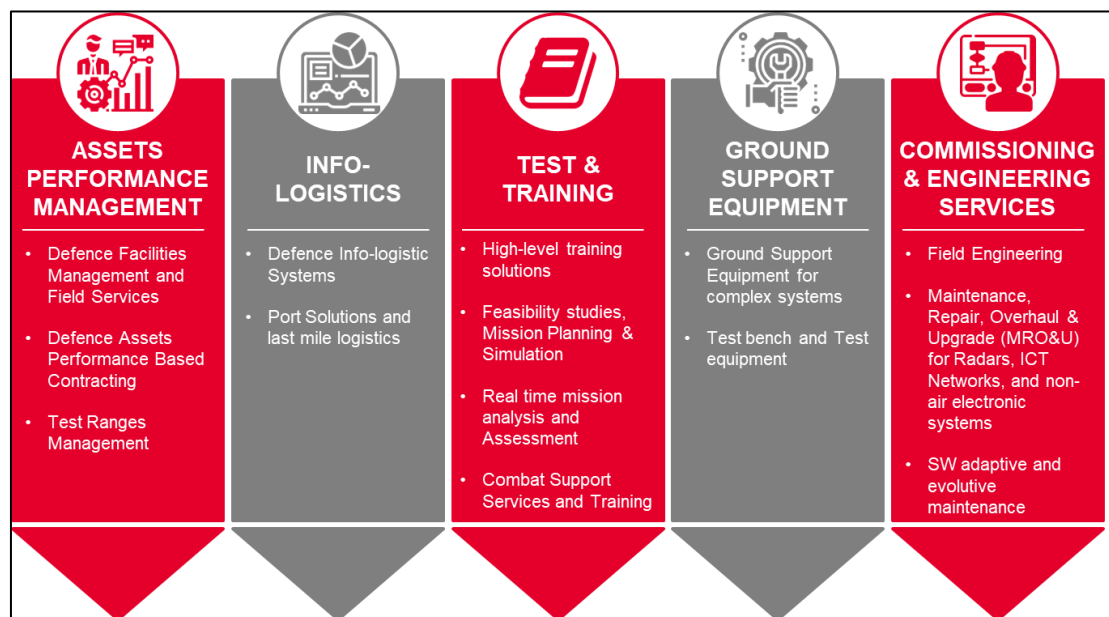


Fig. 1 - Outline of the main activities of the Company

Specifically (see figure 1):

- Assets Performance Management:
 - Defence Facilities Management and Field Services;
 - Defence Assets Performance Based Contracting;
 - Test Ranges technical and operational Management;
- Info-logistics:
 - Defence Info-logistics Systems;

- Port Solutions and last mile logistics;
- Test & Training:
 - High-level training solutions;
 - Feasibility studies, Mission Planning & Simulation;
 - Real time mission analysis and Assessment;
 - Combat Support Services and Training;
- Ground Support Equipment:
 - Ground Support Equipment for complex systems;
 - Test bench and Test equipment;
- Commissioning & Engineering Services:
 - Field Engineering;
 - Maintenance, Repair, Overhaul & Upgrade (MRO&U) for Radars, electro-optical systems, ICT Networks, and, in general, electronic components, SW adaptative and evolutive Maintenance.

These streams have been structured into the following business areas:

- Information systems and solutions for the management of Defense logistics processes (**Info-logistics**);
- Systems, solutions and services for fully-instrumented test ranges and training areas (**Test Range**);
- Systems, solutions and services based on Modeling & Simulation for the training of ground forces (**Advanced Training Systems**);
- Systems, solutions and services with a high content of automation and security for port and intermodal logistics (**Port & Last Mile Logistics**).

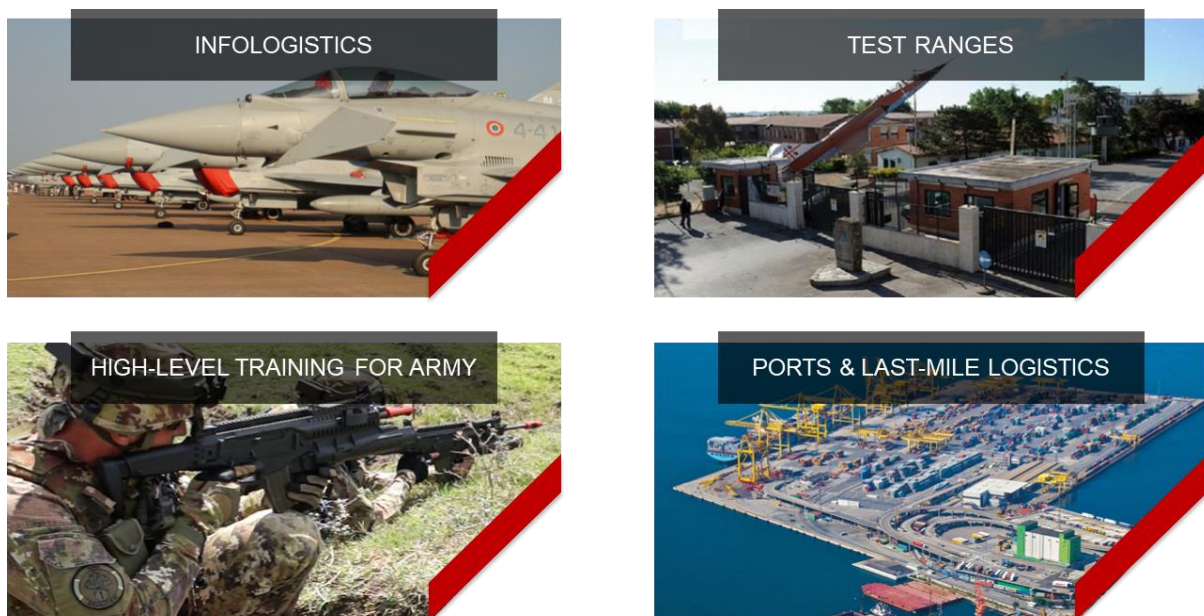


Fig. 2 - Outline of the Company's four primary business areas



In addition, it is strengthening its positioning in the following areas:

- **Ground Support Equipment** in the aeronautics field, leveraging the customer relationship with Lockheed Martin and ongoing contracts, as well as insourcing of GSE services within the Leonardo group;
- **Big Science**, exploiting the specific know-how gained in the ITER (International Thermonuclear Experimental Reactor) programme and designing solutions and services for the latter, as well as for the new DTT (Divertor Tokamak Test) programme.

PERFORMANCE OF OPERATIONS

As previously described, the 2021 financial year was characterised by ongoing integration activities within the Leonardo Group and the spin-off of the space business unit in favour of Telespazio.

With reference to the management of the Company, the financial year was still affected by the continuation of the COVID-19 pandemic, which put heavy pressure on the Italian health system due to pandemic waves and the consequent issue by the Government of measures aimed at limiting the spread of the virus. The Company strengthened its IT tools to enable employees to also work remotely and safely in order to cope with the emergency, while allowing work to continue. At the same time, the Company took any and all necessary steps to enhance security at the workplace.

From a business point of view, the Covid-19 emergency had a significant impact on commercial activities, which saw the public authorities tend to delay and postpone tender procedures, as well as on the acceptance and delivery of products and solutions on the part of customers. The first case led to a fall in new orders and delays in gaining them from customers, while the second generated a significant drop in revenues.

Vitrociset's financial statements at 31 December 2021, which we submit for your consideration and approval, show a loss for the year of €7,289,990 as a result of the events reported above.



HIGHLIGHTS FOR THE FINANCIAL YEAR

The table below shows a comparison of the main economic, equity and financial indicators between 2020 and 2021:

€ thousands

MAIN ECONOMIC, EQUITY AND FINANCIAL INDICATORS		
	2021	2020
Total Revenues	100,617	114,851
Revenues from sales	97,570	109,317
EBIT	(3,632)	723
EBT	(4,927)	8,024
Net Result	(7,290)	7,047
EBIT % on revenues from sales	(3.72%)	0.66%
EBT % on revenues from sales	(5.05%)	7.34%
ROS (EBIT/Revenues)	(3.72%)	0.66%
ROE (Net result/Equity)	(22.86%)	86.85%
ROI (EBIT/Invested Capital)	(4.99%)	0.84%
Net working capital	45,603	38,023
Non-current assets	33,350	58,223
Non-current liabilities	(6,240)	(10,632)
Net Invested Capital	72,713	85,614
Net Financial Debt/(Cash Equivalent)	40,830	77,500
Equity	31,883	8,114
Sources of capital	72,713	85,614

NEW ORDERS

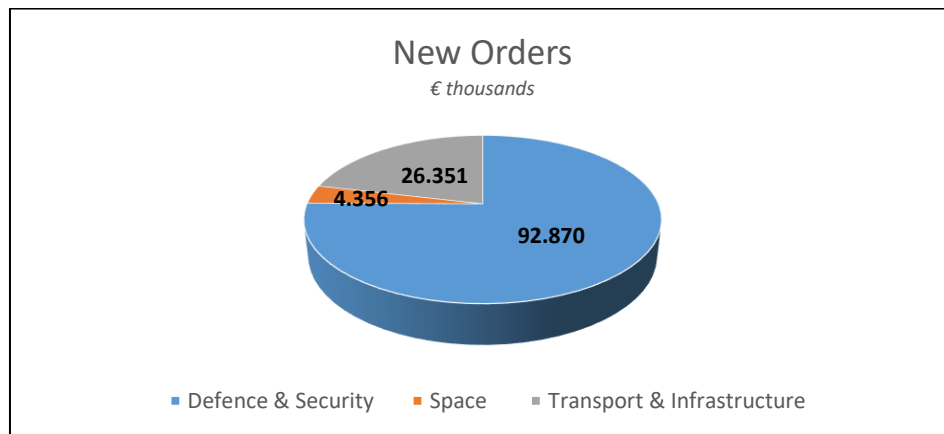
The new orders gained by the Company amounted to €mil. 123.6 million in 2021, thus showing a decrease of €8.5 million compared to the previous year, which was due to the combined effect of a reduction in acquisitions within the Defence & Security BU that was more than offset by the improved performance recorded by the Transport & Infrastructure BU. As far as the Space BU is concerned, it should be noted that the demerger in favour of Telespazio S.p.A. was completed as from 1 March 2021. The abovementioned increase within the Transport & Infrastructure BU was largely driven by the acquisition of the SIMOS II (SDDS Implementation and Operational Support Team) contract with the customer Eurocontrol.

€ thousands

Business Unit	2021	2020
Defence & Security	92,870	102,222
Space	4,356	5,599
Transport & Infrastructure	26,351	7,290
Total	123,577	115,111



The above information is shown below in graphic form:



The major orders gained by each BU are broken down as follows:

Defence & Security Business Unit



MINISTRY OF DEFENCE – General Directorate of Telecommunications, IT and Advanced Technologies

SiLAD (Defense Logistics Information System)

Development and operational management of SILAD and BDUS (Single Salary Database) as a single info-logistics tool for the entire Defence organisation. Exploitation of solutions already used in Defence and specifically the SiLEF (Information System for Logistics Efficiency) in use by the Air Force.



MINISTRY OF DEFENCE - General Office of Italian Army Administrative Responsibility Center (UG CRA EI)

SIGE (Army Management Information System)

Provision of analysis and development services of corrective, adaptive, evolutionary type and support to local and remote users of the "Army Management and Logistic Command and Control Information System (SIGE)" for the benefit of agencies, detachments, departments and commands in the Defence area.



LEONARDO Aircraft Division

Ground Support Equipment Eurofighter – Italy maintenance

5-year contract for maintenance and calibration services of GSEs (Ground Support Equipment) / SEs (Special Equipment) for the EF2000 aircraft of the Italian Air Force. Support operations to be delivered at the 1st RMV-Cameri



Aircraft Maintenance Unit, 4th Stormo-Grosseto, 36th Stormo-Gioia del Colle, 37th Stormo-Trapani, 51st Stormo- Istrana flocks of the Italian Air Force.



MINISTRY OF DEFENCE –

Secretariat General of Defence and National Air Armaments and Airworthiness Directorate

Temporary-Special Access Program Facility” (T-SAPF)

Contract for the supply of a modular, battlefield and airborne system called T-SAPF, for the enhancement of the Expeditionary capabilities of the JSF aircraft at bases where an SAPF infrastructure is not available. The structure includes 5 shelters equipped for planning, briefing, debriefing, meeting, TLC requirements. The supply includes Integrated Logistics Support for 2 years.



LEIDOS

BMD SE&I follow-on

Contract for the provision of staff integrated into the Leidos Support Engineering & Integration team as part of the NATO Ballistic Missile Defence programme.



MINISTRY OF THE INTERIOR

Decommissioning of obsolete facilities

Legal transaction for the decommissioning of obsolete equipment of the Interpolice Radio Link network, established in 484 radio sections, 115 ADM devices and 422 common parts.



FINANCE POLICE

Option to extend maintenance on the entire IP network at national level

Additional agreement to the contract for the modernisation, technological upgrading, preventive maintenance, evolutionary and corrective service of the telecommunications network equipment of the Finance Police until the expiry date on 31 December 2023.



ITER Organization

In 2021 Vitrociset was awarded three major tenders launched by ITER Organization, which led to signing the following master agreements:

- “Central Interlock System (CIS) Engineering Support Services”;
- “Diagnostic Infrastructure Development and Engineering Services”;
- “Diagnostics Specialized Engineering Design”.

The first agreement concerns the command and control system dedicated to protecting the installation in case of failures or anomalies, while the second and third agreements concern the design of the various diagnostic systems that must collect in real time the measurements that enable the monitoring of the physical reaction parameters inside the Tokamak, thus allowing them to be adjusted in order to optimise the operation and prevent unwanted behaviour from occurring.



Fusion for Energy

In 2021 Vitrociset was awarded the master agreement on “Services in the field of System, Instrumentation and Control Engineering and associated supplies and services” in line with the previous five-year period.

