Annual Report at 31 December 2018

Disclaimer

This Annual Financial Report 2018 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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Boards and Committees

BOARD OF DIRECTORS
(for the three-year period 2017 - 2019)

GIOVANNI DE GENNARO
Chairman

ALESSANDRO PROFUMO
Chief Executive Officer

GUIDO ALPA
Director (a, c)

LUCA BADER
Director (a, d)

MARINA ELVIRA CALDERONE
Director (b, c)

PAOLO CANTARELLA
Director (a, c)

MARTA DASSU'
Director (c, d)

DARIO FRIGERIO
Director (b, c)

FABRIZIO LANDI
Consigliere (a, d)

SILVIA MERLO
Director (a, d)

MARINA RUBINI
Director (b, c)

ANTONINO TURICCHI
Director (b, c)

****
LUCIANO ACCIARI
Secretary of the Board of Directors

BOARD OF STATUTORY AUDITORS *
(for the three-year period 2018 - 2020)

Regular Statutory Auditors

LUCA ROSSI **
Chairman

SARA FORNASIERO

FRANCESCO PERRINI

LEONARDO QUAGLIATA

DANIELA SAVI

Alternate Statutory Auditors
MARINA MONASSI

INDEPENDENT LEGAL AUDITORS
KPMG S.p.A.
(for the period 2012 - 2020)

* The previously serving Board of Statutory Auditors, the term of office of which expired at the Shareholders' Meeting held on 15 May 2018, was composed as follows: Riccardo Raul Bauer (Chairman), Niccolò Abriani, Luigi Corsi, Francesco Perrini and Daniela Savi (Regular Statutory Auditors), Maria Teresa Cuomo and Stefano Fiorini (Alternate Statutory Auditors).

**On 5 November 2018 Prof. Riccardo Raul Bauer resigned from his position as Standing Statutory Auditor and Chairman of the Board of Statutory Auditors effective from the closing of the Board meeting of 8 November 2018. On this date, pursuant to the provisions of law and the Company's By-laws, the Alternate Auditor Luca Rossi, appointed by the Shareholders' Meeting of 15 May 2018 and taken from the same minority list, took on the position of Standing Statutory Auditor and Chairman of the Board of Statutory Auditors until the next Shareholders' Meeting.

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a. Member of the Control and Risks Committee
b. Member of the Remuneration Committee
c. Member of the Nomination, Governance and Sustainability Committee
d. Member of the Analysis of International Scenarios Committee

Report on operations at 31 December 2018

The year 2018 is a first fundamental step in the path outlined in the Industrial Plan last year, with results in line with or above the targets, confirming the effectiveness of the actions the Group has undertaken.

The results are consistent with the priority objective of growth set out in the Industrial Plan. To this end note a significant increase in New Orders and Revenues, with a Backlog level of over €bil. 36, which even more supports growth forecasts for the coming years.

Volume growth was accompanied by sound operating profits, a significant increase in the Net Result and a cash generation which confirm the guidance upwards revised last July.

Group results and financial position

Key performance indicator ("KPI")

	2018	2017 restated	Change
New orders	15,124	11,595	30.4%
Order backlog	36,118	33,507	7.8%
Revenue	12,240	11,734	4.3%
EBITDA	1,534	1,602	(4.2%)
EBITA	1,120	1,077	4.0%
ROS	*9.2%*	*9.2%*	*0.0 p.p.*
EBIT	715	844	(15.3%)
EBIT Margin	*5.8%*	*7.2%*	*(1.4) p.p.*
Net result before extraordinary transactions	421	279	50.9%
Net result	510	279	82.8%
Group Net Debt	2,351	2,579	(8.8%)
FOCF	336	537	(37.4%)
ROI	*16.4%*	*15.7%*	*0.7 p.p.*
ROE	*9.7%*	*6.7%*	*3.0 p.p.*
Workforce	46,462	45,134	2.9%

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

The data relating to the 2017 financial year have been restated to take account of the effects arising from the application of IFRS 15 "Revenue from Contracts with Customers" concerning the recognition of revenue, which became applicable as from 1 January 2018. The effects of the adoption of the new accounting standard "IFRS 9 – Financial Instruments" regarding impairment are recognized instead in 2018 without restating the comparative data. For an analysis of the effects arising from the adoption of the new accounting standards, reference should be made to Note 5 to the consolidated financial statements.

From 2014 the Group data no longer include the contribution given by the Joint Ventures invested in by the Group (which mainly include ATR in the Aeronautics sector, MBDA in the Electronics, Defence and Security Systems sector and JVs in the Space sector). The Group's business conducted through the JVs and their strategic and financial importance remain unchanged, while for reporting purposes the JV's contribution is only recognised at the level of profitability ratios (EBITA, EBIT and Net Result) as a result of the valuation at equity and, from a financial point of view, limited to the dividends collected. In 2018 the main Group's JVs recorded total revenues of €bil. 2.8 as concerns Leonardo's share: as a result, the Group's aggregate pro-forma revenues come to about €bil. 15.0.

The 2018 results compared to 2017 are reported below:

- New orders, equal to €bil. 15.1, showed an increase of about 30% compared to 2017 (€bil. 11.6) mainly due to the acquisition of the NH90 order in Qatar worth €bil. 3;
- Revenues, amounting to €bil. 12.2, showed an increase of 4.3% compared to 2017 (€bil. 11.7), which is even more significant if we exclude the adverse effect of the exchange rate, mainly attributable to the segments of Electronics, Defence & Security Systems and Helicopters;
- Operating profits, equal to 9.2%, were in line with the previous year (up from 9.3% in 2017 to 9.4% in 2018 if we exclude the effect of costs incurred to participate in the tender for the US trainer), showing sharp improvements in the segments of Helicopters and Aeronautics, which were offset by a decline in Electronics, Defence & Security Systems;
- The Net Result before Extraordinary Transactions of €mil. 421 (€mil. 279 at 31 December 2017) benefitted to a significant extent from lower financial costs linked to buy-back transactions completed in 2017, which were partially offset by restructuring costs arising from the start of the procedure under Law 92/2012 (Fornero Act - about €mil. 170);
- The Net Result, equal to €mil. 510 (€mil. 279 at 31 December 2017), benefitted from the abovementioned improvement in financial costs, as well as from the release of a part of the provision set aside against the guarantees given upon the disposal of the equity interest in Ansaldo Energia;
- The Group Net Debt, equal to €bil. 2.4, showed an improvement of 8.8% compared to 31 December 2017 (€bil. 2.6);
- The cash flow for the period, equal to €mil. 336 (€mil. 537 at 31 December 2017), was affected by the different financial terms and conditions in the two comparative periods of the EFA Kuwait contract arising from the start of production operations, a circumstance that was in any case expected and partially offset by the advance payments relating to the NH 90 Qatar contract.

The primary changes that marked the Group’s performance compared with that of the previous year are described below. A more thorough analysis can be found in the section covering the trends in each business segment.

December 2018	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	6,208	12,151	3,810	359	9.4%
Electronics, Defence & Security Systems	6,823	12,572	5,953	522	8.8%
Aeronautics	2,569	12,220	2,896	328	11.3%
Space	-	-	-	58	n.a.
Other activities	102	146	340	(147)	(43.2%)
Eliminations	*(578)*	*(971)*	*(759)*	-	*n.a.*
Total	**15,124**	**36,118**	**12,240**	**1,120**	**9.2%**
December 2017 restated	**New orders**	**Order backlog**	**Revenues**	**EBITA**	**ROS %**
Helicopters	3,153	9,896	3,438	281	8.2%
Electronics, Defence & Security Systems	6,146	11,780	5,550	537	9.7%
Aeronautics	2,615	12,525	3,093	311	10.1%
Space	-	-	-	72	n.a.
Other activities	216	199	338	(124)	(36.7%)
Eliminations	*(535)*	*(893)*	*(685)*	-	*n.a.*
Total	**11,595**	**33,507**	**11,734**	**1,077**	**9.2%**
Change %	**New orders**	**Order backlog**	**Revenues**	**EBITA**	**ROS %**
Helicopters	96.9%	22.8%	10.8%	27.8%	1.2 p.p.
Electronics, Defence & Security Systems	11.0%	6.7%	7.3%	(2.8%)	(0.9) p.p.
Aeronautics	(1.8%)	(2.4%)	(6.4%)	5.5%	1.2 p.p.
Space	n.a.	n.a.	n.a.	(19.4%)	n.a.
Other activities	(52.8%)	(26.6%)	0.6%	(18.5%)	(6.5) p.p.
Eliminations	*(8.0%)*	*(8.7%)*	*(10.8%)*	*n.a.*	*n.a.*
Total	**30.4%**	**7.8%**	**4.3%**	**4.0%**	**0.0 p.p.**

Commercial performance

Compared to 2017, **new orders** showed a significant increase (30.4%), essentially due to the Qatari NH 90 order in the *Helicopters* Division (for €bil. 3) and to the significant improvement recorded in the *Electronics, Defence & Security Systems* Division.

The book-to-bill ratio was more than 1, showing an increase compared to 2017. The order backlog ensures a coverage in terms of equivalent production equal to about three years.

* * * * * * * *

Business performance

Revenues, equal to €bil. 12.2, showed an increase of 4.3% compared to 2017 (€bil. 11.7), despite unfavourable exchange rates arising from the conversion of revenues in USD and, to a lesser extent, in GBP (equal to about €mil. 135 in aggregate).

The growth was mainly attributable to higher production volumes and deliveries made by the *Helicopters* Division, mainly on the AW 139 and AW 101 programmes, as well as to the growth recorded by DRS.

EBITA, equal to €mil. 1,120 (with a ROS of 9.2%), showed, compared to 2017 (€mil. 1,077 – ROS of 9.2%), an increase mainly due to higher volumes and profits recorded in the *Helicopters* Division and to the good performance of the *Aircraft* Division - whose higher contribution more than offset a decline in the

result posted by the GIE-ATR Consortium penalized by the mix of deliveries made and by the effect of the USD/€ exchange rate – and of the *Electronics, Defence and Security Systems* Division.

The improvement in EBITA was absorbed by the considerable costs allocated in relation to the measures under Law 92/2012 ("Fornero Act", about €mil. 170), thus resulting in a reduction of €mil. 129 in **EBIT** compared to the prior year.

The **Net result before extraordinary transactions** (€mil. 421) benefitted from lower financial costs compared to the previous year, as a result of the buy-back operations and the redemption of bond issues that were mainly completed during 2017, as well as from lower tax arising from the effect of the US tax reform recorded in 2017, which had entailed a realignment of deferred tax assets reported by the Group on tax losses and temporary differences.

The **Net Result** (€mil. 510) is positively influenced by the release of a part of the provision set aside against the guarantees given upon the sale of the equity interest in Ansaldo Energia.

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

(€mil.)	***Note***	**2018**	**2017 restated**	***Change***	***% Change***
Revenues		12,240	11,734	*506*	*4.3%*
Purchase and personnel expense	*(*)*	(10,827)	(10,270)		
Other net operating income/(expenses)	*(**)*	(95)	(118)		
Equity-accounted strategic JVs	*(***)*	216	256		
Amortisation, depreciation and write-offs	*(****)*	(414)	(525)		
EBITA		**1,120**	**1,077**	***43***	***4.0%***
ROS		*9.2%*	*9.2%*	*0.0 p.p.*	
Non-recurring income/(charges)		(102)	(79)		
Restructuring costs		(205)	(56)		
Amortisation of intangible assets acquired as part of business combinations		(98)	(98)		
EBIT		**715**	**844**	***(129)***	***(15.3%)***
EBIT Margin		*5.8%*	*7.2%*	*(1.4) p.p.*	
Net financial income/(expense)	*(*****)*	(230)	(436)		
Income taxes		(64)	(129)		
Net result before extraordinary transactions		**421**	**279**	***142***	***50.9%***
Net result related to discontinued operations and extraordinary transactions	*(******)*	89	-		
Net result		**510**	**279**	***231***	***82.8%***

Notes to the reconciliation between the reclassified income statement and the statutory income statement (for more details, reference should be made to the Note on "Non-GAAP alternative performance indicators"):

(*) Includes "Purchases and Personnel expense" (excluding restructuring costs and non-recurring costs) and "Accruals (reversals) for onerous contracts (final losses on orders)".

(**) Includes the net amount of "Other operating income" and "Other operating expenses" (excluding restructuring costs, non-recurring income/(expense) and accruals (reversals) for onerous contracts (final losses on orders).

(***) Includes the effects of the valuation, classified under the "Share of profits (losses) of equity-accounted investees", of strategic investments only;

(****) Includes "Amortisation, depreciation and impairment losses and value adjustments to financial assets", excluding the amortisation charge referable to intangible assets acquired as part of business combinations, goodwill impairment and write-downs regarded as "Non-recurring costs";

(*****) Includes "Financial income", "Financial expense" (net of the gains (losses) relating to extraordinary transactions) and "Share of profits (losses) of equity-accounted investees" (net of the results of strategic joint ventures).

(******) Includes "Profit (loss) from discontinued operations" and "Gains (losses) relating to extraordinary transactions (key acquisitions and disposals)".

* * * * * *

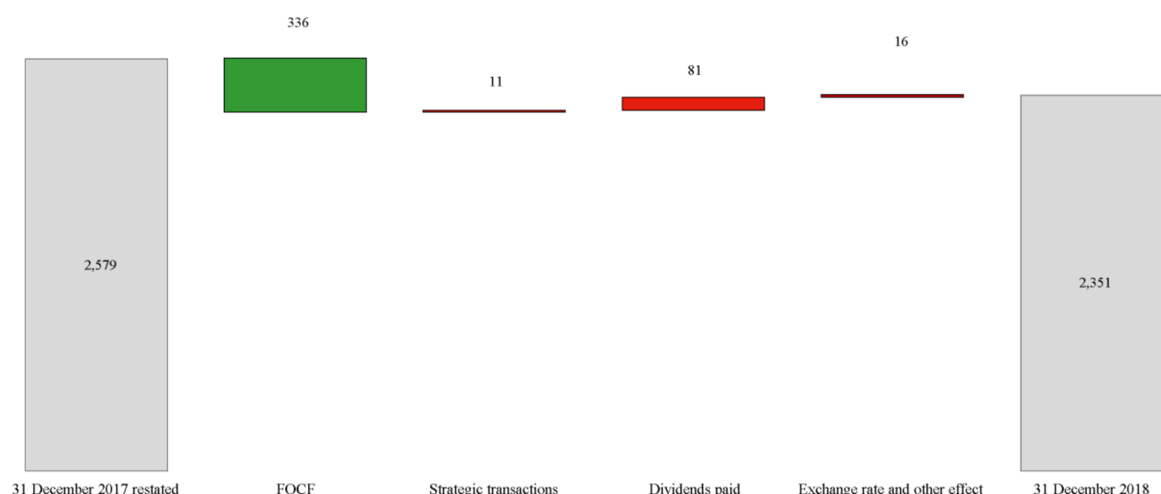
Financial performance

(€ millions)	***Note***	**2018**	**2017 restated**	***Change***	***% Change***
Cash flows generated from operating activities	*(*)*	877	795	*82*	*10.3%*
Dividends received		202	295		
Cash flows from ordinary investing activities	*(**)*	(743)	(553)		
Free Operating Cash Flow (FOCF)		**336**	**537**	***(201)***	***(37.4%)***
Strategic transactions	*(***)*	(11)	(168)		
Change in other investing activities	*(****)*	12	12		
Net change in loans and borrowings		(106)	(520)		
Dividends paid		(81)	(81)		
Net increase (decrease) in cash and cash equivalents		**150**	**(220)**		
Cash and cash equivalents at 1 January		1,893	2,167		
Exchange rate differences and other changes		6	(54)		
Cash and cash equivalents at 31 December		**2,049**	**1,893**		

Notes on the reconciliation between the reclassified cash flow and the statutory cash flow:

(*) Includes "Cash flows generated from (used in) operating activities", excluding debt payments pursuant to Law 808/1985.
(**) Includes "Cash flow generated from (used in) investing activities, including debt payments pursuant to Law 808/1985 and net of dividends collected.
(***) Includes "Other investing activities" classified as "Strategic transactions".
(****) Includes "Other investing activities", excluding dividends collected and the effect of operations classified as "Strategic transactions".

FOCF posted a positive value of €mil. 336 (€mil. 537 in 2017). This performance had a positive impact on the overall value of the **Group Net Debt**, equal to €mil. 2,351 and decreased by 8.8% compared to 31 December 2017 (€mil. 2,579), an improvement that was partially offset by the payment of dividends of €mil. 81 and by the payment (€mil.11 classified in strategic transactions), during 2018, of the earn out relating to the acquisition of Daylight Solutions completed in 2017. Compared to 31 December 2017, there were the following changes:



Below is shown the **balance sheet** for the two periods compared:

(€ millions)	***Note***	**31 December 2018**	**31 December 2017 restated**
Non-current assets		11,824	11,724
Non-current liabilities		(2,611)	(2,837)
Capital assets	*(*)*	**9,213**	**8,887**
Inventories	*(**)*	(78)	(53)
Trade receivables		2,936	3,179
Trade payables		(3,028)	(2,962)
Working capital		**(170)**	**164**
Provisions for short-term risks and charges		(1,125)	(1,265)
Other net current assets (liabilities)	*(***)*	(1,064)	(996)
Net working capital		**(2,359)**	**(2,097)**
Net invested capital		**6,854**	**6,790**
Equity attributable to the Owners of the Parent		4,499	4,199
Equity attributable to non-controlling interests		11	14
Equity		**4,510**	**4,213**
Group Net Debt		**2,351**	**2,579**
Net (assets)/liabilities held for sale	**(****)**	**(7)**	**(2)**

Notes to the reconciliation between the reclassified and the statutory statements of financial position (for more details, reference should be made to the Note on "Non-GAAP alternative performance indicators"):

(*) *Includes all non-current assets and all non-current liabilities, excluding "Non-current loans and borrowings" and the main non-current financial receivables.*

(**) *Includes "Inventories", "Contract Assets" and "Contract Liabilities".*

(***) *Includes "Income tax receivables" and "Other current assets" (excluding "Hedging derivatives in respect of debt items"), net of "Income tax payables" and "Other current liabilities" (excluding "Hedging derivatives in respect of debt items").*

(****) *Includes the net amount of "Non-current assets held for sale" and "Liabilities associated with assets held for sale".*

Below is the breakdown of the Group Net Financial Debt:

(€ millions)	31 December 2018	*of which current*	31 December 2017 restated	*of which current*
Bonds	3,154	*408*	3,647	*599*
Bank debt	721	*70*	246	*60*
Cash and cash equivalents	(2,049)	*(2,049)*	(1,893)	*(1,893)*
Net bank debt and bonds	**1,826**		**2,000**	
Securities	-	-	(3)	-
Current loans and receivables from related parties	(153)	*(153)*	(110)	*(110)*
Other current loans and receivables	(32)	*(32)*	(47)	*(47)*
Current loans and receivables and securities	**(185)**		**(160)**	
Non current financial receivables from Superjet	(25)	-	(48)	-
Hedging derivatives in respect of debt items	(3)	*(3)*	(2)	*(2)*
Related-party loans and borrowings	669	*669*	701	*701*
Other loans and borrowings	69	*43*	88	*58*
Group Net Debt	**2,351**		**2,579**	

The reconciliation with the net financial position required by CONSOB Communication no. DEM/6064293 of 28 July 2006 is provided in Note 20.

As detailed in the section on “Financial transactions”, to which reference should be made, “Bonds” showed a decrease as a result of the redemption made in December 2018 out of the bond issue in a nominal amount of €mil. 500. The increase in “Bank debt” reflected instead the execution of the new Term Loan in an amount of €mil. 500.

During the year assignments of receivables without recourse were made in a total amount of €mil. 2,391 (€mil. 1,306 in 2017). The increase in the nominal value of the assignments was substantially due to the particular trend in 2018 cash inflows relating to contracts within which Leonardo, in playing the role of a prime contractor, ensured a timely flow down in payments to subcontractors, despite some delays in receipts over the financial year, thus allowing a more linear distribution of cash flows during the year.

To meet the financing needs for ordinary Group activities, Leonardo has a Revolving Credit Facility for a total amount of €mil. 1,800, the terms and conditions of which are described in the section on “Financial Transactions” and unconfirmed short-term lines of credit for a total amount of €mil. 737 (both of which were entirely unused at 31 December 2018), in addition to unconfirmed unsecured lines of credit available for a total amount of €mil. 2,590.

* * * * * * * *

Below are the key performance indicators by sector:

Helicopters

2018 saw the confirmation of the recovery expectations in the division’s business, highlighting a high level of new orders thanks to the acquisition of the Qatari NH90 contract, a significant increase in deliveries and in revenues and a profitability of 9.4%, more by about 1% than in 2017, in line with the targets forecast.
In the civil sector the Group confirmed its product leadership in the Intermediate segment of Civil/Dual-use Helicopters, now also having a significant footprint in the Light Intermediate and Medium segments, thanks to the completion of the concept of “product familiy” (including all the main civil platforms: AW169, AW139 and AW189). 2018 also saw the entry into service and the first deliveries of the new AW109 Trekker configuration, which will allow the market share to be also strengthened in the Light Twin segment.
In the military segment, the implementation of the Dual-Use configuration and the development of variants for military use based on the civil configuration has brought important orders on domestic and international markets, as described below.
Furthermore work continued in 2018 on unmanned products: development continued for the HERO (SD-150) helicopter and the SW-4 Solo prototype carried out its maiden flight in a fully unmanned configuration.

New orders. The increase compared to the previous year was mainly due to the acquisition of the Qatari NH90 order, worth about €bil. 3. Among the main acquisitions in 2018 note:

- the first order for the MH-139 aircraft within the US Air Force programme, a helicopter based on AW139 and offered by Boeing as Prime Contractor;
- the order from the Italian Financial Police for 22 new generation twin-engine helicopters AW169M;
- the contract with the UK Ministry of Defence for the integrated operational support (IOS - Integrated Operational Support) to the fleet of Apache AH Mk.1 helicopters.

Revenues. There was an increase compared to 2017, as a result of both higher deliveries (177 deliveries of new helicopters compared to 149 in 2017), mainly due to the AW139 line, and higher production progress, specifically for the AW101 line.

EBITA. The 2018 result, in line with forecasts and with the trend recorded during the year, showed an increase compared to 2017, attributable to higher production volumes and to the effects of efficiency improvement actions aimed at improving income and profits, showing a sharp improvement during the fourth quarter compared to the same period of the previous year.

Outlook. In line with the path the Group has embarked on, a further improvement in results is expected in 2019, in accordance with the objective to move back to double-digit profits in 2020. The consolidation of actions aimed at streamlining and optimising industrial processes and the gradual implementation of projects aimed at improving competitiveness of the main products will make it possible to fully exploit the potential of the Division's product portfolio, which is positioned in the most attractive segments of the market.

Target market. The market is expected to grow over the next few years, even if there will still be some uncertainties in the military sector and with regard to some applications in the civil sector (in particular Oil & Gas). The overall market in the next ten years (with reference to the deliveries of new helicopters only) is expected to be equal to about €bil. 170.

Demand in the **civil** sector will be driven above all by helicopter rescue, emergency and disaster relief applications (EMS [Emergency Medical Services], SAR [Search & Rescue] and Utilities) (CAGR +6%).

With the expected recovery in oil prices, the Energy sector (Oil & Gas and Windfarms) should increase, although not returning to pre-crisis levels.

The main relevant markets are the United States, Europe (where the need to renew the fleet of machines will be the main driver) and emerging countries (especially China and, partially, Latin America, where, however, there are doubts surrounding Brazilian recovery).

Demand is still mainly for aircraft with state-of-the-art performance, customers keeping a sharp eye on operational running costs.

Demand is expected to decline temporarily in the **military** sector (CAGR-3%), essentially due to the completion of some large programmes. The Multi-Role/Utility segment continues to be key in giving priority to the *Intermediate*- and *Medium*-weight categories. The reduction in budgets and the ever-increasing attention paid to costs could promote dual-use platforms. In the next years new players will enter the helicopters market following an increasing demand in new emerging markets (South Korea, Turkey, India, China) and the development of local industries; however technological barriers to the entry still remain high.

Heavy investments are being focused on **new technologies** – in particular Fast Rotorcraft (Tilt Rotors, Compounds) in the USA. The American JMR (Joint Multi-Role)/FVL (Future Vertical Lift) programme will boost the development of the new concept. The Bell-Textron V-280 Valor demonstrator started flying at the end of 2017 and is expanding its flight envelope, while the first Sikorsky/Boeing Defiant demonstrator flight has been put back to2019.

RUAVs (Rotary Unmanned Aerial Vehicles) may constitute a growth driver to meet emerging demand requirements.

Electronics, Defence & Security Systems

2018 was characterised by a particularly positive business performance, with a book-to-bill of more than 1 for the third consecutive year and by higher revenues compared to 2017 despite the adverse effect of the USD/€ exchange rate.

In December 2018 a resolution was passed to establish the new *Electronics* Division, with the aim of streamlining the organisation in the Defense & Security Electronics segment and facing adequately the technology and competitive challenges that characterise a key business for Leonardo showing sharp growth. The new Division will allow the group to achieve an appropriate critical mass and strengthen its footprint in

the target markets, in addition to bringing the organisational model into line with that of the major market players, thus ensuring an even more integrated future development. The new Division will be added to with the former *Land & Naval Defence Electronics*, *Airborne & Space Systems* and *Defence Systems* Divisions, as well as the two business lines of *Traffic Control Systems* and Automation pertaining to the former *Security & Information Systems* Division. A new Division (*Cyber Security*) was also established, which the two business lines of *Cyber Security & ICT Solutions* and *Homeland Security & Critical Infrastructures* pertaining to the former *Security & Information Systems* Division, will be merged into.

In the *Airborne & Space Systems* the Group still continued to hold a position of strength in the radar and electronic warfare sector, supported by the constant enhancement of the expertise necessary for new developments in technology. In the segment of Naval and Land Systems and Defence Systems Leonardo benefitted from important measures linked to the Naval Law and to the consequent general increase in the capability of the system, providing valuable opportunities and synergy in international markets in the business segments concerned. In the segment of Security & Information Systems there is strong competitive pressure with the scenarios concerned evolving all the time and operational challenges increasingly faced by means of digital transformation processes. In this area, Leonardo is a prominent producer of security, mobility and connectivity solutions.

Below is a breakdown of the Key Performance Indicators of the sector (pro-forma KPIs excluding costs incurred to participate in the tender for the US trainer are provided in the table below):

December 2018	**New orders**	**Revenues**	**EBITA**	**ROS %**
Electronics - Europe	4,409	4,011	394	9.8%
DRS	2,438	1,980	128	6.5%
Eliminations	*(24)*	*(38)*	-	*n.a.*
Total	**6,823**	**5,953**	**522**	**8.8%**
December 2017 restated	**New orders**	**Revenues**	**EBITA**	**ROS %**
Electronics - Europe	4,388	3,855	408	10.6%
DRS	1,785	1,724	129	7.5%
Eliminations	*(27)*	*(29)*	-	*n.a.*
Total	**6,146**	**5,550**	**537**	**9.7%**
Change %	**New orders**	**Revenues**	**EBITA**	**ROS %**
Electronics - Europe	0.5%	4.0%	(3.4%)	(0.8) p.p.
DRS	36.6%	14.8%	(0.8%)	(1.0) p.p.
Eliminations	*11.1%*	*(31.0%)*	*n.a.*	*n.a.*
Total	**11.0%**	**7.3%**	**(2.8%)**	**(0.9) p.p.**

Below are DRS Key Performance Indicators in USD vis-à-vis pro-forma Key Performance Indicators without costs incurred to participate in the tender for the US trainer:

	New orders	Revenues	EBITA	ROS %
DRS ($mil.) December 2018	2,880	2,339	151	6.5%
DRS ($mil.) December 2017 restated	2,016	1,947	146	7.5%
DRS ($mil.) December 2018 proforma without TX	2,880	2,339	175	7.5%
DRS ($mil.) December 2017 restated proforma without TX	2,016	1,947	154	7.9%

New orders. They were higher compared to 2017 mainly due to the effect of the excellent performance recorded by the airborne & space systems business and by DRS, which confirms the same growth trend as in the previous year and the excellent positioning on a number of programmes of the US Ministry of Defence. These results more than offset a decline reported in the land & naval defence electronics business, which had benefitted from the major order for combat and logistic support systems for 7 naval units for the Qatari Navy in 2017. Among the main orders in 2018 we highlight those received by DRS in relation to the supply of TROPHY systems to the US Army and Marine Corps for the active protection of Abrams tanks within the *Land Systems* business and the order for the supply of computers and portable electronic devices under the MFoCS (Mounted Family of Computer Systems) contract (*Land Electronics* business). In the airborne & space systems business, note the contract for the supply of radar and communication systems for the *Typhoon* aircraft intended for Qatar and the contract relating to the supply of new equipment to JEWCS (Joint Electronic Warfare Core Staff), the NATO agency dedicated to the training of Armed Forces in using electronic warfare systems. Worth noting are also the orders relating to the first tranche of the contract with the Italian Ministry of Defence for logistic support related to the new Centauro II armoured vehicle in the defence systems business. In the land & naval defence electronics business note the export orders relating to the supply of combat systems for ships and the supply of airspace surveillance and protection systems.

Revenues. The increase compared to 2017 – despite the unfavourable USD/€ exchange rate – was mainly due to higher production volumes at DRS, specifically in the *Naval Electronics* and *Land Electronics*, airborne & space systems and land & naval defence electronics businesses.

EBITA. Despite higher revenues and a sound industrial performance, profitability was affected by the effect of the tendering costs for participation in the tender for the US trainer and by the greater impact on DRS of development projects with lower margins, which are key to positioning on the main US Defence programmes and to attaining the targets set in terms of financial position and results of operations for next years. The figure was also affected by a mix influenced by higher "pass-through" activities on land and naval programmes.

Outlook. An increase in revenue volumes is expected in 2019 in relation to all the main business areas with an improvement in profitability, despite a mix of activities are still characterised by programmes under development and increasing portions of "pass-through" revenues.

Target market. The value of the Electronics, Defence and Security Systems market is estimated at about €bil. 2,900, with a CAGR of about 3%, in the next ten years. The main trends in the electronics sector are:

- **Airborne & Space Systems**: the market will be worth about €bil. 435, in the next ten years, with an annual growth rate of about 3% and a growing demand for: (i) Combat / Special Mission and Multi-Mission platforms; (ii) ISR (Intelligence, Surveillance and Reconnaissance) systems, Fire Control Radar and EOIR (Electro-Optical Infrared) Targeting systems; (iii) integrated and modular communication architectures (broadband equipment to support the growing requirements of ISR systems); (iv) AESA (Active Electronically Scanned Array) radars for combat aircraft; (v) services for updating the platforms already in service; (vi) integrated logistics support services driven by the Integrated LVC (Live, Virtual and Constructive) Training;
- **Land &Naval Defence Electronics**: the market will be worth about €bil. 550 in the next ten years, with an annual growth rate of about 2%. There is rising demand in the land defence market for (i) battlefield digitalisation systems and solutions; (ii) AESA radar systems for air defence; (iii) anti-unmanned aerial systems (UAS); (iv) protection systems against cyberattacks; and (v) anti-ballistic missile systems. In the naval defence market, demand is increasing for (i) AESA naval radars for surface vessels and anti-submarine systems; (ii) turnkey sensor (Integrated Mast) suites combining radar, communications and electronic warfare; (iii) Software Defined Radios; (iv) high-precision detection and tracking systems; (v) entire life-cycle logistics services (Life Cycle Management);
- **Security & Information Systems:** the market will be worth about €bil. 1,300 in the next ten years, with an annual growth rate of about 3%. The sector is characterised by rising demand for:
  - ✓ *Security solutions*: (i) Command, Control, Communication and Intelligence (C3I) for threat prevention; (ii) for border monitoring and management; (iii) for physical and logical security of critical infrastructures;
  - ✓ *Digitalisation solutions*: (i) for anti-cyber threat; (ii) to increase the efficiency and improve processes, access to information and information management.
  - ✓ *Transportation solutions*: (i) to enhance the security and efficiency of air transport while ensuring environmental sustainability;
  - ✓ *Material Handling solutions***:** for Baggage Handling and Parcel & Mail Handling.
- **Defence Systems:** the target market, which is estimated at a value of about €bil. 630 in the next ten years, with an annual growth rate of about 4%, will be sustained by the increase in the defence budget, upgrading platforms to extend their operational life and demand for multi-mission platforms. The value of sales for military vehicles in the segment of **land weapons**, in which the Division supplies **turrets**, is estimated at €bil. 335 in the next ten years, with an annual growth rate of about 6%. The **vehicles** business is expected to grow with a CAGR equal to 7.0% for **tracked vehicles** and equal to 5.5% for wheeled vehicles. The segment of **guided munitions**, for which an overall market is estimated at €bil. 15, is expected to grow at a sustained rate (CAGR exceeding 10%) as a result of land and sea

applications and of the return to conventional operations scenarios. Business in the segment of **naval weapons** (large, medium and small calibre) is estimated at about €bil. 14 in the next ten years. The segment of **underwater systems,** which is estimated at €bil. 33 in the next ten years, is expected to grow with a CAGR exceeding 5%, mainly due to the procurement of naval platforms. The **missile systems** market is expected to grow slightly over the next few years, with a value estimated at about €bil. 24.5 in the next ten years. The USA is expected still to be the country with the highest level of expenditure, equal to about 37% of the total value of the missile market. As for other regions, the market should grow in the Asian Pacific (APAC) area, mainly driven by the need to arm the many naval platforms which have already been acquired or whose purchase is planned over the next ten years.

Aeronautics

In 2018 new orders were gained for an amount of €bil. 2.6, 66% of which relate to the *Aircraft* Division.
From a production point of view, 142 deliveries were made for fuselage sections and 85 stabilisers for the B787 programme (compared to 139 fuselages and 80 stabilisers delivered in 2017) and 85 deliveries of fuselages for the ATR programme (62 delivered in 2017, which was affected by some delays in testing operations). For the military programmes, three F-35 aircraft were delivered to Lockheed Martin, intended for the Italian Air Force. Furthermore, it should be noted that the first M345 trainer aircraft successfully performed its maiden flight.
As regards Leonardo's competitive positioning in the military aircraft segment, the Eurofighter gained further ground in export markets after contracts with Kuwait and Qatar and the new developments which help to enhance operational capacity and performance, while the M346 remained the leader in the trainer segment, which saw the launch of new versions and developments (M346 Dual Role, M346 FA) and new models (M345 HET), as well as the expansion of the range to start taking in complete IFTS (International Flight Training School) training systems.
In the tactical air transport segment, production continued to be optimised with a view to greater competitiveness, with interesting prospects of new developments, including dual-use projects. As regards civil aircraft business, ATR reinforced its leadership in the regional transport segment. Here its objective is further to strengthen its position by means of continuous improvement in product and customer support, while aerostructures show good forecasts on medium/long-term volumes linked to projects of more than ten years.