The scope of this master agreement includes any and all technical support activities for both procurement and development of conventional I&C systems.

The overall scope can be divided into three main areas:

- Technical support for F4E I&C activities.
- I&C consulting services.
- Procurement of tools or services.



Transport & Infrastructure Business Unit



EUROCONTROL

SIMOS II

Long-term contract (5 years plus optional 2-yr extension) for the operation of the SDDS software as an Industrial Partner. In addition to the usual evolutionary maintenance, the contract also includes the implementation of Change Proposals and the development of new Baselines.



INPS VoIP system expansion

36-month contract that provides for the supply of 260 new VoIP sites, a call center system and the provision of specialist maintenance and support services.



CONSIP Video surveillance 2

Second edition of the Framework Agreement for the supply and services of video surveillance systems.



Istituto Poligrafico e Zecca dello stato

Expansion of the Green Data Center in Foggia to obtain TIER4 Data Center certification.



South Tyrrhenian and Ionian Sea Port System Authority - Gioia Tauro

Security system of port areas

Implementation of new security systems at port areas as an extension of the existing contract. The project provides for the installation of the video surveillance system at Gioia Tauro port and of the automated gates at the ports of Gioia Tauro, Corigliano Calabro and Crotone with the management of data on transit of vehicles, goods and people. The installations are integrated into the software platform that has already been put in place by Vitrociset.



Western Ligurian Sea Port System Authority - Genoa

Modernisation of the Security Infrastructure at Genoa Port.

The project concerns the upgrading of access control systems at the Port with the installation of automated gates for the management of data on transit of vehicles, goods and people, including because of the study on City-Port interactions.



East Adriatic Sea Port System Authority - Trieste

Implementation of evolutionary adaptation, including maintenance, of the software systems of automated gates for the management of data on transit of vehicles, goods and people that have already been put in place by Vitrociset at the ports of Trieste and Monfalcone.

The project also concerns the development of a system for the management and monitoring of cargo traffic at port facilities, integrated with automated gates.



Central Adriatic Sea Port System Authority - Ancona

Implementation of a video surveillance system in some embankment areas at Ancona port.



ATM Azienda Trasporti Milanesi

Extra-contract maintenance/support service of basic video analysis of the Viki system.



BACKLOG

Below is the Backlog performance in 2021 compared to 2020:

€ thousands

	2021	2020	Difference
Initial Backlog	260,644	254,850	5,794
Revenues	(97,571)	(109,317)	11,746
Orders	123,577	115,111	8,466
Reduction from Space Demerger	(18,733)	-	(18,733)
Value Adjustment	(419)	-	(419)
Final Backlog	267,498	260,644	6,854

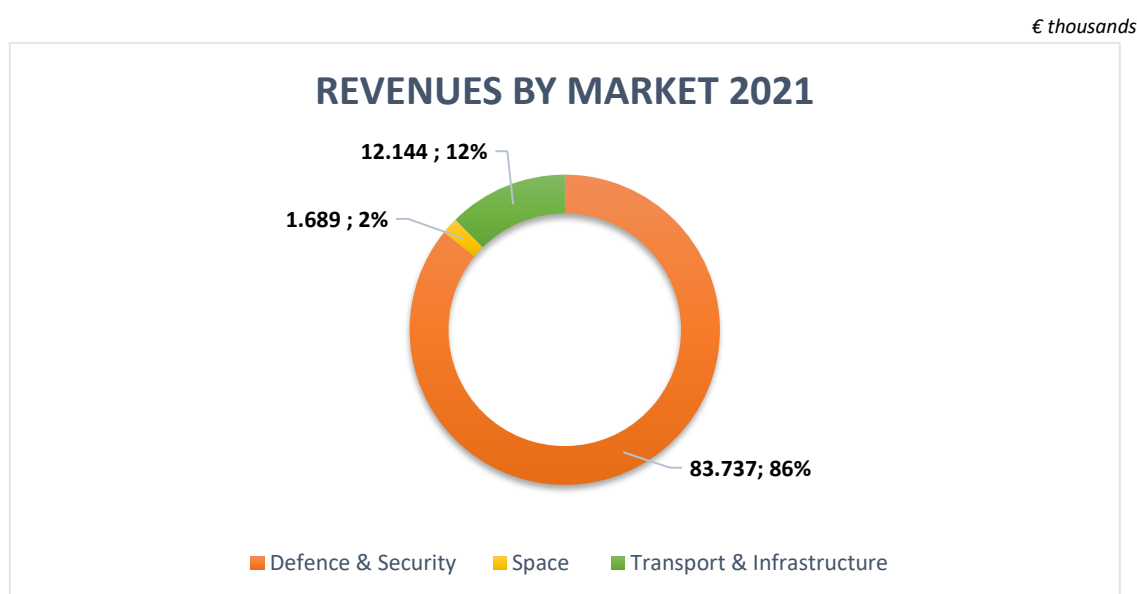
RESULTS OF OPERATIONS

€ thousands

	31-Dec-21	31-Dec-20	Difference
Total revenues	100,617	114,851	(14,234)
<i>Revenues from sales and services</i>	<i>97,570</i>	<i>109,317</i>	<i>(11,747)</i>
<i>Other operating income</i>	<i>3,047</i>	<i>5,534</i>	<i>(2,487)</i>
Purchase and personnel expenses	(98,611)	(107,715)	9,104
Amortisation, depreciation and write-offs	(3,452)	(5,244)	1,792
Other operating expenses	(2,186)	(1,169)	(1,017)
EBIT	(3,632)	723	(4,355)
Financial Income	375	10,302	(9,927)
Financial Expenses	(1,670)	(3,001)	1,331
EBT	(4,927)	8,024	(12,951)
Income taxes	(2,363)	(978)	(1,385)
Net result	(7,290)	7,047	(14,337)

- **Revenues from sales and services** showed an overall decrease of €mil. 11.7 compared to the previous year, essentially attributable to the SPACE BU, which was demerged in favour of Telespazio as from 1 March 2021, as well as to a reduction in operations in the Transport & Infrastructure area, which were only partially recovered by the increased work performed in the Defence & Security area.

Below is the chart showing the breakdown by Business Unit:



The Company's revenues broken down by Business unit show that the most important area in terms of volumes was still that of Defence & Security, while there was a slight decline in the volumes of the Transport & Infrastructure BU. It should be noted that revenues in the Space BU only related to the first 2 months of 2021.

- **Other operating income** - €mil. 3: this item mainly related to non-repayable grants on funded R&D projects, as well as to the release of provisions set aside in previous financial years and other minor items.
- **Purchase and personnel expenses** – €mil. 98.6: the figure showed a substantial decrease compared to the value of approximately €mil. 9.1 posted in 2020, mainly due to the effect of the transfer of employees to Telespazio.
- **Amortisation, depreciation and write-offs** – €mil. 3.5: this indicator too showed a decrease of €mil. 1.8 compared to 2020. This item is broken down as follows:
 - Amortisation and depreciation of approximately €mil. 4, of which an amount of €mil. 1.5 related to intangible assets, while the remainder related to tangible assets for €mil. 0.8 and to right-of-use assets for €mil. 1.7.
 - Positive value adjustments amounted to €mil. 0.6 and mainly related to the adjustment to the provision for risks on contract assets.
- **Other operating expenses** - €mil. 2.2: they showed an increase compared to the value posted in 2020 due to higher provisions for risks set aside for the management of contracts.
- The **EBIT** performance in 2021 showed an operating loss of €mil. 3.6, which was heavily affected by the effect of revenue volumes mentioned above.
- **Financial income and expenses** – This item consisted of expenses of €mil. 1.3: the figure mostly related to interest on property leases, interest payable on the financial debt to the parent company and other exchange gains and losses.
- **Income taxes** – This item was negative for €mil. 2.4: the amount was mainly attributable to the taxes reported by foreign branches for €mil. 0.8, as well as to the negative component relating to deferred tax assets for a total of approximately €mil. 2.5, which was only partially offset by

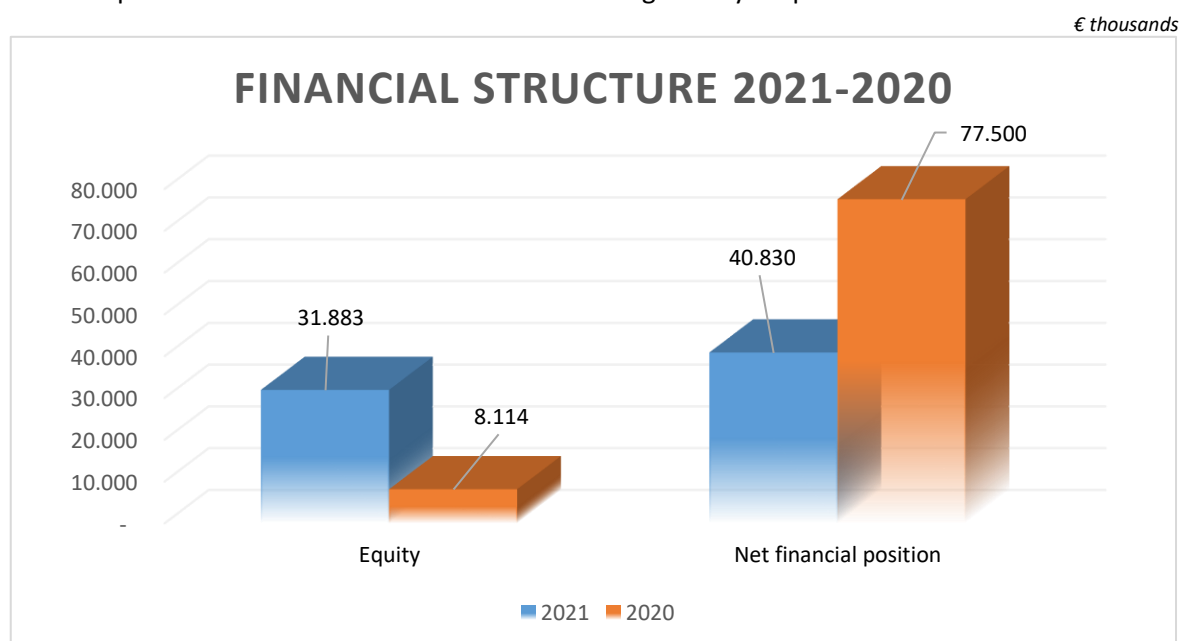
the income from tax consolidation recognised by the Parent Company for a total of €mil. 1.3 million.

- **Operating loss**, equal to €mil. 7.3, was impacted by the effect of negative EBIT for €mil. 3.6, financial losses of €mil. 1.3 and taxes of €mil. -2.4 for the year.

As a result, the **Net Result** posted a loss of approximately €mil. 7.3 for the 2021 financial year.

STATEMENT OF FINANCIAL POSITION

Below is the performance of the financial structure during the 2-year period from 2020 to 2021:



The Company's **equity** varied from €mil. 8.1 to €mil. 31.9. The increase was mainly due to the Parent Company's payment of €mil. 35 made by Leonardo during the first quarter of the year, partially offset by a loss of €mil. 7.3 for the year and the effects of the Demerger of the Space Business Unit, equal to €mil. 3.7.

The **net financial position** showed a significant decrease in debt compared to the previous year, equal to approximately €mil. 36.7, mainly due to the aforementioned payment of €mil. 35 and to the debt transferred to Telespazio, as part of the Demerger, for €mil. 19.6, which was partially offset by Free Operating Cash Flow (FOCF) for the year, equal to €mil. -17.4.

The table below provides an analysis of the capital structure at 31 December 2021 compared to 2020. It should be noted that the demerger of the Space Business Unit in favour of Telespazio S.p.A. was completed during the first quarter of the year.



€ thousands

	31-Dec-21	31-Dec-20	Difference
Net working capital	45,603	38,023	7,578
Non-current assets	33,350	58,223	(24,871)
Non-current liabilities	(6,240)	(10,632)	4,392
Net Invested Capital	72,713	85,614	(12,901)
Net Financial Position	(40,830)	(77,500)	36,670
Equity	(31,883)	(8,114)	(23,769)
Sources of capital	(72,713)	(85,614)	12,901

- **Net working capital** - €mil. 45.6: the change of approximately €mil. 7.6 was mainly attributable to the effect generated by the following components: i) demerger of the assets and liabilities of the space business unit to Telespazio, and ii) the changes in short-term receivables and payables for the period.
- **Non-current assets** – €mil. 33: the figure showed a decrease of approximately €mil. 25 compared to 2020, to be attributed to the demerger of goodwill for approximately €mil. 19, the demerger of equity investments, equal to approximately €mil. 3 and changes in other items.
- **Provisions/Non-current liabilities** - €mil. 4: the decrease of about €mil. 4 compared to the previous year was mainly attributable to a reduction in severance indemnity and deferred tax liabilities as a result of the demerger.
- **Net Financial Position** - €mil. 41: the decrease in net debt, equal to approximately €mil. 37, was mainly due to the capital contribution of €mil. 35 made by Leonardo during the first quarter of 2021, as well as to the transfer of the portion of debt equal to €mil. 19 to Telespazio S.p.A. as part of the demerger of the space business unit and cash flows of €mil. -17 for the current year.

Below is the **Net Financial Position**:

€ thousands

	31-Dec-21	31-Dec-20	Difference
Non-current financial liabilities	(5,382)	(2,370)	(3,012)
Long-term lease liability	(13,481)	(16,125)	2,644
Current financial liabilities	(21,289)	(72,435)	51,146
Short-term lease liability	(1,817)	(1,947)	130
Financial receivables	117	13,938	(13,821)
Cash equivalents	1,022	1,439	(417)
Net Financial Position	(40,830)	(77,500)	36,670



FOCF at 31 December 2021 was made up as reported below:

	€ thousands
	31 December 2021
Gross operating cash flow from activities	(178)
Changes in working capital	(19,211)
Changes in other assets and liabilities and provisions for risks and charges	6,041
Net Financial Expenses paid	(1,243)
Income taxes paid	564
Cash flows generated from operating activities	(14,027)
Investments in tangible and intangible assets	(3,351)
Cash flows from ordinary investing activities	(3,351)
Free Operating Cash Flow	(17,378)



DEVELOPMENT ACTIVITIES AND INVESTMENTS

Strategy policy and areas of development

The strategic repositioning of Vitrociset within the Leonardo group, which was commenced during 2019, was further strengthened during the 2021 financial year through an increasing focus on key initiatives and related R&D investments.