New orders. They were in line with the previous year as a whole; the decline reported in the *Aerostructures* Division was offset by the *Aircraft* Division, which benefitted particularly from the order gained in December for BAE Systems' supply of 24 *Eurofighter Typhoon* to Qatar. Among the main acquisitions in 2018 note:

- in the Aircraft Division the order for the supply of eight M346 Advanced Jet Trainers aircraft to the Polish Ministry of National Defence, the order for the first ATR Maritime Patrol aircraft with the Italian Financial Police, the orders received from Lockheed Martin in relation to the F-35 programme, as well as orders for logistical support to the C27J aircraft, B707 Awacs, C130, trainers and Nacelles, in addition to the abovementioned order received by the Eurofighter consortium for the supply of parts of aircraft intended for Qatar;
- in the Aerostructures Division the supply of 155 B787 fuselage sections and 59 ATR fuselages (200 and 65 in 2017, respectively) and the orders relating to the B767, A220, A321 and A380 programmes.

Revenues. They showed a decline compared to 2017 (-6%). The growth in the F-35 and EFA-Kuwait programmes partially offset a decline within the *Aircraft* Division in the activities on the other *Eurofighter* contracts and on the M346 and C27J programmes, as well as the expected decrease in revenues of the *Aerostructures* Division.

EBITA. The 2018 result showed an increase compared to 2017 due to the improvement in profitability in the *Aircraft* Division which more than offset a decline in the result posted by the GIE-ATR Consortium due to the mix of deliveries made and the effect of the USD/€ exchange rate. The industrial performance of the *Aerostructures* Division continued to be affected by the critical issues reported during the previous year.

Outlook. In 2019 revenues are expected to be higher compared to 2018 due to an increase in production volumes in the *Aircraft* Division, especially correlated to the EFA Kuwait contract. 2019 profitability are expected to be at good levels, supported by solid results in the *Aircraft* Division; even if at unsatisfactory levels, the performance in the *Aerostructures* Division will benefit from the industrial process efficiency improvement actions aimed at gradually recovering profitability levels.

Target market. The **civil aviation** market is estimated at about €bil. 1,600 in the next ten years, thus confirming a growth trend with a CAGR of about 2%. The demand, which is mainly driven by the countries in the areas of Asia and Middle East, is affected by macro-economic and technological dynamics (i.e. a better financial stability of the major airlines furthered by low fuel costs, the gradual availability of aircraft that adopt new technological solutions and advanced materials, the need to replace less-efficient previous-generation aircraft).

Commercial narrow and wide-body aircraft account for more than 80% of the total market. The demand for narrow-body aircraft is mainly linked to the global economy performance and to the launch of re-engined versions A320 NEO and B737 Max of the Airbus family, in expectation of the launch of new programmes which is not expected to occur before the next decade. The growth in wide-body aircraft is driven by the ramp-up of Airbus A350 and Boeing B787 programmes; demand for large-size four-engine aircraft (A380, B747) remained weak. In February 2019 Airbus announced that in 2021 they will end production of the

A380 aircraft following the Emirate Airlines cancellation of their order. Sales performed well in 2018, even if they were lower than in 2017.

Two strategic partnerships made for a shift in the value chains of Airbus and Boeing towards the lower segment of the “top-of-the-range regional” aircraft sector. These are planes with a capacity halfway between those of actual regional aircraft (small jets and turboprops with up to 70 seats) and the bigger airliners.

The ATR programme was still the leader in the turboprop segment, by far outperforming in terms of both sales and deliveries with respect to its direct rival, Bombardier’s Q400. At the end of 2018 the backlog of regional aircraft amounted to 1,470 units equivalent to about 5-6 years of production.

As regards policies in the industry, some prime contractors are adopting more prudent measures, moving towards the outsourcing of the design and manufacture of structural components, especially those made of composites, but the annual growth rate of the aerostructure outsourcing market is expected to be about 2% over the next ten years.

The **defence aircraft** market, which is **estimated** at about €bil. 650 in the next ten years, showed a growth trend at an average rate of about 7%. The most important segment, in terms of numbers of deliveries and related value, is that of combat aircraft, in which the programmes for (i) JSF F-35, which is in a phase of accelerating production, (ii) the export of Rafale and Eurofighter and, even to a lesser extent, (iii) the new Gripen E/F are very important. Finally, the advanced training aircraft and tactical transport aircraft segments will also be characterised by interesting growth prospects, substantially liked to the development of armed versions.

Overall, around 50% of worldwide demand for military aircraft (manned and unmanned) will come from the United States and Western Europe, where the greatest technological and industrial capabilities continue to be present, although there is a gradual (but still limited) process under way of transferring technology to newly industrialised countries, which are increasingly interested in developing their own offering. Specifically, many countries (South Korea, Turkey, Japan, China) are considering their own new fighter plane. In managing these developments national industries often collaborate with “technological” partners (BAE Systems in the case of Turkey, Lockheed Martin in the case of South Korea).

Over the medium/long term, interesting opportunities in Europe may arise in relation to the collaborative development of a new generation of unmanned vehicles (UAS – Unmanned Aerial Systems) for strategic surveillance, protection and monitoring, and reconnaissance and combat applications. European projects in this segment mainly consist of: (i) the definition phase of the European MALE (Medium-Altitude Long-Endurance) RPAS (Remotely Piloted Air Systems), a joint Airbus Group, Dassault and Leonardo programme, and (ii) the FCAS (Future Combat Air System) Anglo-French feasibility study for a future unmanned fighter aircraft, in which BAE Systems and Dassault are involved with a major contribution of Leonardo and Thales in relation to on-board sensors and mission electronics.

The extension of unmanned aircraft to the civil sector depends on the exact contents of the forthcoming regulations, which are being discussed at the present time, for safe navigation in non-segregated airspace.

During 2018, 330 defence aircraft were sold, for a value of about €bil. 35, showing a slight decrease compared to 2017 and 610 aircraft were delivered for a value of about €bil. 54, showing an increase compared to the previous year.
In 2018 the value of sales of trainer aircraft was higher thanks to more orders for advanced trainers, while the number of aircraft fell owing to fewer orders for primary trainers. In September 2018 the USAF selected, as their new advanced trainer, Boeing's BT-X offered by Boeing and Saab (a contract value of USD bil. 9 for 350 aircraft, in addition to a ground training system and logistics support).
In 2018 sales of military cargo aircraft fell with respect to the previous year owing to fewer orders for the large class.

Space

Leonardo is present in the Space services sector in markets which, overall, are expanding in certain segments of satellite telecommunications and geo-information services, while the system operation segment is rising at a lower growth rate. In the segment of services Telespazio has consolidated its position as leader in the management of the big European systems' operations, starting from activities carried out for national programmes, which was confirmed with the activities carried out in Europe as a Galileo System Operator (GSOp). In the telecommunications sector, the position is one in which there are opportunities for growth by offering a range of services based on high-capacity satellite systems and end-to-end services, in particular in the segments of defence and mobility. Leonardo's opportunities for growth in the geo-information segment depend on building on its role as the supplier of applications solutions for priority vertical markets, especially new applications for defence and security purposes which exploit both the capacities of the new Cosmo constellation generation, and on the consolidation of its role as the supplier of satellite data, including proprietary new generation infrastructures. This is also the basis for another line of development, that of the utilisation and integration of data from different origins and sources, with infrastructures and platforms which widen the possibilities of access to and use of data.

In 2018 the sector recorded a good commercial performance both in the segment of satellite services – with orders increasing compared to 2017, among which note that for maintaining the Italian Space Agency's COSMO system in operating conditions – and in the manufacturing segment – with a significant increase compared to 2017, particularly due to the excellent performance in the field of Earth observation.
In 2018 there was a slight increase in business activity volumes, with a modest decline in revenues from satellite services that were affected by a lower contribution given by some major programmes being completed, which was more than offset by growth in the manufacturing segment. In this area note the four launches made during the year, which placed in orbit the last 35 satellites of the Iridium Next constellation, which is made up of 75 satellites constructed by Thales Alenia Space and which is now in full operation.
The 2018 financial year was also characterised by major developments in the programme involving the Turkish Earth-observation satellite GÖKTÜRK-1, used by the Turkish Air Force, with the achievement of

the Final System Acceptance in December, whereby the customer finally acquired ownership of the satellite and related ground systems.
In consideration of an improved operational performance, both in the manufacturing and in satellite services segments, the result was affected by restructuring costs arising from the start of the procedure under Law 92/2012 (Fornero Act) with reference to the Italian component of the Space Alliance, as well as by higher tax applicable to the French component.

Outlook. Business and operating profit volumes are expected to be substantially confirmed in 2019.

Target market. The market of space systems and services is estimated at €bil. 1,152 in the ten-year period from 2018 to 2027, about 52% of which consists of **space services** (satellite communications, geo-information services, satellite operation services), while the remaining part accounts for **manufacturing** (satellites and probes, launch and space access systems, orbiting infrastructures). The development trend in the market shows diversified average growth rates of about 1% for manufacturing, mainly supported by civil and military government investment programmes and of about 8% for services. The industrial growth continues to mainly depend on institutional programmes that are promoted and operated by space agencies and civil and military governmental entities, both national and international. Specifically institutional demand is mainly based on programmes for scientific and exploration, meteorology, navigation applications, also based on the use of mini satellites. The demand for **services in the space sector** is mainly generated from the commercial sector, in particular for telecommunications (TV broadcasting services, Satellite Broadband Access services, as an accompaniment to terrestrial telecommunications networks, mobile communication services, maritime services). The continuity of secure strategic telecommunications systems, and, above all, of observation systems, is at the heart of demand for military equipment, which is satisfied both directly through the acquisition of dedicated infrastructures managed on one's own account and through the acquisition of services and applications from the private sector. In the space services segment, there has been growing verticalisation of telecommunication activities. Specifically, it is seen that satellite operators are supplementing their traditional work of providing satellite capacity by providing users with integrated systems which deliver end-to-end services through satellite constellations with innovative architecture. Demand in the **geo-information** segment is growing for applications services and solutions based on the collection and processing of data from various satellite and aerial sources, in order to exploit the potential of information arising from the processing of **big data**, as well as the integration of diverse technologies (broadband satellite communications, hybrid communication networks, geo-localisation, etc.) which can be used as elements enabling new, innovative services to be designed. At present these services show the highest growth rates and, in consideration of this trend, Leonardo's response is to expand its offer by means of programmes for the construction of Earth observation satellite infrastructures, some not promoted by public institutions, with various types of architecture spanning the classic fleets of traditional satellites in

medium to low orbit and constellations of numbers of mini satellites that allow high revisit rates of the surface of the globe.

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Other performance indicators

	2018	2017 restated	Change
FFO	1,400	1,136	23.2%
Research and development expenses	1,440	1,539	(6.4%)
Net Interest	(196)	(263)	25.5%

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

The section "Leonardo and sustainability" contains a more detailed description of Research and Development expenses.

* * * * * *

"Non-GAAP" alternative performance indicators

Leonardo's Management assesses the Group's performance and that of its business segments based on a number of indicators that are not envisaged by the IFRSs. Specifically, EBITA is used as the primary indicator of profitability, since it allows us to analyse the Group's marginality by eliminating the impacts of the volatility associated with non-recurring items or items unrelated to ordinary operations.

As required by CESR/05-178b Recommendation, below is a description of the components of each of these indicators:

- ***New orders:*** this includes contracts entered into with customers during the period that satisfy the contractual requirements for being recorded in the order book.
- ***Order backlog***: this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.
- ***EBITDA***: this is given by EBITA, as defined below, before amortisation (excluding amortisation of intangible assets from business combinations), depreciation and impairment losses (net of those relating to goodwill or classified among "non-recurring costs").
- ***EBITA:*** it is arrived at by eliminating from EBIT, as defined below, the following items:
  - any impairment in goodwill;
  - amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;

- restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.);
- other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

EBITA is then used to calculate return on sales (ROS) and return on investment (ROI).

A reconciliation of Income before tax and financial expense, EBIT and EBITA is shown below (the reconciliation by segment is reported in Note 8):

(€ millions)	**2018**	**2017 restated**
Income before tax and financial expenses	499	588
Equity-accounted strategic JVs	216	256
EBIT	**715**	**844**
Amortisation of intangible assets acquired as part of business combinations	98	98
Restructuring costs	205	56
Non-recurring (charges) expense	102	79
EBITA	**1,120**	**1,077**

Restructuring costs mainly relate to the costs linked to the abovementioned Fornero procedure.

Non-recurring costs are mainly related to write-downs reflecting management's estimates relating to particularly risky situations, as well as to the effects deriving from the discontinuance of businesses. Specifically the abovementioned costs relate to the *Electronics, Defence and Security Systems* and, to a lesser extent, to the *Aeronautics* Division.

- ***Return on Sales (ROS)***: this is calculated as the ratio of EBITA to revenue.
- ***EBIT:*** this is obtained by adding to Income before tax and financial expenses (defined as earnings before "financial income and expense", "share of profits (losses) of equity-accounted investees", "income taxes" and "result from discontinued operations") the Group's share of profit in the results of its strategic Joint Ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the "share of profits (losses) of equity-accounted investees".
- ***Net result before extraordinary transactions***: this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (key acquisitions and disposals). Below is the reconciliation:

(€ millions)	**2018**	**2017 restated**
Net result	510	279
Net result of Discontinued Operations	(89)	-
Net result before extraordinary transactions	**421**	**279**

- ***Group Net Debt***: this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items, as well as the main non-current receivables. In particular, the Group Net Debt included the financial

receivable (backed by bank guarantees) from SuperJet, which will be repaid within 2020 based on the arrangements for the rescheduling of the Group's participation in this programme. The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is reported in Note 20 to the consolidated financial statements.

- ***Free Operating Cash-Flow (FOCF)***: this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Group Net Debt), the cash flows generated by (used in) ordinary investing activities (investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments") and dividends received. The calculation of FOCF is presented in the reclassified statement of cash flows shown in the section "Group results and financial position".
- ***Return on Investments (ROI):*** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.
- ***Return on Equity (ROE):*** this is calculated as the ratio of the net result before extraordinary transactions for the financial period to the average value of equity in the two comparative periods.
- ***Workforce:*** the number of employees recorded in the register on the last day of the period.
- ***Funds From Operations (FFO)***: this is cash flow generated by (used in) operating activities net of changes in working capital and the repayment of debts under Law 808/1998, included within "*Cash flow from ordinary investing activities*" in the reclassified statement of cash flows. The FFO also includes dividends received.
- ***Research and Development expenditure:*** the Group classifies under R&D all internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. The item includes:
  development costs capitalised even if covered by grants;
  - development costs capitalised even if covered by grants;
  - research costs, whose activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, or development costs for which the accounting requirements for capitalisation do not obtain, are expensed as incurred, even if covered by grants;
  - research and development costs reimbursed by the customer as part of existing contracts (which fall, from an accounting viewpoint, under the scope of "contract assets" and "contract liabilities").
- ***Net interest:*** this is calculated as the sum of the items "Interest", "Premiums (paid) received on IRSs" and "Commissions on borrowings" (see the Note on "Financial income and expense" of the consolidated financial statements").

Below are also provided the reconciliation statements between the items in the reclassified tables reported in the Report on Operations and the accounting statements shown in the notes of consolidated financial statements:

	Scheme	PPA amortis.	Restruct. and non recurring costs	strategic JVs	Onereous contracts (losses at completion)	**Reclassified scheme**
Revenue	12,240					12,240
Purchase and personnel expense	(11,156)		209		120	(10,827)
Other operating income	599					
Other operating expenses	(528)					
Other net operating income/(expenses)	71		(46)		(120)	(95)
Equity-accounted strategic JVs				216		216
Amortisation, depreciation and write-offs	(656)	98	144			(414)
EBITA						**1,120**
Non-recurring income/(charges)			(102)			(102)
Restructuring costs			(205)			(205)
Amortisation of intangible assets acquired as part of business combinations		(98)				(98)
EBIT						**715**
Financial income	148					
Financial expense	(396)					
Share of profits/(losses) of equity-accounted investees	234					
Net financial income/(expense)	(14)			(216)		(230)
Income taxes	(64)					(64)
Net result before extraordinary transactions						**421**
Net result related to discontinued operations and extraordinary transactions	89					89
Net result	**510**					**510**

	Scheme	Financial receivables and cash	Financial payables	Hedging derivatives on debt items	**Reclassified scheme**
Non-current assets	11,849	(25)			11,824
Non-current liabilities	(6,034)		3,423		(2,611)
Capital assets					**9,213**
Current assets	13,663	(2,234)		(3)	11,426
Current liabilities	(14,975)		1,190		(13,785)
Net working capital					**(2,359)**
Total equity	4,510				**4,510**
Group Net Debt		(2,259)	4,613	(3)	**2,351**
Net (assets)/liabilities held for sale	(7)				**(7)**

	Scheme	dividends received	Cash out from Law no. 808/85 payables	Strategic investments	Reclassified scheme
Gross cash flows from operating activities	1,669				
Change in trade receivables/payables, contract assets/liabilities and inventories	(321)				
Change in other operating assets and liabilities and provisions for risks and charges	(440)				
Interest paid	(235)				
Income taxes received/(paid)	14				
Cash flows generated (used) from operating activities	687		190		877
Dividends received		202			202
Investments in property, plant and equipment and intangible assets	(577)				
Sales of property, plant and equipment and intangible assets	24				
Cash flows from ordinary investing activities	(553)		(190)		(743)
Free Operating Cash Flow (FOCF)					**336**
Strategic transactions				(11)	(11)
Other investing activities	203	(202)		11	12
Cash flows generated (used) from investing activities	**(350)**				
Bond issue	-				
Term Loan subscription	498				
Bond redemption	(513)				
Net change in other loans and borrowings	(91)				
Net change in loans and borrowings	(106)				(106)
Dividends paid	(81)				(81)
Cash flows generated (used) from financing activities	**(187)**				
Net increase (decrease) in cash and cash equivalents	150				150
Exchange rate differences and other changes	6				6
Cash and cash equivalents at 1 January	1,893				1,893
Cash and cash equivalents at 31 December	**2,049**	-	-		**2,049**

Effects of the new IFRS 16 accounting standard “Leases”

Starting from 1 January 2019 Leonardo will apply the new IFRS 16 accounting standard “Leases”, which replaces the previous IAS 17, under which the financial statements at 31 December 2018 are prepared.

The Group has launched a project to analyse the main contract types in order to determine the effects deriving from the application of the new standard. The main effects are:

- Recognition of non-current assets equal to the rights of use concerning tangible and intangible assets in consideration of existing lease agreements;
- Recognition of financial liabilities equal to the present value of future rentals;
- Recognition in the income statement of the amortisation of the rights of use and of interest on recognised financial liabilities.

The Group will apply this standard as from 1 January 2019, without restating the 2018 accounting balances for comparative purposes.

However, at the current stage of analyses we can preliminarily conclude that, subject to the conclusion of such analyses, the impact estimated on the Group’s Financial Debt at 1 January 2019 will be equal to an increase of about 20%.

Outlook

The full year 2018 was the first fundamental step in the path outlined last year for the Industrial Plan. The expected performance in 2019 shows a confirmed growth trend, with a further increase in Revenues and improved profitability accompanied by stronger cash flow operations in order to support growth and ensure the balance between investments and cash generation.

Specifically, for 2019 Leonardo expects:

- to confirm high levels of new Orders (€bil. 12.5 – 13.5) thanks to the finalisation of major export orders underpinned by the full implementation of the new business strategy aimed at addressing the Group key markets in a more effective manner and enhancing the One Company potential;
- Revenues in the range of €bil. 12.5 – 13.0, up from 2018 thanks to the contribution from the EFA Kuwait programme, the stable order backlog, which had grown further in 2018, and a good positioning of the Group's products in the more attractive market segments;
- increased EBITA in the range of €mil. 1,175 - 1,225 supported by growth in volumes, improvements in profitability in the various business areas and efficiency actions involving industrial processes and costs;
- FOCF of around €mil. 200 which reflects the significant cash absorption of the EFA Kuwait contract due to the production ramp-up ahead of deliveries scheduled from 2020;
- Group Net Debt of around €bil. 2.8 including the effect of IFRS 16 (about €bil. 0.4 - 0.5).

Below are estimates for the financial year 2019:

	2018 financial statements figures	***Outlook 2019*** (*)
New orders (€bil.)	15.1	12.5 – 13.5
Revenues (€bil.)	12.2	12.5 – 13.0
EBITA (€mil.)	1,120	1,175 – 1,225
FOCF (€mil.)	336	Ca 200
Group Net Debt (€bil.)	2.4	ca. 2.3 – 2.8 (**)

(*) *Assuming an exchange rate €/USD of 1.25 and €/GBP of 0.9.*

(*) *Including IFRS 16 effect*

* * * * * *

Related party transactions

It should be noted that in 2010 Leonardo adopted a specific "Procedure for Related Parties Transactions" (hereinafter referred to as the "Procedure"), which was mostly recently updated in February 2019, pursuant to CONSOB Regulation no. 17221 of 12 March 2010, as amended and supplemented, containing provisions on "related party transactions" (hereinafter referred to as the "Regulation"), as well as in implementation of Article 2391-*bis* of the Italian Civil Code. The abovementioned Procedure is available on the Company's website (www.leonardocompany.com, under *Corporate Governance* section, "Related Parties" area).

Pursuant to Article 5.8 of the Regulation, the 2018 financial year saw the completion of the following transaction of greater importance, as defined by Article 4.1.a) of the abovementioned Regulation and identified by the abovementioned Procedure pursuant to Annex 3 attached to the Regulation:

Related parties		**Nature of the relationship with the related party**	**Object of the transaction**	**Transaction payment**
Leonardo Spa	Banca Monte Paschi di Siena	Companies subject to common control	Lines of credit granted for the management of LDO cash pooling	€mil. 310

It should be noted that the abovementioned transaction was completed by making use of the exemption laid down, pursuant to Article 13.3.c. of the Regulation, as well as Article 11.2.c of the Procedure, for the ordinary transactions completed at arm's length or standard conditions.

Finally, it should be noted that this transaction had no significant impact on the consolidated financial position and the results for the period under consideration and that no changes or developments took place in relation to the related party transactions with respect to the situation described in the 2017 Report on Operations, as well as that the line had been used for a total of about €mil. 60 as at 31 December 2018.

CONSOB Market Regulation n. 20249/2017, Article 15

In accordance with CONSOB provisions contained in the Market Regulation adopted by CONSOB Resolution no. 16191 of 29 October 2007, as amended by Resolution no. 18214 of 9 May 2012 and, finally, updated by Resolution no. 20249 of 28 December 2017, and with specific regard to Article 15, Leonardo S.p.a. performed the verifications on the Group subsidiaries that were incorporated and are governed under the laws of non-EU Member States and that, as a result, were deemed "material" based on the requirements under Article 151 of the Issuers' Regulations adopted with CONSOB Resolution 11971 of 14 May 1999, as amended by CONSOB Resolution no. 18214/2012 and, more recently, as updated by the amendments made by Resolution no. 20250 of 28 December 2017. As regards the non-EU foreign subsidiaries (Leonardo DRS

Inc., Leonardo US Holding Inc., AgustaWestland Philadelphia Co.) identified based on the above regulations and in compliance with the provisions of local laws, these verifications revealed that the administrative and accounting system, which oversees the preparation of Financial Reports, falls within the scope of a control environment that is effectively operating and substantially suitable to the requirements envisaged in said Article 15. Therefore, it is not necessary to prepare an adaptation plan pursuant to the abovementioned article.

Information pursuant to articles 70 and 71 of Issuers' Regulations

By resolution of the Board of Directors on 23 January 2013, the Company adopted the simplification regime under Articles 70/8 and 71/1-*bis* of the Issuers' Regulations, adopted with CONSOB Resolution 11971/1999, as subsequently amended and supplemented. By this resolution, the Company chose the option to make exceptions to the obligation to issue the documents required by the law when transactions of greater importance (such as mergers, spin-offs, capital increases by means of the contribution of assets in kind, acquisitions or disposals) occur.

Industrial and financial transactions

Industrial transactions. On 7 September 2018, the Board of Directors of Leonardo resolved to exercise the right of pre-emption on the acquisition of 98.54% in Vitrociset, in which at 31 December 2018 Leonardo held a stake of 1.46%. This transaction creates value for Leonardo and helps strengthen its services core business, especially Logistics, Simulation & Training and Space Operations, including the *Space Surveillance and Tracking* segment. Additionally, this initiative enables the consolidation of the Italian allied businesses to the Aerospace, Defense and Security industry, increasing the competitive edge under significant market prospects. The closing of the purchase took place on 31 January 2019, as all required conditions were met, including Golden Power and Antitrust approvals.

In accordance with the objectives of streamlining business activities and improving efficiency at Group level – already completed in Italy and in the United Kingdom -, 2018 saw the substantial completion of the concentration of equity investments held in foreign countries (mainly Germany, Romania and Malaysia) in the legal entity Leonardo International S.p.A..

At the end of 2018 Leonardo signed an agreement with Boeing for the sale of the share held by Leonardo MW Ltd in the JV ATIL - Aviation Training International Ltd (50:50 LMW and Boeing UK). ATIL deals with training and mission planning for the Apache platforms of the UK Army Air Corps.

Finally, it should be noted that in April 2018, in implementation of a memorandum of intent signed with national trade unions relating to early retirements in accordance with Article 4 of Italian Employment Law

92/2012 (also known as the "Fornero Act") - an agreement was signed involving up to 1,100 employees who will be eligible for retirement in the four years following the scheduled 2018-2019 two-year period, while defining the specific eligibility requirements. A similar arrangement was subsequently signed with the trade unions of executive staff, up to a number of 65 executives. In June 2018 the Company completed taking expressions of interest; subsequently it took steps to submit the 2018/2019 redundancy plan to INPS (Italian Social Security Institute) in order to establish whether the requirements were met for the application of early retirement measures. The first phase of the abovementioned measure was concluded on 30 November 2018, with the exit of 459 employees and 28 executives. Costs for the measure are estimated at about €mil. 170.

Financial transactions. A feature of 2018 was a major series of capital market transactions. More specifically:

- In February there was the execution of a new Revolving Credit Facility (RCF) with a pool of 26 Italian and foreign banks. The new RCF, which replaces that previously in place, provides, if used, for the payment of 75 bps on the Euribor for the period (zero floor), lower by 25 bps than the previous transaction completed in July 2015, with consequent lower financial costs. The amount of the Revolving Credit Facility was also reduced down to €bil. 1.8, compared to the amount of €bil. 2 of the previous line, in line with the Group's current cash requirements. The expiry date of the line was extended to 2023, i.e. the year for which no other maturities of the Group's medium/long-term debt are currently envisaged;
- In February there was the repurchase of a nominal amount of GBPmil. 10 on the market, out of the bond issue launched in 2009, due 2019 (coupon of 8%), thus further reducing the residual nominal amount down to GBPmil. 278;
- In April there was the renewal of the EMTN programme for 12 additional months, leaving the maximum available amount of €bil. 4 unchanged;
- In November there was the execution of a new Term Loan line of credit with a pool of national and international banks, to refinance existing debts. The line, amounting to €mil. 500, has a term of 5 years and provides for the payment of a margin of 110 basis points with respect to the 6-month Euribor and the repayment of a single instalment after the end of the five-year period . The amount of the loan was used in full in December;
- In November there was the execution of a loan agreement with the European Investment Bank (EIB) with a term of 12 years (4 of which being a grace period) and a value of €mil. 300, which was aimed at supporting the investment programmes envisaged in the group's Industrial Plan. The loan had not yet been used on the reporting date;
- In December there was the full repayment of the bond issue with a nominal amount of €mil. 500, issued in 2003, upon its natural expiry.

The Group's outstanding bonds are governed by rules with standard legal clauses for these types of corporate transactions on institutional markets that do not require any undertaking with regard to compliance with specific financial parameters (financial covenants) but they do require negative pledge and cross-default clauses. Based on negative pledge clauses, Group issuers, Leonardo and their "Material Subsidiaries" (companies in which Leonardo owns more than 50% of the share capital and the gross revenues and total assets of which represent at least 10% of Leonardo's consolidated gross revenues and total assets) are expressly prohibited from pledging collateral security or other obligations to secure their debt in the form of bonds or listed financial instruments or financial instruments that qualify for listing, unless these guarantees are extended to all bondholders. Exceptions to this prohibition are securitisation and the establishment of assets for the use indicated in Article 2447-bis et seq. of the Italian Civil Code. On the contrary, the cross-default clauses give the bondholders the right to request early redemption of the bonds in their possession in the event of default by the Group issuers and/or Leonardo and/or any "Material Subsidiary" that results in a failure to make payment beyond pre-set limits.

Financial covenants are included in the Revolving Credit Facility in place at 31 December 2018 for €mil. 1,800, as well as in the Term Loan of €mil. 500. More specifically, the covenants require Leonardo to comply with two Financial ratios: (the ratio of Group net debt - excluding payables to the joint ventures MBDA and Thales Alenia Space)/EBITDA must be no higher than 3.75 and the ratio of EBITDA to net interest must be no lower than 3.25, tested annually based upon the consolidated data at the end of the year. These covenants, in accordance with contractual provisions providing for this option, have also been included in the new EIB loan mentioned above, in the same way as provided for in the EIB loan already in place, the remaining amount of which was €mil. 185 at 31 December 2018. Furthermore, these covenants are envisaged in certain loans granted in past years to DRS by US banks totalling USDmil. 75. In relation to this Annual Financial Report, there was full compliance with said covenants (the two ratios are 1.1 and 7.8, respectively).

Outstanding bond issues are given a medium/long-term financial credit rating by the international rating agencies: Moody's Investors Service (Moody's), Standard & Poor's and Fitch. In October 2018, following Moody's downgrade of Italy's rating from Baa2 to Baa3, the same agency reviewed Leonardo's outlook changing it from positive to stable, however leaving the rating unchanged. Moody's stated that this review is not due to a deterioration of Leonardo's stand-alone credit rating but is the consequence of Italy's downgrade. Therefore, on the reporting date, Leonardo's credit ratings, compared to those preceding the last change, were as follows:

Agency	**Last update**	**Updated**		**Previous**	
		Credit Rating	*Outlook*	*Credit Rating*	*Outlook*
Moody's	October 2018	Ba1	stable	Ba1	positive
Standard&Poor's	April 2015	BB+	stable	BB+	negative
Fitch	October 2017	BBB-	stable	BB+	positive

With regard to the impact of positive or negative changes in Leonardo's credit ratings, there are no default clauses linked to the credit ratings. The only possible effects deriving from further changes, if any, to the credit ratings refer to higher or lower finance costs on certain payables of the Group, especially with reference to the Revolving Credit Facility and to the Term Loan as provided for in the related agreements. Finally, for the sake of completeness, it should be noted that the Funding Agreement between MBDA and its shareholders provides, *inter alia*, that any downgrade of the rating assigned to the shareholders will result in a gradual increase in the margins. Additionally, under a pre-set rating limit (for at least two out of three rating agencies: BB- from Standards & Poor's, BB- from Fitch and Ba3 from Moody's) MBDA is entitled to determine the applicable margin each time. Finally, the agreement provides for rating limits the achievement of which allows MBDA to request the issue of a bank guarantee of its own liking from its shareholders, without which MBDA can suspend the subsequent disbursement of funds.

Leonardo and the scenario

The Mediterranean and North African area has still a high level of instability. Some sources of crisis appear to have been resolved, at least partially; ISIS has been defeated in the field, even if the integralist-type terrorist episodes which it inspires have not ceased; Iraq and Syria seem to be moving slowly back to normal, while stabilisation and reconstruction in Libya are still slow and uncertain. Other flash-points remain, such as the conflict in Yemen, still unsettled in spite of the request for a ceasefire from the United States and the UK, while the US abandonment of the Joint Comprehensive Plan of Action for the monitoring of the Iranian nuclear programme, the subsequent levying of new sanctions and the murder of dissident journalist Jamal Khashoggi in the Saudi Embassy in Istanbul have triggered additional tensions which run the risk of jeopardising an equilibrium which is already very precarious.

In this scenario the migration flows which pose serious security problems and increase friction within the European Union have remained hard to control.

The situation in Eastern Europe, where the Ukrainian crisis is still unresolved and Russia is playing an increasingly active part in the international scenario, characterised by substantial investments to modernise its arsenal, continues to be a cause for concern in the Western world.

Finally, after the diplomatic efforts made by the United States and South Korea, the North Korean nuclear programme appears to have stopped at least for the moment and the tones of the confrontation with the United States and, more generally, with the countries potentially within the range of Pyongyang's missiles, have lowered considerably.

The situation in Europe appears to be more confused and less stable than last year. The difficult situation in some of the Member States' domestic politics and the elections to renew the European Parliament in May combine with utter uncertainty regarding the outcome of Brexit. The vote in Parliament in Westminster, postponed from December to January, dismissed the agreement negotiated between the United Kingdom and the European Union during the two preceding years by a crushing and largely bipartisan majority. And while

the possibility of finding a new solution which brings everyone together before 29 March appears to be increasingly faint, the spectre of a no-deal, together with the emergence in all its gravity of the crucial problem of the border between the Irish Republic and Northern Ireland, has again made the United Kingdom's remaining in the European Union a real possibility after another referendum or an early general election.

In the United States the mid-term elections weakened the position of the Trump administration, which now has to contend with a Democratic majority in the House of Representatives, while the Russiagate investigations could come to a conclusion during 2019.

On the economic front, growth in the Euro area countries, the United Kingdom, Japan and China has started to lag, while in the United States it has accelerated. This trend should be confirmed in 2019. The result is global growth which will tend to fall from 3.2% in 2018 to 3.0% in 2019, going on falling in the following years.

There is a risk of an escalation of the trade war, mainly between the United States and China but not this alone, which could lead to a contraction in world trade, further depressing the world economy. At the same time sales in the equity markets and sales of raw materials, together with a gradual removal of financial easing measures by some central banks – e.g. the ECB -, give rise to tighter financial conditions on an international scale. If unstable political conditions are also taken into account, it would appear that the conditions are right for a possible recession in a few years' time.