The table below summarises the main initiatives and investment programmes in 2021.

Name	Strategic Target	Strategic Initiative	Ansoff matrix
INFO-LOGISTICS	<ul style="list-style-type: none"> Adopting a Sustainment model that endorses the concept of Logistics 4.0 with the extensive use of new technologies and oriented to making logistics and maintenance processes more efficient, while fully integrating new platforms (e.g., the F-35) into the National Logistics System. Becoming a "Partner of Choice" for the Italian Armed Forces, leveraging a strong background in the info-logistics domain 	<ul style="list-style-type: none"> Development of an advanced decision support system (DSS) Development of a suite of applications based on new AI, Big Data and V/A reality technologies Development of algorithms for predictive maintenance 	
INSTRUMENTED TEST RANGES	<ul style="list-style-type: none"> Becoming a Global Partner for military shooting ranges through the design and construction of instrumented test ranges, operational and engineering support throughout their life cycle, Assets Performance Management, technological evolution and exporting the model to other test ranges in Italy and abroad 	<ul style="list-style-type: none"> Industrialisation of SWARM Development of a new radar receiver Continuous improvement of IS3 and VIKI 	
ADVANCED TRAINING SYSTEMS	<ul style="list-style-type: none"> Becoming a trusted partner for land-based training, integrating the existing capabilities in other divisions of Leonardo Supporting the Armed Forces in all training and simulation cycles to improve the effectiveness, efficiency and readiness of operational units. Home Station Training (HST) model to support Armed Forces in operational training by rationalising training costs 	<ul style="list-style-type: none"> Development of new HST configuration and new kits 	



SPACE POWER	<ul style="list-style-type: none">Strengthening the SSA capability for threat assessment and anomaly detection, characterising objects in space and determining their natureHarmonising a shared Military Space framework at European level in the long term, to achieve European independence on Military SSA and safeguard European interests in space, by rebalancing the strategic dialogue on the subject	<ul style="list-style-type: none">Preparatory activities for EDIDP-SSA projects on Military SSA	<table><tr><th colspan="2" rowspan="2"></th><th colspan="2">CUSTOMER</th></tr><tr><th>E</th><th>N</th></tr><tr><th rowspan="2">PRODUCT</th><th>E</th><td>○</td><td>○</td></tr><tr><th>N</th><td>○</td><td></td></tr></table>			CUSTOMER		E	N	PRODUCT	E	○	○	N	○	
		CUSTOMER														
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PRODUCT	E	○	○													
	N	○														
BIG SCIENCE	<ul style="list-style-type: none">Trusted Partner for the control and supervision system for ITER and other Big Science infrastructures	<ul style="list-style-type: none">Studies on techniques applied to Fusion Technologies	<table><tr><th colspan="2" rowspan="2"></th><th colspan="2">CUSTOMER</th></tr><tr><th>E</th><th>N</th></tr><tr><th rowspan="2">PRODUCT</th><th>E</th><td>○</td><td></td></tr><tr><th>N</th><td></td><td></td></tr></table>			CUSTOMER		E	N	PRODUCT	E	○		N		
		CUSTOMER														
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TRANSPORT LOGISTIC PLATFORM	<ul style="list-style-type: none">Strengthening Vitrociset's positioning as a Key Player in logistics, automation and security of the main transport logistics hubs (e.g., ports, interports and airports) and their connections	<ul style="list-style-type: none">Continuous improvement in PCSContinuous improvement in ViGateContinuous improvement in vBrainDevelopment of Smart Road product suite (IOT modules)	<table><tr><th colspan="2" rowspan="2"></th><th colspan="2">CUSTOMER</th></tr><tr><th>E</th><th>N</th></tr><tr><th rowspan="2">PRODUCT</th><th>E</th><td>○</td><td>○</td></tr><tr><th>N</th><td>○</td><td></td></tr></table>			CUSTOMER		E	N	PRODUCT	E	○	○	N	○	
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Collaboration in all technological innovation activities was strengthened with both the Electronics Division and the head office functions at Corporate level (i.e. Strategy, Technology and Innovation), successfully participating in several calls at European level (EDIDP) and preparing the next NRRP tenders.

From a technological point of view, of particular importance was also the participation in Leonardo's Corporate Lab programme on artificial intelligence applied to unmanned systems and info-logistics systems, and the operations of the Z-lab, which, among other things, has developed an intense activity to define technology concepts in collaboration with universities:

- Smart Lasers for sanitising premises from viruses and bacteria;
- Artificial intelligence techniques for target detection in the field of SSA;
- Prognostics of failures on Tokamaks plasma;
- Machine Learning techniques for Monocular Depth Estimation (MDE).

The scientific validity of these activities has been confirmed by several international publications accepted by Peer Reviewers.

INFORMATION ON PERSONNEL



At the end of 2021 Vitrociset S.p.A.'s workforce consisted of 566 employees, which stood at 523 people, after excluding the staff working at the Turkish Permanent Establishment located in Ankara, the French Permanent Establishment located in Saint-Paul-lès-Durance and the Spanish Permanent Establishment located in Madrid.

There were 133 terminations in 2021, while new hires were 61 (of which 47 graduates and 14 with diplomas) during the period, 26 of which came from placing temporary staff on permanent contracts and 4 from intercompany hires.

It should be noted that on 1 March 2021 there was the completion of the partial demerger of Vitrociset S.p.A. in favour of Telespazio S.p.A., which was carried out by contributing the Space business unit of Vitrociset S.p.A. to Telespazio S.p.A., which involved 107 workers.

Specifically, the headcount at the end of 2021 included 10 resources at the company's Permanent Establishment in Turkey under the contract concerning the Smart project for technical assistance services at air traffic control centres and the contract gained from the Start/Telespazio consortium in relation to maintenance services at the space centre for the control of the Göktürk satellite. In addition, there are 26 resources at the company's Permanent Establishment in France for activities under the ITER contract, including engineering support for diagnostic and command and control systems (CODAC), and, finally, there are 7 resources at the company's Permanent Establishment in Spain, set up to manage activities for the Customer Fusion4Energy.

For more information, reference should be made to the table below:

	31.12.2021						AVERAGE 2021
	AREA	MANAGERS	JUNIOR MANAGERS	WHITE COLLARS	BLUE COLLARS	TOTAL	TOTAL
WORKFORCE	ITALY	12	87	413	11	523	510.4
	FRANCE	-	25	1	-	26	23.5
	SPAIN	-	-	7	-	7	6,8
	TURKEY	-	-	10	-	10	10
	TOTAL	12	112	431	11	566	550.7

Open-ended contracts are the main type of employment arrangements applied within the organisation.

Incoming workers usually go through training periods under company internship schemes and staff leasing contracts, in preparation for permanent employment.

Investments amounted to about 17,580 hours of training given during the year just ended. The commitment related both to technical training aimed at strengthening skills and innovation, and to personnel training in line with the importance that the Company continues to attach to delivering professional refresher courses to its employees.

In addition to the investment in hours of training, all employees were given the opportunity to access the e-learning platform for language training by attending virtual classes in 2021.



SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The financial year was also heavily affected by the outbreak of the Covid-19 pandemic, which led to a significant change in management and operating procedures and impacted on the normal course of company business.

The demerger of the Space Business Unit was completed in favour of Telespazio with effect from 1 March 2021. For more details, reference should be made to the paragraph on extraordinary transactions in the notes to the financial statements.

The financial year also saw the completion of the Company's merger by incorporation into Leonardo Spa, the legal, tax and accounting effects of which will start to run from 1 January 2022.

The transaction was put in place for economic and organisational reasons and, more generally, is part of the broader plan for strategic and corporate rationalisation of the Leonardo Group's assets, which had been already launched with the One Company model.

The merger therefore constitutes, both from an industrial and commercial perspective, the natural completion of the process of integration and interaction, both organisational and managerial, between the Merged Company and the Merging Company, which began in 2019 with Leonardo acquiring the entire share capital of Vitrociset and was subsequently completed following the demerger of Vitrociset's Space business unit in favour of Telespazio in March 2021.

With regard to issues from a more strictly economic point of view, the planned merger will generate a reduction in overheads and costs associated with the legal and administrative obligations of a legally separate Legal Entity; furthermore, the transaction will make it possible to optimise the use of resources and expertise at Leonardo and to contribute to the full exploitation of its market potential.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant events are reported in addition to the above-mentioned merger which took place on 1 January 2022.



PROPOSAL TO THE SHAREHOLDERS' MEETING

Financial Statements at 31 December 2021 of Vitrociset S.p.A.; Board of Directors' and Independent Auditors' Reports. Any related and consequent resolutions. Presentation of the Financial Statements at 31 December 2021.

Dear Shareholders,

The 2021 financial year closed with a loss of Euro 7,289,990 and shareholders' equity of Euro 31,882,941. The loss will be covered by the Merging Company at the time of the merger which, as is known, will be effective as from 1 January 2022.

In light of the above, we submit the following proposal for a resolution for your approval:

"The Ordinary Shareholders' Meeting:

- having regard to the report of the Board of Directors
- having regard to the report of the Board of Statutory Auditors
- having reviewed the financial statements at 31 December 2021;
- having noted the report prepared by EY S.p.A.;

resolves

to approve the report of the Board of Directors and the financial statements at 31 December 2021 of Vitrociset S.p.A."

Rome, 10 March 2022

For the Board of Directors of
Leonardo Società per Azioni
The Chairman

(Luciano Carta)



ACCOUNTING STATEMENTS AND EXPLANATORY NOTES AT 31.12.2021

**STATEMENT OF FINANCIAL POSITION**

				(€)
	<i>Note</i>	31 December 2021	<i>of which with related parties</i>	31 December 2020
Assets				
Non-current assets				
Intangible assets	1	11,106,115		10,214,038
Tangible assets	2	2,205,828		2,082,089
Right of use	3	14,319,630		15,515,391
Equity Investments	4	31,021		67,369
Receivables	5	14,303		34,601
Deferred tax assets	6	5,673,433		8,226,556
Total non-current assets		33,350,330		36,140,044
Current assets				
Inventories	7	8,546,562		6,306,946
Contract assets	8	50,425,995		45,963,568
Trade receivables	9	33,960,202	8,920,788	32,033,568
Income tax receivables	10	405,490		797,462
Loans and receivables	11	117,350	-	13,938,392
Other assets	12	4,088,854	1,645,822	9,596,022
Cash and cash equivalents	13	1,022,186		1,438,987
Total current assets		98,566,639		110,074,945
<i>Non-current assets held for sale*</i>		-		42,412,739
Total Assets		131,916,969		188,627,728

*For details, see the chapter "Extraordinary Transactions" in the Explanatory Notes.



(€)					
	<i>Note</i>	31 December 2021	<i>of which with related parties</i>	31 December 2020	<i>of which with related parties</i>
Equity and liabilities					
Equity					
Share capital	14	24,500,000		24,500,000	
Other reserves	14	7,382,941		-16,385,874	
Total equity		31,882,941		8,114,126	
Non-current liabilities					
Borrowings (non-current)	15	18,862,192	13,306,368	18,484,792	14,422,236
Employee benefits	16	5,699,128		5,485,579	
Provisions for risk and charges	17	295,674		931,008	
Deferred tax liabilities	18	244,780		262,072	
Other non-current liabilities		-		-	
Total non-current liabilities		25,101,774		25,163,451	
Current liabilities					
Contract liabilities	8	8,665,675		11,391,873	
Trade payables	19	31,911,980	6,920,470	42,675,477	9,555,250
Borrowings (current)	15	23,106,908	22,219,003	54,962,728	43,242,457
Income tax payables		-		-	
Provisions for short-term risks and charges	17	793,332		697,583	
Other current liabilities	20	10,454,359		8,186,012	
Total current liabilities		74,932,254		117,913,673	
Liabilities associated with assets held for sale*		-	-	37,436,478	26,180,823
Total Liabilities		100,034,028		180,513,602	
Total equity and liabilities		131,916,969		188,627,728	

* For details, see the chapter "Extraordinary Transactions" in the Explanatory Notes.

**INCOME STATEMENT**

		(€)			
	Note	31 December 2021	of which with related parties	31 December 2020	of which with related parties
Revenues	22	97,570,291	29,924,993	109,317,088	24,713,386
Other operating income	23	3,046,446	512,551	5,534,075	1,436,808
Purchase and personnel expenses	24	(98,610,510)	7,999,840	(107,714,987)	11,519,980
Amortisation, depreciation and financial assets value adjustments	25	(3,452,019)		(5,243,833)	
Other operating expenses	23	(2,185,821)	44,063	(1,169,492)	9,324
Income before tax and financial expenses		(3,631,613)		722,851	
Financial income	26	374,693		10,301,882	
Financial expenses	26	(1,670,464)	713,345	(3,000,648)	1,443,390
Operating profit (loss) before income taxes and discontinued operations		(4,927,384)		8,024,085	
Income taxes	27	(2,362,606)		(977,563)	
Net profit/(loss) for the period		(7,289,990)		7,046,522	

STATEMENT OF COMPREHENSIVE INCOME

	(€)	
	31 December 2021	31 December 2020
Profit (loss) for the period	(7,289,990)	7,046,522
Other comprehensive income (expenses):		
<i>Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:</i>		
- Measurement of defined-benefit plans	(144,923)	19,297
- Tax effect	41,506	(5,527)
Total	(103,417)	13,770
<i>Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:</i>	-	-
Total other comprehensive income (expense), net of tax:	(103,417)	13,770
Total comprehensive income (expense)	(7,393,407)	7,060,292

**CASH FLOW STATEMENT**

		(€)	
	Note	31 December 2021	31 December 2020
Cash flows from operating activities:			
Gross cash flows from operating activities	29	(178,000)	5,071,000
Change in trade receivables/payables, contract assets/liabilities and inventories	29	(19,211,000)	1,319,000
Change in other operating assets and liabilities and provisions for risks and charges	29	6,041,000	(2,614,000)
Interest paid		(1,243,000)	(2,365,000)
Income taxes received/(paid)		564,000	-
Cash flows generated (used) from operating activities		(14,027,000)	1,411,000
Cash flows from investing activities		-	-
Investments in property, plant and equipment and intangible assets		(3,351,000)	(3,722,000)
Cash flows generated (used) from investing activities		(3,351,000)	(3,722,000)
Cash flows from financing activities			
Capital increases and payments by shareholders		35,000,000	-
Net change in other borrowings		(18,038,801)	2,288,244
Cash flows generated (used) from financing activities		16,961,199	2,288,244
Net increase (decrease) in cash and cash equivalents		(416,801)	(22,756)
Cash and cash equivalents at 1 January		1,438,987	1,461,743
Cash and cash equivalents at 31 December		1,022,186	1,438,987

**STATEMENT OF CHANGES IN EQUITY**

	Share Capital	Legal reserve	Share premium reserve	First Time Adoption reserve	Revaluation reserve of defined-benefit plans	Retained earnings and other reserves	Profit (loss) for the period	Total equity
31 December 2019	24,500,000	3,467,211	15,095	9,609,488	166,781	4,784,387	(41,861,425)	681,537
Profit (loss) for the period	-	-	-	-	-	-	7,046,522	7,046,522
Comprehensive income (expenses):								
<i>Other comprehensive income (expenses)</i>	-	-	-	-	19,297	-	-	19,297
Profit (loss) allocation	-	-	-	-	-	(41,861,425)	41,861,425	-
Other changes	-	-	-	-	-	366,770	-	366,770
31 December 2020	24,500,000	3,467,211	15,095	9,609,488	186,078	(36,710,268)	7,046,522	8,114,126
Profit (loss) for the period	-	-	-	-	-	-	(7,289,990)	(7,289,990)
Comprehensive income (expenses):								
<i>Other comprehensive income (expenses)</i>	-	-	-	-	(144,923)	-	-	(144,923)
Profit (loss) allocation	-	-	-	-	-	7,046,522	(7,046,522)	-
Capital injection	-	-	-	-	-	35,000,000	-	35,000,000
Mergers/Demergers	-	-	-	-	-	(3,716,956)	-	(3,716,956)
Other changes	-	-	-	-	-	(79,316)	-	(79,316)
31 December 2021	24,500,000	3,467,211	15,095	9,609,488	41,155	1,539,982	(7,289,990)	31,882,941



EXPLANATORY NOTES TO THE ACCOUNTING STATEMENTS

Explanatory notes to the financial statements at 31 December 2021

General information

Vitrociset S.p.A. (hereinafter Vitrociset or the Company) is among the first private Italian groups to operate on critical systems of high technological complexity that require the highest levels of reliability, operational readiness and security.

Vitrociset, which has been active on the national and international markets for over 40 years, is a leading company in Support, Training and Logistics for the Defence & Security, Big Science and Transport & Infrastructure sectors, through the development, use and integration of state-of-the-art technology in the fields of ICT, Simulation and System Design. Vitrociset provides institutional and private customers with solutions and services such as:

- Design and implementation of instrumented test ranges, operational and engineering support throughout their life cycle;
- Advanced training and simulation systems;
- Logistics and Sustainment for Defense and Aerospace systems;
- Physical and cyber protection of critical infrastructure and sensitive assets;
- Operational and engineering support for space launch bases;
- Engineering services for Space and Big Science;
- Port/airport traffic management and intermodal logistics platforms.

Form, content and applicable accounting standards

In application of EU Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2021 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

The general principle used in preparing these financial statements is the historical cost method, except for those items that, in accordance with IFRS, are obligatory recognised at fair value, as indicated in the valuation criteria of each item.

The financial statements are composed of the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes to the financial statements.

Among the options permitted by IAS 1, the Company has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of its items. Instead, the statement of cash flows was prepared using the indirect method.

All figures are shown in Euros unless otherwise indicated.



Preparation of the financial statements under the going-concern assumption required management to make certain evaluations and estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in the related Note.

With regard to the going-concern assumption, the above-mentioned merger within the Group will generate a reduction in overheads and costs associated with the legal and administrative obligations of a legally separate Legal Entity. Furthermore, the transaction will make it possible to optimise the use of resources and expertise within Leonardo and to contribute to the full exploitation of its market potential.

These financial statements are subject to audit on the part of EY S.p.A..

Accounting policies

Functional currency

These financial statements are prepared in Euros, which is the Company's functional currency.

Translation of items denominated in a foreign currency

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

Intangible assets

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

Development costs

Intangible assets that are acquired separately are initially recognised at cost, while those acquired through business combinations are stated at fair value at the date of acquisition. After initial recognition, intangible assets are stated at cost less accumulated amortisation and impairment losses (if any). Internally-developed intangible assets, except for development costs, are not capitalised and are recognised in the income statement in the financial period in which they are incurred.

Intangible assets can have a finite or indefinite useful life.

Intangible assets with a finite useful life are amortised over their useful life and are tested for impairment whenever there is evidence of any loss in value. The amortisation period and method for an intangible asset with a finite useful life is reconsidered at least at the end of each financial period. Any change in the expected useful life or the method by which the future economic benefits associated with the asset will be realised are recognised through changes in the amortisation period or method, as appropriate, and are



regarded as changes in accounting estimates. Amortisation allowances for intangible assets with finite useful lives are recognised in the statement of profit/(loss) for the period in the cost category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment on an annual basis, both at an individual level and at the cash-generating unit level. The assessment of indefinite useful life is reviewed annually to determine whether this allocation continues to be sustainable; otherwise the change from indefinite to finite useful life is applied on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., on the date the acquirer obtains control over the asset) or when no future economic benefits are expected from its use or disposal. Any profit or loss arising from the derecognition of the asset (calculated as the difference between the net consideration for disposal and the book value of the asset) is included in the income statement.

Research costs are charged to the income statement for the financial period in which they are incurred. Development costs incurred in relation to a specific project are recognised as intangible assets when the entity is able to demonstrate:

- the technical possibility of completing the intangible asset, so that it is available for use or sale;
- the intention to complete the asset and its ability and intention to use or sell it;
- the way in which the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to reliably estimate the cost attributable to the asset during development.

After initial recognition, development assets are measured at cost less accumulated amortisation or impairment losses. Amortisation of the asset commences when the development is completed and the asset is available for use. Development assets are amortised with reference to the period of expected benefits.

Development assets are tested for impairment at least once a year until the development is completed and, subsequently, as soon as the prospects for the acquisition of contracts change due to the lack or postponement of expected orders. The test is carried out on the basis of plans assumed for sales.

Initial recognition and subsequent assessments of recoverability require estimates that are complex in nature and characterised by a degree of uncertainty connected with the time horizon of the business plans of the products associated with the technology developed and the ability to predict the commercial success of new technology. The principles applied by the entity for intangible assets are summarised below:

	Development costs	Other intangible assets
Useful life	Finite	Finite
Amortisation method	Amortised on a straight-line basis	Amortised on a straight-line basis
Internally-developed or acquired	Internally-generated and/or acquired	Acquired

Industrial patent and intellectual property rights

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

Concessions, licences and trademarks



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

Goodwill

Goodwill, if any, recognised as an intangible asset is associated with business combinations and represents the difference between the cost incurred to acquire a company or division and the sum of the fair values assigned at the purchase date, to the individual assets and liabilities of the given company or division. As it does not have a definite useful life, goodwill is not systematically amortised but is subject to impairment tests conducted at least once a year, unless market and operational factors identified by the Company indicate that an impairment test is also necessary in the preparation of interim financial statements. In conducting an impairment test, goodwill acquired in a business combination is allocated to the individual Cash Generating Unit (CGU) or to groups of CGUs that are expected to benefit from the synergies of the combination, in line with the minimum level at which such goodwill is monitored within the Company. This item was not measured during the 2021 financial year.

Tangible assets

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

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

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the date in which the asset is ready for use.

The estimated useful lives adopted by the Company for the various asset classes are as follows:

General systems	10%
Special systems	15.5%
Systems with use of chemical reagents	20%
Miscellaneous equipment	25%
Electronic instrumentation	25%
Photographic reproduction equipment	30%
Office furniture and machines	12%
Electronic office machines	20%
Household appliances	20%



Motor vehicles	25%
Transport vehicles	20%
Satellite dish structure	10%

The estimated useful life and the residual value are revised on a periodic basis.

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

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

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

Impairment of tangible and intangible assets

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

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

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

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

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

Equity investments

The Company classifies its equity investments as follows:

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

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



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

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

Inventories

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

IFRS 15 Revenue from contracts with customers

Revenue from contracts with customers is recognised when the performance obligations are satisfied through the transfer of control over the good or service to the customer which may occur either over time or at a point in time.

According to IFRS 15, revenue recognition is carried out by applying a model that envisages five stages as set out below:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to performance obligations;
5. Recognise revenue when (or as) performance obligations are satisfied.

The differences noted with respect to previously applicable accounting standards are reported below for each of the five stages.

1 Identify the contract with the customer. In general, the contract can normally be identified as a procurement contract. In addition to the guidelines for identifying the contract, the standard sets out the rules to be applied for grouping together two or more contracts concluded at the same time or almost at the same time with the same customer (or with related parties of the customer). With regard to this step, no differences have been noted with respect to previously applied accounting standards.

2 Identify the performance obligations in the contract. Usually the performance obligation is represented by the work as a whole, as envisaged in the contract, since the various services are characterised by a strong interdependence and integration and are aimed at transferring the work in its entirety.

3. Determine the transaction price. The transaction price is the amount which an entity expects to receive in exchange for the transfer of the contracted infrastructure to the customer. In order to determine this value it is necessary to assess various factors including variable fees, significant financial components, fees

paid to the customer and non-monetary fees. With reference to an existing contract and in accordance with the provisions of the previously applicable accounting standards, revenues were recognised on the basis of an amendment to the contract which was regarded as probable and capable of being measured reliably. IFRS 15 has set out more stringent recognition and measurement criteria when there is uncertainty in relation to a price adjustment resulting from an amendment to the contract.

4. Allocate the transaction price to performance obligations. In addition to the information provided in point 2 above, no additional significant issues have been noted.

5. Recognise revenue when (or as) performance obligations are satisfied.

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

Long-term contracts – Contract assets and liabilities

Long-term contracts are valued on the basis of contractual fees accrued with reasonable certainty, as recognised on the basis of the state of progress, determined through physical measurements of work performed.

Contract revenue includes the value of revenues agreed to in the contract and variances, required price reviews and incentive payments, insofar as it is probable that they constitute actual revenues and if these can be measured reliably.

Contract costs consist of all costs that are directly attributable to the contract, such as site preparation costs, materials, depreciation of plant and equipment, technical assistance, and costs incurred to obtain guarantees. If the completion of a contract is expected to result in a loss, this will be recognised in its entirety in the financial period in which it becomes reasonably foreseeable and quantifiable.

Contract assets and liabilities are classified among "Contract assets" and "Contract liabilities" on the statement of financial position's asset and liability sides, respectively.

Contract assets constitute the Company's right to obtain the agreed-upon consideration in exchange for the transfer of control over goods or services to the customer.

If the Company performs the obligation by transferring goods or services to the customer before the latter pays the consideration or before payment is due, the Company recognises a contract asset, excluding amounts that are stated as receivables.

A contract liability is an obligation to transfer to the customer goods or services for which the Company has already received consideration or for which a portion of the consideration is already due as per contract. If the customer pays the consideration before the Company has transferred control over the goods or services to the customer, the contract liability is recognised when the payment is made or (if earlier) when it is due.



Liabilities arising from a contract are recognised as revenue when the Company satisfies the obligations to perform in the related contract.

The Company recognises the algebraic sum of the following components of each contract:

(+) Value of work progress, determined in accordance with the rules set out in IFRS 15

(-) Advances received on certified works

If the resulting value is positive, it is stated among contract assets; conversely, if it is negative, it is stated among contract liabilities.

Financial assets

The Company classifies its financial assets into the following categories:

- amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

The Company determines such classification based on the business model used in the management of financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets are initially measured at fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Trade receivables that do not include any significant financing component are instead initially measured at their transaction price.

At initial recognition financial assets are classified in one of the categories listed above and cannot be subsequently reclassified in other categories, unless the Company changes its own business model for their management.

The Company recognises, in a provisions for write-down, the expected losses related to financial assets measured at amortised cost, to contract assets and to debt instruments measured at fair value through other comprehensive income. Expected losses are calculated over the credit lifetime, weighting the results of various scenarios by their probabilities and discounting the amounts by using the effective interest method.

The classification of assets as current or non-current reflects management expectations regarding their trading.

Financial assets at amortised cost

Such category includes financial assets held to collect contractual cash flows (Held to Collect), which are solely payments of principal and interest, calculated on the principal amount outstanding. All receivables are included in this category.

Such assets are measured at amortised cost, in compliance with the effective interest method, decreased by impairment losses. Interest income, exchange profits or losses and impairment losses are recognised in profit (loss) for the year as well as profits or loss from derecognition.



Financial assets at fair value through other comprehensive income

Such category includes financial assets that are held with the twofold objective of collecting contractual cash flows on one hand, which are solely payments of principal and interest calculated on the total of the principal amount outstanding, and selling them on the other (Held to Collect and Sell).

Financial assets at fair value through profit or loss

This category includes financial assets that are not classified as measured at amortised cost or at fair value through other comprehensive income. Such category includes all derivatives and financial assets held for trading.

The fair value of financial assets held for trading is calculated by drawing from the market prices at the annual or interim reporting date or through financial techniques and models.