In 2018 Euro area growth went down to +1.9% (compared to 2.7% in 2017) and difficult situations in the countries concerned point to a further reduction in 2019 (1.5%). Instability both in Europe overall and in the biggest countries in the EU, like France, Italy and Germany, is a factor in raising the level of political uncertainty, while in the United Kingdom confusion in managing Brexit will make for a substantial downturn in economic growth (+1.1%) in 2019.

In the United States, on the other hand, growth has remained higher than forecast at 2.9%. This performance is largely due to the fiscal stimulus (tax cuts and higher expenditure) carried out by the Administration at the beginning of the year. The impact of this incentive is likely still to be felt in 2019, even if increasingly less so also owing to the potentially serious effects of the long shutdown at the start of the year due to the disagreement over the federal budget between the President and Congress. Hence analysts expect 2.6% growth, less than in 2018, which is still, however, above the figure that was expected.

The Chinese economy is still slowing down: it fell from +6.8% in 2017 to +6.5% last year, with a forecast of +6.3% in 2019. The Chinese Government is putting fiscal and monetary policy measures in hand to support growth and stabilise the financial markets so as to invert this trend, but it is not clear whether these measures will have any effect.

Japan will remain stable at moderate levels (+0.8% in 2018, +0.9% in 2019), while the emerging economies should falter slightly (from +4.8% in 2018 to +4.6% in 2019) owing to the unsettled conditions which surround them.

In the exchange markets, the dollar could depreciate over the euro. At the same time the renmimbi/dollar rate should remain more or less steadily under the psychological barrier of 7.0 as a result of the Chinese Government's efforts at financial stability.

The lull in global growth and the gradual credit squeeze present the raw materials market with some issues. Nevertheless, demand next year will still be sufficient to support the market. The forecast for 2019, therefore, is very similar to last year's (i.e. oil should remain at about 70 dollars a barrel).

As regards Leonardo's **domestic markets,** in 2018 the **United States** allocated €bil. 193 to the Defence budget, between procurement and R&D. This amount seems intended to remain stable over the next five years (€bil. 195 in 2019 and €bil. 192 in 2023).

In order to reinforce its position as the greatest military power in the world, the United States is conducting the Nuclear Posture Review and the Ballistic Missile Defense Review with the aim of enhancing its deterrence and nuclear defence capacity. Two other long-term objectives of the Administration are strengthening the attack and fighter aircraft fleet, bringing their number up to 1,200, and strengthening its navy, from current 308 ships to 355 in 2050. The intention has also been announced to create a sixth Armed Force, the Space Force, into which all military activities connected with space would converge.

There should be a slight rise in procurement and R&D for Defence in the **United Kingdom**, from €bil. 10.5 in 2018 to €bil. 10.9 in 2019, with a further increase after five years, up to €bil. 11.2 in 2023.

Among the sectors in which the United Kingdom intends to invest the most is offensive cyber, anti-submarine warfare and the nuclear deterrent. Halfway through last year the Ministry of Defence announced plans for the development of a new fighter aircraft for the Royal Air Force, which shall replace the Eurofighter Typhoon. The Government stated that it will spend about £bil.2 from now until 2025, but has not provided an estimate of the total cost of the programme. The plane will employ new generation technology, including the capacity to fly unmanned and in "swarms" and the use of direct energy weapons (laser, microwave and particle beams). The private sector has already invested some hundred million euro in the project.

The budget in **Poland** for procurement and R&D for Defence in 2018 was €bil. 2.8. Also owing to the persistent threat on its eastern borders, the value of procurement and R&D will rise to €bil. 2.9 in 2019 and increase substantially over the entire five-year period, up to €bil. 3.6 in 2022.

The 2013-2022 Polish Armed Forces modernisation programme lays down a ten-year targeted investment plan covering five priority areas: (i) anti-air defence; (ii) modernisation of the navy; (iii) cyber security (iv) modernisation of mechanised weapons systems; and (v) land defence. Included in this plan are acquisitions of 14 multi-role helicopters, 200 surveillance and reconnaissance UAVs, 20 to 30 attack UAVs, three coastal defence vessels, two mine detectors and an undefined number of submarines.

Procurement and R&D expenditure for Defence in **Italy** was €bil. 5.4 in 2018 but it should fall to €bil. 4.9 in 2019 and then rise again slightly to €bil. 5.3 in 2021.

Despite these budget constraints, procurement is continuing in all sectors even if at a limited rate. On land, there is the Centauro II programme for the replacement of 136 armoured vehicles; at sea the FREMM (FRegate Europea Multi-Missione) programme being finalised and the new Multi-Role Offshore Patrol Vessels (16 units); and in the air, the F-35 JSF (90 aircraft, 15 of which vertical take-off), the Eurofighter Typhoon (46 aircraft of Tranche 3) and the M346 programmes.
The failure to approve the beginning of a long-term cycle (6 years) of investments provided for in the White Paper and the absence of rules regarding the G2G agreements, however, are hindrances to the process of modernisation of Italian Defence and the competitiveness of its home industry.

NATO/EU defence projects

In recent years the European Union has taken some vital steps forward on the front of common security and defence. After the publication of the European Union Global Strategy in 2016, the Commission submitted a set of Defence projects to the European Council, known as European Defence Action Plan. At the end of 2017 the Council also set up the Permanent Structured Cooperation (PeSCo), participated in by 25 Member States, except Great Britain, Denmark and Malta), an addition to the other two projects being developed: the Coordinated Annual Review on Defence (CARD, a system for the coordination of EU Defence Ministers to harmonise capability development) and the European Defence Fund (EDF).
The intention of the European Defence Fund is to foster competitiveness and innovation capacity in the European defence industry, stimulating cooperation among Member States in shared R&D projects regarding defence materials and technology, encouraging joint procurement and maintenance on the basis of the co-financing principle throughout the projects' life cycles.

This European initiative is divided into two phases in time:

- The starting phase, during which two separate projects kick off: Preparatory Action on Defence Research (PADR), devoted to research with a total €mil. 90 allocation over 3 years (2017-2018-2019) and the European Defence Industry Development Programme (EDIDP), devoted to the development of capacity, with a total €mil. 500 allocation in 2 years (2019-2020).
- The fully operational phase from 2021 to 2027, during which the EDF will launch both research and development with a proposed total budget of €bil. 13, of which €bil. 4.1 for research and €bil. 8.9 for capacity development.

Fundable projects must meet overriding needs for capacity and the development of technological and industrial expertise. European funds are additional to national defence budgets; they do not take their place. They are a contribution and a stimulus for individual member states to develop projects together that they cannot bring to fruition at domestic level owing to their complexity, cost and the necessary technology.

PeSCo cooperation projects are approved every year: in 2017, in Wave 1, Italy joined 15 of the 17 total projects put forward, leads four and is co-leader with France in another (ESSOR, European Secure Software defined Radio); 17 projects were approved in 2018 in Wave 2, three of which led by Italy.

As regards **European projects**, Leonardo achieved an outstanding success during 2018 in being awarded the OCEAN2020 project, the most important in the entire Preparatory Action phase with a total budget of €mil. 35, the participation of 16 big companies, 7 Research Institutes, 14 SMEs and 5 end-users/partners from 15 Member States (Ministries of Defence of Italy, Greece, Spain, Portugal and Lithuania). OCEAN2020 is an example of a European military research programme, is of enormous strategic, technological and operational value and will enable unmanned platforms of different types (fixed wing, rotary wing, surface and underwater) to be integrated with a command and control naval vessel centre. Data are to be exchanged between satellites and land-based command and control centres. The joint use of manned and unmanned platforms is also to be demonstrated in the framework of the project. These innovative capacities will be used for surveillance and maritime interdiction missions.
In 2018 preparatory R&D work was carried out for performing two real surveillance and maritime interdiction demonstrations conducted by European naval vessels using unmanned air, surface and underwater systems. The first demonstration, scheduled in the Mediterranean in 2019, will be coordinated by the Italian Navy, while the second, scheduled in the Baltic in 2020, will be coordinated by the Swedish Navy.
The success that has been achieved is the fruit of the technological excellence and the high innovative content of Leonardo's proposal, which shows and heightens its expertise in systems, products and unmanned platforms and consolidates its position in a market – the naval market – which is of great interest to the Company.

It is strategically important for Leonardo to develop a holistic vision in participating in European projects, also taking the requirements which Member States have agreed on with NATO into account.

Leonardo has always been an important partner in **NATO projects** and works on various Alliance programmes, including cyber projects.
In December 2018 Leonardo signed a contract to provide O&M (Operation & Maintenance) to the system protecting NATO infrastructures from cyber attacks (NCIRC, NATO Computer Incident Response Capability).
Leonardo has been the supplier of the NATO system since May 2014: the project is one of the most important that has ever been developed in this sector.
Leonardo has been responsible since 2017 for the development and maintenance of the services for the land-based segment of the Alliance Ground Surveillance (AGS) program and also plays a part in the Alliance

Future Surveillance and Control (AFSC) program, which will replace NATO Airborne Warning & Control System (AWACS) in 2035.

With reference to the scenario described above, Leonardo sets itself to strengthen its positioning in the more attractive markets in which the portfolio of its products can benefit from its specific competitive advantage. An analysis of its present competitive position, based on these two dimensions (an attractive market and the portfolio's capacity of penetration), leads to the following considerations regarding the various business sectors reported in the specific sections which analyse the performance by sector.

Leonardo and risk management

The Group is subject to a number of risks that can interfere with its objectives and results. Risk analysis and management processes are therefore carried out systematically, which include any related response actions, based on specific methods and practices which, in compliance with international regulations and standards, look at the probability of occurrence and the impacts of the risk.
The analysis of the main risks and related mitigation actions presented below is also provided to complete the information reported in the Consolidated Non-financial Statement for 2018.

MAJOR RISKS		***ACTIONS***
The change in the level of expenditure of national governments and public institutions may affect business performance and may influence R&D work, particularly in the aeronautics and defence and security systems sectors	The major customers of the Group are national governments or public institutions. Moreover, the Group takes part in numerous international programmes funded by the European Union or other intergovernmental organisations. Therefore, it is affected by geopolitical and economic factors, the reduction in the expense policies of the public institutions, in addition to the medium/long-term plans of the countries that are considered individually and as a whole within common defence programmes. The expenditure programmes adopted by governments may be subject to delays, changes under way, annual reviews or cancellations, in particular in periods with high instability or critical periods in macroeconomic terms, with effects on the Group's volumes, results and indebtedness. The acquisition of contracts, especially outside Europe, may be affected by local preferences for certain products. Moreover, any possible pressure on public budgets might further reduce their contribution to research and development activities. In Italy, in particular, research and development expenditure in the aeronautics sector is financed under Law 808/1985, which is an essential support to research activities. Failure to bring funding levels into line with those of other European competitors might adversely affect the Group's ability to compete successfully, thus giving rise to possible impacts on the time-to-market of products under development.	The Group pursues an international diversification policy, in order to reduce the effects of cuts made by each country, placing it in its main markets, as well as in emerging markets marked by significant growth rates, in the Aeronautics and Defence markets. The ongoing monitoring of its performance in the major countries ensures a timely alignment of activities planned with customer needs.
The Group operates in civil sectors that are highly exposed to growing levels of	In civil sectors, the slowdown in demand due to customers' reduced spending capacity may lead to delays or reductions in the acquisition of new orders, or to their acquisition on less favourable	The Group’s goal is to increase its industrial efficiency, diversify its customer base and improve its ability to perform contracts, while reducing overhead costs with a view to

MAJOR RISKS		ACTIONS
competition	terms than in the past. In these markets there are highly innovative competitors, especially in adjacent markets of information technology and consumer electronics, which maintain high and ongoing R&D investments by leveraging significant economies of scale. Competitors in adjacent markets already operate in the security market and are offering themselves as new entrants in the aerospace and defence sectors, especially in the field of electronics, with advanced and often cheaper technology solutions. These factors contribute to a growing complexity of the prospective target scenario characterised, however, by growing competition and could reduce production volumes and profit margins, as well as increase the Group's financial requirements.	enhance its competitive capacity. The Group maintains its competitive positioning by ensuring highly qualitative and innovative product standards, while continuing to pay constant attention to exploiting and updating its technological edge. The new organisational "One Company" structure is aimed at ensuring an improved ability to compete in domestic and foreign markets, as well as at strengthening synergies between company functions involved in the development of new products.
The capacity for innovation and growth depends on the strategic planning and management of skills, on the attraction and development of talents	Technological innovation and the growing complexity of the Group's businesses require constant alignment of skills, with a view to providing high added-value products and services and affirming the role of System Integrator and Prime Contractor. A lack of specialist expertise might impact on the full achievement of objectives, including possible repercussions in terms of time-to-market of new products and services, as well as of access to emerging business segments.	The Group has set up and is currently implementing action plans aimed at attracting, retaining and motivating people, managing talents, providing ongoing specialist training, insourcing core competencies and defining succession plans. The purpose of these plans is to ensure an adequate level of technical, specialist and managerial skills necessary to achieve the Group's strategic objectives and business sustainability in the medium- to long-term. Training and collaboration programmes are also in place with schools and universities, and projects have been started to promote the study of technical and scientific subjects (STEM, Science, Technology, Engineering and Mathematics).
The Group operates in some business segments through partnerships or joint ventures	The Group's corporate strategies contemplate the possibility of gaining business opportunities partly through joint ventures or commercial alliances in order to integrate its technology portfolio or strengthen its presence in the market. The operation of partnerships and joint ventures is subject to management risks and uncertainties, mainly due to possible divergences between partners about the identification and achievement of operational and strategic objectives involving markets, technologies and products, as well as to the difficulty of resolving any possible conflict relating to core business operations. Moreover, in joint ventures, situations of decision-making "deadlock" might	The Group systematically carries out due diligence activities following the completion of partnerships and joint ventures. At this purpose, the active involvement of its top management in any related operation is aimed, among other things, at directing its strategies and identifying and managing any critical issue in a timely fashion.

	MAJOR RISKS	*ACTIONS*
	ultimately lead to the liquidation of the joint venture itself or to the disposal of the investment by the Group, with the risk of not obtaining the expected benefits.	
The Group is exposed to the risk of fraud or illegal activities on the part of employees and third parties	The Group makes every effort in terms of organisation, controls, internal procedures and training to ensure compliance with any and all anti-corruption laws applicable in the domestic and foreign markets in which it operates; however, the possibility cannot be ruled out of employees or third parties behaving in an ethically incorrect or not fully compliant manner. This may also expose the Group to financial responsibility and generate adverse reputational effects, nor can we rule out the possibility of judicial authorities initiating proceedings aimed at establishing any possible liability attributable to the Group, the results and timing of which are difficult to determine and which are likely to entail temporary suspensions from the market concerned.	The Group has set out a model of responsible business conduct aimed at preventing, identifying and responding to the risk of corruption, based on: • Spreading a company culture, values and rules of conduct, based on the principle of zero-tolerance for corruption; • Promoting anti-corruption commitment, starting with Top management, adopting a "Tone from the Top" approach; • Providing training courses for the entire corporate population, and specifically for resources involved in processes that are most exposed to the risk of corruption (Council Programme); • The Leonardo Group’s Anti-corruption Code, which consists of a structured and consistent set of rules based on the principles of integrity and transparency, aimed at combating the risks of illegal practices in the conduct of business and company activities; • The Whistleblowing Guidelines which define the process of handling these reports by either named or anonymous individuals who become aware of facts or actions of any nature, which are against company internal codes and protocols, laws or regulations. In 2018 Leonardo S.p.a. was the first company in the world's top ten in Aerospace, Defence and Security to obtain ISO 37001 certification, the first international standard on anti-corruption management systems. Specific actions have also been taken in the responsible management of the supply chain, through the strengthening of supplier qualification, selection and management processes. A specific risk analysis tool is applied to the assignment of tasks to promoters and sales advisors as part of structured due diligence audits based on international best practices.

MAJOR RISKS		ACTIONS
The settlement of legal disputes can be extremely complex and might require a considerable period of time	The Group is party to judicial, civil and administrative proceedings; for some of these, the Group has established a specific provision for risks and charges in the consolidated financial statements to cover any potential liabilities. Some of these proceedings in which the Leonardo Group is involved – for which a negative outcome is unlikely or that cannot be quantified – are not covered by the provision. As more fully explained in paragraph "Provisions for risks and contingent liabilities" of the explanatory notes to the consolidated financial statements, in the past certain Group subsidiaries and the Parent Company itself were involved in judicial investigations, some of which are still underway. Further developments presently unforeseeable and indefinable, together with the possible consequential impact on Leonardo's reputation, could have a significant impact on the Group's financial position, results of operations and cash flows as well as on its relationships with customers.	The Group regularly monitors potential and existing disputes, taking the necessary corrective actions and adjusting its provisions for risks on a quarterly basis.
The Group operates in particularly complex and regulated markets, which require compliance with specific regulations (e.g. export control)	Defence solutions are of particular importance in terms of compliance with regulatory obligations and, therefore, their export must comply with foreign policy guidelines and is subject to restrictions and prior authorization, based on specific regulations and agreements that may change in relation to the evolution of the geo-political scenario and of international economic interests (such as, for example, Italian Law 185/1990 and the U.S. International Traffic in Arms Regulations - ITAR and the Export Administration Regulations - EAR), as well as of compliance with customs regimes applicable to any and all products offered by the Group. The prohibition on, limitation or any possible revocation (for example in the case of embargoes or geopolitical conflicts) of export authorisations for defence or dual-use products, as well as failure to comply with any applicable customs regime, may have substantial adverse effects on the Group's business, financial position, results of operations and cash flows. Moreover, failure to comply with these regulations could also make it impossible for the Group to operate in specific regulated areas.	The Group ensures, through specific functions, a timely implementation and manages the formalities required by the relevant regulations, monitoring their updating on an ongoing basis in order to allow the day-to-day performance of commercial and operational activities, in compliance with the provisions of law and with any possible authorisation and/or limitation.
The Group operates through a	The Group's activities are subject to compliance	The Group carries out environmental

MAJOR RISKS		ACTIONS
number of industrial plants and processes that may expose it to environmental risks and to risks to the health and safety of workers	with laws, rules and regulations governing the protection of environment and energy management, through the adoption of specific environmental permits that require compliance with restrictions on emissions into the atmosphere, water discharges, storage and use of chemicals (e.g. REACH Regulation and RoHS Directive), waste management. The Group's activities are subject to compliance with laws, rules and regulations governing the protection of workers' health and safety. Specifically, Legislative Decree 81/2008 provides for a health and safety management system for preventive and permanent work, through the identification of risk factors and sources, the elimination or reduction of risk, the ongoing monitoring of preventive measures implemented, the development of a corporate strategy to be implemented through the participation of all stakeholders in the working communities, as well as the planning of such measures as are considered to be appropriate to ensure the improvement of safety levels over time, including through the adoption of codes of conduct and good practices. The Group's sites can also be affected by climate change and natural events (floods, earthquakes, droughts and others).	monitoring and assessment activities in relation to the sites in which it operates and provides specific insurance coverage in order to mitigate any consequence of unforeseeable events. Through its R&D work and improving the efficiency of its processes on an ongoing basis, the Group develops low environmental impact technological solutions which are functional to the fight against climate change. In order to protect the health and safety of its workers, the Group constantly monitors trends in accident frequency and severity rates, in relation to which improvement objectives are set out, checking whether the safety measures adopted are effective. Risks to the workers' health and safety are managed by applying the principle of zero tolerance in strict compliance with the relevant regulations, through specific action and training plans; the latter are supported by a precise system of proxies and powers for each relevant matter, aimed at ensuring that the action taken complies with the Group's guidelines. The Group is also committed to extending the perimeter of sites that have a certified management system. The Group takes out specific insurance policies in order to mitigate any possible consequence arising from disastrous weather and natural events.
Breaches of information security obligations can cause damage to the Group, its customers and suppliers and pose a threat to the security of citizens and critical infrastructures	The increase in digitalization and the use of innovative technologies require the Group to face the risks associated with information security, which can lead to computer incidents and business interruption, as well as to the leakage of data and information, compromising, among other things, the Group's image, especially in the case of theft of third-party data stored in its archives. IT incidents in the supply chain might have repercussions on the Group's operations.	The Group manages cyber security through dedicated controls and training for the entire corporate population, as well as processes, procedures and specific technologies for the prediction, prevention, detection and management of potential threats and for responding to them. Leonardo is ISO 27001 certified and is constantly engaged in management and improvement activities aimed at maintaining the certification itself. Leonardo also benefits from substantial experience in the field of cyber security, in addition to that already available to its Corporate staff, gained on the market through the competent business Division and partnerships established with its partners and institutional stakeholders, in addition to a

MAJOR RISKS		ACTIONS
		plan to develop and improve the professional skills of its staff. Leonardo has also taken any action to extend computer data processing methods and processes to its own suppliers.
The Group operates significantly on long-term contracts at a given price for supplies of highly complex products, systems and services	The Group supplies very complex products, systems and services due to their advanced technological content under long-term contracts at a fixed all-inclusive price. Given a fierce competition in the market concerned, contract terms and conditions generally include challenging levels of requirement and stringent execution times. If, due to the occurrence of risk events, the Group does not perform the contract in compliance with quality requirements and within the required time limit, the customer is entitled to apply penalties and other contract clauses that might have an adverse economic and financial impact on the Group. In order to recognise revenues and margins in the income statement of each period, the Group adopts the percentage-of-completion method, which requires: (i) an estimate of the costs necessary to carry out the contract, including contingency to cover project risks, as well as the costs of any related mitigation action and (ii) checking the state of progress of the activities. An unexpected increase in the costs incurred while performing the contract might determine a reduction in profitability or a loss.	Leonardo, starting with the business proposal stage, considers the project's main performance and financial parameters in order to assess its performance throughout the entire life cycle and carries out Risk Assessments systematically. The Group reviews the estimated costs of contracts regularly, at least quarterly. Project risks with similar frequency throughout the related life cycle are managed systematically through the detection, assessment, mitigation and monitoring of risks with the definition and management of appropriate contingencies, in order to protect the financial margins of the projects themselves. Risk management is carried out by project teams (IPT - Integrated Project Team) led by Project Managers and supported by Risk Managers. The Group is committed to improving its industrial efficiency and its ability to meet customer specifications on time.
The risks of proper performance of contracts, associated with the liability to customers or third parties, also depend on the supply and sub-supply chain	The Group purchases, in very substantial proportions with respect to its sales, industrial products and services, materials and components, equipment and subsystems; it may therefore incur liability to its customers for operational, legal or financial risks attributable to third parties outside the Group, who operate as suppliers or sub-suppliers. The Group's dependence on suppliers for certain business activities might give rise to difficulties in maintaining quality standards and meeting delivery times.	The Group chooses its suppliers by implementing specific selection criteria and monitors their performance, results of operations and financial position. The Group is also committed to improving efficiency and developing its supply chain, especially through targeted actions aimed at certain areas of strategic importance and/or critical expenditure. In particular, Leonardo has started the LEAP2020 programme (Leonardo Empowering Advanced Partnerships 2020), provided for in the 2018-2022 Industrial Plan and aimed at establishing a new relationship between the Company and its Italian and international suppliers, based on an industrial and supply chain approach. The programme sets out a model for the

MAJOR RISKS		ACTIONS
		selection and appointment of "partners for growth" based on an objective assessment of suppliers in terms of capacity, performance, competitiveness, transparency, traceability and process sustainability. In addition, contract procurement forms provide for the parties to exchange information on project risks with the aim of increasing their transparency in terms of causes, events and effects of the risks, and of taking response actions, even in the face of any emerging risk.
The Group is required to fulfil direct or indirect offset obligations in certain countries	Some international customers require industrial cooperation related to the award of contracts in the aerospace and defence sector. Together with supply contracts, the Group may therefore undertake offset obligations that require procurement or manufacturing support at local level, technology transfer and investments in industrial projects in the customer's country. Failure to meet offset obligations may result in the application of penalties and, in certain cases, might prevent the Group from participating in contract award procedures in the countries concerned.	The Group manages offset risks by means of appropriate analyses carried out from the offering phase within the project teams, which also appoint an Offset Manager for the division concerned. It has also set up a dedicated central organisational unit to guide and supervise offset activities.
A substantial amount of consolidated assets is attributable to intangible assets, goodwill in particular	The recoverability of amounts recognised in intangible assets (including goodwill and development costs) is linked to the implementation of future plans for the relevant businesses and products.	The Group implements a policy of monitoring and limiting amounts capitalised under intangible assets, with specific regard to development costs, and carries out ongoing monitoring of performance under scheduled plans, taking any necessary corrective action in the event of unfavourable trends. These updates affect the expected cash flows used for impairment tests when assessing the fairness of the values recorded in the financial statements.
The Group's debt shows high level and could have an impact on the Group's operational and financial strategies	The debt level, beside impacting the performance as an effect of the related borrowing costs, could affect the Group's strategy, limiting its operational flexibility. Potential future liquidity crises could also restrict the Group's ability to repay its debts.	The amount of financial measures adopted (a new Revolving Credit Facility of €bil. 1.8, a Term Loan of €mil. 500, the EIB loan of €mil. 300) has ensured an important source of medium-term liquidity at a time of high volatility on capital markets, meeting the working capital requirements, in which collections are highly seasonal in nature. The measures adopted are adequate and meet the Group's short- and medium/long-term financial requirements.

MAJOR RISKS		ACTIONS
The Group's credit rating is also linked to the opinions of the credit rating agencies	All Group bond issues are given a medium-term financial credit rating by the international agencies Moody's Investors Service (Moody's), Standard and Poor's and Fitch. A possible downgrade in the Group's credit rating, even with no effect on the existing loans, could severely limit its access to funding sources, as well as increase its borrowing costs for existing and future loans, which would have a negative impact on the business prospects, performance and financial results.	The Group is actively engaged in reducing its debt as required by the Industrial Plan. The Group's financial policies and careful selection of investments and contracts involve being constantly alert to maintaining a balanced financial structure. In seeking out strategies to pursue, the Group always takes into account the potential impact such could have in the indicators used by the credit rating agencies.
The Group realises part of its revenues in currencies other than the currencies in which costs are incurred, exposing it to the risk of exchange-rate fluctuations. A part of consolidated assets are denominated in US dollars and pound sterling	The Group reports a significant portion of revenues in dollars and pounds, while costs can be denominated in other currencies (mainly euros). Accordingly, any negative changes in the reference exchange rate might have negative effects (transaction risk). Moreover, the Group made significant investments in the United Kingdom (where Brexit is expected to take place on 29 March of 2019) and in the United States of America, which might have a negative impact on the Group balance sheet and income statement due to the translation of the financial statements of foreign investees (translation risk).	The Group continuously applies an organised hedge policy to combat transaction risk for all contracts using the financial instruments available on the market. Translation differences arising from exchange differences are partially mitigated through the bond issues in place in the same currencies. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the central level. Despite the uncertainty that characterises this phase, the Group is actively engaged in monitoring and, as far as possible, limiting such effects as may arise from the United Kingdom's exit from the European Union.
The Group is a sponsor of defined-benefit pension plans in the UK and the US and of other minor plans in Europe	Under the pension schemes reserved for employees who mainly operate in the United Kingdom and in the United States, the Group is required to ensure a specific future retirement benefit level for employees participating in the plan. In said countries the pension funds in which the Group participates invest resources in the plan assets (stocks, bonds, etc.) that might not be sufficient to cover the agreed-upon benefits. If the value of plan assets is less than the agreed-upon benefit level, the Group duly recognises the amount of the deficit among liabilities, with consequent adverse effects on its financial position, results of operations and cash flows.	The Group monitors pension funds' investment plans and strategies on an ongoing basis and takes immediate deficit corrective action when necessary.

Leonardo and sustainability

Leonardo integrates Sustainability and Innovation into all business sectors to create long-term value and generate positive impacts in financial, social and environmental terms for the enterprise and all of its stakeholders. To achieve these objectives Leonardo transforms and enhances any financial, human, operating and technology resource in its hands through added-value processes, thus enhancing the skills and ability of its people, as well as investing in R&D and searching for new solutions to reduce environmental impact of its operations and products.

Leonardo, as a global player in the sectors of Aerospace, Defence and Security, contributes to achieving four objectives laid down by the United Nations Organisation in the 2030 Agenda (Sustainable Development Goals, SDG): the dissemination of technical and scientific education and innovation culture, the creation of quality jobs, industrial and social development in local areas, the strengthening of SMEs' chain of production and fight against climate change.

To bear witness to its commitment to Sustainability, Leonardo was confirmed in 2018 in the Dow Jones Sustainability Indices, the major international stock exchange indices for the valuation of corporate sustainability, the eligibility for inclusion process of which is managed by the rating agency RobecoSam. Furthermore CDP, which is a non-profit organisation that operates the largest platform for the publication of information about greenhouse gas emissions, confirmed a score equal to "A" (on a scale from "F" to "A") in 2018.

The development guidelines, the Sustainability objectives, together with any action and initiative taken during the year, are described in the Sustainability and Innovation Report 2018, which also constitutes a consolidated non-financial Declaration pursuant to Legislative Decree no. 254 of 30 December 2016 and which is prepared on an annual basis, according to the guidelines of the Global Reporting Initiative (GRI) and of the framework of the International Integrated Reporting Council (IIRC) and assured by KPMG.

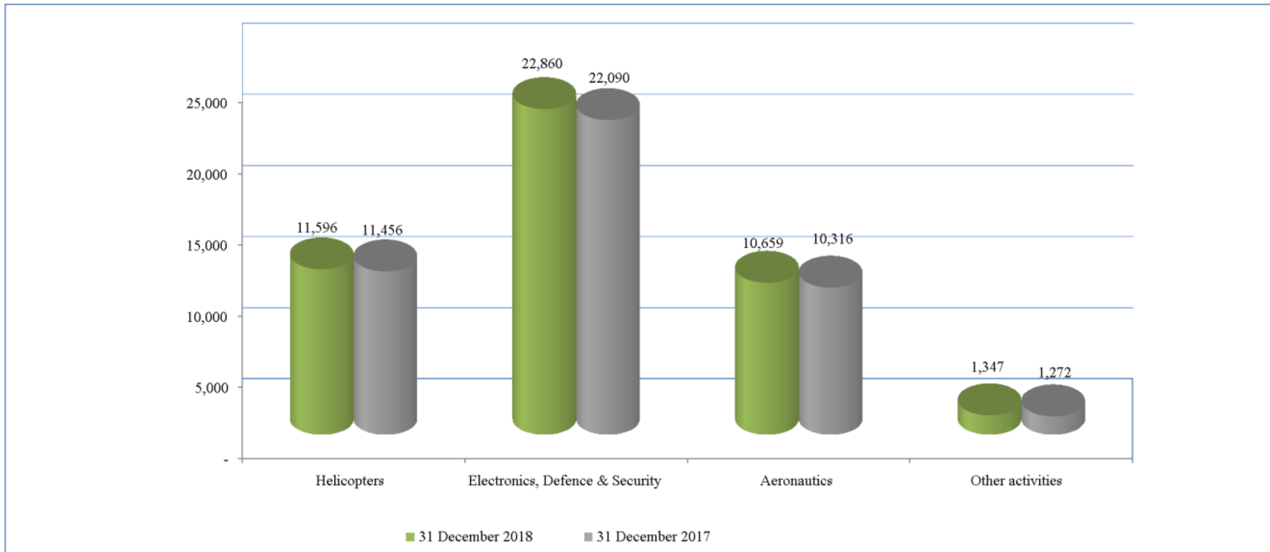
The following paragraphs report a description of the activities relating to human resources, environment and R&D.

Human resources

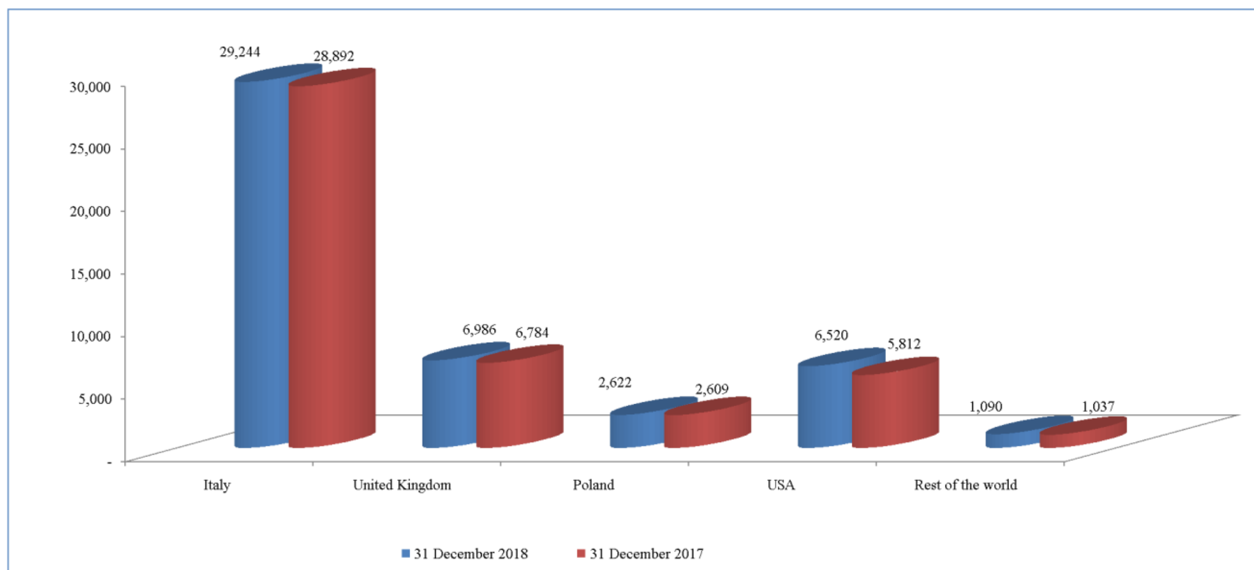
Employees

The Group's workforce at 31 December 2018 was equal to 46,462 employees, 98% of which based in domestic markets (Italy, the UK, the USA and Poland).

Below is the breakdown of human resources by sector:



Below is the geographical distribution of employees (about 63% of which working in Italy):



Organisation

The year 2018 was a very intense year as regards organisation, which saw the strengthening of the "One Company" model through the creation of new central units and the definition of the organisational structures for those already existing. Specifically, the most significant guidelines in terms of organisation concerned:

- The design of the structure of the Chief People, Organization and Transformation Officer Organisational Unit;
- The creation of the new first-level Chief Procurement and Supply Chain Officer Organisational Unit, aimed at laying down the Group's procurement guidelines and strategies and coordinating any competent function operating at a Corporate and divisional level;

- The establishment of the Production and Programme Management Optimisation Organisational Unit reporting to the CEO, with the responsibility of delivering a medium- to long-term competitive vision of Leonardo's manufacturing structure and industrial expertise, in coordination with the Divisions;;
- The creation of the new Unmanned Systems Organisational Unit, with the aim of developing Leonardo's strategic vision of remote control systems;
- The creation of the Italian Institutional Relations organisational unit, reporting up the chain of command to the Chairman and under the coordination of the CEO in terms of functions;
- The creation of the Chief Stakeholder Officer Organisational Unit with the aim of promoting Leonardo's brand, products, services and capabilities, as well as overseeing the national and international media system, managing relations with investors, rating agencies and financial analysts, and contributing to the development of the Group's Sustainability strategy;
- The creation of the Chief Strategy & Innovation Officer Organisational Unit into which the Innovation & Technology Governance and Strategies & M&A Organisational Units were merged.

In addition, the Marketing & International Strategic Campaigns and Customer Support, Services & Training departments were added to the Chief Commercial Officer Organisational Unit, into which the Domestic and EU Financing Programs Organisational Unit was also merged. The Board of Directors approved the incorporation of Leonardo International S.p.A. in order to streamline, reorganise and develop the Group's international footprint and operations from the "One Company/One Voice" perspective.

The new Anti-Corruption Organisational Unit was established and the Crimes, Ethics & Integrity Organisational Unit was structured within the Legal, Corporate Affairs & Compliance department, the name of which was then renamed Legal, Corporate Affairs, Compliance, Crimes & Anti-Corruption.

At divisional level, major first-level organisational changes were made within the Airborne & Space Systems, Helicopters, Aircraft, Aerostructures and Security & Information Systems divisions[1] (while also appointing the respective new Heads of the latter three Divisions) during the year.

Finally, on 27 September 2018 the Board of Directors resolved to create the new Cyber Security Division, into which the two Cyber Security & ICT Solutions and Homeland Security & Critical Infrastructure business lines were merged, which pertain to the Security & Information Systems Division's work.

On 13 December 2018 the Board of Directors approved the creation of the new Electronics Division, in order to restructure Leonardo's operations within the defence and security electronics sector and to face technological and competitive challenges therein. The new Division was added to with the Airborne & Space Systems, Land & Naval Defence Electronics, Defence Systems Divisions and with the Traffic Control

[1] They were subsequently merged into the new Electronics and Cyber Security Division.

Systems and Automation Systems business lines, pertaining to the Security & Information Systems Division[2].

In terms of company rules, following a number of organisational changes that occurred during the year, updated versions were issued for:

- Organisational and Control Model under Legislative Decree 231/2001;
- Whistleblowing Guidelines.

After the development of the areas of responsibility of the Chief Commercial Officer (CCO) Organisational Unit, the following company regulatory documents were issued:

- Guidelines on Commercial Offers, which lay down principles and rules to govern the preparation, approval and issue of commercial offers;
- Guidelines on Sales Advisors and Promoters, which lay down principles and rules to govern their recruitment and selection, as well as the execution and management of related contracts on the part of Leonardo S.p.a..

Following the creation of the Central Chief Strategy and Innovation Officer (CSI) Organisational Unit and the redesign of the areas of responsibility, the following company regulatory documents were issued:

- One Company Information Flow Management Procedure concerning new projects, which lays down the general principles, roles, methods of operation and information flows concerning the identification, analysis and evaluation of new projects of Leonardo S.p.A., in order to ensure uniform and efficient management of relations with industrial partners;
- Information Flow Management Directive concerning new projects, which regulates the same process with specific regard to Subsidiaries;
- Procedure adopted by the Board of Directors for the management, processing and disclosure of inside and confidential information of Leonardo S.p.A. and the management of the Insider List.

Finally, by issuing a specific procedure, general principles and methods of operation were laid down for the administrative and financial management of accounting documents (inter-division memos or memos) relating to business relationships maintained by Leonardo S.p.a. at divisional level and, by issuing a specific directive, a risk management process was set out for programmes and projects controlled by Subsidiaries, with the development of reference principles, general rules and roles.

Management and Development of Human Resources

2018 saw the implementation of the projects and processes aimed at delivering the new People Strategy and the guidelines provided by the Company's Top Management, consistently with the analysis and reviews that had already been started in the previous year.

[2] Following the creation of the new Electronics and Cyber Security Divisions, the Airborne & Space Systems, Defence Systems, Land & Naval Defence Electronics and Security & Information Systems Divisions ceased to exist.

Performance & Development Management (PDM) – In 2018 there was the third edition of the annual process for the appraisal of the performance which, in a univocal, traceable and transparent manner, measures the results achieved by the employees involved. The resources concerned were 24,429 (in divisions and subsidiaries, Leonardo MW, Telespazio, Leonardo Global Solutions and Sogepa) among executives, middle managers, office workers and, for some foreign companies, blue collar workers, with a level of participation higher than 98% for the third consecutive year. The process allowed the resources involved to hold a structured feedback meeting with their manager to discuss the appraisal made in the previous year and the allocation of objectives for the current year. The staff members subject to appraisal had the opportunity to give their opinion on the process and 91% confirmed that it was useful. The main innovation in 2018 concerned the introduction of the new Leadership Framework model, which is described below, in relation to which the resources were appraised for their competencies.

People Review – A new process of analysis and appraisal of resources was conducted for each Division/Company and Central Structure, with the aim of mapping part of Leonardo’s population of particular interest, involving 1,115 employees, including executives, middle managers and office workers. "High potential" resources were also identified through this process, equal to 48% of the total population basis under analysis, and Future Leaders were selected, some of whom were subsequently involved in the first edition of the "Accelerate" programme.

Making the best use of human resources – All the appraisals that have been carried out supported and guided the operational and organisational methods for making the best use of human resources during the year, including the appointments of new Executives, the Salary Review policy and the Awards for excellence dedicated to 2018 Top Performers. Additionally, at the end of 2017 top management started a cycle of meetings with the most valued resources in order to listen to their point of view and involve them to a greater extent in the challenges facing the Group.

Succession Planning – In 2018 the plans for succession to the first-level organisational positions were updated and a similar process was conducted to select candidates for succession to organisational positions up to the third level with the aim of ensuring continuity of business in Divisions and Subsidiaries, starting from a study of the future challenges and from the determination of the progressive replacement procedures and any related action.

Compensation systems – The Board of Directors’ meeting held on 27 March 2018 approved, and then presented to the Shareholders’ Meeting, the remuneration policy for 2018 and subsequent financial years, which is available in the Company’s Remuneration Report that is summarised below.

The short-term incentive system (MBO) is aimed at encouraging the achievement of the annual targets set out in the Company's budget and in line with the industrial plan for the relevant year; it is also structured in such a way as to make the link between remuneration and the degree of achievement of annual targets more transparent. For this purpose the targets are set with reference to quantitative indicators, which are based on

and are consistent with strategic and industrial priorities, measured according to preset and objective criteria. In addition, targets have been included which specifically relate to sustainability/ESG (Environmental, Social and Governance) issues.

As to the long-term incentive component, the new plan approved by the Shareholders' Meeting on 15 May 2018 for the 2018, 2019 and 2020 cycles, based on essential principles in line with the Corporate Governance Code, was implemented in 2018, in accordance with the guidelines on which the three cycles of the long-term incentive plan had been based after being approved in 2015. The plan is reserved for a pool of key managers, who are selected on a priority basis from among the positions who have the highest impact on the Company's business in the medium- to long-term in order to ensure that there will be increasingly better alignment with shareholders' expectations and the best market practices.

This plan is based on the use of financial instruments for top management, Managers with Strategic Responsibilities and other Top Executives; as regards other plan beneficiaries, the bonus is split in proportions between financial instruments and cash which differ according to the different levels of responsibility, their contribution to the Company's results of operations and their position in its organisation.

The performance targets on which invectives are based concern the Total Shareholder Return (TSR) of Leonardo compared to a panel of enterprises (50% of the bonus), the Group's Net Debt (25% of the bonus) and the average Return On Sales (25% of the bonus). The entitlement to incentive pays will accrue at the end of the three-year vesting period for all the beneficiaries who will still be working for the Group as at the date of payment (within 120 days from the approval of the financial statements of the last year of the relevant three-year period), except for a restriction on the availability of the shares to the Top Management for 12 months. At the end of the vesting period and after it has been seen that the objectives assigned have been attained, incentives are expected to be paid.

These remuneration policies have been drawn up having regard to the Group's current organisational structure and their application will be constantly superintended, with regard to the gradual implementation of the Industrial Plan and the review of the organisation. For more details concerning the remuneration policy, reference should be made to the Company's Remuneration Report.

The architecture of the Compensation Systems' structure for the 2019 financial year will be submitted to the attention of Leonardo's corporate bodies, which will be called upon to approve it for subsequent implementation in accordance with the procedure laid down in current corporate governance rules.

In 2018 the remuneration and incentive policies were mainly aimed at attracting and retaining resources with high professionalism and technical and management skills. As a whole, the levels of remuneration were managed in accordance with the principles of transparency and merit, so as to ensure the pay progression to reflect not only the complexity of the positions held and of the duties assigned, but also the outcome of the appraisal processes applied. The management of the fixed component was aimed at ensuring a uniform and

consistent pay so as to guarantee the application of equity principles in internal practices and adequate competitiveness levels with respect to the market.

Enhancement of corporate culture and training

Leonardo Leadership Framework - As part of the process of change undertaken by the Group, the need emerged to share a set of values, skills and behaviours that could constitute a milestone for each Leonardo resource. This led to the creation of Leonardo's Leadership Framework, a set of attitudes and tools that must be part of the professional and personal expertise of every resource working for the Group, which will translate into support to corporate growth. It is a model to be pursued and on the basis of which the resources' work is measured within the scope of the Performance & Development Management, the process for the individual appraisal that involves all employees.

The Leadership Framework was the subject of an in-depth study at the Executive Convention which was held at the Auditorium della Tecnica in Rome on 11 October 2018 and which involved all Group Executives, thus giving rise to a cascade communication process that involved all Leonardo resources.

Accelerate – The international Training and Development programme was launched in order to support the dissemination of the values and competencies of the Leonardo Leadership Framework, in line with the HR Management and Development processes, and which involved 63 key resources, from all Leonardo Divisions and from the main areas in which it operates (Italy, UK, Poland, USA), in the first edition that took place in 2018. The course, aimed at bringing about cultural change and speeding up integration, innovation and knowledge sharing processes, delivered more than 6,000 training hours involving classroom and online learning, project works and team coaching, a method in support of people that is regarded by Leonardo as particularly appropriate to accompany their growth. The activities carried out have enabled the creation and consolidation of a community of Group Ambassadors who have also been involved in the "We are Leonardo" video; this is a project that has given shape to the confrontation that took place between the top management and the resources involved in the initiative, with the aim of delivering the key messages to all employees through the use of various internal communication tools.

Survey - An online Survey dedicated to all Leonardo employees was designed at the end of 2018 and launched at the beginning of the new year in order to monitor how effectively the new Leadership Model has been communicated and delivered to the entire company population and to involve people even more in the process of change.

Innovation Award - Leonardo also posed the Innovation Award challenge to its employees in 2018 with the aim of promoting a culture of Innovation within the Group. The programme was revised on the basis of the objectives set out in the 2018-2022 Industrial Plan and involved about 750 projects, up by 8% compared to 2017. The fourth edition of the Innovation Award, which also involved students, recent graduates and PhD students from the faculties of engineering, mathematics, physics, computer science, chemistry and economics, was dedicated to universities, including foreign universities, and recorded more than 24,000 contacts on the dedicated web platform. The winners from inside and outside the Group were awarded during

the Innovation Day event that was held at the City of Science in Naples on 28 November 2018. The reward consists of monetary prizes and traineeships at Leonardo’s organisations for young university students.

Relations with Universities and Schools - Leonardo's commitment to spreading the culture of innovation, as well as getting younger generations familiar with study programmes and technical and scientific disciplines and, ultimately, enhancing the areas in which it operates, is reflected in the important network of active collaboration with major Italian universities and schools. An ongoing dialogue with universities allows the Company to select, among other things, the best professionals who may be able to support the achievement of its business objectives, thus helping young people to enter the labour market, through actions on their curricula and courses aimed at reducing any mismatch between supply and demand. There are many forms of collaboration aimed at Recruiting and Employer Branding, such as those in which Leonardo participates in the Career Day events held by the best Universities, through the coordination of a network of the Group’s HR teams that offer young people opportunities for work orientation and on-the-job training based on traineeships and internships. In 2018 Leonardo’s participation in these events allowed a pool of about 30,000 young university students to be involved. The signing of specific agreements also made it possible to make the curriculum databases provided by the Polytechnic University of Milan and by the AlmaLaurea university consortium available to the Group’s HR teams responsible for selection.

In 2018, work also continued on Leonardo’s participation in the ITS (Istituti Tecnici Superiori) secondary technical school project for the training of technology professionals, within which two-year post-secondary education courses are delivered by our engineers who are directly involved in classroom training for young people.

Competence management system - In 2018 Leonardo completed its Professional System, which provides a cross-sector view of the Group's professional and trade skills, as well as of related key activities and competencies, in order to better direct people growth and development processes. Accordingly a self-appraisal campaign was launched in July in which employees had the opportunity to measure their performance within a database of about 500 professional skills, while also taking account of their past experience and interests. The self-assessment process outputs are an important prerequisite for helping the company staff to engage better in their training and job-rotation programmes, as well as for entering and quantifying all professional skills in the systems in use throughout Leonardo and make them searchable.

E2-PM Excellence in Execution in Project Management - A new edition of the programme has been launched, which has been redesigned in blended mode and based on "flipped learning": the conventional notion of classroom-based learning is inverted with respect to traditional teaching and students acquire knowledge online, followed by class-based group sessions. The objective is to maximise effectiveness and flexibility of use. The edition launched in 2018 will continue until mid-2019 and will involve about 900 people working in project management. The objective is to strengthen skills, in support of a strong focus on execution (in line with Leonardo's Leadership model) and of the adoption of Group practices in the

management of contract risks and working capital. In this edition a specific focus was placed on the ability to manage projects as Prime Contractor.

Compliance Council - The third edition of the annual event dedicated to Business and Trade Compliance was held with the aim of raising more awareness from the population involved in the relevant processes, confirming a "zero tolerance" policy towards any behaviour in conflict with the values set out in the New Leadership Model, first of all integrity, which are the basis of a responsible business management scheme. There were 770 participants at Group level, for a total of 4,620 hours of training delivered.

Security – Work continued on the Security Awareness project, with the aim of raising awareness of Security issues and promoting appropriate behaviour on the part of all Leonardo staff members. In 2018 the HRevolution platform was used to launch the Company information classification module: it followed on from the first course provided in 2017 on the matter, providing detailed information on the classification tools made available by the Company and on how to use them correctly in performing work activities. Another step in the project is the online Travel Security course, which focuses on the importance the Company gives to protecting the security of employees who travel or expatriate in foreign countries.

Teambuilding for Professional Families and Divisions – During the year work continued on Teambuilding activities with a strong dose of experience and interaction, which help the participants to integrate and engage themselves in order to improve the operational effectiveness of their working groups. This course, which has already been tried out with some Professional Families and Divisions, has been made available “in the catalogue”.

Industrial Relations and Labour Regulations

In continuity with the previous financial year, during 2018 observation of labour law regulations – on a system basis at Group level – took the form of the normal monitoring of the production of Italian and EU laws, also taking account of the most recent case law rulings issued on the merits and by the Supreme Court.

In the field of its Industrial Relations, Leonardo carried out its plan for consulting and informing the unions holding the customary annual Strategy Observatory and information meetings on the performance of the economy, technological and market scenarios and employment and investment trends. The following objectives were achieved in bargaining:

- The execution of trade union agreements for the use of Fornero early retirement schemes for a maximum number of 1,100 employees, including Middle Managers up the chain of command and 65 executives in the two-year period from 2018 to 2019, in order to bring about the necessary generational change and the strengthening of the wealth of the Company's expertise, including through the recruitment of new specialists;
- The introduction of smart working, as part of welfare schemes aimed at achieving a good balance between private and working life (work-life balance) of the Company’s people. In particular, under the agreement of 10 April 2018, a pilot project was launched which was aimed - on a voluntary basis and subject to the Company's discretionary evaluation - at a first group of 200 employees at national level,

who will be allowed to work for two days a month, which can be increased up to four days, at their home or at company hubs closer to home, for a period of 12 months. In addition to the above pilot project delivered at national level, an experimental scheme was applied at local level for the employees working at the Genoa site, aimed on the one hand at limiting the inconvenience suffered following the collapse of the Morandi bridge and on the other at ensuring the normal course of production. Dedicated online training was delivered to all colleagues participating in the Smart Working scheme, consisting of a multimedia course on regulations and behavioural practices underlying an initiative aimed at improving the employees' wellbeing and at achieving a better balance between their working life and personal needs, while supporting organisational efficiency and productivity;

- In 2018 the general structure was confirmed for the Performance Bonus referred to in the One Company agreement and "proximity indicators" were set at Division/individual business unit level. Similarly, the Target Bonus system for "High Level Professionals" was confirmed;
- The review of the supplementary health scheme, wholly financed by the employer and covering the employee's families, which was started at the end of 2017 for personnel up to Grade 7 and was concluded in June 2018 in signing a trade union agreement for the Group's Middle Managers;
- The maintenance of some key schemes regulated under the 2nd-level supplementary agreement within negotiations with the trade unions representing executives.

As regards Leonardo's activities in the institutional sphere, it continued with its commitments in employers' associations, on one hand by taking up the opportunities offered by the positions it had taken at various levels and on the other hand by participating in theme-based inter-company working groups whose aims were to examine new laws and the line which case law is taking in the matter and to pool any issues that emerge when laws are applied.

Group Data Protection & ICT Quality

Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016, which is known by the acronym "GDPR" and which came into full force on 25 May 2018, provides a compliance framework for data protection in Europe.

Unlike the Italian Privacy Code (Legislative Decree 196/2003), the Regulation is based on the principle of accountability of companies and more in general of all organisations that process personal data.

The full entry into force of the GDPR during 2018 led Leonardo to carrying out an important plan to recognise the impacts of the new legislation on its business activities through:

- the evaluation of Leonardo's compliance with the requirements laid down in the EU Regulation through the assessment of its organisational structure and document system, as well as the identification of the main areas to be developed for compliance purposes;

- the identification of the "gaps" between the pre-existing situation and the new regulatory requirements;
- the implementation of the plan of compliance measures in terms of organisation and technology, with the definition of the main processes, policies and any required technical and operational guidelines.

The activities carried out involved ten areas of compliance, which are summarised below:

1. appointing the Data Protection Officer and establishing the Group Data Protection & ICT Quality organisational unit with the responsibility of monitoring the correct application of the regulations, ensuring compliance with the relevant requirements at group level, serving as a contact point and providing specialist support to all stakeholders inside and outside the organisation in any and all data protection issues applicable to Leonardo;
2. reviewing and managing the register of personal data processing on an ongoing basis; according to the GDPR, the register aims at reporting personal data processing operations, irrespective of whether they are carried out at Leonardo or outsourced to third parties (data processing companies) and providing various information on processing, as well as on the legal basis, purposes, transfers of personal data to foreign countries, protection measures, categories of processed data and recipients;
3. reviewing and updating any and all disclosures in order to guarantee the right of all interested parties to receive information on the processing of their personal data in a clear and transparent manner and, where necessary, arranging for the collection of their consent;
4. preparing in-house processes required to ensure the exercise of rights for data subjects, such as: the access to their data, as well as their cancellation, opposition, portability and any other right provided for in Articles 15 to 22 of the GDPR;
5. setting out a process for the management of personal data breaches, including: raising employees' awareness of those security incidents that may result in the destruction, loss, modification and unauthorized disclosure of personal data; risk assessment by the heads of corporate functions and security departments and the DPO; the adoption of security measures on the part of said officers to mitigate any potential damage caused to data subjects resulting from personal data breaches; finally, the methods of communication and notification to the competent authority within the time limits set out by law;
6. carrying out activities in support of the application of the principle of accountability, i.e. the obligation of responsibility on the part of Leonardo’s staff members who process personal data to implement concrete compliance measures and prepare the relevant documentation to ensure compliance with the principles applicable to the processing of personal data and the adoption of any appropriate technical and organisational protection measures;

7. adopting data protection measures aimed at ensuring a level of security appropriate to the risks of destruction, loss, modification and unauthorised disclosure;
8. adopting Privacy by Design/Default measures to fulfil the obligation to implement, in each personal data processing operation, any appropriate measure from the design stage (privacy by design) and by default (privacy by default) based on the degree of criticality of the data processed;
9. implementing a method for the execution, where required, of a Data Protection Impact Assessment (DPIA) for the preliminary evaluation of the impact on the processing of personal data, including an assessment of risks and security measures;
10. setting out the legal approach and documentation required for the transfer of data to foreign countries, aimed at ensuring the protection of personal data, especially when it is necessary for the data to be transferred to non-EU countries.

The Environment

The Group demonstrates its commitment through the adoption of tools and the implementation of actions, while being attentive to safeguarding the common good and the environment and maintaining high standards of efficiency and effectiveness in management and operations, in compliance with rules, laws and regulations and in line with the expectations of its stakeholders.

The multiplicity and complexity of Leonardo's activities require it to adopt a model for the identification, assessment, management and minimisation of environmental risks[3] which operates on various fronts and at various levels. For this reason risk management tools created at head office level, including the system for allocating responsibilities, are supported by additional technical and operational solutions conceived on the basis of the specific production processes carried out at each site, the company structure and the context of the locality in which it is situated.

Leonardo's Organisational, Management and Control Model (Legislative Decree no. 231/2001, as amended and supplemented), conceived in order to ensure the protection of the environment in addition to compliance with its provisions, and the Health, Safety & Environment (HSE) Integrated Policy are the high-level instruments which lay down Leonardo's approach and strategy guidelines in environmental and health and safety matters. These instruments are made operational and applied by the Divisions and the Group Companies through Operational Procedures and Instructions.

According to Leonardo's business model, operational responsibilities in these matters are entrusted directly to the Divisions, whose duties it is to lay down, on the basis of the particular nature of their processes and business activities, the best and most effective procedures for the operational management of environmental and health and safety issues and to put these procedures into practice. It is very common for Divisions

[3] The concept of risk, with regard to the environment, involves the probability of causing harm to one or more environmental matrices (air, water, soil, subsoil, flora, fauna, human beings and natural habitats) after exposure to a source of risk

voluntarily to adopt Environmental Management Systems (EMSs) and Occupational Health and Safety Management Systems (OHSMSs), which are certified according to the international standards ISO 14001 and OHSAS 18001, respectively, and which, on one hand are a fundamental instrument for the identification, management and minimisation of risks and on the other hand enable them to define and pursue improvement targets and monitor the extent to which these targets have been attained.

For manufacturing processes in which hazardous substances are used under controlled conditions but have a potential impact on the environment, the procedures for identifying, assessing and managing site-specific environmental risks are not only laid down and carried out using any Management Systems on site but are governed by current regulations:

- 11 Leonardo sites are subject to the Integrated Pollution Prevention & Control (IPPC[4]) Directive, which suggests the adoption of best available techniques (BATs) in designing, managing, servicing and decommissioning industrial processes. The Leonardo sites which are subject to the Directive adopt BATs in order to maintain a high level of protection of the environment and prevent pollution while ensuring a high standard of efficiency at the same time;
- 4 Leonardo sites are graded as Major Accident Hazard (MAH[5]) and must follow the proper management and operational protocols for reducing the risk of accidents to a minimum and managing any health and safety or environmental emergencies that arise;
- 19 Leonardo Italian sites hold a Single Environmental Authorisation (SEA[6]).

Finally, environmental Audit Programmes are also drawn up and observed in the framework of the management and enhancement of Leonardo's real estate assets. Their aims are to investigate and assess environmental risks and apply monitoring and control instruments.

In 2018 Leonardo Global Solutions conducted:

- 23 audits at the sites owned or used by Leonardo Global Solutions and at sites owned by Leonardo, as required by the annual Audit plan. After each audit carried out, the Heads of Operating Companies and Divisions using the sites were asked to provide the related follow-up plans, laying down the actions to be taken to resolve the critical issues reported and the related timing for implementation;
- 9 audits at sites owned by Leonardo;
- 25 environmental due diligence audits, relating to the contribution of real estate assets from Leonardo to Leonardo Global Solutions and to acquisitions.

[4] Sites falling within the scope of application of Directive 2008/1/EC and Directive 2010/75/EU.

[5] Directive 2012/18/EU (Seveso III), on the control of major-accident hazards involving dangerous substances.

[6] This is the measure provided for in Presidential Decree 59 of 13 March 2013 and issued at the request of the party concerned, which incorporates various environmental authorisations required by the sector regulations into a single one.

Furthermore, 25 audits were conducted to check compliance with the regulations in force, within the Environmental Management System (EMS) according to UNI EN ISO 14001:2015, which is being implemented by Leonardo Global Solutions.

Relevant environmental issues

Leonardo handles key environmental issues in compliance with international, EU and Italian laws in the matter and, where applicable, by laying down and following specific Operational Procedures and Instructions to minimise the environmental impact generated and to reduce waste.

Below are specific issues that are worthy of mention:

- **Waste**. The quantities of waste produced by Leonardo during the year were 4.5%[7] higher than in 2017, mainly due to an increase in production volumes at some sites; the amount of recycled waste out of the total quantity was 52%. Identifying ways to reduce the amount of waste produced, making efforts to improve waste sorting procedures and increasing the amount of waste for recycling are among the objectives laid down in Leonardo's Health, Safety & Environment (HSE) Integrated Policy;
- **CO_2 Emissions**: Leonardo has been engaged for some time in a process of reducing its CO_2 emissions, which are reported and analysed by means of the Carbon Management System, the system developed on a voluntary basis in line with the provisions laid down in the Greenhouse Gas Protocol. From a regulatory point of view:
  - no. 10 sites located throughout Italy are covered by the application of the Emission Trading Directive[8], the instrument for implementing the Kyoto Protocol for reducing greenhouse gas emissions;
  - no site falls within the scope of application of the Aviation Emission Trading Scheme (ETS)[9], which extends the European CO2 emission trading system to certain flight activities.

  All the sites covered by the scheme received certification of their emissions by a body accredited by the Ministry for the Environment, Land and Sea.
- **Ozone-depleting substances and fluorinated greenhouse gases (F-gases):** ozone-depleting substances (ODS) and fluorinated greenhouse gases, where they are present, are periodically monitored and investigated. The amount of ozone-depleting substances on Group sites is constantly falling owing to the removal and decommissioning programmes carried out by the Group, in line with the EU regulations.

[7] The value does not include: quantities of waste produced by JVs.

[8] Directive 2003/87/EC, establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

[9] Directive 2008/101/EC amending Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community.

- **Contaminated Sites**. From the point of view of operations, an actual example of the adoption of a responsible and sustainable approach to the environment is the management of contaminated sites (environmental surveys, securing sites, characterisation, risk analysis, reclamation and environmental remediation), which is directly carried out by the Divisions/Subsidiaries of Leonardo or through Leonardo Global Solutions under specific contracts for the management of reclamation procedures and with the help of persons with specific knowledge and expertise aimed at finding the best technical and operational solutions. 20 reclamation procedures (including those that are "suspended" or being monitored *post operam* pending their completion) were in progress in the Leonardo Group in 2018; two of these procedures were formally ended and one procedure was opened during the period between the end of 2017 and 2018. In this context, Leonardo has not been found definitively liable for causing environmental damage and there have been no definitive penalties imposed on Leonardo for environmental violations.

Energy Management

In 2018, Leonardo started the new "Smart Facilities" project, aimed at the integrated management of the energy and maintenance issues of the Group's plants. The project is intend to further boost efficiency of consumption and energy expenditure and, more in general, to increase the plants' operating performance through the introduction of innovative management methods. From an energy point of view, activities will be fully operational during 2019, and the main areas of action will concern:

- Monitoring of consumption: about 70% of energy and gas consumption (as regards operations in Italy) will be monitored in real time, based on centralised platform that collects energy information about the production and general plants of the fifteen most energy-consuming Leonardo sites. The platform, which was installed in 2018, was initially equipped with a network of about 1,000 meters for electricity, gas and water and will allow the method of performance analysis to be standardised and the regulatory requirements of Legislative Decree 102/2014 to be complied with;
- Absorption analysis: through the implementation of statistical algorithms, it will be possible to analyse the factories' consumption in detail, in order to take management optimisation actions and launch investment projects, while also considering the installation of efficient systems for the production of energy on one's own account and from renewable sources. The analysis of absorption will also include on-site energy efficiency services, based on detailed efficiency audits on the most energy-consuming sites;
- Investment programme: Leonardo devotes a part of its budget plan to projects that are also supported through the energy savings generated, including all the corresponding system engineering projects under the long-term energy efficiency programme. The projects, which are coordinated centrally, are

prioritised on the basis of technical and financial parameters that enhance energy savings and any associated environmental benefit;

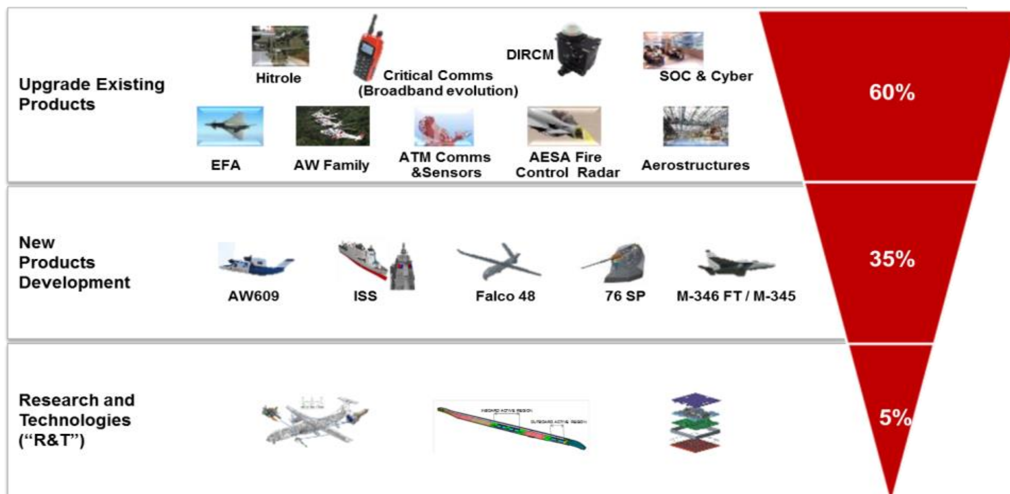
- Procurement management: Leonardo applies a portfolio management model to energy and gas supplies, which is aimed at diversifying market volatility risk and keeping energy supply prices down. Leonardo buys electricity produced indirectly from renewable sources thereby adhering to the Guarantee of Origin regime on a voluntary basis. Furthermore, suppliers are selected by assessing whether they comply with some sustainability requirements, such as the possession of specific environmental certifications.

Research and Development

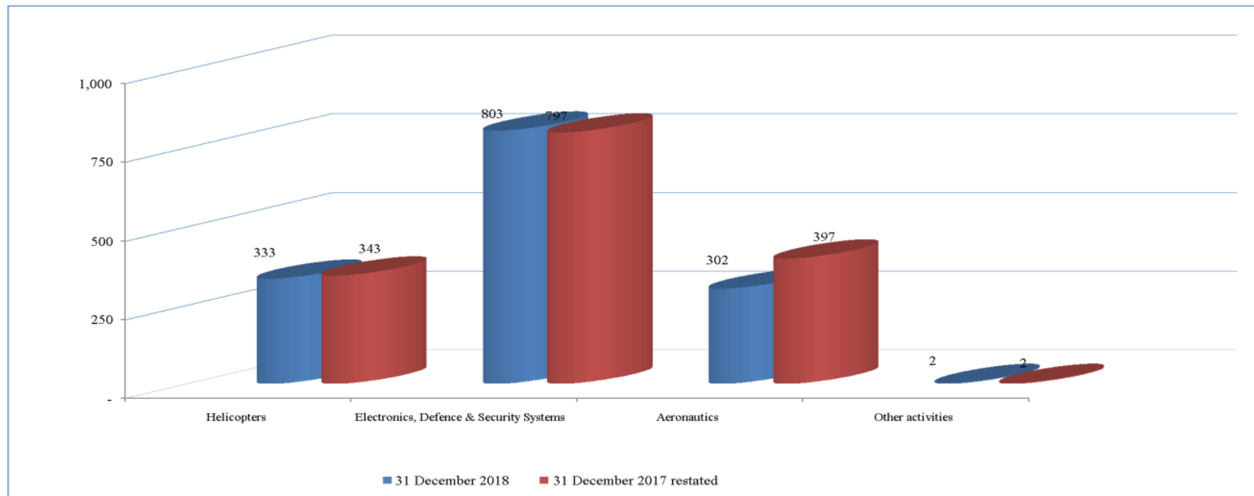
In line with customers' requirements and the vision and objectives of its institutional stakeholders, Leonardo continues investing every year in R&D in order to support the refinement and progress of its product portfolio and make it market competitive and remunerative for the company itself.

There was a constant balance in the R&D work Leonardo did in 2018 among technological research, both strategic and innovative and with medium- to long-term time horizons, the development of new products and the improvement of existing products.

The planning and constant balancing of this work help reduce the risks related to developments, thereby ensuring the incorporation of new technologies into products, so that they may establish themselves on the market in a timely manner and/or remain competitive.



The breakdown of research and development costs by segment is as follows (data in €mil.):



Group Governance of Technologies and Products

In 2018 Leonardo invested about 12% of its revenues in R&D, involving about 9,000 highly qualified human resources (engineering graduates, mostly in aeronautics, aerospace, electronics, mechanics, IT and telecommunications, physics, in addition to specialist technicians). These resources belong to its engineering departments and divisional facilities responsible for both technological and product innovation and are allocated to the following areas of competence: Technology Office Management, Engineering Management, System Engineering, Aeronautic Engineering, Mechanical Engineering, Electronics Engineering, Software Engineering and Verification and Validation Engineering.