Cash and cash equivalents

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

Equity

Share capital

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

Treasury shares

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

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently classified as "measured at amortised cost" or at "fair value through profit or loss". Financial liabilities are classified at fair value through profit or loss when these are held for trading, represent a derivative or are so designated at the time of initial recognition. Other financial liabilities are measured at amortised cost, using the effective interest method. All payables are included in this category.

Financial liabilities are classified as current liabilities unless the Company has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

Taxation

Current tax assets and liabilities for the financial period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and regulations used to calculate the amount are those enacted, or substantially applicable, as at the reporting date in the countries where the Company operates and generates its taxable income.

Management staff periodically assess the position taken in the tax return in cases where tax rules are subject to interpretation and, where appropriate, take steps to set aside provisions.

The liability relating to current taxes to be paid directly to the Tax Authorities is stated among current liabilities in the balance sheet, net of advances paid. Any positive difference is stated among current assets. Deferred tax assets and liabilities arising from temporary differences between the book value of assets and liabilities, as determined by applying the criteria described above, and their value for tax purposes, deriving from the application of the regulations in force, are stated as follows:

- the former are recognised only if it is probable and evident, from the tax plans prepared up by the entity's management, that there is sufficient taxable income to allow for their recovery;
- the latter, if any, are recognised in any case.

Employee benefits

The liability relating to short-term guaranteed employee benefits paid out during the employment relationship is stated for the amount accrued at the end of the period.

The liability relating to guaranteed employee benefits paid out on or after termination of the employment relationship under defined-benefit plans, consisting of the Employee Severance Indemnity, is stated over the period in which the right accrues, net of any plan assets and advances paid, and is determined on the basis of actuarial assumptions and recognised on an accruals basis in line with the performance of work required to obtain the benefits; the liability is assessed by independent actuaries.

It should be noted that, as from the 2007 financial year, the company implemented the effects of the amendments brought in by the "2007 Budget Law" and subsequent decrees and regulations concerning the allocation of the amounts accrued on the severance indemnity as from 1 January 2007.

Specifically, for the purposes of applying IAS 19, the new regulations changed the nature of the Employee Severance Indemnity from a "defined-benefit plan" to a "defined-contribution plan" as from 1 January 2007. For IFRS purposes, only the Employee Severance Indemnity accrued as at 31 December 2006 remains a defined-benefit plan.

Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income and are not subsequently charged to the income statement; interest cost is recognised through profit or loss, among financial income (expenses).

Provisions for risks and charges

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

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

With reference to contract assets and liabilities, in case the reassessment of the economic plans (whole life estimates) during the progress of a contract highlights the presence of elements that make them onerous, the amount of costs considered as "unavoidable" that is higher than the economic benefits arising from the

contract is recognised in full in the financial period in which it becomes reasonably foreseeable and allocated to a “Provision for onerous contracts” under provisions for risks and charges. The reversal of such accruals is recognised as absorption under “Other operating income.”

Leasing

At the inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if, in exchange for consideration, it transfers the right to control the use of an identified asset for a given period of time.

The Company is a lessee under a lease agreement.

The Company recognises the right of use and the lease liability for a lease agreement or an agreement that contains a lease component upon initial recognition.

Right-of-use assets are initially valued at cost, including the amount of initial measurement of lease liabilities, as increased by any initial direct costs sustained and adjusted by lease payments made prior to the date of inception of the lease and an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, or in restoring the asset or the site at which it is located, net of lease incentives received (if any). Right-of-use assets are amortised on a straight-line basis from the commencement date to until the end of the lease term, unless the lease transfers the ownership of the underlying asset, until the end of its useful life. Furthermore, the right of use is restated when impairment losses arise in order to reflect the remeasurements of lease liabilities.

The Company recognises lease liabilities at the present value of the lease payments to be made throughout the lease term, using the implied interest rate of the lease or the marginal interest rate of the loan. Lease payments include fixed payments (including substantial fixed payments), net of any possible receivables for lease incentives, variable payments (linked to an index or an interest rate) and the amounts that are expected to be paid as security on the remaining value. Lease payments also include any possible exercise price of a purchase option that is reasonably certain to be exercised by the Company, lease payments due in an optional renewal period if the Company is reasonably certain to exercise it and the payment of penalties for early termination of the agreement, unless the Company is reasonably certain that it will not terminate the contract early. The readjustment of the amount of the lease liability shall be charged against the value of the right-of-use asset. If there is a further reduction in the lease liability compared to the write-off of the right-of-use asset, the Company recognises the amount resulting from restatement among profit (loss) for the financial period.

Costs

Costs are recorded in compliance with the matching principle.

Financial income and expenses

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

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

Dividends



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

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

Non-current assets held for sale and discontinued operations

Non-current assets whose carrying amount will be recovered principally through a sale transaction or through demerger or contribution transactions that can be treated as sales for the purposes of classification pursuant to IFRS 5 rather than through continuing use, are classified as held for sale and presented separately from other assets and liabilities in the statement of financial position. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable within one year. If these conditions are met after the year-end, the non-current asset is not classified as held for sale. However, if these conditions are met after the year-end but before the financial statements are approved for publication, appropriate information is provided in the explanatory notes thereto.

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

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

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

Significant issues and critical estimates by management

As required by IFRS, the preparation of the financial statements requires estimates to be made that are reflected in the calculation of the book values of assets and liabilities, as well as of the information provided in the explanatory notes, even with regard to potential assets and liabilities existing at the end of the financial period. In particular, these estimates are used to determine revenues and contract assets and liabilities, provisions for expected losses on trade receivables and contract assets, taxes, impairment of assets and valuation of potential liabilities.

All estimates are based on the most recent information available to the Company's Management at the time the financial statements were prepared, and therefore do not affect their reliability. However, the actual results that will be recognised may differ from these estimates. The latter are therefore reviewed and updated periodically and the effects arising from any related change are immediately reflected in the financial statements.

The preparation of the company's financial statements requires the directors to make discretionary judgments, estimates and assumptions that affect the amounts of revenues, costs, assets and liabilities and related information, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that will require, in the future, an adjustment to the book value of these assets and/or liabilities.



Estimate of revenues and final costs of long-term contracts

The Company operates in business sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis in case the requirements for the revenue recognition over time are met. Margins recognised in the income statement are a function of both the state of progress on performance obligations included in the contract and the margins that are expected to be recognised for the completed contract.

Estimating the expected overall costs of contracts in progress is marked by a high degree of uncertainty as they can be influenced by a number of factors such as the engineering complexity of the products, the ability to precisely fulfil specific technical requests made by customers and to meet the manufacturing time-frame provided for in the contract. Furthermore, any failure to comply with contractual terms and conditions, such as, for example, those relating to delivery times and any non-conformity of products and services to the specific requirements of the customers, may imply penalties and extra-costs of a remarkable amount to be considered in estimating total costs. In order to enhance support for management's estimates, the Company has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with the performance of such contracts. The amounts posted in the financial statements represent management's best estimate at the reporting date supported by said tools.

Provision for expected losses on trade receivables and contract assets

The Company uses external sources to calculate Expected Credit Losses (ECLs) on trade receivables and contract assets.

At each reporting date, historical default rates are updated and changes in estimates are analysed on the basis of forecasted items.

The evaluation of the correlation between historical default rates, forecasted economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecasted economic conditions. Historical experience on the trend in the Company's credit losses and forecasted future economic conditions too may not be representative of the customer's actual default in the future.

Taxation

Deferred tax assets are recognised for unused tax losses insofar as it is probable that there will be sufficient future taxable income to allow the losses to be used. Significant estimation by the Company's management is required to determine the amount of tax assets that can be recognised on the basis of the amount of future taxable income, the timing of their occurrence, and applicable tax planning strategies.

Impairment of assets

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

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

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

Details about the methods for the calculation of the impairment tests are reported in the related Note 1 of the explanatory notes.



Disputes

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

New standards and interpretations issued by the IASB but not yet applicable

As at the reporting date of these financial statements, the following new Standards/Interpretations had been issued by the IASB, which had not yet become applicable and/or not yet been adopted by the EU:

Mandatory
application from

New Standards / Interpretations adopted by the EU but not yet applicable	
Amendments to: IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements to IFRSs 2018–2020	1/1/2022
New Standards / Interpretations not yet applicable and not yet adopted by the EU	
Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1/1/2023
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current	1/1/2023
Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies	1/1/2023
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	1/1/2023

Any possible impact on the Company's financial statements resulting from the new Standards/Interpretations is still being assessed.



EXTRAORDINARY TRANSACTIONS

Demerger of the Space Business Unit

With effect from 1 March 2021, the partial demerger of the Company "VITROCISSET - SOCIETA' PER AZIONI" was completed through the contribution to the Company "TELESPAZIO S.P.A." of the "Space" Business Unit, consisting of all the assets organised for the performance of technical and engineering activities, as well as production, integration, operational management, maintenance and logistics of the Ground Segment, namely the ground systems for the operation of space systems, including the equity investments held in its wholly-owned foreign subsidiaries Vitrociset Belgium S.p.r.l. and Vitrociset France S.a.r.l..

It should be noted that, as a result of the demerger, the shareholder Leonardo took steps to increase the Company's Equity through the waiver of receivables for loans for an amount of €mil. 35.

Below is the balance sheet involved in the demerger:

€ thousands

STATEMENT OF FINANCIAL POSITION	28 Feb 2021 VITROCISSET SPA SPACE business area	31 Dec 2020 VITROCISSET SPA SPACE business area
Assets		
Non-current assets		
Intangible assets	18,896	18,899
Tangible assets	14	-
Right of use	14	15
Equity Investments	3,173	3,168
Total non-current assets	22,097	22,082
Current assets		
Inventories	254	250
Contract assets	10,676	10,605
Trade receivables	5,692	7,407
Other assets	3,063	2,069
Total current assets	19,685	20,331
Total Assets	41,782	42,413

STATEMENT OF FINANCIAL POSITION	28 Feb 2021 VITROCISSET SPA SPACE business area	31 Dec 2020 VITROCISSET SPA SPACE business area
Equity and liabilities		
Equity		
Share capital	-	-
Other reserves	3,716	4,977
Total equity	3,716	4,977
Non-current liabilities		
Borrowings (non-current)	10	10
Employee benefits	1,912	1,838
Deferred tax liabilities	2,115	2,115
Total non-current liabilities	4,037	3,963
Current liabilities		
Contract liabilities	691	788
Trade payables	12,332	12,011
Borrowings (current)	19,558	19,419
Other current liabilities	1,448	1,255
Total current liabilities	34,029	33,473
Total equity and liabilities	41,782	42,413



Merger by incorporation

The financial year saw the start and completion of the Company's merger by incorporation into Leonardo Spa, the legal, tax and accounting effects of which will start to run from 1 January 2022.

The transaction was put in place for economic and organisational reasons and, more generally, is part of the broader plan for strategic and corporate rationalisation of the Leonardo Group's assets, which had been already launched with the One Company model.

The merger therefore constitutes, both from an industrial and commercial perspective, the natural completion of the process of integration and interaction, both organisational and managerial, between the Merged Company and the Merging Company, which began in 2019 with Leonardo acquiring the entire share capital of Vitrociset and was subsequently completed following the demerger of Vitrociset's Space business unit in favour of Telespazio in March 2021.

With regard to issues from a more strictly economic point of view, the planned merger will generate a reduction in overheads and costs associated with the legal and administrative obligations of a legally separate Legal Entity; furthermore, the transaction will make it possible to optimise the use of resources and expertise at Leonardo and to contribute to the full exploitation of its market potential.



BALANCE SHEET

1. INTANGIBLE ASSETS

€ thousands

	Goodwill	Development costs	Concessions, licences and trademarks	Development costs in progress	Other intangible assets	Total
1° January 2020						
Cost	-	44,193	3,731	1,803	10,081	59,808
Depreciation and impairment losses	-	(37,998)	(3,616)	-	(9,398)	(51,012)
Carrying amount	-	6,195	115	1,803	683	8,796
Investments (*)	-	1,147	188	1,429	184	2,948
Amortisation	-	(1,172)	(123)	-	(235)	(1,530)
31 December 2020	-	6,170	180	3,232	632	10,214
broken down as follows:						
Cost	-	45,339	3,919	3,233	10,265	62,756
Depreciation and impairment losses	-	(39,170)	(3,739)	-	(9,633)	(52,542)
Carrying amount	-	6,169	180	3,233	632	10,214
Investments (**)	-	424	56	1,987	36	2,503
Amortisation	-	(1,231)	(129)	-	(184)	(1,544)
Adjustments and other changes	-	(67)	-	-	-	(67)
31 December 2021	-	5,295	107	5,220	484	11,106
broken down as follows:						
Cost	-	45,696	3,975	5,220	10,301	65,192
Depreciation and impairment losses	-	(40,401)	(3,868)	-	(9,817)	(54,086)
Carrying amount	-	5,295	107	5,220	484	11,106
(*) of which by capitalisation of internal costs	-	1,147	-	1,429	-	2,576
(**) of which by capitalisation of internal costs	-	354	-	1,987	-	2,341
Reclassified as assets held for sale as at 31 December 2020	18,860	39	-	-	-	18,899
Reclassified as assets held for sale as at 31 December 2021	-	-	-	-	-	-

New investments of €th. 2,503 were recorded during the year, which mainly related to key corporate areas such as military test ranges, critical infrastructure security systems and port and intermodal logistics platforms.

The increase in this item was mainly due to the capitalisation of development costs, which were partially offset by the amortisation for the year amounting to €th. 1,544.

Research and development costs

As also stated in the comments on the valuation criteria for intangible assets, development costs are subjected to an impairment test at least on an annual basis until development is completed and, subsequently, as soon as the prospects for the acquisition of contracts change due to the lack or postponement of expected orders.