In 2018 the following main activities and tools were carried out and used in the Group's Innovation and Technology Governance area:

- Consolidation of the governance process by means of a new method for evaluating investments, both in technology and in product development, including those financed by customers to assist in utilising human and financial resources as well as possible, reducing development times and maximising return on investments;
- Product and Technology Innovation Plans as a process for the control and planning of the Divisions and the Group's technology development requirements. Particular attention was paid to measures of long-term strategic consequence, cross-divisional opportunities and the constant search for key technologies for the Group;
- Technology Assessment, i.e. the use of a proprietary methodology for the ongoing monitoring of the Group's technology portfolio. The result was that more than 400 technologies and competences were picked out, grouped in 14 different areas and assigned a Leonardo technology taxonomy classification, in which the divisions mapped the classification's impact on their products and the relative competitive advantage, in order to put them into a roadmap and make use of them in a Group level growth strategy;

- The identification of core Competences in the "Engineering Professional Family" system started off a process whereby in-house resources were focused more precisely in the various disciplinary areas of "One Leonardo" Engineering: Systems Engineering, Mechanics, Electronics, Software, also supporting the Supply Chain rationalisation processes and framing training schemes for these core Competences.

Funding programmes on Research and Innovation. The Group takes part in regional, domestic and European Research and Innovation projects and funding programmes. The regional and domestic initiatives include the Italian Technology Clusters (Leonardo is among the main promoters and is one of the founding partners of the "National Aerospace Technology Cluster") and the Regional Technology Districts.

In 2018 Leonardo presented about 30 projects for co-financing to support Research & Development work, distributed among European, national and regional tenders.

Within the framework of Horizon 2020, which is a European Research and Innovation Funding programme, Leonardo is an outstandingly important partner in prestigious European projects regarding areas including maritime surveillance, space technologies, the reduction of environmental impact to counter climate change, the development of technologies for the construction of a new generation of more efficient and ecological helicopters and regional aircraft and future generation Air Traffic Management (ATM) infrastructures. In 2018 Leonardo submitted, and was awarded a number of project proposals, mainly in the areas of: Security, Space and ICT.

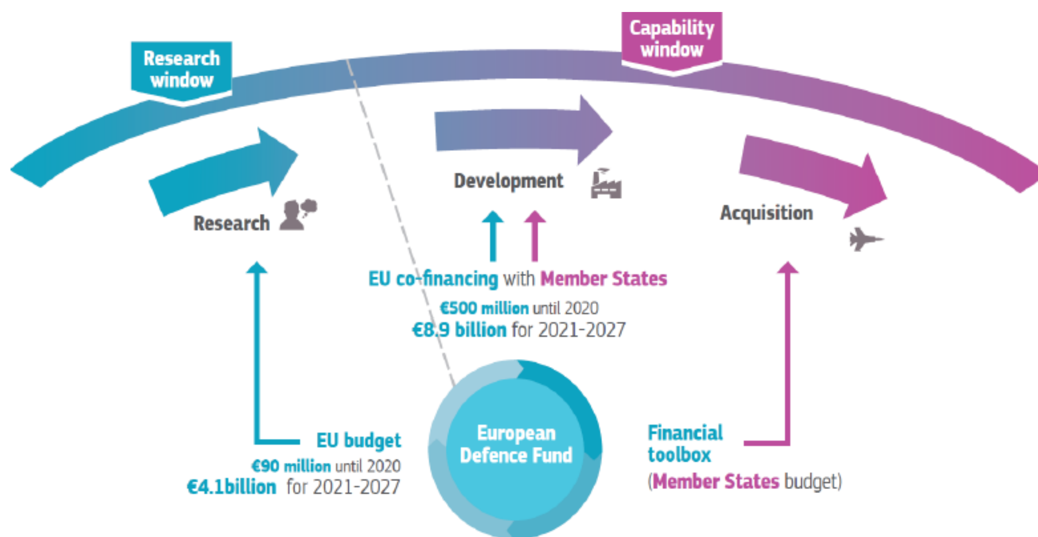
Again at a European level, Leonardo continued to participate in research and innovation efforts through the following Joint Technology Initiatives (JTIs) and Public Private Partnerships (PPPs):

- *Clean Sky 2*, which focuses on the development of the most appropriate technologies to reduce the environmental impact of aircraft;
- *SESAR 2020*, focusing on the development of the new European ATM system, including the insertion of unmanned vehicles in non-segregated airspace;
- *ECSEL* (Electronic Components and Systems for European Leadership) for the development of new components and electronic sensor systems, including software and embedded systems;
- ECSO - (European Cyber Security Organisation) for the protection of the European Digital Single Market and the development of the Cyber Security solutions market;
- 5G (New standards and communication systems based on 5G connectivity) for the creation of future generation communication networks providing a high level of connectivity and associated professional services.

In the Preparatory Action on Defence, Leonardo obtained a contract for the TALOS (Tactical Assault Light Operator Suit) project and, as regards the OCEAN2020 programme, which is the main initiative in this

sector, work was carried out on schedule, preparing the ground for the operational trials expected to take place in 2019.

As part of the objective of developing opportunities in European defence research supported by the future EDF (European Defence Fund) programme, Leonardo assisted the Defence administration in drawing up the themes of PADR (Preparatory Action on Defence Research) 2019-2020, the PeSCo (Permanent Structured Cooperation) programmes led by Italy and the research themes related to the expected launch in 2019 of the branch of the European Defence Industry Development Program (EDIDP), which is a preparatory instrument to the EDF complementary to the PADR.



Finally, work continued on the Research and Innovation initiatives promoted within NATO, the European Defence Agency (EDA) and the Italian (ASI) and European (ESA) Space Agencies.

Leonardo also takes part in many Italian funding programmes and has been very successful with programmes for Education, University and Research Ministry (MIUR, Ministero dell'Istruzione, dell'Università e della Ricerca) projects in 2018. During 2017 Leonardo submitted eight industrial research and experimental development Project Proposals of significant scientific/technical value in the Ministry tender and was awarded seven in 2018.

As regards initiatives by Italian Regional Governments, new security and ICT projects were launched in Liguria, Tuscany and Puglia.

In 2018 Leonardo's role in the Italian Technological Aerospace Cluster (CTNA, Cluster Tecnologico Nazionale Aerospazio) became more influential when it obtained the chairmanship of this organisation. At present the CTNA, one of the twelve institutional bodies working for the MIUR in supporting research in key sectors for the country's growth, combines ten regional aerospace districts whose members cover the entire Italian scene of small, medium-sized and large industries, universities and research centres. Among its

main duties are to monitor scientific and technological expertise throughout the country, integrate regional strategies forming a coherent vision of Italian aerospace activities and foster the formation of partnerships which pursue projects in line with this vision. The CTNA and regional districts' aggregating function is especially precious for small and medium-sized enterprises, which thus have the opportunity to grow in terms of competitiveness and internationalisation, while large companies benefit from the expansion of their production chain. Universities and research centres in their turn bring their scientific expertise into projects, acquire application requirements from the enterprises they work with and enhance the professionalism of their own research workers.

Patents

In 2018 routine portfolio management activities continued, including through the supervision over patent activities of our leading competitors in the Helicopters, Space, Aeronautics, Electronics, Defence & Security Systems sectors, so as to protect the Group's know-how and freedom-to-operate, in key business and emerging technology sectors.

At the end of 2018 Leonardo's Divisions applied to the Italian Revenue Agency for new rulings on access to the income tax concessions for the utilisation of intangible assets in the form of R&D investments, as provided for in the Italian regulations governing "Patent Box".

Leonardo's current patent portfolio is broken down as follows by sectors: 68% in Electronics, Defence and Security Systems, 13% in Aeronautics, 13% in Helicopters, 5% in Space and 1% in other activities.

Two other projects also started up:

- The first was to make the protection of Intellectual Property (IP) more robust. The initiative raises the level of the protection of technological designs and developments (such as the Rotary Wing, in consideration of the innovative aspects to be safeguarded - tiltrotors, unmanned platforms, various technology developments, etc.), for which a network of experts (IP Correspondents Network) has been formed with the tasks of identifying high added value know-how and supporting measures for the protection of IP in line with the strategic development of products, services and technology;
- The second is to make good use of Intellectual Property by means of the "Leonardo Patent Shop Window" by transferring the results of industrial relations R&D to SMEs throughout Italy. During 2018 Leonardo's cooperation with MESAP (*Meccatronica e Sistemi Avanzati di Produzione*, Mechatronics and Advanced Production Systems) took shape in the transfer of Leonardo technology patents with possible spin-offs in the Mechatronics sector. This initiative is a pilot project for the exploitation of Leonardo intellectual property in sectors that rub shoulders with Aerospace and Defence which is expected to lead to further developments next year.

Research and Development during the year

Following is a summary of the main activities conducted during the year, as reported by making reference to the classification described above.

Research and Technology, within which cooperation schemes with universities, start-ups and, in general, with the entire open Innovation ecosystem also play a key role (in 2018, counting research projects and participation in co-financed projects, Leonardo cooperated actively with over 90 universities and centres, of which about 50 were in Italy).

Helicopters:

- In the Next Generation Civil Tiltrotor (NGCTR) project, a part of the Clean Sky 2 programme, whose goal is to lay out the new architecture of a next generation Convertiplane, work commenced on the design of the wing and tail structure components; during the year the preliminary plan for the design and construction of the NGCTR-TD flying demonstrator was also revised (Preliminary Design Review);
- The structural tests and analyses of active rotor were completed, which were preparatory to subsequent installation and tests in flight to be held in 2019). This will substantially reduce vibration levels on board helicopters and improve performance at high speed;
- The COMFORT project entered phase 2 after the Mast Vibration Absorber system, a reduction in vibrations along the tail structure and the design of a noise impact abatement system had all been completed;
- Experiments resumed on the installation of a tail rotor driven by an electric motor;
- Work commenced on Big Data and Analytics for boosting the flight data acquisition and utilisation and on composites, in the framework of cooperation with the Bristol National Composites Centre (NCC) (GBR).

Aeronautics:

- Work continued on the European SESAR2020 programme for the implementation of new avionics functions, the integration of the RPAS (Remotely Piloted Aircraft Systems) in airspace and the integration of the processes of trajectory management. Activities were completed on the validation of the exchange of non-safety information;
- As regards the Clean Sky 2 project, work continued on the design of full-scale demonstrators within the Regional Innovative Demonstration Platform (REG IADP) and within the Airframe Integrated Technology Demonstrator (Airframe ITD), in order to further reduce environmental impact;
- Projects were started on research into unmanned aircraft (detect and avoid), the insertion of the UAS (Unmanned Aircraft Systems) in non-segregated air space and the development of other system functionalities;

- Work continued on structural design and manufacturing processes relating to low-cost materials (thermoplastics, out-of-autoclave), innovative solutions for surface treatments, the construction, control and repair of aerostructures and digitalisation of industrial manufacturing processes;
- Projects were started on setting up a Structural Health system and searching for the advantages and problems arising from the adoption of electric/hybrid propulsion.

Defence and Security Electronics:

- There were major technological developments in Big Data Analytics, Semantic Reasoning, Artificial Intelligence and Deep Learning, Multisensor Data Processing, the Virtualisation and Orchestration of Network Elements and (5G) Services intended for uses in the field of security;
- Investments were made in laser technologies for applications in the defence and civil sector;
- Work continued on AESA (Active Electronically Scanned Array) enabling technologies such as the digital receiver, the generation of high stability digital waveforms, fully digital beam forming, GaN (Gallium Nitride) technology, both proprietary in order not to incur possible export restrictions and COTS (Commercial Off-The-Shelf) in order to make products which have a stronger impact on the market. Work also continued on the development of Mercury and Cadmium Telluride (HgCdTe) technology for the creation of cooled high performance infrared sensors and technologies associated with command and control and quantum technology;
- Work continued on innovative 2D materials and quantum technology for secure communications, Augmented and Virtual Reality both for training and for the maintenance of manned and unmanned aeronautical and naval platforms, also intended for use in training pilots;
- Work continued on the development of DEW (Directed Energy Weapons) Laser relating to technologies for targeting and the stabilisation of the system of weapon and integration of power fibre lasers. There may be applications for these systems, in different configurations, on land, at sea and in the sky;
- Work was completed on the phase of preliminary design of the Mediterranean Demo (Autumn 2019) with the Italian Navy for the Ocean 2020 programme;
- All the work planned for the discharge bench test of the new heavy torpedo battery and its approval was successfully carried out;
- The technology necessary for 100÷200 kg range UGV (Unmanned Ground Vehicle) systems was completed and installed. Technological studies started on higher than 1-ton UGV systems;
- The technological development of ballistic protection continued with the first firing (shooting range) trials on the associated materials;
- Technological feasibility studies started on Guided Gliding Bombs.

Space:

- Work commenced on the analysis and design of the integrated Unmanned Traffic Management service. This combines satellite navigation components, hybrid satellite/land communication and geo-

information solutions for providing location-based services for geo-fencing and tracking even in BRLOS (Beyond Radio Line of Sight) situations;

- Work commenced on the analysis of the main requisites for dynamic navigation in support of smart land vehicles (Intelligent Traffic Systems) in view of the inclusion of Telespazio's EGNSS (European Global Navigation Satellite Systems) in the automotive applications sector.

For the development of new Products, 2018 was devoted to going on with the new work already undertaken in previous years on stepping up the measures taken to rationalise and optimise the product portfolio in order to also focus investments on the most innovative and competitive products and bring in new products targeted at responding to the requirements and new opportunities and needs which the market has brought into the open. Therefore, priority was given to technology and product policies that put Leonardo at the forefront of innovation and among the main players all over the world, thus promoting its international footprint.

Helicopters:

- The AW609 programme is continuing on its way to certification by the Federal Aviation Administration (FAA). In-flight experimentation began during the year in order to acquire load survey data. A new prototype (Aircraft 4, AC4) was made ready, which will be used during 2019 to verify and validate airborne systems; the construction of the AC5 also started in 2018: this is the first pre-production aircraft for the conduct of the Functionality and Reliability trials required before the Convertiplane comes into service;
- In the AW249 programme the Preliminary Design Review of the project was completed, and work on the detailed design commenced;
- Unmanned Programmes: development continued during the year on the RUAV AW HERO (Rotary wing Unmanned Aerial Vehicle) versions for configurations at a maximum weight at take-off of 180 kg (first flight of prototype 3) and 205 kg (first flight of the first prototype).

Aeronautics:

- M-346 programme: operational work commenced on the new LFFA (Light Fighter Family of Aircraft) version. Specifically, the System Requirement Review and the Preliminary Design Review were successfully conducted. Additionally, using the new development version of the flight control Software for the Light Fighter version, the first two flight test campaigns were completed for operating the new configuration with wing-tip missile mounts;
- M-345 programme: de-risking was successfully completed with the X-619 demonstrator plane. In-flight tasks were performed (about 90 flights, 12 flight permits issued) for the inclusion of the new engine, the new engine air intake and elongated nose, the calibration of air data and the characterisation of the vibration environment, including the assessment of configuration and performance variants;

- The first flight of the M-345 X-624 Pre-series aircraft took place on 21 December 2018 according to schedule;
- European MALE RPAS (Medium Altitude Long Endurance Remotely Piloted Aircraft System) "MALE 2025" programme: work on the Definition Phase was completed; its objectives were achieved and the configuration of the aircraft was established; the solution is twin-engine turboprop propulsion.

Electronics, Defence and Security Electronics:

- Development work was completed on the new generation cockpit (NGC), which may be fitted in various aircraft, such as, for example, the M345 trainer. Development work continued on the new UAS Falco 48 and the ISTAR (Intelligence, Surveillance, Target Acquisition and Reconnaissance) mission system with the Falco 48 platform was completed. Development work continued on the Grifo Evo airborne radar with an AESA antenna, confirming Leonardo's leadership in the market for airborne radars;
- In the Radio Comms sector, development work continued on Software Defined Radio (SDR) for avionics applications, while developments of the Naval version were completed;
- Work continued on items in the Italian Naval Law Programme, starting the integration and testing of the new firing radar with new generation dual-band architecture and an innovative dual-band antenna;
- The development was completed of the Air and Missile Defence Command and Control System demonstrator, now ready to be set up on the Customer's site; the new naval surface detection and low altitude surveillance radar was updated, equipping it with additional innovative functions;
- In the framework of the Galileo geo-location programme, the first developments were made of a built-in compact PRS (Public Regulated Service) signals receiver, which can be integrated with a similar US military GPS (Global Positioning System) signal for double satellite constellation military and professional navigation systems;
- Work on the F-NEC (Network Enabled Capability) programme continued in the segment of land surveillance systems, battlefield digitalisation and Armed Forces protection. Specifically, the Second Operational Integration Session was conducted during the year with the purpose of experimenting the capacity to operate entirely digitally and on an interforce basis in the field, using the set of Forza NEC facilities (command and control, tactical vehicles and personal equipment);
- The new 15" LEOSS turret on Leonardo AW139 helicopters was completed and approved for surveillance and EO (Electro-Optical) surveillance system applications, as was the Linx;
- Development work continued on the Grifo Evo airborne radar with an AESA antenna in the market for airborne radars;
- A unit for integrated C-UAS (Counter-Unmanned Aerial System) surveillance against atypical LSS (Low, Slow and Small) threats (operational low altitude, slow speed and small signature) was developed;

- Functional and environmental tests of the first prototype new Black Arrow Light Torpedo engine were completed;
- The development of the Variable Deep Sonar continued, completing the Critical Design Review of the PWE (Power Electronics), terminating the PRE (Processing Electronics) project and making a Towed Array simulator;
- In the field of defence systems, work was completed on the FATs (Flight Altitude Tests) of the first mass-produced specimen of the 25mm RCWS (Remote Controlled Weapon System) system and on the FATs of the first one of the six ODLS (OTO Melara Decoy Launching System) systems;
- The testing of the servo-controls of the prototype new 76mm deck-mounted naval gun was completed and firing range trials were carried out with bursts of 65 shots;
- The procedure for the approval of the New Centauro 2 Tank commenced;
- Developments continued of the new Air-to-Ground Multi-frequency Wideband Datalink (which uses a Leonardo essential patent) and AeroMACS (for which the international certification procedure has commenced) communication systems;
- Development work was carried out in the Secure Connected Factory, a platform for secure monitoring and raising the degree of efficiency of the manufacturing process through the real time acquisition of production plant operation data;
- Work proceeded with the Evolution of Professional Communication Networks, inserting TETRA (Terrestrial Trunked Radio) and DMR (Digital Mobile Radio) in heterogeneous solutions which use various communication technologies integrated in the 5G ecosystem;
- Developments continued of the SC2 (Smart City Main Operation and Security Centre) platform for the security of critical infrastructures, particularly with regard to the recognition of faces and objects and the tracking of vehicles and persons, with Artificial Intelligence/Deep Learning-based solutions;
- New on-board communication and security systems were developed in the Transport sector (for Trains, Undergrounds and Buses);
- As regards automation systems, the development of a vertical parcel sorter was completed (MVS 2.0 for e-commerce applications);
- Investments were made in advanced protection for air and land platforms and Counter Unmanned Aerial Systems;
- Investments continued in sensors for multi-domain awareness, including infrared sensors, thermal cameras, both wearable and applicable to land, air and space platforms.

Space:

- Work commenced on the design and development of a new generation satellite control segment (from CubeSat to SmallSat satellites) within the Ground Satellite Segment infrastructures and systems and work continued on the development of the multi-mission user segment;

- Work was completed for the EOS20 HR-R1000 antenna mechanical deployment qualification;
- Work was completed on the High Density Flesh memory modules qualification for miniaturised electronic modules for radar satellites and microsatellites;
- Work was completed on the design of the Platform Avionic Computer and of miniCMGs (Mini Control Moment Gyroscopes);
- Test campaigns were completed for the Radar Doppler Altimeter (RDA) for ExoMars 2020.

The basic requisites for research into **improvements to existing Products** were that they should make Leonardo products more competitive in terms of cost and performance and respond to new rules or standards.

Helicopters:

- AW139: among the various activities was the development of the version for defence applications, resulting in the acquisition of a contract in support of the supply of the MH-139 model for the protection of US Government Defence administration sites;
- AW169: work continued on the development programme for personalised products for customers (design of the new skid-type landing gear) in order to increase sales opportunities.

Aeronautics:

- Eurofighter Typhoon: the phase of development of the P2Eb and P3Ea capacitive packages of the aircraft concluded with the final integration of the Meteor, Brimstone and Storm Shadow loads; work was completed on the design and laboratory testing phase of the P3Eb configuration for the Entry Into Service of the aircraft to be delivered to Kuwait;
- Studies were conducted to find what measures were to be taken in terms of functionality, flexibility and performance to enable the EFA to respond to operational requirements in the changed international scenario and for the next twenty years (Long Term Evolution project), including interoperability with F-35 aircraft;
- C-27J: development continued of the New Industrial Baseline configuration, completing the Critical Design Review. The first aircraft in the New Industrial Baseline configuration carried out its first flight at the beginning of December 2018. The totally new avionics fully respond to new civil air regulations and military requisites and it complies with European SESAR (Single European Sky ATM Research) and American NextGen standards. A large number of important on-board systems were replaced by upgraded or better performing models;
- M-346: work continued on the development and approval of configuration updates of the AJT (Advanced Jet Trainer) version, specifically for the Italian Air Force and for the Customer Israeli Air Force;

- ATR: tests continued for obtaining the certification of the Clear Vision – Enhanced Vision System, which uses synthetic vision to enable aircraft to land when there is low visibility, while the new Full Cargo version of the ATR72 with a Class E Cargo Compartment is in full development phase for the customer FEDEX;
- Special ATR 72-600 Versions: the certification work was completed, with the issue by the Italian Directorate of Air Armaments and Airworthiness (DAAA, Direzione degli Armamenti Aeronautici e per l'Aeronavigabilità) of the Military-Type Approval Certificate for the ATR 72-600 TMPA – Turkish Maritime Patrol Aircraft, and work was started on the development of the multi-role aircraft based on the platform for the Italian Finance Police, ATR 72-600 MP GdF.

<u>Electronics, Defence and Security Electronics:</u>

- Continuation of activities connected with the participation in large programmes, both National and International: Eurofighter Typhoon aircraft, Forza-NEC and NATO AGS (Alliance Ground Surveillance);
- Studies and establishing the requisites for the new British 6th generation fighter plane started;
- The main investments in the evolution of the product portfolio were made in New Gen. Obstacle Warning System (to equip the rotary wing platforms of an auxiliary system which assists pilots to detect obstacles), Mission Management System (for both manned and unmanned platforms for overall mission and integrated on-board sensor management), Airborne AESA Radar (for both surveillance and targeting applications), IFF (Identification Friend or FOE) Systems (developments in the new interrogation system family to enhance performance, comply with the new standards and cut down weight and volume), Skyward IRST (Infra-Red Search and Track; development work continued in order to enhance performance and simplify the system to assist with integration, also with medium-sized aeronautical platforms), Advanced RF ESM (Electronic Support Measures), Lasers, Wide Band Data Links (work commenced on the development of new systems for the use of the new waveforms for exchanges of data between platforms and information relay), Radio Comms (development work on the new HF400 radio for the use of the ALE [Automatic Link Establishment] function and the reduction in weight and volumes), Large size and touch screen displays, components for RADAR amplification (solid state and mini TWT [Travelling Wave Tube]), modernisation of targeting systems, ITSS simulation and training systems for M-345, development of a new mini UAV for ISR (Intelligence, Surveillance and Reconnaissance) missions;
- Development work continued on space devices such as the new generation "Rb POP" atomic clock, on attitude sensors (Star Tracker 2.0 with new hardware and algorithms which enhance performance and maintain compatibility with the new space platform interfaces), on payloads (Spectrometers) and on robotics such as the lunar drill and the robotic arm, which searches for and collects samples for planetary exploration and debris during its in-orbit service;

- In the segment of Infrared Countermeasures (IRCMs), there was improvement of the performances of Miysis and CIRCM (Common Infrared Countermeasures) systems. In-flight tests were successfully carried out for the Miysis system. Technology advances in the field of laser sources and pointers/trackers;
- In the Guardian family, work was completed on the development of a new product, with reactive capacity and extension of frequencies for protection from RC-IEDs (Radio Controlled Improvised Explosive Devices);
- Development work continued on the architecture for an integrated interoperable platform and the rationalisation and enhancement of C4I in battlefield applications, border surveillance and control at strategic to sub-tactical level (soldier/sensor), at the same time complying with technological advances in interoperability standards;
- The approval and engineering of the Vulcano 127 mm guided munition was completed;
- In air traffic control, work was completed on the developments of S-band (primary and secondary) radar resulting in a substantial reduction in manufacturing costs and greater modularity. Validation tests for new functions were carried out by ENAV (Italian Civil Aviation) and BULATSA (Bulgarian Air Traffic Services Authority) inspectors;
- In the Cyber Security and Intelligence area, decision-supporting solutions based on Artificial Intelligence were developed and security issues in industry and critical infrastructures were addressed, as were in relation to simulation and training platforms, also supported by the application of Augmented-Mixed Reality;
- Work continued on the development of C4ISR systems to improve information exchange on the battlefield, including computing and command and control hardware, communication systems, electronic warfare systems for land vehicles, air and naval platforms;
- A continuing focus on next-generation naval components, including naval propulsion system components, as well as on technology to improve on-board command and computational capacity.

Space:

- Development of application platforms (SEonSE, braINT, AssetWatch, agriGEO, ASKme!) with the application of machine/deep learning techniques and inclusion of new Data Analysis services in the service segments that are relevant to Geo-Information: agriculture, defence and security, territory management, asset management, crisis management, maritime surveillance, image intelligence;
- Demonstration of integrated satellite/terrestrial connectivity solutions for manned and unmanned transport vehicles and final completion and evolution of a test bed at the Fucino Space Centre, for which thought is also being given to the future utilisation of 5G both on land and on satellite;

- Analysis, design and development of Satellite Navigation systems and solutions, continuing work on the evolution of GBAS (Ground Based Augmentation Systems) devices and of the Navigation Gateway in support of applications for unmanned systems, in particular RPAS (Remotely Piloted Aircraft Systems)/drones;
- Analysis, design and development of Space Situation Awareness systems/services in both space meteorology for the refinement of nowcasting on the basis of the state of the ionosphere with the prototype Ionosphere Prediction Service put into service in July 2018, and in space surveillance with the completion of the satellite constellation simulator for the observation of Resident Space Objects, which will also be used in Northstar mission programme analyses.

Share price

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

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

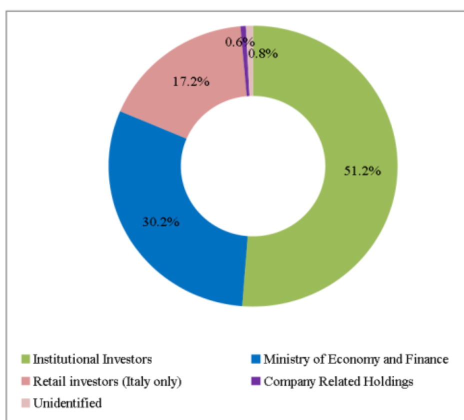
Leonardo S.p.a.'s Investor Relations ad Credit Rating Agencies organisational unit is aimed at ensuring an ongoing and professional relationship with its shareholders, bondholders, institutional investors and rating agencies, as well as at delivering transparent communication while ensuring a correct placement of financial instruments on the market.

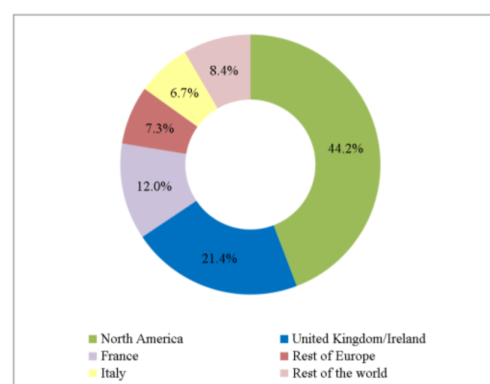
This unit belongs to the Chief Stakeholder Office central department to ensure an integrated communication of Leonardo's identity and positioning to all stakeholders.

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

Major shareholders

Below is the last Shareholder Analysis performed in February 2019 showing the geographical distribution of the Leonardo's share capital and the total shareholder composition:

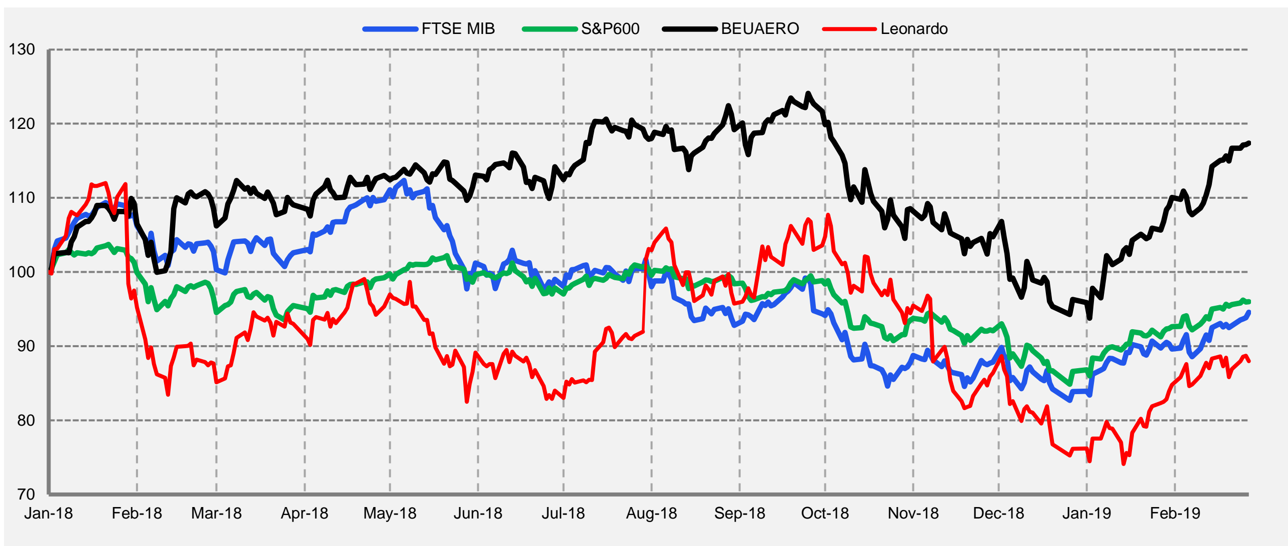




For more information, please refer to the page "Shareholding Structure" of Investors section at the institutional website (www.leonardocompany.com).

Performance of Leonardo stock in the Bloomberg EMEA Aerospace&Defense (BEUAERO) and the leading Italian and European indexes (28 February 2019 = 100)

Below is Leonardo's stock performance from the beginning of 2018 to 28 February 2019, compared with the Bloomberg EMEA Aerospace&Defense (BEUAERO), the index of the 40 major listings in the Milan Stock Exchange (FTSE-MIB) and the index composed of the 600 top listings in Europe (S&P600).



Corporate Governance

Corporate Governance means the set of rules and, more in general, the corporate governance system that regulate the Company's management and control.

The governance model adopted by Leonardo is in line with the application principles and criteria laid down in the Corporate Governance Code (finally updated in July 2018) the Company adheres to. This model is aimed at maximising value for shareholders, at controlling business risks and ensuring greater transparency to the market, as well as ensuring integrity and correctness of decision-making processes.

This model has been subject to subsequent changes over time, which have been aimed at adopting the guidelines provided from time to time by the Corporate Governance Code. These guidelines are incorporated in the "Rules of Procedure of the Board of Directors", which is regularly updated by the Board in order to further improve the compliance level of the Company's Governance model, ensuring that it is brought into line with the content of the Code and with the changes made to the corporate organisational structure on an ongoing basis.

The Rules of Procedure are available in the Corporate Governance section of the Company's website (www.leonardocompany.com). The Corporate Governance Code is available on the website of the Corporate Governance Committee (http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm).

The Corporate Governance system of Leonardo and its compliance with the guidelines laid down in the Code are the object of periodic analytical reporting on the part of the Board of Directors in the specific "Report on Corporate Governance and Shareholder Structure", which is prepared on the occasion of the approval of the draft financial statements (in compliance with the provisions on the contents under Article 123-bis of the Consolidated Law on Financial Intermediation and on the basis of the articles of the Corporate Governance Code) and published at the same time as this Annual Financial Report.

The Company's Governance structure is summarised below. For more information on the corporate governance structure of Leonardo, the main updates that took place in 2018, as well as on any decisions and organisational measures adopted by the Company in order to ensure the strictest compliance with the Corporate Governance Code, reference is made to the Report on Corporate Governance and Shareholder Structure that was approved by the Board of Directors at the same time as this Report and that is available in the Corporate Governance section of the Company's website (www.leonardocompany.com), as well as in the appropriate section prepared on the occasion of the Shareholders' Meeting called to approve the Financial Statements, reporting documents and information relating to the Shareholders' Meeting.

Corporate governance structure

The Company's Governance structure, based on the traditional organisational model, is consistent with the applicable regulations provided for listed issuers, as well as with the guidelines laid down in the Corporate Governance Code and is essentially as follows:

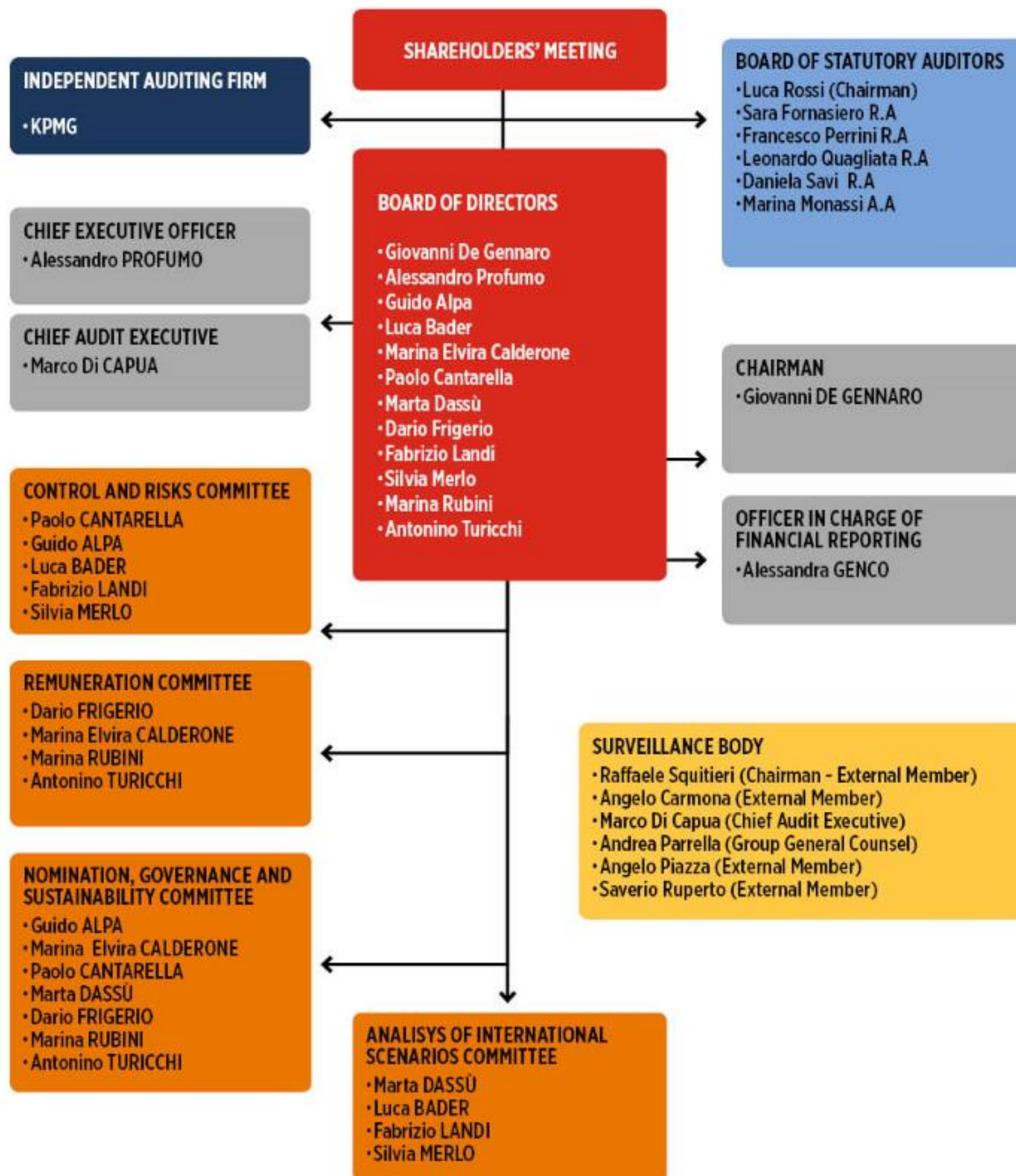
- **Shareholders' Meeting**. It passes resolutions in ordinary and extraordinary sessions in relation to such matters as are reserved for the same by law or the By-laws;
- **Board of Directors**. It is vested with the fullest powers for the administration of the Company, with the authority to perform any act it considers appropriate to the fulfilment of the Company's business purpose, except for those acts reserved to the Shareholders' Meeting by law or by the By-laws. The current Board of Directors was appointed by the Shareholders' Meeting on 16 May 2017 for the three-year period 2017-2019; the related mandate will expire at the time of the Shareholders' Meeting called to approve the 2019 Financial Statements;
- **Chairman of the Board of Directors**. On 16 May 2017, the Board of Directors granted Mr Giovanni De Gennaro, beside the powers relating to the Company's legal representation pursuant to law and to the By-laws and signatory powers, some powers concerning Institutional Relationships (to be exercised in coordination with the Chief Executive Officer), Group Safety and Group Internal Audit. On the same day the Board also assigned the Chairman the task of supervising the implementation of corporate governance rules regarding the integrity of corporate behaviours and the fight of corruption;
- **Chief Executive Officer**. The Board of Directors' meeting held on 16 May 2017 appointed Alessandro Profumo as Chief Executive Officer. Specifically, the Board, without prejudice to any matters reserved for the Board itself, granted powers to the Chief Executive Officer relating to the Company's legal representation and signatory powers (within the limits of powers granted pursuant to law and to the By-laws), as well as the power to implement the resolutions passed by the governing body (including resolutions adopted before his appointment on 16 May 2017), any and all delegated powers and authority for the joint management of the Company, its business units and subsidiaries, and for the management of all equity interests in associated and investee companies, in accordance with the strategic guidelines identified by him and approved by the Board of Directors;
- **Lead Independent Director**. Following the renewal of the Board of Directors by the Shareholders' Meeting held on 16 May 2017, on this same date the Board of Directors appointed the Director Paolo Cantarella as Lead Independent Director with the task of coordinating the requests and contributions from non-executive Directors and in particular from independent Directors.

  In this respect, the Rules of Procedure provide, even in the absence of the specific situations contemplated in the Corporate Governance Code, for such power of appointment on the part of the Board, with the abstention of the executive Directors and in any case of the non-independent

Directors; in any case the Board shall make this appointment in the event of the Chairman being granted delegated operational powers. The Board granted no delegated operational powers to the Chairman; however, also considering the authority granted to the latter, the same Board was of the opinion to appoint the Lead Independent Director, who will serve throughout the term of office of the Board of Directors;

- **Committees**. The Board of Directors of Leonardo has established the following internal Committees, with advisory and consulting functions: the Control and Risks Committee (which also perform duties as Committee for Transactions with Related Parties), the Remuneration Committee and the Nomination, Governance and Sustainability Committee (as provided for in the Corporate Governance Code), as well as the Analysis of International Scenarios Committee. The Committees' composition, duties and operation are set out and regulated by appropriate Rules approved by the Board of Directors itself, in accordance with the guidelines laid down in the Corporate Governance Code;
- **Board of Statutory Auditors**. The Board of Statutory Auditors has – inter alia - the task of monitoring: a) compliance with the law and by-laws and observance of the principles of proper business administration; b) the adequacy and effectiveness of the Company's organisational structure, internal control and risk management system, as well as the administrative and accounting system, and also the latter's reliability as a means of accurately reporting business operations; c) any procedures for the actual implementation of the corporate governance rules provided for in the Corporate Governance Code; d) the adequacy of the Company's instructions to subsidiaries with regard to disclosures prescribed by law. The current Board of Statutory Auditors was appointed by the Shareholders' Meeting on 15 May 2018 for the three-year period from 2018 to 2020; for any change that occurred in the composition of the Board of Statutory Auditors during the 2018 financial year, reference should be made to the Corporate Governance Report;
- **Independent Auditing Firm**. The Independent Auditors are the persons appointed to carry out the statutory audit of accounts. They are appointed by the Shareholders' Meeting, on a reasoned proposal by the Board of Statutory Auditors. The Shareholders' Meeting of 16 May 2012 appointed KPMG SpA to carry out the statutory audit of accounts for the period 2012-2020;
- **Officer in charge of financial reporting**. On 9 November 2017, pursuant to Article 154-bis of the Consolidated Law on Financial Intermediation and articles 25.4 and 25.5 of the Company's by-laws, the Board of Directors appointed Alessandra Genco (the Company's Chief Financial Officer) as the Officer in charge of financial reporting until the expiry of the term of office of the Board of Directors.

Below is reported a chart summarising the Corporate Governance Structure of Leonardo.



Finally, the main Corporate Governance tools are reported below which have been adopted by the Company in accordance with the current provisions of law and regulations, as well as with the guidelines laid down in the Corporate Governance Code. For information on the contents of the documents listed below and available to the public in the specific Corporate Governance and Ethics and Compliance sections of the Company' website (www.leonardocompany.com), reference should be made to the Corporate Governance Report.

- By-Laws;
- Code of Ethics;

- Organisational, Management and Control Model pursuant to Legislative Decree 231/2001;
- Whistleblowing Guidelines;
- Leonardo Group's Anti-corruption Code ;
- Shareholders' Meeting Regulations;
- Rules of Procedure of the Board of Directors;
- Rule of Procedure of the Control and Risks Committee;
- Rules of Procedure of the Remuneration Committee;
- Rules of Procedure of the Nomination, Governance and Sustainability Committee;
- Rules of Analysis of International Scenarios Committee;
- Procedure for Related Parties Transactions;
- Code of Internal Dealing;
- Procedure for the management, processing and disclosure of inside and confidential information of Leonardo S.p.a. and for the management of the Insider List.

Performance of the Parent Company

	2018	2017 restated	Change
New orders	10,169	8,164	24.6%
Order backlog	28,030	26,497	5.8%
Revenue	8,079	7,986	1.2%
EBITDA	699	772	(9.5%)
EBITA	410	413	(0.7%)
ROS	*5.1%*	*5.2%*	*(0.1) p.p.*
EBIT	127	364	(65.1%)
EBIT Margin	*1.6%*	*4.6%*	(3.0) p.p.
Net result before extraordinary transactions	195	369	(47.2%)
Net result	284	369	(23.0%)
Net Debt	2,815	2,952	(4.6%)
FOCF	134	553	(75.8%)
ROI	*4.9%*	*5.2%*	(0.3) p.p.
ROE	*3.4%*	*6.7%*	(3.3) p.p.
Workforce	28,140	27,796	1.2%

For details on the indices, reference should be made to the paragraph on "Non-GAAP alternative performance indicators."

The data relating to the 2017 financial year have been restated to take account of the effects arising from first-time adoption of "IFRS 15 – Revenues from contracts with customers", concerning revenue recognition which came into force on 1 January 2018. The effects of the adoption of the new "IFRS 9 – Financial Instruments" concerning impairment were recognised in 2018, without any restatement of comparative values.
For an analysis of the effects of the adoption of the new accounting standards, reference should be made to Note 5.

The performance of Leonardo S.p.a.'s key indicators in 2018 are compared to 2017 data, as restated to take account of the adoption of the new accounting standard concerning revenues (IFRS 15) as from 1 January 2018.

The trends have been already analysed in the section dedicated to the consolidated financial statements, to which reference should be made. Specifically:

- New orders, equal to €bil. 10.2, showed an increase of 24.6%, compared to 2017 (€bil. 8.1), mainly due to the acquisition by the Helicopters Division of the NH90 Qatar contract;
- Revenues, equal to €bil. 8.1, showed an increase of about 1.2% compared to 2017 (€bil. 8.0), while operating profits (EBITA) is substantially in line with the previous year;
- Net result, equal to €mil. 284 (€mil. 369 at 31 December 2017) reflects the restructuring costs arising from the start of the procedure under Law 92/2012 (Fornero Act – about €mil. 170), as well as non-recurring costs related to the write-down of some particularly critical items, partially offset by lower taxes and the release of a portion of the provision set aside against the guarantees provided for the sale of the equity investment in Ansaldo Energia;
- Cash flows for the period, equal to €mil. 134 (€mil. 553 at 31 December 2017) was affected by the different financial profile of the EFA Kuwait contract in the two comparative periods, arising from the

start of related production operations, which was already expected and partly offset by the advances relating to the NH 90 Qatar contract.

The table below provides the performance of earnings:

(€ millions)	*Note*	2018	2017 restated	*Change*	*% Change*
Revenues		8,079	7,986	93	1.2%
Purchase and personnel expense	*(*)*	(7,283)	(7,118)		
Other net operating income/(expenses)	*(**)*	(97)	(96)		
Amortisation, depreciation and write-offs	*(***)*	(289)	(359)		
EBITA		**410**	**413**	**(3)**	**(0.7%)**
ROS		*5.1%*	*5.2%*	*(0.1) p.p.*	
Non-recurring income/(expenses)		(97)	(20)		
Restructuring costs		(182)	(25)		
Amortisation of intangible assets acquired as part of business combinations		(4)	(4)		
EBIT		**127**	**364**	**(237)**	**(65.1%)**
EBIT Margin		*1.6%*	*4.6%*	*(3.0) p.p.*	
Net financial income/(expense)	*(****)*	115	121		
Income taxes		(47)	(116)		
Net result before extraordinary transactions		**195**	**369**	**(174)**	**(47.2%)**
Net result related to discontinued operations and extraordinary transactions	*(*****)*	89	-		
Net result		**284**	**369**	**(85)**	**(23.0%)**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:

(*) Includes "Purchases and Personnel expense" (net of restructuring costs of non-recurring costs) and "Provisions (Reversals) for onerous contracts (final losses).

(**) Includes the net amount of "Other operating income" and "Other operating expenses" (net of restructuring costs, non-recurring income (costs) and provisions (reversals) for onerous contracts (final losses).

(***) Includes "Amortisation, depreciation and value adjustments to financial assets", net of the portion of amortisation referable to intangible assets acquired as part of business combinations, impairment of goodwill and impairments considered as "Non-recurring costs".

(****) Includes "Financial income" and "Financial expense" (net of gains (losses) related to extraordinary transactions).

(*****) Includes "Profit (loss) from discontinued operations" and "Gains (losses) relating to extraordinary transactions (key acquisitions and disposals)"

The following table compares the balance sheets at 31 December 2018 and at 31 December 2017:

(€ millions)	*Note*	31 December 2018	31 December 2017 restated
Non-current assets		12,333	12,392
Non-current liabilities		(1,719)	(1,836)
Capital assets	*(*)*	**10,614**	**10,556**
Inventories	*(**)*	(522)	(150)
Trade receivables		2,405	2,795
Trade payables		(2,542)	(2,812)
Working capital		**(659)**	**(167)**
Provisions for short-term risks and charges		(810)	(949)
Other net current assets (liabilities)	*(***)*	(924)	(853)
Net working capital		**(2,393)**	**(1,969)**
Net invested capital		**8,221**	**8,587**
Equity		5,691	5,635
Net Debt		**2,815**	**2,952**
Net (assets)/liabilities held for sale	*(****)*	**285**	**-**

Notes on the reconciliation between the reclassified balance sheet and the statutory balance sheet:

(*) *Includes all non-current assets and all non-current liabilities, net of "Non-current loans and borrowings" and of the main non-current financial receivables.*

(**) *Includes "Inventories", "Contract assets" and "Contract liabilities".*

(***) *Includes "Income tax receivables", "Other current assets" (excluding "Hedging derivatives in respect of debt items"), net of "Income tax payables" and "Other current liabilities" (excluding "Hedging derivatives in respect of debt items").*

(****) *Includes the net amount of "Non-current assets held for sale" and "Liabilities associated with assets held for sale"*

Capital assets remained substantially in line with the previous year, while net working capital, which posted a negative value of €mil. 2,379, showed an increase of about €mil. 410.

There was an increase in "Assets/liabilities held for sale" as a result of the reclassification of assets and liabilities related to the contribution of the real estate assets of Leonardo S.p.a. to subsidiary Leonardo Global Solutions S.p.A., with effect from 1 January 2019.

Below is the breakdown of Net Debt in line with the previous year:

(€ millions)	**31 December 2018**	*of which current*	**31 December 2017 restated**	*of which current*
Bonds	2,778	*394*	3,292	*585*
Bank debt	691	*51*	238	*52*
Cash and cash equivalents	(1,621)	*(1,621)*	(1,565)	*(1,565)*
Net bank debt and bonds	**1,848**		**1,965**	
Current loans and receivables from related parties	(193)	*(193)*	(232)	*(232)*
Other current loans and receivables	(28)	*(28)*	(26)	*(26)*
Current loans and receivables and securities	**(221)**		**(258)**	
Non current financial receivables from Superjet	(25)		(48)	
Non current financial receivables from Group's consolidated entities	(283)		(452)	
Hedging derivatives in respect of debt items	-	-	(2)	*(2)*
Related-parties loans and borrowings	1,425	*1,425*	1,669	*1,669*
Other loans and borrowings	71	*39*	78	*52*
Net Debt	**2,815**		**2,952**	

The table below reports the cash flow for the year:

(€ millions)	***Note***	**2018**	**2017 restated**	***Change***	***% Change***
Cash flows generated/(used) from operating activities	*(*)*	464	688		
Dividends received		121	286		
Cash flows from ordinary investing activities	*(**)*	(451)	(421)		
Free Operating Cash Flow (FOCF)		**134**	**553**	**(419)**	**(75.8%)**
Strategic transactions	*(***)*	-	(45)		
Change in other investing activities	*(****)*	75	(387)		
Net change in loans and borrowings		(70)	(212)		
Dividends paid		(81)	(80)		
Net increase (decrease) in cash and cash equivalents		**58**	**(171)**		
Cash and cash equivalents at 1 January		1,565	1,747		
Effect from Mergers/Demergers		-	3		
Exchange rate differences and other changes		(2)	(14)		
Cash and cash equivalents at 31 December		**1,621**	**1,565**		

Notes on the reconciliation between the reclassified cash flow and the statutory cash flow:

(*) *Includes "Cash flows generated from (used in) operating activities", excluding payments pursuant to Law 808/1985.*

(**) *Includes "Cash flow generated from (used in) investing activities, including debt payments pursuant to Law 808/1985 and net of dividends received.*

(***) *Includes the share of "Other investing activities" classified as "Strategic transactions".*

(****) *Includes "Other investing activities", excluding dividends received and the effects of operations classified as "Strategic transactions".*

The Parent Company's offices

The Parent Company's offices are:

- Registered Office: Rome, Piazza Monte Grappa, 4
- Secondary offices: Genoa, Corso Perrone, 118

Reconciliation of net profit and shareholders'equity of the Group Parent with the consolidated figures at 31 December 2018

	2018	
(€ millions)	**Equity**	***of which: Net profit (loss) for the year***
Group Parent equity and net profit (loss)	5,691	*284*
Excess of shareholders' equities in the annual financial statements compared with the carrying amounts of the equity investments in consolidated companies	(4,026)	*613*
Consolidation adjustments for:		
- difference between purchase price and corresponding book equity	3,026	
- elimination of intercompany profits	217	
- dividends from consolidated companies		*(385)*
- Translation differences	(409)	*(3)*
Group equity and net profit (loss)	**4,499**	***509***
Non-controlling interests	11	*1*
Total consolidated equity and net profit (loss)	**4,510**	***510***

Proposal to the Shareholders' Meeting

Dear Shareholders,

The 2018 financial statements, which we submit for your approval, close with a net profit of € 283,800,630.37.

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

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

- considering the Report of the Board of Directors;
- considering the Report of the Board of Statutory Auditors;
- having examined the financial statements at 31 December 2018;
- having acknowledged the report of KPMG S.p.A.

resolves

- to approve the Directors' Report on operations and the financial statements of Leonardo - Società per azioni at 31 December 2018;
- to approve the proposal posed by the Board of Directors of allocating the 2018 net profit of Euro 283,800,630.37 as follows:
- Euro 14,190,031.52 equal to 5% of the net profit, to legal reserve;
- Euro 0.14 as the dividend to be paid - before tax, if any – starting from 22 May 2019, with the ex-dividend date of coupon no. 10 falling on 20 May 2019 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to article 83-terdecies of Legislative Decree no. 58 of 24 February, 1998 and article 2.6.6, paragraph 2, of the Rules of the markets organised and managed by Borsa Italiana S.p.A.) falling on 21 May 2019; the foregoing is with reference to each ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, without prejudice to the regime of those actually assigned in the current financial year based on the incentive plans in force;
- the residual as retained earnings."

For the Board of Directors

The Chairman

(Giovanni De Gennaro)

Consolidated financial statements at 31 December 2018

Consolidated accounting statements

Consolidated separate income statement

(€ millions)	*Note*	**2018**	***of which with related parties***	**2017 restated**	***of which with related parties***
Revenue	*26*	12,240	*1,811*	11,734	*1,868*
Other operating income	*27*	599	*6*	569	*4*
Purchase and personnel expense	*28*	(11,156)	*(565)*	(10,452)	*(356)*
Amortisation, depreciation and financial assets value adjustments	*29*	(656)		(679)	
Other operating expenses	*27*	(528)	*(1)*	(584)	*-*
Income before tax and financial expenses		**499**		**588**	
Financial income	*30*	148	*7*	235	*10*
Financial expense	*30*	(396)	*(4)*	(688)	*(4)*
Share of profits/(losses) of equity-accounted investees	*11*	234		273	
Operating profit (loss) before income taxes and discontinued operations		**485**		**408**	
Income taxes	*31*	(64)		(129)	
Profit (loss) from discontinued operations	*32*	89		-	
Net profit/(loss) for the period attributable to:		**510**		**279**	
- owners of the parent		*509*		*277*	
- non-controlling interests		*1*		*2*	
Earnings/(losses) per share	*33*	*0.888*		*0.482*	
- basic and diluted from continuing operations		*0.733*		*0.482*	
- basic and diluted from discontinued operations		*0.155*		*n.a*	

Comparative data restated following the adoption of IFRS 15 (see Note 5)

Consolidated statement of comprehensive income

(€ millions)	*Note*	2018		2017 restated	
Profit (loss) for the period			**510**		**279**
Other comprehensive income (expense):					
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:					
- Measurement of defined-benefit plans:	*19*		(15)		89
- revaluation		(9)		76	
- exchange rate gains (losses)		(6)		13	
- Tax effect	*19*		3		(17)
- Tax rate adjustment			-		(17)
			(12)		55
Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:					
- Changes in cash flow hedges:	*19*		(53)		86
- change generated in the period		(58)		93	
- transferred to the profit (loss) for the period		5		(7)	
- exchange rate gains (losses)		-		-	
- Translation differences	*19*		68		(243)
- change generated in the period		65		(243)	
- transferred to the profit (loss) for the period		3		-	
- Tax effect	*19*		10		(14)
			25		(171)
Current portion of "Other comprehensive income (expense)", equity-accounted investees			2		26
Total other comprehensive income (expense), net of tax:			**15**		**(90)**
Total comprehensive income (expense), attributable to:			525		189
- *Owners of the parent*			524		187
- *Non-controlling interests*			1		2
Total comprehensive income (expense), attributable to Owners of the parent			**524**		**187**
- from continuing operations			435		187
- from discontinued operations			89		-

Comparative data restated following the adoption of IFRS 15 (see Note 5)

Consolidated statement of financial position

(€ millions)	*Note*	**31 December 2018**	*of which with related parties*	**31 December 2017 restated**	*of which with related parties*	**1° gennaio 2017 restated**	*of which with related parties*
Intangible assets	*9*	6,591		6,550		6,733	
Property, plant and equipment	*10*	2,166		2,233		2,375	
Investment property		56		61		48	
Investments accounted for under equity method	*11*	1,139		1,122		1,081	
Receivables	*12*	450	*1*	503	-	586	*1*
Deferred tax assets	*31*	1,208		1,143		1,313	
Other non-current assets	*12*	239	-	160	-	102	-
Non-current assets		**11,849**		**11,772**		**12,238**	
Inventories	*14*	5,449		4,735		4,510	
Contract assets	*15*	2,528		2,191		1,663	
Trade receivables	*16*	2,936	*504*	3,179	*569*	3,410	*667*
Income tax receivables		72		174		162	
Loans and receivables	*16*	185	*153*	157	*110*	98	*40*
Other assets	*17*	444	*4*	608	*5*	781	*4*
Cash and cash equivalents	*18*	2,049		1,893		2,167	
Current assets		**13,663**		**12,937**		**12,791**	
Non-current assets held for sale	*32*	7		2		14	
Total assets		**25,519**		**24,711**		**25,043**	
Share capital	*19*	2,495		2,491		2,491	
Other reserves		2,004		1,708		1,592	
Equity attributable to the owners of the parent		4,499		4,199		4,083	
Equity attributable to non-controlling interests		11		14		14	
Total equity		**4,510**		**4,213**		**4,097**	
Loans and borrowings (non-current)	*20*	3,423	-	3,265	-	4,011	-
Employee benefits	*22*	506		554		702	
Provisions for risks and charges	*21*	885		873		997	
Deferred tax liabilities	*31*	322		352		389	
Other non-current liabilities	*23*	898	-	1,058	-	1,149	-
Non-current liabilities		**6,034**		**6,102**		**7,248**	
Contract liabilities	*15*	8,055		6,979		6,067	
Trade payables	*24*	3,028	*153*	2,962	*73*	2,845	-
Loans and borrowings (current)	*20*	1,190	*669*	1,417	*701*	1,267	*76*
Income tax payables		35		29		68	*502*
Provisions for short-term risks and charges	*21*	1,125		1,265		1,403	
Other current liabilities	*23*	1,542	*104*	1,744	*134*	2,048	*166*
Current liabilities		**14,975**		**14,396**		**13,698**	
Total liabilities		21,009		20,498		20,946	
Total liabilities and equity		**25,519**		**24,711**		**25,043**	

Comparative data restated following the adoption of IFRS 15 (see Note 5)

Consolidated statement of cash flows

(€ millions)	*Note*	**2018**	***of which with related parties***	**2017 restated**	***of which with related parties***
Gross cash flows from operating activities	*34*	1,669		1,617	
Change in trade receivables/payables, contract assets/liabilities and inventories	*34*	(321)	*150*	(46)	*84*
Change in other operating assets and liabilities and provisions for risks and charges	*34*	(440)	*(26)*	(457)	*(32)*
Interest paid		(235)	*3*	(289)	*(5)*
Income taxes received/(paid)		14	-	(103)	-
Cash flows generated (used) from operating activities		**687**		**722**	
Investments in property, plant and equipment and intangible assets		(577)		(483)	
Sales of property, plant and equipment and intangible assets		24		3	
Other investing activities		203	-	139	-
Cash flows generated (used) from investing activities		**(350)**		**(341)**	
Bond issue		-		591	
Term Loan subscription		498		-	
Bond redemption		(513)		(1,172)	
Net change in other loans and borrowings		(91)	*(75)*	61	*146*
Dividends paid		(81)		(81)	
Cash flows generated (used) from financing activities		**(187)**		**(601)**	
Net increase (decrease) in cash and cash equivalents		150		(220)	
Exchange rate differences and other changes		6		(54)	
Cash and cash equivalents at 1 January		1,893		2,167	
Cash and cash equivalents at 31 December		**2,049**		**1,893**	

Comparative data restated following the adoption of IFRS 15 (see Note 5)

Consolidated statement of changes in equity

(€mil.)	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
1 January 2017	**2,491**	**2,471**	**(141)**	**(249)**	**(215)**	**4,357**	**16**	**4,373**
IFRS 15 adoption		*(274)*				***(274)***	*(2)*	***(276)***
1 January 2017 restated	**2,491**	**2,197**	**(141)**	**(249)**	**(215)**	**4,083**	**14**	**4,097**
Profit (loss) for the period	-	277	-	-	-	277	2	279
Other comprehensive income (expense)	-	-	84	92	(266)	(90)	-	(90)
Total comprehensive income (expense)	**-**	**277**	**84**	**92**	**(266)**	**187**	**2**	**189**
Dividends resolved		(80)				(80)	(1)	(81)
Repurchase of treasury shares less shares sold						-		-
Total transactions with owners of the parent, recognised directly in equity	**-**	**(80)**	**-**	**-**	**-**	**(80)**	**(1)**	**(81)**
Other changes	-	7	-	(1)	3	9	(1)	8
31 December 2017 restated	**2,491**	**2,401**	**(57)**	**(158)**	**(478)**	**4,199**	**14**	**4,213**
1 January 2018	**2,491**	**2,401**	**(57)**	**(158)**	**(478)**	**4,199**	**14**	**4,213**
IFRS 9 adoption		*(147)*				***(147)***		***(147)***
1 January 2018 restated	**2,491**	**2,254**	**(57)**	**(158)**	**(478)**	**4,052**	**14**	**4,066**
Profit (loss) for the period	-	509	-			509	1	510
Other comprehensive income (expense)	-	-	(47)	(7)	69	15	-	15
Total comprehensive income (expense)	**-**	**509**	**(47)**	**(7)**	**69**	**524**	**1**	**525**
Dividends resolved		(80)				(80)	(1)	(81)
Repurchase of treasury shares less shares sold	4					4		4
Total transactions with owners of the parent, recognised directly in equity	**4**	**(80)**	**-**	**-**	**-**	**(76)**	**(1)**	**(77)**
Other changes	-	2	-	(3)		(1)	(3)	(4)
31 December 2018	**2,495**	**2,685**	**(104)**	**(168)**	**(409)**	**4,499**	**11**	**4,510**

Comparative data restated following the adoption of IFRS 15 (see Note 5)

Notes to the consolidated financial statements at 31 December 2018

1. GENERAL INFORMATION

Leonardo S.p.a. (hereinafter “the Company”) is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Italian Stock Exchange (FTSE MIB).

The Leonardo Group (hereinafter “the Group”) is a major Italian high technology organization operating in the Helicopters, Electronics, Defence and Security Systems, Aeronautics and Space sectors.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002 and of Legislative Decree 38 of 28 February 2005, the consolidated financial statements of the Leonardo Group at 31 December 2018 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, pursuant to Regulation (EC) 1606/2002, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

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

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

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

The International Financial Reporting Standards (IFRS) used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2017, except for what indicated below (Note 5).

All figures are shown in millions of euros unless otherwise indicated.

Preparation of the consolidated financial statements under the going-concern assumption required management to make certain 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 Note 4.

The consolidated financial statements at 31 December 2018 of the Leonardo Group were approved by the Board of Directors on 13 March 2019 that authorised their distribution. Publication is scheduled for the same day.

The consolidated financial statements are subject to a statutory audit by KPMG S.p.A..

3. ACCOUNTING POLICIES

3.1 Standards and scope of consolidation

The consolidated financial statements include the statements at 31 December 2018 of companies consolidated on a line-by-line basis, which have been prepared in accordance with the IFRSs adopted by the Leonardo Group. The consolidated entities and the respective shares held either directly or indirectly by the Group are reported in the attachment "Scope of consolidation".

3.1.1 Subsidiaries

The entities over which Leonardo exercises a controlling power, either by directly or indirectly holding a majority of shares with voting rights or by exercising the right to earn the variable profits deriving from its relations with those same entities, impacting on such profits and exercising its power on the company, also regardless of the nature of the shareholding, have been consolidated on a line-by-line basis. With regard to the activities of the Group in the USA, it is noted that some of them are subject to specific governance rules (such as the Special Security Agreement and the Proxy Agreement), which were agreed with the Defense Security Service (DSS) of the US Department of Defense (in charge of the protection of information related to the national security or, however, subject to secrecy restrictions). In particular, the Leonardo DRS group is managed through a Proxy Agreement, which provides for the appointment by Leonardo US Holding (the parent company of Leonardo DRS) – after consultation with Leonardo S.p.A. - of at least 5 US Proxy Holders subject to the approval of the DSS. These 5 Proxy Holders (with US nationality and residence, security clearance and independent with respect to Leonardo DRS and the Leonardo Group), besides acting as the directors of the company (together with 2 Non Proxy Directors appointed by them and chosen among the candidates indicated by Leonardo US Holding), are entitled to vote (a prior right of Leonardo US Holding) in the context of a trust relationship with the latter on whose basis their activity is performed in the interest of the shareholders and of the US national security. The Proxy Holders cannot be discharged by the shareholder, except in case of fraud or gross negligence or, subject to the approval of the DDS, if their

conduct infringes the principle of preservation of Leonardo DRS assets and the legitimate interests of the shareholders. Moreover, the Proxy Holders are committed to implementing specific governance procedures in order to guarantee shareholders their rights with the consent of the DSS and in compliance with the restrictions under the Proxy Agreement in relation to "classified" information, and to oversee that Company's management maintains independence in relation to any possible influence exercised by the foreign partner. The shareholder is directly responsible for the decisions on extraordinary transactions, the purchase/disposal of assets, the taking over of debts, the granting of guarantees and the transfer of intellectual property rights in the context of defense.

Not consolidated on a line-by-line basis are those entities which, because of the dynamics of their operations (e.g. consortia without shares and controlling interests in equity consortia which, by charging costs to their members, do not have their own financial results and the financial statements of which do not, net of intercompany assets and liabilities, have material balances) or their current status (e.g. companies that are no longer operational, have no assets or personnel, or for which the liquidation process appears to be essentially concluded), would be immaterial to the Group's situation in both quantitative and qualitative terms. These holdings have been consolidated using the equity method.

All controlled entities are consolidated at the date on which control was acquired by the Group. The entities are removed from the consolidated financial statements at the date on which the Group loses control.

Business combinations are recognised using the purchase method where the purchase cost is equal to the fair value, at the date of the purchase of assets sold, of liabilities incurred or assumed, as well as the capital instruments, if any, issued by the purchaser. The cost of the transaction is allocated recognising assets, liabilities and the identifiable contingent liabilities of the acquired company, at their related fair value at the purchase date. Any positive difference between the cost of the transaction and the fair value at the date of the purchase of the assets and liabilities is allocated to goodwill. In the event the process of allocating the purchase price should result in a negative difference, this difference is recorded in the income statement.

Additional charges related to the acquisition are recognised in the income statement at the date when services are rendered.

In the case of purchase of controlling stakes other than 100% stakes, goodwill is recognised only to the extent of the portion attributable to the Group Parent. The value of the non-controlling interests is determined in proportion to the non-controlling equity investments in the identifiable net assets of the acquired company.

In case the business combination is carried out through more than one phase, at the moment of the taking over the equity investments previously held are re-measured at their fair value and the difference (positive or negative), if any, is recognised in the income statement.

In the case of purchase of non-controlling stakes, after control is obtained, the positive difference between the acquisition cost and the book value of the non-controlling stakes acquired is recorded as a reduction of the net equity of the Group Parent. In the event of disposal of stakes while control is retained, the difference between the cashed consideration and the book value of the stakes sold is recorded directly as an increase of the net equity, without recording in the income statement.

Amounts resulting from transactions with consolidated entities have been eliminated, particularly where related to receivables and payables outstanding at the end of the period, as well as interest and other income and expenses recorded on the income statements of these enterprises. Also eliminated are the net profits or losses posted between the consolidated entities along with their related tax adjustments.

3.1.2 Jointly controlled entities and other equity investments

Joint Arrangements, based on which joint control over an arrangement is assigned to two or more parties, are classified as either a Joint Operation (JO) or a Joint Venture (JV), on the basis of an analysis of the underlying contractual rights and obligations. In particular, a Joint Venture is a joint arrangement whereby the parties, whilst holding control over the main strategic and financial decisions through voting mechanisms requiring the unanimous consent on such decisions, do not hold legally significant rights to the individual assets and liabilities of the JV. In this case joint control regards the net assets of the joint ventures. This form of control is reflected in the financial statements using the equity method, as described below. A Joint Operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities. In this case, individual assets and liabilities and the related costs and revenues are recognised in the financial statements of the party to the arrangement on the basis of the rights and obligations to each asset and liability, regardless of the interest held. After initial recognition, the assets, liabilities and related costs are valued in accordance with the reference accounting standards applied to each type of asset/liability.

The Group's joint arrangements are all classified as joint ventures.