In particular, the test was carried out on the basis of the estimated sales plans relating to the products that will use the technologies that are developed. Specifically, revenues and margins were reclassified by strategic project and allocated to the related development costs capitalised on the basis of correlation

percentages estimated by the directors on the basis of their specific knowledge of the related business area, assessing the impact of the strategic project (i) in terms of extension of existing contracts and acquisition of new contracts and (ii) depending on the period of validity of the product/service developed as part of the strategic project itself.

The method used is that of discounted cash flows, based on cash flows allocated according to the method described above and discounted at a rate (WACC) determined by applying the Capital Asset Pricing Model method.

The WACC that is used, as calculated according to the methods described above, was equal to 6.1%. This circumstance did not result in any impairment during the current year.

For certain development costs with larger amounts and a recoverable amount that does not differ significantly from the carrying amount, an analysis was carried out for the sensitivity of the results of the impairment test with respect to the changes in basic assumptions.

Specifically, this analysis revealed that:

- after increasing the WACC by 0.5%, recoverable values would be substantially in line with book values;
- after reducing, the WACC remaining equal, any and all plan flows expected beyond the 2023 financial year by 0.5%, the value in use would be no less than the book value.

2. TANGIBLE ASSETS

€ thousands

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1st January 2020					
Cost	16	18,233	13,661	3,723	35,633
Amortisation, depreciation and write-offs	(4)	(16,641)	(13,308)	(3,615)	(33,568)
Carrying amount	12	1,592	353	108	2,065
Investments (*)	-	529	209	36	774
Depreciation	(2)	(539)	(183)	(33)	(757)
31 December 2020	10	1,582	379	111	2,082
broken down as follows:					
Cost	16	18,761	13,870	3,759	36,406
Amortisation, depreciation and write-offs	(6)	(17,179)	(13,491)	(3,648)	(34,324)
Carrying amount	10	1,582	379	111	2,082
Investments (**)	9	-	58	850	917
Depreciation	(2)	(65)	(200)	(513)	(780)
Adjustments	-	(1,196)	198	998	-
Other changes	-	(13)	-	-	(13)
31 December 2021	17	308	435	1,446	2,206
broken down as follows:					
Cost	25	17,552	14,126	5,607	37,310
Amortisation, depreciation and write-offs	(8)	(17,244)	(13,691)	(4,161)	(35,104)
Carrying amount	17	308	435	1,446	2,206
(*) of which by capitalisation of internal costs	-	463	-	-	463
(**) of which by capitalisation of internal costs	-	-	-	408	408

This item, equal to €th. 2,206, was mainly attributable to office machines included among other fixed assets.



There was a net increase of €th. 124 thousand compared to the previous year, which was mainly attributable to new increases of €th. 917, partially offset by depreciation of €th. 780.

3. RIGHTS OF USE

€ thousands

	Rights of use of land and buildings	Rights of use of plant and machinery	Right of use of ICT Equipment and Infrastructure	Rights of use of other tangible assets	Total
Initial balance as at 1 January 2021	15,283	-	-	233	15,516
New Contract submission	306	-	-	206	512
Depreciation	(1,526)	-	-	(182)	(1,708)
Final balance as at 31 December 2021	14,063	-	-	257	14,320
broken down as follows:					
Cost	15,589	-	-	439	16,028
Amortisation, depreciation and write-offs	(1,526)	-	-	(182)	(1,708)
Carrying amount	14,063	-	-	257	14,320
<i>Reclassified as assets held for sale as at 31 December 2020</i>	-	-	-	15	15

This item showed a total decrease of €th. 1,196, mainly as a result of depreciation allowances compared to the previous year.

The main amount was related to the properties located at the company offices at Roma Tiburtina and Capo San Lorenzo (CA), granted under lease by Leonardo Global Solution.

4. EQUITY INVESTMENTS

Equity investments in subsidiaries, joint ventures and associates are stated at purchase or incorporation cost. If there is evidence of any impairment, recoverability is verified by comparing the carrying amount with the higher of the value in use, as determined by discounting prospective cash flows of the investment where possible, and the theoretical fair value, as determined on the basis of recent transactions or market multiples. Any possible amount of losses exceeding the book value is recognised through profit or loss under a specific provision for liabilities insofar as the company believes that there are legal or implicit obligations to cover losses and in any case within the limits of the equity for accounting purposes. If the subsequent performance of the investee subject to impairment shows an improvement such as to suggest that the reasons for the write-down no longer apply, the investment is revalued within the limits of the write-downs recognised in previous years, under the item of "value adjustments to equity investments".

€ thousands

	31 December 2021	31 December 2020
Initial balance	67	301
Acquisitions/subscriptions and capital increases	-	8
Write-back/depreciation and write-offs	(36)	(242)
Final balance	31	67
<i>Reclassified as assets held for sale</i>	-	3,168

This item showed a decrease of €th. 36 as a result of disposals or write-downs compared to the previous year.



Below is the breakdown of equity investments:

Company	31 December 2020					31 December 2021		
	Cost	Depreciation	Carrying amount	Disposal	Write-back/write-off	Cost	Depreciation	Carrying amount
Investments in subsidiaries								
<i>Vitrociset KSA</i>	25	-	25	-	(25)	25	(25)	-
Total investments in subsidiaries	25	-	25	-	(25)	25	(25)	-
Investments in associates								
<i>Jadwalean Vitrociset co.</i>	333	(333)	-	-	-	333	(333)	-
<i>Consorzio I4SB</i>	5	-	5	(5)	-	-	-	-
Total investments in associates	338	(333)	5	(5)	-	333	(333)	-
Other companies								
<i>C.I.R.A. S.c.p.a.</i>	1	-	1	-	-	1	-	1
<i>DISTR.TECNOL.AEROSP.CAMP.SCARL</i>	2	-	2	-	-	2	-	2
<i>Digitalog S.p.A.</i>	6	-	6	-	-	6	-	6
<i>MAR.TE SCARL</i>	14	-	14	-	-	14	-	14
<i>CONAI</i>	0	-	0	-	-	0	-	0
<i>DISTR. ALTA TECN. BENI CULTURALI</i>	2	-	2	-	-	2	-	2
<i>DISTR.AEROSP.SARDEGNA scarl</i>	6	-	6	-	-	6	-	6
<i>CONSORZIO TIBERINA</i>	6	-	6	-	(6)	6	(6)	-
<i>LOGISTICA DIGITALE</i>	492	(492)	-	-	-	492	(492)	-
Total Other companies	529	(492)	37	-	(6)	529	(498)	31
TOTAL EQUITY INVESTMENTS	892	(825)	67	(5)	(31)	887	(856)	31

€ thousands



5. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	€ thousands	
	31 December 2021	31 December 2020
Receivables from related parties	-	-
Other receivables	14	35
Total receivables	14	35

This item was mainly attributable to long-term receivables claimed from suppliers for guarantee deposits paid.

6. DEFERRED TAX ASSETS

	€ thousands
Breakdown of deferred tax assets	
Deferred tax assets as at 1 January 2021	8,226
Increasing	761
Decreasing	(3,314)
Deferred tax assets as at 31 December 2021	5,673

Deferred tax assets and related receivables and payables at 31 December 2021 originated from temporary differences that are reported below. It should be noted that tax losses were not recognised for €mil. 24.

	€ thousands	
Typology	31 December 2021	31 December 2020
Tax losses	-	1,451
Bad debt provisions	1,074	1,074
Exchange losses	464	401
Other provisions for risk and charges	241	283
MBO, Production Rewards, Exodus Incentives	379	380
Administrators	29	50
Insurance premiums	46	67
R&D depreciation	1,443	2,450
Other Temporary Variations	82	12
Unpaid taxes	21	21
Provisions for work in progress and for invoices to be issued write downs	1,568	1,712
Provisions inventory write-downs	228	228
IAS 19	98	97
Total	5,673	8,226



7. INVENTORIES

This item consists of the balance of inventories of raw materials, supplies and consumables existing at the end of the year, as measured according to the "Weighted Average Cost" method.

Below is a breakdown of this item:

	€ thousands	
	31 December 2021	31 December 2020
Total inventories	8,547	6,307
Reclassified as assets held for sale		
Raw, subsidiary and consumer materials	-	250

The value of inventories increased, compared to the previous year, by a total of €th. 2,240, mainly due to the purchase of goods on contracts that are being performed. It should be noted that at 31 December 2021 the balance was made up of:

- €th. 8,092 of raw materials, supplies and consumables
- €th. 455 of advances.

8. CONTRACT ASSETS AND LIABILITIES

	€ thousands	
	31 December 2021	31 December 2020
Work in progress (gross)	653,984	397,050
Certified progressive work (advance payments)	(597,663)	(344,762)
Provisions for write-down	(5,895)	(6,324)
Total contract assets	50,426	45,964
Current liabilities		
Contractual advances	(8,666)	(11,392)
Total contracts assets and liabilities	41,760	34,572
Reclassified as assets/liabilities held for sale		
Work in progress and advanced payments	-	10,605
Contractual advances		(788)

The amount of the Provision for contract risks has been valued in compliance with the provisions of IFRS 9 concerning the measurement of financial instruments.

**9. TRADE RECEIVABLES**

This item consists of receivables claimed from Customers, the Parent Company and related parties.

€ thousands

	31 December 2021	31 December 2020
Trade receivables from customers	25,039	20,299
Trade receivables from Parent Companies	4,026	6,561
Trade receivables from Related companies	4,895	5,174
Total Trade Receivables	33,960	32,034

Reclassified as assets held for sale

Trade receivables from customers	-	3,945
Trade receivables from related companies	-	3,462

The overall increase recorded in the period amounted to €th. 1,926. Trade receivables from customers are mainly claimed from Ministries and Public Bodies and Agencies.

The amount of the Bad debt provision equal to €th. 3,543 has been valued in compliance with the provisions of IFRS 9 concerning the measurement of financial instruments.

No transactions were carried out involving the non-recourse assignment of trade receivables during the year.

10. INCOME TAX RECEIVABLES

€ thousands

	31 December 2021	31 December 2020
Total Tax Receivables	405	797

Reclassified as assets held for sale

- -

This item was mainly attributable to the deposits paid to the Tax office on administrative appeals.

11. LOANS AND RECEIVABLES

€ thousands

	31 December 2021	31 December 2020
Other third party loans and other financial receivables	117	203
Loans and financial receivables from Leonardo	-	11,676
Loans and financial receivables from Vitrociset Belgium	-	2,059
Total other loans and other receivables	117	13,938

**12. OTHER CURRENT ASSETS**

€ thousands

	31 December 2021	31 December 2020
Other receivables from related parties	-	576
Other receivables from the parent company for tax consolidation	1,394	1,487
Other receivables from the parent company	252	614
Accruals	719	1,142
Indirect tax receivables	236	945
Receivables from other third party	875	4,556
Other receivables from the Italian Tax Authorities	613	276
Total other current assets	4,089	9,596
Reclassified as assets held for sale		
Receivables from Subsidiaries/Related parties	-	2,069

This item recorded a decrease compared to the previous year, equal to €th. 5,507, mainly due to the collection of receivables for grants and other sundry receivables.

13. CASH AND CASH EQUIVALENTS

€ thousands

	31 December 2021	31 December 2020
Bank and postal deposits	935	1,337
Cash values	87	102
Total Cash and Cash Equivalents	1,022	1,439

Changes in cash and cash equivalents are broken down in the cash flow statement.



14. EQUITY

€ thousands

	31 December 2020	Changes	31 December 2021
Share capital	24,500	-	24,500
Share premium reserve	15	-	15
Legal reserve	3,467	-	3,467
Other reserves	-	-	-
<i>Shareholder's capital</i>	370	31,284	31,654
<i>S3 log merger surplus reserve</i>	360	-	360
<i>Extraordinary reserve</i>	18	-	18
<i>Revaluation reserve of defined-benefit plans</i>	186	(145)	41
<i>First Time Adoption reserve</i>	9,609	-	9,609
<i>First Time Adoption reserve - IFRS 9</i>	(2,439)	-	(2,439)
<i>Merger surplus reserve</i>	23	-	23
<i>Unrealized foreign exchange gains reserve</i>	50	75	125
<i>Exchange difference for foreign entities consolidation</i>	9	(79)	(70)
RETAINED EARNINGS	(35,101)	6,971	(28,130)
NET RESULT 2020	7,047	(7,047)	-
NET RESULT 2021	-	(7,290)	(7,290)
TOTAL EQUITY	8,114	23,769	31,883

The Company's equity increased from €th. 8,114 in 2020 to €th. 31,883 at 31 December 2021. The difference was mainly attributable to the capital contribution of €th. 35,000 made by Leonardo in the 1st quarter of the year, the loss for the year of €th. 7,290 and the effects of the demerger amounting to €th. 3,717.



Statement of Reserves - Art. 2427 no.7-Bis of the Italian Civil Code

€ thousands

Nature/Description	Amount at 31.12.2021	Possibility of use	Available fee	Summary of the uses made in the 3 previous years 2018- 2019-2020	
				to coverage losses	other reasons
Share capital	24,500				
Capital reserve:	41,757				
Share premium reserve	15	A-B	-	-	-
Shareholder's capital	31,653	A-B-C	31,653	-	-
Foreign exchange profits reserve	55	A-B	-	-	-
Cash flow hedge	-		-	-	-
Reserve of defined-benefit plans	41	A-B	-	-	-
First Time Adoption reserve	9,609	A-B	-	-	-
S3 log merger surplus reserve	360	B	-	-	-
Valuation reserve using the equity method	-	A-B	-	-	-
Merger surplus reserve	23	B	-	-	-
Profit reserves:	(27,084)				
Legal reserve	3,467	B	-	-	-
Extraordinary reserve	18	A-B-C	18	-	-
First Time Adoption reserve - IFRS 9		A-B-C	(2,439)	-	-
Retained earnings	(28,130)	A-B-C	(28,130)	-	-
Total			1,102		
Non-distributable portion *			1,102		
Residual distributable portion			-		

KEYS: for capital increase: A - to cover losses: B - for shareholder distribution: C

* The non-distributable portion is attributable to the long-term costs not yet amortized pursuant to art. 2426 no. 5.