Entities over which significant influence is exercised, which generally corresponds to a holding of between 20% (10% if listed) and 50% (equity investments in associates), and Joint Ventures (as qualified above) are accounted for using the equity method. When the equity method is applied, the value of the investment is in line with shareholders' equity adjusted, when necessary, to reflect the application of IFRSs, and includes the recognition of goodwill (net of impairments) calculated at the time of purchase, and to account for the adjustments required by the standards governing the preparation of consolidated financial statements. Gains and losses realized among consolidated entities valued at equity and other Group entities consolidated on a line-by-line basis, are eliminated. In the event the Group has evidence of an impairment loss of the investment, in excess of the amount accounted for under the equity method, the Group will proceed with

calculating the impairment to be recorded in the income statement which is determined as the difference between the recoverable amount and the carrying amount of the investment.

Any value losses in excess of book value are recorded in the provision for risks on equity investments, to the extent that there are legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity.

The fair value of equity investments, in the event this method applies, is calculated based on the bid price of the last trading day of the month for which the IFRS report was prepared, or based on financial valuation techniques for not listed instruments.

Investments available for sale, like those acquired with the sole purpose of being disposed within the subsequent twelve months, are classified separately within "Assets held for sale" applying the recognition criteria described in Note 3.10.3).

3.2 Segment information

In accordance with the compliance model followed, management has adopted operating segments that corresponds to the business sectors in which the Group operates: (Helicopters, Electronics, Defence and Security Systems, Aeronautics, Space and Other Activities).

3.3 Currency translation

3.3.1 Identification of the functional currency

The balances of the financial statements of each Group entity are presented in the currency of the primary economy in which each enterprise operates (the functional currency). The consolidated financial statements for the Leonardo Group have been prepared in euros, which is the functional currency of the Group Parent.

3.3.2 Translation of transactions denominated in a foreign currency

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

3.3.3 Translation of financial statements expressed in a currency other than the functional currency

The rules for translating financial statements expressed in a foreign currency into the functional currency (except where the currency is that of a hyper-inflationary economy, a situation not applicable to the Group) are as follows:

- the assets and liabilities presented are translated at the end-of-period exchange rate;
- costs and revenues, charges and income presented are translated at the average exchange rate for the period in question, or at the exchange rate on the date of the transaction in the event this is significantly different from the average rate;
- the "translation reserve" includes both the exchange rate differences generated by the translation of balances at a rate different from that at the close of the period and those that are generated by the translation of opening equity balances at a rate different from that at the close of the period. The translation reserve is reversed to the income statement upon the full or partial disposal of the equity investment that results in loss of control.

Goodwill and adjustments deriving from the fair value measurement of assets and liabilities related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the end-of-period exchange rate.

With reference to data comparability, the year 2018 has been marked by the following changes in the euro against the main currencies of interest for the Group:

	31 December 2018		**31 December 2017 restated**		**% Change**	
	average	final	average	final	average	final
US dollar	1.1815	1.1450	1.1293	1.1993	4.6%	(4.5%)
Pound sterling	0.8847	0.8945	0.8762	0.8872	1.0%	0.8%

3.4 Intangible assets

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

3.4.1 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 of the company and its range is between 3 and 15 years.

3.4.2 Concessions, licence and trademarks

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

3.4.3 Intangible assets acquired as a result of business combinations

The intangible assets acquired as a result of business combinations essentially refer to the order backlog and commercial positioning, customer portfolio and software/know-how; they are valued during the purchase price allocation. The assets' useful life changes according to the business of the acquired company and ranges as follows:

	Years
Customer backlog and commercial positioning	7-15
Backlog	10-30
Software/know how	3

3.4.4 Goodwill

Goodwill recognised as an intangible asset is associated with business combinations and represents the difference between the cost incurred to acquire a company or division and the sum of the fair values assigned at the purchase date, to the individual assets and liabilities of the given company or division. As it does not have a definite useful life, goodwill is not systematically amortised but is subject to impairment tests conducted at least once a year, according to a specific procedure approved each year by the Board of Directors, unless market and operational factors identified by the Group indicate that an impairment test is also necessary in the preparation of interim financial statements. In conducting an impairment test, goodwill acquired in a business combination is allocated to the individual Cash Generating Unit (CGU) or to groups of

CGUs that are expected to benefit from the synergies of the combination, in line with the minimum level at which such goodwill is monitored within the Group. Goodwill related to unconsolidated associates, joint ventures or subsidiaries is included in the value of investments.

3.5 Property, plant and equipment

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

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

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the date in which the asset is ready for use. The estimated useful lives adopted by the Group for the various asset classes are as follows:

	Years
Land	Indefinite useful life
Buildings	20-33
Plant and machinery	5-10
Equipment	3-5
Other assets	5-8

The estimated useful life and the residual value are revised at least annually.

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

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

This item also includes equipment intended for specific programmes (tooling), although it is depreciated, as with other non-recurring costs (Note 4.2), on the basis of units manufactured in relation to those expected to be produced.

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

3.6 Investment properties

Properties held to earn rentals or for capital appreciation are carried under "Investment properties"; they are valued at purchase or construction cost plus any related charges, net accumulated depreciation and impairment, if any.

3.7 Impairment of intangible assets and property, plant and equipment

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

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

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

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

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

3.8 Inventories

Inventories are recorded at the lower of cost, calculated with reference to the weighted average cost, and net realisable value. They do not include financial costs and overheads. The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale. Inventories include, within "Point in time contract assets", the production progress related to contracts which do not meet the requirements for revenue recognition over.

3.9 Revenues and contract assets/liabilities 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.

Contracts that meet the requirements for the recognition of revenue over time are classified under "contract assets" or under "contract liabilities" based on the relationship between the Group's performance and the customer's payment. In particular:

- "net contract assets" represent the entity's right to consideration in exchange for goods and services that the entity has transferred to a customer;
- "(net) contract liabilities" represent the Group's obligation to transfer goods or services to the customer for which the entity has received consideration (or for which the amount is due) from the customer.

If a contract provides for more than one performance obligation, representing a contract promise to transfer a specific good or service to the customer (or a series of specific goods or services that are substantially the same and are transferred according to the same methods), the classification under assets or liabilities is carried out on an overall basis and not by each single performance obligation.

Contract assets and liabilities are recognised using the percentage-of-completion measuring method, according to which costs, revenues and margins are recognised based on the progress of production. The state of completion is determined on the basis of the ratio between costs incurred at the measurement date and the total expected costs for the programme or based on the production units delivered.

Vice versa, if the requirements for the recognition of contracts over time are not met, revenue is recognised at a point in time; in such cases, the production progress related to contracts with customers is recognised under contract assets at a point in time within "inventories".

Contract assets (recognised under a special item or within inventories) are stated net of any provisions for write-down.

The assumptions upon which the estimates are made are periodically updated. Any impact on profit or loss is recognised in the period in which the updates are made. If a contract is an "onerous" contract, the methods for recognition are reported in note 3.17.

Contracts with payments in a currency other than the functional currency (the euro for the Group) are measured by converting the portion of payments due, calculated using the percentage-of-completion method, at the exchange rate prevailing at the close of the period in question. However, the Group's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically. In such cases, the recognition methods described in Note 4.3 below are applied.

3.10 Financial assets

The Group 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 Group 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 a significant financial component are 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 Group changes its own business model for their management.

The Group recognises in 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, weighing the probable results from a range of scenarios and discounting amounts using the effective interest method.

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

3.10.1 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.

3.10.2 Financial assets at fair value through other comprehensive income

Such category includes financial assets 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).

3.10.3 Financial assets at fair value through profit and 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 (Note 3.11) 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 o through financial techniques and models.

3.11 Derivatives

Derivatives are still stated at fair value through profit or loss unless they are deemed effective hedge for specific risk in respect of underlying assets, liabilities or commitments undertaken by the Group.

In particular, the Group uses derivatives as part of its hedging strategies to offset the risk of changes in the fair value of financial assets or liabilities on its balance sheet or the risk associated with contractual commitments (fair-value hedges) and the risk of changes in expected cash flows in contractually defined or highly probable operations (cash-flow hedges). For details regarding the methodology for recognising hedges of the exchange rate risk on long-term contracts, see Note 4.3.

The effectiveness of hedges is documented and tested both at the start of the operation and periodically thereafter (at least every time an annual or interim report is published) and measured by comparing changes in the fair value of the hedging instrument against changes in the hedged item ("dollar offset ratio"). For more complex instruments, the measurement involves statistical analysis based on the variation of the risk.

3.11.1 Fair value hedge

Changes in the fair value of derivatives that have been designated and qualify as fair-value hedges are recognised in profit or loss, in the same manner as the treatment of changes in the fair value of the hedged assets or liabilities that are attributable to the risk that has been covered with the hedge.

3.11.2 Cash flow hedge

Changes in the fair value of derivatives that have been designated and qualify as cash-flow hedges are recognised – with reference to the "effective" component of the hedge only – in the statement of comprehensive income through a specific equity reserve ("Cash-flow hedge reserve"), which is subsequently recognised in the income statement when the underlying transaction affects profit or loss. Changes in fair value attributable to the non-effective component are immediately recognised in the income statement for the period. If the occurrence of the underlying operation ceases to be highly probable, the relevant portion of the cash-flow hedge reserve is immediately recognised in the income statement. If the derivative is sold, expires

or ceases to function as an effective hedge against the risk for which it was originated, the relevant portion of the "cash-flow hedge reserve" is kept recognised until the underlying contract shows its effect. The recognition of the cash-flow hedge is discontinued prospectively.

3.11.3 Determining fair value

The fair value of instruments quoted on public markets is determined with reference to the bid price for the instrument in question at the reference date. The fair value of unquoted instruments is determined with financial valuation techniques. Specifically, the fair value of interest-rate swaps is measured by discounting the expected cash flows, while the fair value of foreign exchange forwards is determined on the basis of the market exchange rate at the reference date and the expected rate differentials among the currencies involved.

Financial assets and liabilities valued at fair value are classified in the three hierarchical levels described below, on the basis of the materiality of inputs used in the fair value measurement. In particular:

- Level 1: financial assets and liabilities whose fair value is determined on the basis of the unadjusted quoted prices in an active market for identical assets and liabilities that Leonardo can access at the measurement date;
- Level 2: financial assets and liabilities whose fair value is determined on the basis of inputs other than the quoted prices as in Level 1, that are directly or indirectly observable;
- Level 3: financial assets and liabilities whose fair value is determined on the basis of unobservable inputs.

3.12 Cash and cash equivalents

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

3.13 Equity

3.13.1 Share capital

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

3.13.2 Treasury shares

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

3.14 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 Group has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

3.15 Taxation

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

Current taxes are calculated in accordance with the existing fiscal legislation applicable to those countries in which the Group operates and in force at the balance-sheet date. Any risks connected with a different interpretation of the positive and negative components of income, together with ongoing disputes with the tax authorities are regularly assessed, in order to adjust the provisions made.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the carrying amounts of assets and liabilities and their value for tax purposes, as well as on fiscal losses. Deferred tax assets and liabilities are calculated by applying the tax rate that is expected to be in force at the time the temporary differences will be reversed. The estimation is made based on tax laws in effect or substantially in effect at the reporting date. Deferred tax assets, including those deriving from tax losses, are recognised to the extent that, based on the company plans approved by the directors, it is probable the company will post future taxable income in respect of which such assets can be utilised.

3.16 Employee benefit obligations

3.16.1 Post-employment benefit plans

Group companies use several types of pension and supplementary benefit plans, which can be classified as follows:

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

3.16.2 Other long-term benefits and post-employment benefits

Group companies grant employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined-benefit plans, using the projected unit credit method. However for "Other long-term benefits" net actuarial gains and losses are both recognised to profit or loss immediately and in full as they occur.

3.16.3 Benefits payable for the termination of employment and incentive plans

Termination benefits are recognised as liabilities and expenses when the enterprise is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The benefits payable to employees for the termination of employment do not bring

any future economic benefit to the enterprise and are therefore recognised immediately as expenses.

3.16.4 Equity compensation benefits

In case the Group uses stock-option and stock-grant plans to compensate the senior management, the theoretical benefit attributable to the recipients is charged to the income statement in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring at the assignment date the fair value of the assigned instrument, using financial valuation techniques that take account of market conditions and, at the date of each annual report, an updated estimate of the number of instruments expected to be distributed. Vice versa, the fair value initially calculated is not updated in the subsequent recognitions.

3.17 Provisions for risks and charges

Provisions for risks and charges are recognised when, at the reporting date, the entity has a present obligation (legal or constructive) to other parties as a result of a past event, and it is probable that, in order to settle the obligation, whose amount can be reliably estimated, an outflow of resources will be required.

The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability. Changes in the estimates are recognised in the income statement of the year in which the change occurs. With regard to some disputes, the information required by IAS 37 “Provisions, contingent liabilities and contingent assets” is not reported, in order to not jeopardize the Group position in the context of such disputes or negotiations.

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

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 current risks and charges. The reversal of such accruals is recognised as absorption under “Other operating income”.

3.18 Leasing

3.18.1 Group entities as lessees in a finance lease

At the date on which a lease is first recognised, the lessee records a non-current tangible asset and a financial liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the inception of the lease, using the implicit interest rate in the lease or the incremental borrowing rate. Subsequently, an amount equal to the depreciation expense for the asset and the finance charge separated from principal component of the lease payment made in the period is recognised in the income statement. Depreciation periods are indicated in Note 3.5.

3.18.2 Group entities as lessors in a finance lease

At the date on which a lease is first recognised, the value of the leased asset is eliminated from the balance sheet and a receivable equal to the net investment in the lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, financial income is recognised in the income statement for the duration of the contract in an amount providing a constant periodic rate of return on the lessor's net investment.

The unsecured residual value is reviewed periodically for possible impairment.

3.18.3 Operating leases

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract on a straight-line basis.

3.19 Government grants

Once formal authorisation for their assignment has been issued, grants are recognised on an accruals basis in direct correlation with the costs incurred. Specifically, set-up grants are taken to the income statement in direct relation to the depreciation of the relevant goods or projects, and are recognised as a direct reduction in the value of the depreciation expense. In balance sheet, grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to profit or loss. For the analysis of the aspects related to grants under Law 808/1985, reference should be made to Note 4.2.

3.20 Costs

Costs are recorded in compliance with the accrual principle.

3.21 Financial income and expense

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

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

3.22 Dividends

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

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

3.23 Discontinued operations and non-current assets held for sale

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

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

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

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

The results of discontinued operations – whether they have been disposed of or classified as held for sale or under disposal – are presented separately in the income statement, less tax effects. The corresponding values of the prior year, if any, are reclassified and shown separately in the income statement, for comparative purposes, net of tax effect.

3.24 New IFRS and IFRIC interpretations

At the date of preparation of this report, the European Commission has endorsed certain standards and interpretations that are not compulsory which will be applied by the Group in the following financial periods. The main amendments and potential effects for the Group are summarised below:

IFRS 9	Financial instruments – part of the standard regarding hedge accounting	The standard redefines the hedge accounting model. The application of the new provisions is allowed until the macro-hedging accounting becomes effective. The impact deriving from the adoption of such standard on the Group is currently under examination.
IFRS 16	Leases	This standard redefines the recognition methods for operating leases in the lessee's financial statements requiring a single lessee accounting method for all types of leases. A lessee is required to recognize in its financial statements tangible leased assets and a lease liability in respect of future lease payments. The main effects deriving from the application of this new standard are: - the recognition of non-current assets equal to the rights of use of tangible and intangible assets under existing lease agreements; - the recognition of financial liabilities equal to the present value of future lease payments; - improvement of the cash flow from operating activities thanks to the recognition of the outlays for lease payments among cash flows used in financing activities. The Group will apply this standard as from 1 January 2019. Given the present analysis, it is possible to conclude that, on a preliminary basis and subject to its completion, the estimated impact on the Group's Financial Debt at 1 January 2019 will be equal to an increase of about 20%.

We expect no significant effects on the Group's financial statements deriving from other amendments to standards and interpretations.

There are a number of standards or amendments to existing principles issued by the IASB or new interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for which the revision and approval project is still under way.

4. SIGNIFICANT ISSUES AND CRITICAL ESTIMATES BY MANGEMENT

4.1 Research and development costs

This account includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced (including higher set-up costs incurred compared to the costs of the asset once fully operating), prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. These costs are amortised according to the units-of-production method, over the period in which the future earnings are expected to be realised for the project itself. The useful life changes according to the business of the company and it exceeds 5 years on average. If such costs fall within the scope of costs defined by Group standards as "non-recurring costs", they are recognised in a specific item under intangible assets (Note 4.2).

The initial recognition and subsequent assessment of their recoverability require complex estimates by management which estimates are influenced by a number of factors, such as the time-line of the product business plans and the company's ability to anticipate the commercial success of the new technologies.

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

4.2 Non-recurring costs

"Non-recurring costs" under intangible assets are the costs incurred in designing, prototyping, starting-up and upgrading to the technical and functional specifications of clearly identified potential clients – including higher set-up costs compared to costs for the asset once fully operating –, if they are financed, in particular under Law 808/1985 governing State aids to support the competitiveness of entities operating in the Aeronautics and Defence segments. These costs are shown excluding the benefits collected or to be collected under Law 808/1985 for programmes qualified as functional to national security and similar. The aid under Law 808/1985 is deducted from capitalised costs, and the royalties to be given to the grantor are recognised as the requirements are met (amounts collected from the sale of products embedding the technology for which the Law permits aids). For the programmes other than national security programmes and programmes treated as such, the funds received are recognised as "Other liabilities", making a distinction between the

current portion and the non-current portion, based on the date of repayment. In both cases, non-recurring costs are carried among intangible assets and are amortised within job orders on the units-of-production method.

The main capitalised costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans, which in general are made for a period greater than 5 years, in light of the particularly long life of products under development.

The initial recognition and subsequent assessment of the recoverability of these costs require estimates, which are by their own nature complex and marked by a high level of uncertainty as they are influenced by a number of factors, such as the time-line of the product business plans and the company's ability to anticipate the commercial success of the new technologies. These estimates therefore imply significant assessments by management which take into account the reasonable certainty that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

In the case of programmes that benefit from the provisions of Law 808/1985 and that are classified as functional to national security, the portion of non-recurring costs capitalised, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry, is shown separately under "other non-current assets". The related amount is calculated based on an estimate made by management that reflects the reasonable certainty that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

4.3 Hedging long-term contracts against foreign exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Group enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment the commercial contracts are finalised, except where the award of the contracts is felt to be highly likely as a result of existing framework contracts. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts); in some cases, however, in order to protect the Group against the persistent adverse trend in the US dollar, we have entered into more highly structured operations that, while substantively hedging the positions, do not qualify for hedge accounting under IAS 39. In these cases, as in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the income statement as financial items, while the underlying is valued as if it were exposed to exchange rate variations. The effects of this recognition policy are reported in Note 30. Hedges in the former case are reported as cash-flow hedges, considering as ineffective the part relating to the premium or

discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

4.4 Estimate of revenue and final costs of long- term contracts

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis 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. Moreover, failure to comply with contractual terms and conditions such as the delivery times and the non-compliance of products and services with customers' specific requests 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 Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management's best estimate at the reporting date supported by said tools.

4.5 Liabilities from defined-benefit pension plans

The Group is sponsor to two UK defined-benefit pension plans and to various US and other minor European plans. It has the obligation to ensure a given level of benefits to the plan participants and carries the risk that the plan assets are not adequate to cover the benefits promised. In case these plans are in a deficit position, the trustee responsible for the management requests the Group to fund the plan.

The deficit resulting from the most updated actuarial valuations made by independent experts is recognised as a liability: these valuations stem from actuarial, demographic, statistical and financial assumptions that can vary over time.

4.6 Impairment of assets

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

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 Group 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 Note 9.

4.7 Disputes

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

5. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

With effect from 1 January 2018 the Company adopted the new accounting standards IFRS 15 "Revenue From Contracts with Customers" and IFRS 9 "Financial Instruments".

IFRS 15, which replaces IAS 11 and IAS 18, sets out new rules to recognise revenues, as well as to provide additional disclosures in the notes to the financial statements. In general the new model provides for revenues to be recognised when control over goods or services is transferred to customers, in lieu of the previous analysis based on "risks and rewards". Identifying when the transfer of control occurs – over time or at a point in time - is an area subject to strong evaluations by management.

The Group applied the standard from 1 January 2018, using a retrospective application in a practical way, restating the 2017 accounting balances for comparative purposes. The main impact areas deriving from the application of the new standard were:

a. introduction of new criteria for revenue recognition during the execution of the contract; if those criteria are not met, then revenue is recognised solely at the completion of the contract. This required a review

of contracts, which are normally medium/long-term. Such analysis highlighted the necessity to change the revenue and margin recognition methods in relation to certain contracts (passing from the previous recognition of the margins of certain contracts "over time" to "at a point in time" and vice versa);

b. definition of new specific requirements to establish if goods and services included in mass-supply have to be recognised as a single performance obligation or as a separate performance obligation. In respect of certain contracts entered into by the Group it was necessary to unbundle the contracts into two or more performance obligations, with consequent effects on the remeasurement of margins;
c. definition of new criteria on contract cost recognition;
d. more defined criteria to be applied to mass productions with the consequent remeasurement of the margins of this kind of productions;
e. accounting treatment of the onerous contracts and change in the classification of provisions for final losses on existing contracts, which are recognised, based on the new standard, under provisions for current risks and charges and no longer as a decrease in contract assets and liabilities.

Finally, the application of the new standard has also entailed changes in the Order Backlog to take account of any adjustment made to those revenues that were recognised until the date of application of the new standard (these adjustments impact on the amount still to be worked, accounted for by the Backlog), as well as to exclude those orders that do not meet the requirements set out in IFRS 15

The effects deriving from the application of IFRS 15 on the comparative periods are detailed below, together with impact areas mentioned above:

(€mil.)	*Note*	*2017 reported*	*restatement*	*2017 restated*
Revenue	*a, b, c, d*	11,527	207	11,734
Other operating income		569	-	569
Purchase and personnel expense	*a, b, c, d*	(10,275)	(177)	(10,452)
Amortisation, depreciation and write-offs	*c*	(676)	(3)	(679)
Other operating expenses		(583)	(1)	(584)
Income before tax and financial expenses		**562**	**26**	**588**
Financial income		235	-	235
Financial expense		(688)	-	(688)
Share of profits/(losses) of equity-accounted investees	*a, b*	288	(15)	273
Operating profit (loss) before income taxes and discontinued operations		**397**	**11**	**408**
Income taxes	*a, b, c, d*	(123)	(6)	(129)
Profit (loss) from discontinued operations		-	-	-
Net profit/(loss) for the period attributable to:		**274**	**5**	**279**
- owners of the parent		272	5	277
- non-controlling interests		2	-	2
Earnings/(losses) per share		0.474	*0.008*	*0.482*
- basic and diluted from continuing operations		0.474	*0.008*	*0.482*
- basic and diluted from discontinued operations		*n.a*	*n.a*	*n.a*

Statement of financial position *(€mil.)*	*Note*	*31 December 2017 reported*	*restatement*	*31 December 2017 restated*
Intangible assets	*a, b, c, d*	6,538	12	6,550
Property, plant and equipment		2,233	-	2,233
Investment property		61	-	61
Investments accounted for under equity method	*a, b, c*	1,180	(58)	1,122
Receivables		503	-	503
Deferred tax assets		1,067	76	1,143
Other non-current assets	*a, b, c, d*	160	-	160
Non-current assets		**11,742**	**30**	**11,772**
Inventories	*a*	4,381	354	4,735
Contract assets	*a, b, c, d*	2,885	(694)	2,191
Trade receivables	*a, b, c, d*	3,187	(8)	3,179
Income tax receivables		174	-	174
Loans and receivables		157	-	157
Other assets		608	-	608
Cash and cash equivalents		1,893	-	1,893
Current assets		**13,285**	**(348)**	**12,937**
Non-current assets held for sale		**2**	-	**2**
Total assets		**25,029**	**(318)**	**24,711**
Share capital		2,491	-	2,491
Other reserves		1,977	(269)	1,708
Equity attributable to the owners of the parent		**4,468**	**(269)**	**4,199**
Equity attributable to non-controlling interests		16	(2)	14
Total equity		**4,484**	**(271)**	**4,213**
Loans and borrowings (non-current)		3,265	-	3,265
Employee benefits		554	-	554
Provisions for risks and charges	*a, b, c, d*	999	(126)	873
Deferred tax liabilities		352	-	352
Other non-current liabilities	*c*	1,067	(9)	1,058
Non-current liabilities		**6,237**	**(135)**	**6,102**
Contract liabilities	*a, b, c, d*	7,214	(235)	6,979
Trade payables	*a, b, c, d*	2,955	7	2,962
Loans and borrowings (current)		1,417	-	1,417
Income tax payables		29	-	29
Provisions for short-term risks and charges	*a, b, c, d*	793	472	1,265
Other current liabilities		1,900	(156)	1,744
Current liabilities		**14,308**	**88**	**14,396**
Total liabilities		**20,545**	**(47)**	**20,498**
Total liabilities and equity		**25,029**	**(318)**	**24,711**

Statement of financial position ***(€mil.)***	***Note***	***1° gennaio 2017***	***restatement***	***1° gennaio 2017 restated***
Intangible assets	*a, b, c, d*	6,719	14	6,733
Property, plant and equipment		2,375	-	2,375
Investment property		48	-	48
Investments accounted for under equity method	*a, b, c*	1,123	(42)	1,081
Receivables		586	-	586
Deferred tax assets		1,231	82	1,313
Other non-current assets	*a, b, c, d*	102	-	102
Non-current assets		**12,184**	**54**	**12,238**
Inventories	*a*	4,014	496	4,510
Contract assets	*a, b, c, d*	2,541	(878)	1,663
Trade receivables	*a, b, c, d*	3,424	(14)	3,410
Financial assets at fair value		-	-	0
Income tax receivables		162	-	162
Loans and receivables		98	-	98
Other assets		781	-	781
Cash and cash equivalents		2,167	-	2,167
Current assets		**13,187**	**(396)**	**12,791**
Non-current assets held for sale		14	-	14
Total assets		**25,385**	**(342)**	**25,043**
Share capital		2,491	-	2,491
Other reserves		1,866	(274)	1,592
Equity attributable to the owners of the parent		4,357	(274)	4,083
Equity attributable to non-controlling interests		16	(2)	14
Total equity		**4,373**	**(276)**	**4,097**
Loans and borrowings (non-current)		4,011	-	4,011
Employee benefits		702	-	702
Provisions for risks and charges	*a, b, c, d*	1,125	(128)	997
Deferred tax liabilities		391	(2)	389
Other non-current liabilities	*c*	1,155	(6)	1,149
Non-current liabilities		**7,384**	**(136)**	**7,248**
Contract liabilities	*a, b, c, d*	6,457	(390)	6,067
Trade payables	*a, b, c, d*	2,838	7	2,845
Loans and borrowings (current)		1,267	-	1,267
Income tax payables		68	-	68
Provisions for short-term risks and charges	*a, b, c, d*	792	611	1,403
Other current liabilities		2,206	(158)	2,048
Current liabilities		**13,628**	**70**	**13,698**
Liabilities associated with assets held for sale		-	-	0
Total liabilities		21,012	(66)	20,946
Total liabilities and equity		**25,385**	**(342)**	**25,043**

(€mil.)	**2017 reported**	*restatement*	**2017 restated**
Gross cash flows from operating activities	1,589	28	1,617
Change in trade receivables/payables, contract assets/liabilities and inventories	(52)	6	(46)
Change in other operating assets and liabilities and provisions for risks and charges	(423)	(34)	(457)
Interest paid	(289)	-	(289)
Income taxes received/(paid)	(103)	-	(103)
Cash flows generated (used) from operating activities	**722**	**-**	**722**
Investments in property, plant and equipment and intangible assets	(483)	-	(483)
Sales of property, plant and equipment and intangible assets	3	-	3
Other investing activities	139	-	139
Cash flows generated (used) from investing activities	**(341)**	**-**	**(341)**
Bond issue	591	-	591
Bond redemption	(1,172)	-	(1,172)
Net change in other loans and borrowings	61	-	61
Dividends paid	(81)	-	(81)
Cash flows generated (used) from financing activities	**(601)**	**-**	**(601)**
Net increase (decrease) in cash and cash equivalents	(220)	-	(220)
Exchange rate differences and other changes	(54)	-	(54)
Cash and cash equivalents at 1 January	2,167	-	2,167
Cash and cash equivalents at 31 December	**1,893**	**-**	**1,893**

IFRS 9 provides for new rules to recognise and measure financial assets and liabilities. The standard, which replaces IAS 39, has significantly amended the treatment of financial instruments, introducing a new classification based on the features of the Company's business model and cash flows, and provides for the application of a structured impairment model for financial assets based on expected lifetime losses.

According to the type of financial assets and liabilities held by the group, the new model for the classification of financial instruments has not reported particular critical issues, while the main area of impact has been the definition of a new impairment model for financial assets (specifically trade receivables and contract assets), in order to take account of the particular features of the relevant customers. For this purpose the simplified impairment model has been adopted, according to which the value of financial assets also reflects a theoretical probability of default of the counterparty (PD - Probability of Default) and the capacity to recover the asset in the event that said default occurs (LGD - Loss Given Default). For some customer clusters characterised by greater parcelisation, a simplified approach has been adopted which is based on a "provision matrix", which breaks down receivables into uniform sub-sets by nature and maturity.

The Group adopted the standard as from 1 January 2018 (except for hedge accounting provisions which may be adopted at a later time). Upon first-time adoption, the effects of the adoption of the new accounting standard concerning impairment were recognised in equity at 1 January 2018, without any restatement of the 2017 accounting statement for comparative purposes, given the complexity to restate comparative values without reflecting elements that became known at a later time.

Below is the breakdown of these effects on values at 1 January 2018:

	IFRS 9 effects
Investments accounted for under equity method	(3)
Advances tu suppliers	(20)
Trade recevables	(120)
Contract assets	(41)
Financial receivables	(11)
Deferred tax assets	48
Total effect on Equity	**147**

6. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

As stated in Note 21, the judgment became final, which acquitted Ansaldo Energia of the charge of unlawful act referred to in art. 25 of Legislative Decree 231/2001, which had led to the confiscation of €mil. 98.7, in addition to a monetary penalty. These amounts had been the object of a guarantee issued by Leonardo for the sale of its equity investment, with the concurrent recognition of a provision for risks, which was released during the year following the favourable judgment. The effects of the provision absorption through profit or loss, consistently with the reporting of the accounting effects of the sale made in the previous financial statements, have been classified under the result from “Discontinued Operations”.

As described in the section on “Industrial Transactions” of the Report on Operations, in April 2018 an agreement was signed under art. 4 of Law 92/2012 (Fornero Act), involving up to 1,100 employees; a similar arrangement was subsequently signed with the trade unions of executive staff, up to a number of 65 executives. The first period for the application of the abovementioned measures concluded on 30 November 2018, with the exit of 459 employees and 28 executives. The estimated costs relating to the measures are equal to about €mil. 170.

No non-recurring events or transactions were reported during 2017.

7. SIGNIFICANT POST BALANCE SHEET EVENTS

On 31 January 2019 there was the closing of the acquisition of the total stake in Vitrociset S.p.A., a transaction that is more extensively described in the section on “Industrial transactions” of the Report on Operations.

8. SEGMENT INFORMATION

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: Helicopters, Electronics, Defence and Security Systems, Aeronautics, Space and Other activities.

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations.

The Group assesses the performance of its operating segments and the allocation of its financial resources on the basis of revenue and EBITA (see also the section "Non-GAAP performance indicators" in the Report on Operations). For the purpose of a correct interpretation of the information provided we note that the results of the strategic Joint Ventures have been included within the EBITA of the sectors to which these JVs belong; conversely, these sectors do not reflect the relevant share of revenue of the JVs.

The results for the operating sectors at 31 December 2018, as compared to 2017, are as follows:

31 December 2018	**Helicopters**	**Electronics, Defence & Security Systems**	**Aeronautics**	**Space**	**Other Activities**	**Elimin-ations**	**Total**
Revenues	3,810	5,953	2,896	-	340	(759)	12,240
Inter-segment revenue (*)	(5)	(498)	(3)	-	(253)	759	-
Third party revenue	**3,805**	**5,455**	**2,893**	**-**	**87**	**-**	**12,240**
EBITA	359	522	328	58	(147)	-	1,120
Investments	141	197	122	-	48	-	508
Non-current assets (**)	3,188	3,561	1,347	-	717	-	8,813
31 December 2017 restated	**Helicopters**	**Electronics, Defence & Security Systems**	**Aeronautics**	**Space**	**Other Activities**	**Elimin-ations**	**Total**
Revenues	3,438	5,550	3,093	-	338	(685)	11,734
Inter-segment revenue (*)	(6)	(423)	(3)	-	(253)	685	-
Third party revenue	**3,432**	**5,127**	**3,090**	**-**	**85**	**-**	**11,734**
EBITA	281	537	311	72	(124)	-	1,077
Investments	136	173	127	-	29	-	465
Non-current assets (**)	3,166	3,505	1,435	-	738	-	8,844

(*) Inter-segment revenue includes revenue among Group consolidated undertakings belonging to various business sectors.
(**) The portion of non-current assets relates to intangible assets and property, plant and equipment as well as to investment property.