**15. BORROWINGS**

€ thousands

	31 December 2021			31 December 2020		
	Non-current	Current	Total	Non-current	Current	Total
Bank's debts	-	2	2	-	-	-
Other borrowings	5,382	796	6,178	3,994	11,554	15,548
Lease liabilities from related parties	13,306	1,728	15,034	14,422	1,657	16,079
Other lease liabilities	174	90	264	69	166	235
Liabilities to parent company	-	20,491	20,491	-	41,586	41,586
Total Borrowings	18,862	23,107	41,969	18,485	54,963	73,448

Reclassified as assets held for sale	-	-	-	10	19,419	19,429
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Other borrowings consist of instalments of subsidised loans that have yet to be repaid.

The items relating to lease liabilities are mostly connected with the lease of properties in Rome and Capo San Lorenzo (CA).

The payable due to the parent company, Leonardo Spa, was essentially due to participating in the Group's cash pooling scheme.

16. EMPLOYEE BENEFITS

€ thousands

	31 December 2021	31 December 2020
Employee benefits	5,699	5,486
<i>Reclassified as liabilities held for sale</i>	-	1,838

The following table shows the impact of this item in the income statement

€ thousands

	31 December 2021	31 December 2020
Interest expenses	21	52
Total expenses	21	52

The main assumptions used for the determination of the present value of the severance indemnity are illustrated below:

	31 December 2021	31 December 2020
Annual discount rate	0.70%	0.40%
Inflation annual rate	1.40%	0.40%
Frequency of advances	3.00%	3.00%
Turnover frequency	5.00%	3.50%

**17. PROVISIONS FOR RISKS AND CHARGES**

€ thousands

	31 December 2020	Allocation	Uses/reversal	Other changes	31 December 2021
Provisions for contract risks	345	-	(167)	(178)	-
Provisions for other risks	586	180	(470)	-	296
Total long-term provisions	931	180	(637)	(178)	296
Provisions for other risks	698	653	(736)	178	793
Total short-term provisions	698	653	(736)	178	793
Total provisions	1,629	833	(1,373)	-	1,089

Provisions for risks and charges related to liabilities that are regarded as probable for implicit and explicit obligations, of which the current portion amounts to €th. 793 and the long-term portion to €th. 296.

Almost all the provisions were attributable to future losses on projects still in progress and to labour and commercial disputes.

Contingent liabilities

In 2017 the Company was summoned before the Court by Abbanoa S.p.A., the single operator of the Integrated Water Service of the Autonomous Region of Sardinia, against a claim for damages of € 12,808,125, as subsequently amended (statement pursuant to art. 183), increasing them up to € 15,628,310. The claim regards an alleged breach of contract connected with the development by Vitrociset S.p.A. of the public company's operating software.

While reiterating the correctness of its actions, Vitrociset S.p.A. contested the unlawfulness of Abbanoa S.p.A.'s claim and, in turn, requested compensation, by way of counterclaim, in the amount of € 4,993,915.

At present there have been no significant preliminary investigation activities; therefore, the Company has not set aside any provision, since the outcome of the litigation is not foreseeable and since it believes that the associated liability is not probable, even on the basis of the opinion of its legal counsels. Furthermore, it should be noted that the provision for write-down of work in progress includes an amount covering the risk, equal to 100% of the value, while, as regards receivables, the provision for bad debts is equal to approximately 75% of the stated value.

**18. DEFERRED TAX LIABILITIES**

Payables (all referable to IRES Corporate Income Tax) at 31 December 2021 were broken down as follows:

€ thousands

Typology	31 December 2021	31 December 2020
Exchange profit	231	223
Interest income	14	14
Dividends from Vitrociset Belgium	-	25
Total	245	262

Reclassified as assets held for sale - 2,115

19. TRADE PAYABLES

Below is the breakdown of the item at 31 December 2021:

€ thousands

	31 December 2021	31 December 2020
Trade payables	24,992	33,120
Trade payables to related parties	6,920	9,555
Total trade payables	31,912	42,675

Reclassified as liabilities held for sale - 12,011

20. OTHER CURRENT LIABILITIES

€ thousands

	31 December 2021	31 December 2020
Payables to social security institutions	1,944	2,317
Payables to personnel	2,440	1,782
Other third party debts	4,360	2,506
Debts for indirect taxes	263	190
Other tax liabilities	1,447	1,391
Total other liabilities	10,454	8,186

Reclassified as liabilities held for sale - 1,255

21. GUARANTEES AND OTHER COMMITMENTS

€ thousands

	31 December 2021	31 December 2020
Bank guarantees	34,262	28,159
Insurance guarantees	50,870	61,109
Total	85,132	89,268



INCOME STATEMENT

22. REVENUES

€ thousands

	31 December 2021	31 December 2020
Revenue from contracts with customers	99,055	116,435
Total Revenue from contracts with customers	99,055	116,435
Change in work in progress	(1,485)	(7,118)
Total revenues	97,570	109,317
of which to related parties	29,925	24,713

Revenues showed an overall decrease of €mil. 11.7 compared to the previous year, essentially attributable to the SPACE BU, which was demerged in favour of Telespazio as from 1 March 2021, as well as due to a reduction in operations in the Transport & Infrastructure area, which were only partially recovered by the increased work in the Defence & Security area.

23. OTHER REVENUES AND OTHER OPERATING EXPENSES

€ thousands

	31 December 2021	31 December 2020
Extraordinary income	303	182
Other Revenues	2,743	5,352
Total other operating income	3,046	5,534
of which to related parties	513	1,437
Allocation for risk provisions	833	151
Miscellaneous operating charges	1,353	1,018
Total other operating expenses	2,186	1,169
of which to related parties	44	9

Other revenues consist of income statement components that are not directly pertaining to the core production business of the Company, but are in any case accessory thereto and have a character of continuity over time.

**24. PURCHASE AND PERSONNEL EXPENSES**

€ thousands

	31 December 2021	31 December 2020
Purchases of raw materials	15,883	19,516
Total purchases of raw materials	15,883	19,516
Services rendered	46,735	48,341
Total purchases of services	46,735	48,341
	-	-
Personnel expenses	38,812	42,897
Wages and salaries	27,958	31,809
Social security contributions	7,789	8,964
Costs related to defined-contribution plans	2,142	2,124
Other personnel expenses	923	-
Internal work capitalised	-2,819	-3,039
Total purchases and personnel expenses	98,611	107,715
of which to related parties	8,000	11,520

This item amounted to €th. 98,611, whose main components are attributable to costs for purchases of raw materials for €th. 15,883, costs for services for a total of €th. 46,735 broken down into utilities, third-party services, leases and rentals, consultancy, fees and other costs for services. Personnel costs amounted to €th. 38,812, showing a decrease of €th. 4,085 thousand compared to the previous year. Capitalisations for the year amounted to €th. 223.

In accordance with the law, it should be noted that the fees due to the independent auditors amounted to €th. 130.

The fees due to the Directors, who are not Company managers, amounted to €th. 55 in 2021 (€th. 55 in 2020).

The fees due to statutory auditors amounted to €th. 55 in 2021 (€th. 55 in 2020).

Below is a breakdown of the trend in average and specific workforce by category at 31 December 2021:

	31.12.2021						AVERAGE 2021
	AREA	MANAGERS	JUNIOR MANAGERS	WHITE COLLARS	BLUE COLLARS	TOTALE	TOTAL
WORKFORCE	ITALY	12	87	413	11	523	510.4
	FRANCE	-	25	1	-	26	23.5
	SPAIN	-	-	7	-	7	6.8
	TURKEY	-	-	10	-	10	10
	TOTAL	12	112	431	11	566	550.7

**25. AMORTISATION, DEPRECIATION AND WRITE-DOWNS**

€ thousands

	31 December 2021	31 December 2020
AMORTISATION, DEPRECIATION AND WRITE-DOWNS		
Amortisation of intangible assets	1,544	1,530
Depreciation of property, plant and equipment and investment properties	780	756
Depreciation of right of use	1,708	1,980
Total	4,032	4,266
Value adjustments on assets/liabilities from third-party contracts	(598)	-
Write-down of receivables included in current assets and cash equivalents	18	978
Total write-downs	(580)	978
Total	3,452	5,244

26. FINANCIAL INCOME AND EXPENSES

€ thousands

	31 December 2021	31 December 2020
Other financial income	17	14
Dividends from Vitrociset Belgium	-	9,717
Exchange rate differences	358	571
Financial income	375	10,302
of which to related parties		
Write-downs of equity investments	-	277
Interest expense, commissions and other expenses	1,248	2,361
Exchange rate differences	423	363
Financial expenses	1,671	3,001
of which to related parties	-	-
Total financial income and expenses	(1,296)	7,301

For more details on this item, reference should be made to the information already provided in relation to the economic and financial performance.

**27. INCOME TAXES**

€ thousands

	31 December 2021	31 December 2020
Current taxes	379	93
Tax related to previous periods	836	-
Deferred tax liabilities	(17)	85
Deferred tax asset	2,553	2,286
Consolidated tax income	(1,388)	(1,486)
Income taxes	2,363	978

€ thousands

	YEAR 2021	%	YEAR 2020	%
Income before tax	(4,927)		8,024	
Theoretical income taxes	-	-	1,926	24.00%
IRAP	-	4.86%	390	4.86%
Timing differences	2,363	(47.96%)	(1,338)	(16.68%)
Total income tax (current and deferred)	2,363	(47.96%)	978	12.18%

RELATED PARTIES**28. RELATED-PARTY TRANSACTIONS**

Related-party transactions are carried out at arm's length, as are interest-bearing receivables and payables, unless regulated by specific contractual terms and conditions.

The amounts relating to the balance sheet and income statement items are shown below.

€ thousands

	CURRENT ASSETS			
	TRADE RECEIVABLES	LOANS AND OTHER RECEIVABLES	OTHER RECEIVABLES	TOTAL
Leonardo spa	4,449	-	1,646	6,095
Istituto Poligrafico e Zecca dello Stato	2,030	-	-	2,030
Telespazio	306	-	-	306
Ministero dell'Economia	406	-	-	406
Enav	1,535	-	-	1,535
Sogei	52	-	-	52
I4SB	80	-	-	80
MBDA	30	-	-	30
Kopter	21	-	-	21
Leonardo Global Solutions	6	-	-	6
Leonardo Logistic spa	6	-	-	6
Total	8,921	-	1,646	10,567



€ thousands

NON-CURRENT LIABILITIES			
	TRADE PAYABLES	BORROWINGS	TOTAL
Leonardo Global Solutions	-	13,306	13,306
Total	-	13,306	13,306

€ thousands

CURRENT LIABILITIES			
	TRADE PAYABLES	BORROWINGS	TOTAL
Leonardo spa	4,706	20,491	25,197
Poste Italiane	2	-	2
Telespazio spa	8	-	8
Enel	4	-	4
Telespazio Belgium	898	-	898
Leonardo Technical Training	15	-	15
So.ge.pa	2	-	2
Consel	10	-	10
Leonardo Global Solutions	331	1,728	2,059
Leonardo Logistic spa	939	-	939
Consip	6	-	6
Total	6,921	22,219	29,140

€ thousands

INCOME STATEMENT				
	REVENUES	CONTRACT ASSET CHANGES	OTHER INCOME	EXPENSES
Leonardo spa	15,539	3,070	-	4,095
So.ge.pa	-	-	-	2
Telespazio	1,788	366	392	-
Enav	3,313	(767)	-	-
Istituto Poligrafico e Zecca dello Stato	3,279	116	-	-
I4SB	-	1	-	-
Sogei	774	(314)	-	-
Thales	-	-	-	-
Ministero dell'Economia	1,714	-	-	-
Leonardo Global Solutions	189	31	-	2,247
Leonardo Logistic spa	6	6	-	1,893
Avio	-	501	-	-
MBDA	152	(11)	-	-
Telespazio Belgium	-	71	109	-
Telespazio France	-	15	12	520
Thales Alenia Space	-	26	-	-
Kopter	41	19	-	-
Total	26,795	3,130	513	8,757



CASH FLOW STATEMENT

29. GROSS CASH FLOW FROM OPERATING ACTIVITIES, CHANGES IN WORKING CAPITAL AND CHANGES IN OTHER ASSETS AND LIABILITIES AND PROVISIONS FOR RISKS AND CHARGES

	€ thousands	
	2021	2020
Net result	(7,290)	7,047
Amortisation, depreciation and financial assets value adjustments	3,452	5,245
Income taxes	2,363	976
Net allocations to the provisions for risks and inventory write-downs	2	(897)
Net financial expense /(income)	1,295	(7,300)
Other non-monetary items	-	-
Gross cash flow from operating activities	(178)	5,071
	2021	2020
Inventories	(1,789)	1,335
Contract assets and liabilities	(6,855)	11,216
Trade receivables and payables	(10,567)	(11,232)
Changes in working capital	(19,211)	1,319
	2021	2020
Payment of pension plans	(280)	(476)
Changes in provisions for risks and other operating items	6,321	(2,138)
Changes in other operating assets and liabilities	6,041	(2,614)

FINANCIAL RISK MANAGEMENT

The Company is exposed to market risk, credit risk and liquidity risk. The Company's Management is responsible for managing these risks, with the help of the Finance Department, which provides information on financial risks and suggests an appropriate risk management policy. The Finance Department provides assurance to the Management staff members that activities involving financial risks are governed by appropriate company policies and adequate procedures and that they are identified, assessed and managed as required by the Company's policy. All related activities for risk management purposes are directed and supervised by a team of specialists with adequate knowledge and experience. It is the Company's policy not to enter into derivatives for trading or speculative purposes. The main objective is to mitigate financial risks in an appropriate manner so that they do not give rise to unexpected changes in results.

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will change due to fluctuations in the market price. Market price includes three types of risk: interest rate risk, currency risk and other price risks, such as, for example, price risk on equity securities (equity risk). At present, this type of risk is not regarded as being particularly significant for the Company.

Interest rate risk



Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will change due to fluctuations in market interest rates. At present, this type of risk is not regarded as being particularly significant for the Company.

Exchange risk

Exchange risk is the risk that the fair value or future cash flows of an exposure will change as a result of fluctuations in foreign exchange rates. The Company's exposure to the risk of fluctuations in foreign exchange rates mainly relates to its foreign operations. The Company has no significant exposure to risks attached to payables or receivables denominated in currencies other than Euro, given that the majority of contracts are denominated in Euros. In the limited cases where there is an exposure to exchange risk, the Group carefully assesses the advisability of putting in place forward exchange rate hedging transactions.

Credit risk

Credit risk is the risk that a counterparty fails to meet its obligations linked to a financial instrument or a commercial contract, thus leading to a financial loss.

The Company is not particularly exposed to credit risk, both in consideration of the quality of its customers - mainly consisting, as mentioned, of national governments, public institutions and intergovernmental organisations - and the absence of significant concentrations of credit risk. In particular, as regards the Public Administration sector, there is generally a failure to meet the payment deadlines set out in contracts, which, however, has no impact on the level of collectability of the amounts claimed by the Company.



APPENDICES

Management and coordination activities

Highlights of the latest approved financial statements of the company that carries out management and coordination (Art. 2497-*bis* of the Italian Civil Code)

LEONARDO SPA 31.12.2020

BALANCE SHEET € thousands

ASSETS

Non-current assets	13,019,507
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Current assets	12,475,779
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Non-current assets held for sale	-
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TOTAL ASSETS	25,495,286
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LIABILITIES

Equity

- Share capital	2,497,872
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- Other reserve and retained earnings	3,512,315
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- Profit (Loss) the year	(93,152)
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Non-current liabilities	4,962,756
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Current liabilities	14,615,495
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Liabilities directly related to assets held for sale	-
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TOTAL LIABILITIES + EQUITY	25,495,286
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INCOME STATEMENT

Revenues	9,136,975
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Expenses	(9,087,277)
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Financial income and expenses	(169,459)
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Income taxes for the year	26,609
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(Losses) Profits related to discontinued operations	-
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PROFIT (LOSS) FOR THE YEAR	(93,152)
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LEONARDO S.p.A PREPARES THE CONSOLIDATED FINANCIAL STATEMENTS

**Information under Art. 1, paragraph 125, of Law no. 124 of 4 August 2017**

The Company has not received any subsidy under Art. 1, paragraph 125, of Law no. 124/2017.

Derivatives

In accordance with Art. 2427-*bis*, paragraph 1.1, of the Italian Civil Code, it is noted that the Company has not entered into any derivative financial instrument.

Agreements not resulting from the Balance Sheet

There are no agreements that do not result from the Balance Sheet which could significantly affect the Company's financial position, results of operations and cash flows, pursuant to Art. 2427, paragraph 22-*ter*, of the Italian Civil Code.



PROPOSAL TO THE SHAREHOLDERS' MEETING

Financial Statements at 31 December 2021 of Vitrociset S.p.A.; Board of Directors' and Independent Auditors' Reports. Any related and consequent resolutions. Presentation of the Financial Statements at 31 December 2021.

Dear Shareholders,

The 2021 financial year closed with a loss of Euro 7,289,990 and shareholders' equity of Euro 31,882,941. The loss will be covered by the Merging Company at the time of the merger which, as is known, will be effective as from 1 January 2022.

In light of the above, we submit the following proposal for a resolution for your approval:

"The Ordinary Shareholders' Meeting:

- having regard to the report of the Board of Directors
- having regard to the report of the Board of Statutory Auditors
- having reviewed the financial statements at 31 December 2021;
- having noted the report prepared by EY S.p.A.;

resolves

to approve the report of the Board of Directors and the financial statements at 31 December 2021 of Vitrociset S.p.A."

Rome, 10 March 2022

For the Board of Directors of
Leonardo Società per Azioni
The Chairman

(Luciano Carta)



Vitrociset S.p.A.

Financial statements as at December 31, 2021

**Independent auditor's report pursuant to article 14 of
Legislative Decree n. 39, dated 27 January 2010**

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

To the Shareholders of
Leonardo S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Vitrociset S.p.A. (the Company), incorporated into Leonardo S.p.A. from 1 January 2022, which comprise the statement of financial position as at December 31, 2021, and the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The financial statements of Vitrociset S.p.A. for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on March 29, 2021.

The Company, as required by law, has included in the explanatory notes the essential data of the latest financial statements of the company that exercises management and coordination activities on it. The opinion on the financial statements of Vitrociset S.p.A. it does not extend to such data.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the 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, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's 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 auditor's 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 International Standards on Auditing (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 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 International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated 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 have communicated with those charged with governance, identified at an appropriate level as 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 compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Leonardo S.p.A. are responsible for the preparation of the Report on Operations of Vitrociset S.p.A. as at December 31, 2021, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Vitrociset S.p.A. as at December 31, 2021 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Vitrociset S.p.A. as at December 31, 2021 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 15, 2022

EY S.p.A.

Signed by: Alessandro Fischetti, Auditor

This report has been translated into the English language solely for the convenience of international readers.

VITROCISSET S.P.A.
Sole-shareholder company subject to management and coordination
by LEONARDO S.p.a.

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**BOARD OF STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS FOR
THE FINANCIAL YEAR ENDED 31.12.2021**

Dear Shareholders,

this report has been prepared by the Board of Statutory Auditors pursuant to Article 2429 - paragraph 2 - of the Italian Civil Code.

Firstly, you are informed that, as part of the strategic and corporate rationalisation project concerning the Leonardo Group's assets, which was already started with the One Company model, VITROCISSET S.p.A. (hereinafter also referred to as "Vitrociset" or the "Company") was merged by incorporation into the parent company Leonardo S.p.a. (hereinafter also referred to as "Leonardo") with effect from 1 January 2022, even in accounting and tax terms.

Therefore, this report is issued by Leonardo's Monitoring Body, which gives its opinion, within the sphere of its competence, while referring in any case to the supervisory work performed by the Board of Statutory Auditors of Vitrociset (hereinafter also referred to as the "previously-serving Board of Statutory Auditors") during the 2021 financial year, as resulting from the documentation provided by the previously-serving Board of Statutory Auditors.

During the financial year ended 31 December 2021, the previously-serving Board of Statutory Auditors reported that it had performed its supervisory duties according to the procedures and within the time limits set out in the regulations in force.

Specifically, the previously-serving Board of Statutory Auditors:

- a. oversaw compliance with the law and the memorandum of association, as well as compliance with the principles of proper management;
- b. held 10 meetings and attended 11 Board of Directors' meetings and 2 Shareholders' Meetings, which were held in compliance with the rules of the articles of association, law and regulations governing their proceedings and, in relation to which, the previously-serving Board of Statutory Auditors had not reported any breach of the law and the articles of association, nor any transaction that was manifestly imprudent, reckless, in potential conflict of interest or such as to compromise the integrity of the corporate assets;
- c. acquired knowledge of and supervised the adequacy and actual functioning of the company's organisational structure and administrative and accounting system, as well as its reliability to report management events in a correct manner, by obtaining any necessary information from top management, the person in charge of the statutory audit of accounts and the review of company documents;
- d. also obtained from the Directors any information on the general performance of operations and related outlook, as well as on the most significant transactions in terms

of size and characteristics as carried out by the company; therefore, the previously-serving Board of Statutory Auditors was able to ensure that the transactions put in place conformed to the law and the articles of association and were not manifestly imprudent, reckless, in potential conflict of interest or contrary to the Board's resolutions;

- e. held periodic meetings with the responsible managers of EY S.p.A., the Independent Auditors appointed to carry out the statutory audit of the accounts of Vitrociset, examining the audit plan for 2021, as well as checking its adequacy, monitoring its implementation and promptly exchanging data and information that were relevant to the performance of their respective duties. During these meetings, no facts or behaviours emerged, which were censurable or worthy of being reported on the part of the Independent Auditors;
- f. held periodic meetings with the Surveillance Body for the exchange of information between the boards, monitoring the updating and implementation of the Organisational, Management and Control Model under Legislative Decree no. 231/2001;
- g. held periodic meetings with the members of the Internal Audit function, collecting full information on the outcome of the audits carried out during 2021;
- h. reported that it had not received any complaint from shareholders pursuant to Article 2408 of the Italian Civil Code;
- i. monitored Vitrociset's adoption of the set of rules applied by the Parent Company;
- j. reviewed the procedures and acknowledged the resolutions relating to the partial demerger of Vitrociset's "Space" business unit in favour of Telespazio S.p.A., which was completed during the 2021 financial year under the deed of demerger dated 22 February 2021 and which became effective from 1 March 2021;
- k. reviewed the procedure relating to the merger of the Company by incorporation into Leonardo S.p.a. with effect from 1 January 2022 and acknowledged (i) the resolutions passed by Vitrociset's Board of Directors at the meeting held on 29 July 2021, with the approval of the merger by incorporation plan, (ii) the resolutions passed by the extraordinary Shareholders' Meeting of Vitrociset held on 30 September 2021 and (iii) the provisions laid down in the deed of merger drawn up on 13 December 2021.

On the basis of the information received, the previously-serving Board of Statutory Auditors has found that all the formalities following the two above-mentioned extraordinary transactions were fulfilled within the time limits and in the manner required by law; it is also able to reasonably affirm that the transactions conformed to the law and the Articles of Association, as well as were consistent with the corporate purpose and were not manifestly imprudent, reckless or such as to compromise the integrity of the corporate assets.

The previously-serving Board of Statutory Auditors attested that no transactions emerged in which the directors held a personal interest or an interest on behalf of third parties.

The previously-serving Board of Statutory Auditors also attested that no omissions, censurable facts or significant irregularities emerged, which were such as to require mention in the report referred to above, during the supervisory work and upon completion of the audits carried out.

The previously-serving Board of Statutory Auditors also informed that, as from 1 March 2021, the effective date of the demerger of the "Space" Business Unit in favour of Telespazio S.p.A., Vitrociset was no longer in the condition referred to in Article 2446, paragraph 1, of the Italian Civil Code, as a result of the sole shareholder Leonardo waiving a part of the funds it claimed from Vitrociset, which, by increasing shareholders' equity, made it possible to keep Vitrociset's share capital unchanged and to reduce losses carried forward to less than one third thereof. Therefore, Vitrociset was no longer in the situation regulated under Article 2446, paragraph 1, of the Italian Civil Code as at the date of approval of the financial statements at 31 December 2020 on the part of the shareholders' meeting, which took place on 14 April 2021. The Board of Statutory Auditors of Leonardo S.p.a. also confirms that the merger by incorporation of Vitrociset S.p.A. on the part of the merging company Leonardo S.p.a. became effective from 1 January 2022.

* * *

We have reviewed the draft financial statements for the financial year ended 31 December 2021, which were approved by the Board of Directors Leonardo S.p.a. at the meeting held on 10 March 2022 and delivered to the Statutory Auditors together with the schedules and supporting documents and the report on operations.

Vitrociset S.p.A.'s draft financial statements for the financial year ended 31 December 2021 have been prepared in accordance with the International Accounting Standards IAS/IFRS, as endorsed by the European Commission, and supplemented by the related interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standards Board (IASB) and applicable as at the reporting date.

The draft financial statements at 31 December 2021, made up of the balance sheet, the income statement, the cash flow statement, the notes to the financial statements and accompanied by the report on operations, show a loss of Euro 7,289,990 and shareholders' equity of Euro 31,882,941.

With regard to the result for the 2021 financial year, the Board of Directors has described in detail the formation of the result and the events that generated it in the Report on Operations and the Explanatory Notes.

Since we are not responsible for any analytical control of the content of the financial statements, we have supervised the general layout of the accounts, as well as their general compliance with the law in terms of their formation and structure and the process of preparation and presentation of disclosures to the Shareholders' Meeting, and have no particular observations to report in this regard.

We have also verified compliance with any legal requirement governing the preparation of the report on operations, and have no specific observations to report in this regard too.

To the best of our knowledge, the Directors have not departed from any rule of law governing the preparation of financial statements pursuant to Article 2423, paragraph 5, of the Italian Civil Code.

It is the responsibility of EY S.p.A., the Independent Auditors appointed to carry out the statutory audit of accounts, to give an opinion on the financial statements pursuant to Article 14 of Legislative Decree no. 39 of 27 January 2010.

We have noted that the report issued by the Independent Auditors on 15 March 2022 provides an unqualified opinion on the financial statements for the financial year ended 31 December 2021, stating that they give a true and fair view of the financial position, results of operations and cash flows for the financial year then ended, in compliance with the International Financial Reporting Standards adopted by the European Union.

The independent auditors also note that the Company's financial statements for the financial year ended 31 December 2020 were audited by another audit firm, which issued an unqualified opinion on those financial statements on 29 March 2021.

The independent auditors' report also includes an affirmative opinion on the consistency of the report on operations with the financial statements for the financial year ended 31 December 2021 and certifies that the report on operations has been prepared in accordance with the rules of law.

We have also verified that the financial statements correspond to the facts and information which we became aware of following the performance of our duties, and have no observations to report in this regard.

In accordance with Article 2497-*bis*, paragraph 4, of the Italian Civil Code, the financial statements include a summary of the highlights of Leonardo S.p.a.'s latest approved financial statements for the 2020 financial year, as a result of the management and coordination activities. The audit firm reports that the opinion on the financial statements of Vitrociset S.p.A. is not extended to these data.

After taking account of the information provided above and within the sphere of our competence, on the basis of the work performed by the previously-serving Board of Statutory Auditors which has informed us of the activities carried out in 2021, the Board of Statutory Auditors does not find any reason to oppose the proposal to approve the draft financial statements at 31 December 2021, as prepared by the Directors.

15 March 2022

for THE BOARD OF STATUTORY AUDITORS

THE CHAIRMAN

Luca Rossi