The reconciliation of EBITA, EBIT and earnings before income taxes, financial income and expense and the share of results of equity-accounted investees for the periods concerned is shown below:

2018	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other Activities	Total
EBITA	359	522	328	58	(147)	1,120
Amortisation of intangible assets acquired as part of business combinations	(9)	(89)	-	-	-	(98)
Restructuring costs	(26)	(122)	(41)	-	(16)	(205)
Non-recurring income/charges	-	(73)	(29)	-	-	(102)
EBIT	**324**	**238**	**258**	**58**	**(163)**	**715**
Equity-accounted strategic JVs	-	(61)	(97)	(58)	-	(216)
Income before tax and financial expenses	**324**	**177**	**161**	**-**	**(163)**	**499**

2017 restated	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other Activities	Total
EBITA	281	537	311	72	(124)	1,077
Amortisation of intangible assets acquired as part of business combinations	(9)	(89)	-	-	-	(98)
Restructuring costs	(2)	(30)	-	-	(24)	(56)
Non-recurring income/charges	(55)	(5)	(19)	-	-	(79)
EBIT	**215**	**413**	**292**	**72**	**(148)**	**844**
Equity-accounted strategic JVs	-	(52)	(132)	(72)	-	(256)
Income before tax and financial expenses	**215**	**361**	**160**	**-**	**(148)**	**588**

Below is the breakdown of revenue by geographical area (based on the customer's home country) and relevant sector:

31 December 2018	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Other Activities	Elimin-ations	Total
Italy	441	1,407	207	325	(569)	1,811
United Kingdom	593	-942	-	-	(187)	1,348
Rest of Europe	1,236	810	1,027	11	-	3,084
North America	324	2,142	951	1	(3)	3,415
Rest of the world	1,216	652	711	3	-	2,582
Revenues	**3,810**	**5,953**	**2,896**	**340**	**(759)**	**12,240**
Inter-segment revenue (*)	(5)	(498)	(3)	(253)	759	-
Third party revenue	**3,805**	**5,455**	**2,893**	**87**	**-**	**12,240**

31 December 2017 restated	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Other Activities	Elimin-ations	Total
Italy	529	1,442	244	342	(640)	1,917
United Kingdom	538	856	-	-	(41)	1,353
Rest of Europe	1,104	690	1,245	(7)	(2)	3,030
North America	197	1,840	923	1	(4)	2,957
Rest of the world	1,070	722	681	2	2	2,477
Revenues	**3,438**	**5,550**	**3,093**	**338**	**(685)**	**11,734**
Inter-segment revenue (*)	(6)	(423)	(3)	(253)	685	-
Third party revenue	**3,432**	**5,127**	**3,090**	**85**	**-**	**11,734**

* * * * * * * * *

Below is the breakdown of fixed assets (intangible assets, property, plant and equipment and investment property) according to the geographical area in which the Group companies are based:

	31 December 2018	31 December 2017 restated
Italy	5,024	5,003
United Kingdom	1,688	1,715
Rest of Europe	134	139
North America	1,953	1,970
Rest of the world	14	17
	8,813	**8,844**

9. INTANGIBLE ASSETS

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2017 restated							
Cost	6,096	1,289	2,073	559	1,326	603	11,946
Amortisation and impairment losses	(2,273)	(785)	(601)	(228)	(861)	(465)	(5,213)
Carrying amount	**3,823**	**504**	**1,472**	**331**	**465**	**138**	**6,733**
Investments	-	43	195	3	-	13	254
Sales	-	-	-	-	-	-	-
Amortisation	-	(62)	(46)	(16)	(98)	(38)	(260)
Impairment losses	-	(6)	-	-	-	-	(6)
Increase for business combination	80	-	-	1	70	-	151
Other changes	(225)	(20)	20	(54)	(25)	(18)	(322)
31 December 2017 restated	**3,678**	**459**	**1,641**	**265**	**412**	**95**	**6,550**
broken down as follows:							
Cost	5,747	1,100	2,078	627	1,283	429	11,264
Amortisation and impairment losses	(2,069)	(641)	(437)	(362)	(871)	(334)	(4,714)
Carrying amount	**3,678**	**459**	**1,641**	**265**	**412**	**95**	**6,550**
Investments	-	47	196	5	-	25	273
Sales	-	(1)	-	-	-	-	(1)
Amortisation	-	(30)	(26)	(18)	(98)	(31)	(203)
Impairment losses	-	(3)	(52)	-	-	(1)	(56)
Increase for business combination	-	-	-	-	-	-	-
Other changes	55	4	1	(45)	8	5	28
31 December 2018	**3,733**	**476**	**1,760**	**207**	**322**	**93**	**6,591**
broken down as follows:							
Cost	5,706	1,147	2,261	585	1,331	458	11,488
Amortisation and impairment losses	(1,973)	(671)	(501)	(378)	(1,009)	(365)	(4,897)
Carrying amount	**3,733**	**476**	**1,760**	**207**	**322**	**93**	**6,591**
31 December 2017 restated							
Gross value			4,694				
Grants			3,053				
31 December 2018							
Gross value			4,888				
Grants			3,128				

2018 overall investments were mainly made in the *Helicopters* (€mil. 95), *Aeronautics* (€mil. 66) and *Electronics, Defence and Security Systems* (€mil. 102) sectors. Commitments are in place for the purchase of intangible assets for €mil. 5 at 31 December 2018 (€mil. 7 at 31 December 2017).

Goodwill

Goodwill is allocated to the Cash Generating Units (CGUs) or to groups of CGUs concerned, which are determined on the basis of the Group's organisational, management and control structure, which coincides, as is known, with the Group's four business segments.
Below is the breakdown of goodwill by segment at 31 December 2018 and 2017:

	31 December 2018		31 December 2017 restated	
Helicopters		1,243		1,248
Electronics, Defence & Security Systems		2,430		2,370
DRS	*1,459*		*1,393*	
Leonardo Divisions	*971*		*977*	
Aeronautics		60		60
		3,733		**3,678**

The net increase compared to 31 December 2017 was due to the foreign currency translation differences on goodwill denominated in GBP and USD. Goodwill is subject to impairment testing to determine any loss in value. This is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale (fair value). In practice, the Group has established an operational hierarchy between calculating the fair value net of transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group's five-year business plans prepared by the management of the CGUs and incorporated into the plan approved by Leonardo's Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates ("g-rate") no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial expense and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. The underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and future developments in the Group's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs, which were also determined by using the data referable to the main competitors operating in each sector:

- the risk-free rate was determined using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU;
- the market premium, determined using Damodaran's computations the sector beta;

- the cost of debt;
- the debt/equity ratio.

The growth rates used to project the CGU's cash flows beyond the explicit term of the plan were estimated by making reference to the growth assumptions of the individual sectors in which said CGUs operate. These assumptions are based on the internal processing of external sources, making reference to a period of time that is usually ten years. The g-rates used for the purposes of the impairment test were equal to 2%, consistently with the actions taken in previous financial years, even in the presence of higher expected growth rates in some sectors.

The mostly important assumptions for the purposes of estimating the cash flows used in determining the value in use are:

- WACC;
- g-rate;
- the plan ROS;
- the trend in Defence budgets.

In estimating these assumptions, the management made reference, in the case of external variables, to internal information processed on the basis of external surveys, as well as on its knowledge of the markets and of the specific contractual situations.

The following WACCs (after taxes) and (nominal) growth rates were used at 31 December 2018 and 2017:

	31 December 2018		**31 December 2017 restated**	
	Wacc	***g-rate***	**Wacc**	***g-rate***
Helicopters	8.5%	2.0%	7.3%	2.0%
Electronics, Defence & Security Systems				
DRS	8.2%	2.0%	7.6%	2.0%
Leonardo Divisions	6.4%	2.0%	5.3%	2.0%
Aeronautics	7.2%	2.0%	6.0%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The 2018 headroom amounts were affected by the increase in WACCs due to the interest rate market trend. Sensitivity analysis was conducted on the results of the tests, making reference to the assumptions for which it is reasonable to believe that a change in the same may significantly modify the results of the test. The wide positive margins recorded for all sectors are such that they may not be significantly modified by any changes in the assumptions described above; for information purposes, below are reported the results of all the CGUs. The table below shows, for the 2018 and 2017 financial years, the headroom relating to the base scenario, compared with the results of the following sensitivity analyses: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal

value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal.

31 December 2018	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	471	219	273	303
Electronics, Defence & Security Systems				
DRS (USD millions)	1,319	1,050	1,118	1,158
Leonardo Divisions	6,679	5,719	5,867	6,385
Aeronautics	9,823	9,103	9,231	9,577

31 December 2017 restated	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	924	530	597	714
Electronics, Defence & Security Systems				
DRS (USD millions)	1,057	782	847	947
Leonardo Divisions	8,429	6,885	7,063	7,997
Aeronautics	10,034	9,051	9,180	9,698

Other intangible assets

Investments in "development costs" refer to the *Electronics, Defence and Security Systems* (€mil. 27) and *Helicopters* (€mil. 20) sectors. Investments attributable to "*non-recurring costs*" are mainly related to the *Helicopters* (€mil. 70), *Electronics, Defence and Security Systems* (€mil. 67) and *Aeronautics* (€mil. 59) sectors. As regards programmes that benefit from the provisions of Law 808/85 and that are classified as functional to national security, the portion of capitalised non-recurring costs, pending the fulfilment of the legal requirements for the classification under receivables, is separately disclosed under other non-current assets (Note 12). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 27.

Total research and development costs, comprising also "development" and "non-recurring costs" just mentioned, are equal to €mil. 1,440, of which €mil. 171 expensed and the remainder included in sales contracts or covered by grants.

"Concessions, licences and trademarks" includes in particular the value of licenses acquired in previous years in the Helicopters segment. With regard to the full acquisition of the AW609 programme, this value also comprises the estimated variable fees due to Bell Helicopter on the basis of the commercial performance of the programme (Nota 23).

Intangible assets acquired in the course of business combinations mainly decreased as a result of the amortisation. Below is a breakdown of these assets:

	31 December 2018	**31 December 2017 restated**
Know-how	105	107
Trademarks	45	46
Backlog and commercial positioning	172	259
	322	**412**

Specifically, "Backlog and commercial positioning" chiefly refers to the UK component related to the *Electronics, Defence and Security Systems* and *Helicopters* divisions allocated to this item during the purchase price allocation. The technology knowledge, on the contrary, mostly relates to the assets recognised as a result of the acquisition of Daylight.

The item "Other" mainly includes software, intangible assets in progress and advances.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2017 restated					
Cost	1,545	1,602	2,080	1,222	**6,449**
Amortisation, depreciation and write-offs	(629)	(1,133)	(1,420)	(892)	**(4,074)**
Carrying amount	**916**	**469**	**660**	**330**	**2,375**
Investments	14	19	39	139	**211**
Sales	-	-	(2)	(1)	**(3)**
Depreciation	(48)	(86)	(119)	(53)	**(306)**
Impairment losses	(2)	(3)	(3)	(3)	**(11)**
Increase for business combination	2	-	-	3	**5**
Other changes	(2)	27	26	(89)	**(38)**
31 December 2017 restated	**880**	**426**	**601**	**326**	**2,233**
broken down as follows:					
Cost	1,542	1,609	2,117	1,240	**6,508**
Amortisation, depreciation and write-offs	(662)	(1,183)	(1,516)	(914)	**(4,275)**
Carrying amount	**880**	**426**	**601**	**326**	**2,233**
Investments	10	24	44	157	**235**
Sales	(4)	(1)	(2)	(3)	**(10)**
Depreciation	(45)	(83)	(116)	(52)	**(296)**
Impairment losses	-	-	(16)	(1)	**(17)**
Increase for business combination	-	-	-	-	**-**
Other changes	53	36	40	(108)	**21**
31 December 2018	**894**	**402**	**551**	**319**	**2,166**
broken down as follows:					
Cost	1,599	1,664	2,177	1,277	**6,717**
Amortisation, depreciation and write-offs	(705)	(1,262)	(1,626)	(958)	**(4,551)**
Carrying amount	**894**	**402**	**551**	**319**	**2,166**

The most significant investments amounted to €mil. 94 in the sectors of Electronics, Defence and Security Systems, €mil. 56 for Aeronautics (mainly for progress on the B787 programme), €mil. 46 for Helicopters and €mil. 39 for Other Activities.

"Other tangible assets" also include the value of tangible assets under construction (€mil. 133 at 31 December 2018 against €mil. 134 at 31 December 2017).

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 37 at 31 December 2018 (€mil. 49 at 31 December 2017).

11. EQUITY INVESTMENTS AND SHARE OF PROFITS (LOSSES) OF EQUITY-ACCOUNTED INVESTEES

	2018			2017 restated		
	Equity investments	**Risk provisions**	**Total**	**Equity investments**	**Risk provisions**	**Total**
Material joint venture	929		929	904		904
Joint venture not individually material:	60	(3)	57	78	(2)	76
- Aviation Training Int. Ltd	*-*		*-*	*18*	*-*	*18*
- Rotorsim Srl	*34*		*34*	*32*	*-*	*32*
- Advanced Acoustic Concepts LLC	*19*		*19*	*21*	*-*	*21*
- Rotorsim USA LLC	*7*		*7*	*7*	*-*	*7*
- Closed Joint Stock Company Helivert	*-*	*(3)*	*(3)*	*-*	*(2)*	*(2)*
	989	(3)	986	982	(2)	980
Associates	150		150	140	-	140
	1,139	**(3)**	**1,136**	**1,122**	**(2)**	**1,120**

The Leonardo Group operates in certain sectors also through entities jointly controlled with third parties and valued under the equity method, since they qualify as joint ventures.

Below are reported the joint ventures considered material in terms of volumes and from a strategic viewpoint for the Group:

Company name	**Nature of the relation**	**Main operating location**	**Registered office**	**% ownership**
Telespazio Group	JV with Thales, among the main global providers of satellite services	Rome, Italy	Rome, Italy	67%
Thales Alenia Space Group	JV with Thales, among the main European leaders in the satellite systems and at the forefront of orbit infrastructures	Toulouse, France	Cannes, France	33%
GIE ATR	JV with Airbus Group, among the global leaders in regional turboprop aircraft with a capacity of between 50 and 70 seats	Toulouse, France	Toulouse, France	50%
MBDA Group	JV with Airbus Group and BAE Systems (through the parent AMSH BV), among the world leaders in missiles and missile systems	Paris, France	Paris, France	25%

In particular, as regards the companies falling under the so-called Space Alliance - Thales Alenia Space and Telespazio – the Company carried out for the purposes of the 2014 consolidated financial statements, during the first classification, an in-depth analysis of the existing arrangements, in order to verify whether situations of control (with reference to Telespazio) or of significant influence (with reference to Thales Alenia Space) existed, concluding that both entities should be considered by Leonardo as Joint Ventures. Specifically, the Space Alliance univocally regulates the governance of both companies, making reference to shareholders'

agreements prepared alike. With particular reference to Telespazio, in which the Group holds more than 50% of the stakes, the analyses performed led to deem that the company's governance is such that Telespazio can be regarded as a jointly controlled entity by virtue of the composition rules for the decision-making bodies - these rules being such that cannot be defined as merely "protective", as referred to in IFRS10 – and due to the expected unanimous consent of the shareholders on particularly significant matters for the company's management. Moreover, the substantive analysis, carried out taking into account the peculiarity of the businesses, highlighted that the methods to resolve deadlocks (i.e. when a stalemate in the decision-making process occurs and the shareholders have no possibility to jointly decide on matters about which they are required to make decisions through the unanimous consent mechanism) do not allow the majority venturer to impose its will. This is because, in case no decision can be reached, despite the complex escalation mechanism under the shareholders' agreements, the minority venturer has the right to dissolve the Joint Venture, recovering the assets originally assigned, through a call option or, solely if this option is not exercisable, to leave the Joint Venture through a put option. Finally, in the event of a decision-making deadlock, the joint venture might be eventually wound up or the minority venturer might sell its interest: in both of these cases, the venturers might be required to share or transfer part of the assets – with particular reference to technological expertise or know-how – originally assigned.

On the contrary, the analysis performed by the other venturer led to different conclusions with reference to Thales Alenia Space, which is fully consolidated by Thales in spite of the previously described governance structure. The application of such different conclusions on Leonardo, with the full consolidation of Telespazio into Leonardo, would have changed the Group's main indicators as follows:

	2018	**2017 *restated***
Revenues	+486	+523
EBITA	+34	+32
EBIT	+24	+31
Net result (non-controlling interests)	-6	+5
FOCF	+37	+45
Group Net Debt	+35	+36

We provide below a summary of the financial data of the aforementioned material joint ventures (the fair value of which is not available since they are not traded in any active market), as well as a reconciliation with the data included in these consolidated financial statements:

	31 December 2018					
	Telespazio	Thales Alenia Space	MBDA (throught AMSH BV)	GIE ATR	Other JV not individually material	**Total**
Non-current assets	281	1,917	2,438	173		
Current assets	329	1,518	4,326	850		
- of which cash and cash equivalent	*17*	*29*	*142*	*3*		
Non-current liabilities	49	306	861	133		
- of which non-current financial liabilities	*1*	*-*	*9*	*18*		
Current liabilities	285	1,401	5,315	591		
- of which current financial liabilities	*8*	*179*	*11*	*2*		
NCI net equity (100%)	16	-	1	-		
Group net equity (100%)	260	1,728	587	299		
Revenue (100%)	493	2,454	3,477	1,497		
Amortisation, depreciation and impairment losses (100%)	17	63	108	18		
Financial income (expense) (100%)	(2)	(5)	(5)	-		
Income taxes (100%)	(11)	(59)	(96)	(3)		
Profit (loss) from continuing operations (100%)	24	129	243	193		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expense) (100%)	(1)	5	(4)			
Total comprehensive income (expense) (100%)	**23**	**134**	**239**	**193**		
% Groups' interest in equity at 1 January	182	555	88	173	77	1,075
% Groups' interest in profit (loss) from continuing operations	16	43	61	97	5	222
% Groups' interest in other comprehensive income (expense)	(1)	2	(1)	-		-
% Groups' interest in total comprehensive income (expense)	**15**	**45**	**60**	**97**	**5**	**222**
Dividends received	(19)	(29)	(17)	(125)	(4)	(194)
Disposals					(18)	(18)
Exchange differences and other movements	(4)			5	(1)	-
% Groups' interest in equity at 31 December	**174**	**571**	**131**	**150**	**59**	**1,085**
Consolidation adjustments	2	(214)	115	-	1	(96)
Equity investments at 31 December	**176**	**357**	**246**	**150**	**60**	**989**
% Groups' interest in profit (loss)	16	43	61	97	5	222
Consolidation adjustments	-	(1)	-	-		(1)
Share of profits (losses) of equity-accounted investees	**16**	**42**	**61**	**97**	**5**	**221**
		216				

	31 December 2017 restated					
	Telespazio	Thales Alenia Space	MBDA (throught AMSH BV)	GIE ATR	Other JV not individua lly material	**Total**
Non-current assets	285	1,896	2,325	172		
Current assets	331	1,488	4,763	959		
- of which cash and cash equivalent	14	68	132	8		
Non-current liabilities	43	299	952	128		
- of which non-current financial liabilities	-	-	5	14		
Current liabilities	286	1,402	5,695	658		
- of which current financial liabilities	9	109	62	-		
NCI net equity (100%)	15	-	1	-		
Group net equity (100%)	272	1,683	440	345		
Revenue (100%)	526	2,328	3,534	1,602		
Amortisation, depreciation and impairment losses (100%)	20	56	96	30		
Financial income (expense) (100%)	(1)	(10)	(16)	1		
Income taxes (100%)	(11)	(36)	(99)	(6)		
Profit (loss) from continuing operations (100%)	34	143	207	265		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expense) (100%)	-	(10)	187	-		
Total comprehensive income (expense) (100%)	**34**	**133**	**394**	**265**		
% Groups' interest in equity at 1 January	176	559	74	229	**75**	**1,113**
% Groups' interest in profit (loss) from continuing operations	23	47	52	133	8	263
% Groups' interest in other comprehensive income (expense)	-	(3)	47	-		44
% Groups' interest in total comprehensive income (expense)	**23**	**44**	**99**	**133**	**8**	**307**
Dividends received	(15)	(56)	(36)	(174)	(2)	(283)
Acquisitions	1	-	-	-	-	1
Disposals	(1)	(3)	-	-	-	(4)
Exchange differences and other movements	(2)	11	(49)	(15)	(4)	(59)
% Groups' interest in equity at 31 December	**182**	**555**	**88**	**173**	**77**	**1,075**
Consolidation adjustments	5	(214)	115	-	1	(93)
Equity investments at 31 December	**187**	**341**	**203**	**173**	**78**	**982**
% Groups' interest in profit (loss)	23	47	52	133	8	263
Consolidation adjustments		1	-	-	-	1
Share of profits (losses) of equity-accounted investees	**23**	**48**	**52**	**133**	**8**	**264**
		256				

Below is provided a summary of the aggregate financial data of the associates, inasmuch as there are no associates which are individually material for the Group:

	Associates not individually material	
	31 December 2018	31 December 2017 restated
% Groups' interest in equity at 1 January	**140**	**100**
% Groups' interest in profit (loss) from continuing operations	20	9
% Groups' interest in other comprehensive income (expense)	-	-
% Groups' interest in total comprehensive income (expense)	**20**	**9**
Dividends received	(8)	(11)
Subscriptions and capital increases (decrease)	(1)	-
Acquisitions	-	48
Disposals	-	(7)
Exchange differences and other movements	(1)	(3)
% Groups' interest in equity at 31 December	**150**	**136**
Consolidation adjustments	-	4
Equity investments at 31 December	**150**	**140**
% Groups' interest in profit (loss)	20	9
Consolidation adjustments		
Share of profits (losses) of equity-accounted investees	**20**	**9**

12. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017 restated
Financing to third parties	12	12
Non current financial receivables from Superjet	25	48
Deferred grants under Law no. 808/85	36	40
Defined benefit plan assets, net (Note 22)	309	335
Related party receivables (Note 35)	1	-
Other non-current receivables	67	68
Non-current receivables	**450**	**503**
Prepayments - non-current portion	5	4
Equity investments at cost	18	20
Non-recurring costs pending under Law no. 808/1985	216	136
Non-current assets	**239**	**160**

The balance of non-current receivables was affected by the decrease in the net assets of defined-benefit plans and the decrease in the non-current receivables from Superjet, which were reclassified to current assets, due to the progress of the repayment plan the completion of which is expected in 2020, on the basis of the agreements with the acquirer within the rescheduling of Leonardo's participation in this programme occurred during 2016. Such amount was taken into account in calculating the KPI "*Group Net Debt*", as highlighted in Note 20.

13. BUSINESS COMBINATIONS

No significant business combinations were carried out during the year.

During 2017, on the contrary, the Leonardo Group acquired, through DRS, 100% of the Daylight Solutions, Inc. group, against an outlay of USDmil. 140, net of cash acquired. The contract also provided for an earn-out, which was subsequently paid for €mil. 11 in 2018, upon the attainment of financial targets for 2017.

A goodwill value of €mil. 80 was paid in consideration of the calculation of the fair value of acquired assets and liabilities.

14. INVENTORIES

	31 December 2018	31 December 2017 restated
Raw materials, supplies and consumables	1,857	1,714
Work in progress and semi-finished goods	1,382	1,342
Attività derivanti da contratti point in time	424	539
Advances to suppliers	1,786	1,140
	5,449	**4,735**

Inventories are shown net of impairment charges of €mil. 857 (€mil. 757 at 31 December 2017).

Point-in-time contract assets includes the production progress recognised on contracts that do not meet the requirements for the recognition of revenues on an over-time basis.

The increase in the year in advances to suppliers mainly related to the advances paid within the EFA Kuwait programme in the *Aeronautics* sector.

15. CONTARCT ASSETS AND LIABILITIES

	31 December 2018	31 December 2017 restated
Contract assets (gross)	3,897	3,397
Contract liabilities	(1,369)	(1,206)
Contract assets (net)	**2,528**	**2,191**
Contract liabilities (gross)	8,126	7,401
Contract assets	(71)	(422)
Contract liabilities (net)	**8,055**	**6,979**
Net value	**(5,527)**	**(4,788)**

Contract assets are stated among assets net of related liabilities, if, on the basis of an analysis conducted contract by contract, the gross value of the work executed on the reporting date exceeds the advances received from customers, or among liabilities if the advances exceed the relevant work. This setoff was made limited to contract assets and liabilities and not also to assets arising from at point in time contracts classified in inventories. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

The net balance of contract assets is broken down as follows:

	31 December 2018	31 December 2017 restated
Cost incurred and margins recognised	3,968	3,819
Advances received	(9,495)	(8,607)
Net value	**(5,527)**	**(4,788)**

16. TRADE AND FINANCIAL RECEIVABLES

	31 December 2018		31 December 2017 restated	
	Trade	**Financial**	**Trade**	**Financial**
Receivables	3,097	47	3,069	64
Cumulative impairments	(665)	(15)	(459)	(17)
Related party current receivables (Note 35)	504	153	569	110
	2,936	**185**	**3,179**	**157**

Trade receivables include €mil. 9 (€mil. 18 at 31 December 2017) for receivables from Sukhoi and Superjet which can be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined upon the disposal of the Russian business of Superjet.

Changes in accumulated impairment are mainly due to the application of IFRS9.

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 36.

17. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017 restated
Securities	-	3
Derivatives	107	184
Prepaid expenses - current portion	64	60
Receivables for grants	69	83
Receivables from employees and social security	48	54
Indirect tax receivables	47	89
Deferred receivables under Law no. 808/85	11	5
Other related party receivables (Note 35)	4	5
Other assets	94	125
	444	**608**

The decrease compared to 2017 was mainly due to the fair value performance of portfolio derivatives, the breakdown of which is reported below:

	Fair value at					
	31 December 2018			31 December 2017 restated		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Interest rate swaps						
Trading	-	(3)	**(3)**	1	(3)	**(2)**
Fair value hedge	-	-	**-**	-	-	**-**
Cash flow hedge	-	(3)	**(3)**	-	-	**-**
Currency forward/swap/option						
Trading	-	-	**-**	-	-	**-**
Fair value hedge	-	3	**3**	6	(4)	**2**
Cash flow hedge	102	(196)	**(94)**	172	(227)	**(55)**
Embedded derivative (trading)	5	-	**5**	5	-	**5**

18. CASH AND CASH EQUIVALENTS

The change in the year is shown in the statement of cash flows. Cash and cash equivalents at 31 December 2018 included €mil. 5 of term deposits (€mil. 3 at 31 December 2017).

19. EQUITY

Share capital

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Company Related Holdings	(3,709,133)	-	(34)	-	(34)
31 December 2017 restated	**574,441,262**	**2,544**	**(34)**	**(19)**	**2,491**
Repurchase of treasury shares less shares sold	403,903	-	4	-	4
31 December 2018	**574,845,165**	**2,544**	**(30)**	**(19)**	**2,495**
broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Company Related Holdings	(3,305,230)	-	(30)	-	(30)

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of € 4.40 each, including 3,305,230 treasury shares.

At 31 December 2018 the Ministry of Economy and Finance owned around 30.204% of the share capital.

The statement of changes in other reserves and equity attributable to non-controlling interests is presented in the accounting statements section.

Cash-flow hedge reserve

This reserve includes changes in fair value of derivatives used by the Group to hedge its exposure to currency net of the effect of deferred taxes until the moment in which the “underlying position” is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Translation reserve

The reserve showed the following changes:

	2018	2017 restated
US dollar	95	(197)
Pound sterling	(18)	(71)
Other currencies	(9)	2
	68	**(266)**

Overall, the reserve is negative for €mil. 409, mainly for the translation differences on the components denominated in Pound sterling partially offset by the components denominated in US Dollar, due in particular to Leonardo DRS.

Tax effects on the gain and loss items recognised in equity

	Group - consolidated entities			Group - equity accounted investments		
	Amount before taxes	Tax effect	Net amount	Amount before taxes	Tax effect	Net amount
2018						
Revaluation of defined-benefit plans	(15)	3	(12)	6	(1)	5
Changes in cash-flow hedges	(53)	10	(43)	(5)	1	(4)
Foreign currency translation difference	68	-	68	1	-	1
Total	**-**	**13**	**13**	**2**	**-**	**2**
2017 restated						
Revaluation of defined-benefit plans	89	(17)	72	45	(8)	37
Changes in cash-flow hedges	86	(14)	72	18	(6)	12
Foreign currency translation difference	(243)		(243)	(23)		(23)
Total	**(68)**	**(31)**	**(99)**	**40**	**(14)**	**26**

There are no tax effects on the gain and loss items recognised in equity of Non-controlling interests.

20. LOANS AND BORROWINGS

	31 December 2018			31 December 2017 restated		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,746	408	3,154	3,048	599	3,647
Bank loans and borrowings	651	70	721	186	60	246
Related party loans and borrowings (Note 35)	-	669	669	-	701	701
Other loans and borrowings	26	43	69	31	57	88
	3,423	**1,190**	**4,613**	**3,265**	**1,417**	**4,682**

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

	1 January 2018	**Issues**	**Repayments/Payment of coupons**	**Other net increase (decrease)**	**Exchange differences**	***31 December 2018***
Bonds	3,647	-	(688)	178	17	**3,154**
Bank loans and borrowings	246	498	(46)	23	-	**721**
Related-party loans and borrowings	701	-	-	(32)	-	**669**
Other loans and borrowings	88	-	(1)	(18)	-	**69**
	4,682	**498**	**(735)**	**151**	**17**	**4,613**

	1 January 2017 restated	**Issues**	**Repayments/Payment of coupons**	**Other net increase (decrease)**	**Exchange differences**	***31 December 2017 restated***
Bonds	4,375	591	(1,415)	241	(145)	**3,647**
Bank loans and borrowings	297	-	(54)	3	-	**246**
Related-party loans and borrowings	502	-	-	199	-	**701**
Other loans and borrowings	104	-	(25)	9	-	**88**
	5,278	**591**	**(1,494)**	**452**	**(145)**	**4,682**

Net changes for current liabilities. The items also include changes resulting from the application of the effective interest-rate method, which may not correspond with actual cash movements.

The decrease for the period was due to the net effect of a reduction in bonds (as commented below), as well as to the amount of repayment (€mil. 46) of the loan in place with the European Investment Bank (EIB) aimed at carrying out development work in the aeronautics sector and to the issue of the term loan referred to in the section on "Financial Transactions" of the Report on Operations. The remaining value of the EIB loan, equal to €mil. 185 at 31 December 2018, is stated in payables to banks.

Below is the reconciliation of the changes in loans and borrowings with the cash flows from financing activities:

	2018		2017 restated	
Balance at 1 January		**4,682**		**5,278**
Changes included in cash flows from financing activities of the statement:		**(89)**		**(449)**
- Bond issues	*-*		*591*	
- Repayments of bonds	*(513)*		*(1,172)*	
- Term Loan Subscription	*498*			
- Net change in other borrowings	*(74)*		*132*	
Non-monetary changes:		**20**		**(147)**
- Exchange rate effect	*17*		*(145)*	
- Accrued interest	*3*		*(2)*	
Balance at 31 December		**4,613**		**4,682**

Bonds

The decrease was affected by the repayment of the bond issue for a nominal amount of €mil. 500, which had reached its natural expiry.

Below is the detail of the bonds at 31 December 2018 which shows the bonds issued by Leonardo ("LDO") and Leonardo US Holding, Inc ("LH"), the latter being fully guaranteed by Leonardo S.p.A.:

Issuer		Year of issue	Maturity	Currency	Outstanding nominal amount (mil.) (*)	Annual coupon		Type of offer
LDO	(**)	2005	2025	€	500	4.875%		European institutional
LDO (originally Fin Fin)	(**)	2009	2019	GBP	278	8.000%	(1)	European institutional
LDO (originally Fin Fin)	(**)	2009	2022	€	556	5.250%		European institutional
LH	(***)	2009	2039	USD	169	7.375%		American institutional Rule 144A/Reg. S
LH	(***)	2009	2040	USD	263	6.250%		American institutional Rule 144A/Reg. S
LDO	(**)	2017	2024	€	600	1.500%		European institutional
LDO (originally Fin Fin)	(**)	2013	2021	€	739	4.500%		European institutional

(*) *Residual nominal amounts for bond issues subject to the buy-back transactions*

(**) *Bonds listed on the Luxembourg Stock Exchange and issued as part of the EMTN programme for a maximum of €bil. 4. The transaction was authorised pursuant to Art. 129 of Legislative Decree 385/1993.*

(***) *Bonds issued under Rule 144A, Regulation S of the US Securities Act. The proceeds of this issue were entirely used by Leonardo US Holding Inc. to finance the purchase of the subsidiary Leonardo DRS replacing the dollar-issue bonds originally issued by the company. These bonds were redeemed early following Leonardo's purchase of Leonardo DRS. As a result, these issues were not hedged against exchange rate risk, and no interest-rate transactions on the issue were performed.*

(1) *The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged*

Movements in bonds are as follows:

	1 January 2018	New borrowings	Interest	Repayments/Repurchases	Payments of coupons	Effect of exchange rate	31 December 2018	*Fair value*
€mil. 500 LDO 2018 *	501		27	(500)	(28)		**-**	*-*
€mil. 500 LDO 2025 *	517		25		(26)		**516**	*555*
GBPmil. 400 LDO 2019 *	323		26	(13)	(25)	(1)	**310**	*328*
€mil. 600 LDO 2022 *	581		30		(30)		**581**	*618*
USDmil. 300 LH 2039 *	142		11		(11)	7	**149**	*162*
USDmil. 500 LH 2040 *	222		14		(13)	11	**234**	*214*
600 €mil. LDO 2024*	597		10		(9)		**598**	*567*
€mil. 950 LDO 2021 *	764		35		(33)	-	**766**	*793*
	3,647	**-**	**178**	**(513)**	**(175)**	**17**	**3,154**	***3,237***

	1 January 2017 restated	New borrowings	Interest	Repayments/Repurchases	Payments of coupons	Effect of exchange rate	31 December 2017 restated	*Fair value*
€mil. 500 LDO 2018 *	501		29		(29)		**501**	*528*
€mil. 500 LDO 2025 *	516		25		(24)		**517**	*611*
GBPmil. 400 LDO 2019 *	369		28	(34)	(27)	(13)	**323**	*367*
€mil. 600 LDO 2022 *	581		29		(29)		**581**	*654*
USDmil. 500 LH 2019 *	422		22	(363)	(30)	(51)	**-**	*-*
USDmil. 300 LH 2039 *	264		19	(90)	(20)	(31)	**142**	*181*
USDmil. 500 LH 2040 *	439		25	(164)	(28)	(50)	**222**	*260*
600 €mil. LDO 2017*	521		23	(521)	(23)		**-**	*-*
600 €mil. LDO 2024*		591	6				**597**	*604*
€mil. 950 LDO 2021 *	762		35		(33)	-	**764**	*829*
	4,375	**591**	**241**	**(1,172)**	**(243)**	**(145)**	**3,647**	***4,034***

(*) Maturity date of bond.

The fair value of the bonds was determined on the basis of the quoted prices of the existing issues (Level 1 of the fair value hierarchy).

The Group's financial liabilities are subject to the following exposures to interest-rate risk:

	Bonds		**Bank loans and borrowings**		**Related party loans and borrowings**		**Other loans and borrowings**		**Total**	
31 December 2018	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	**Floating**	**Fixed**
Within 1 year	-	408	41	29	669	-	39	4	**749**	**441**
2 to 5 years	-	1,306	561	82	-	-	-	4	**561**	**1,392**
Beyond 5 years	-	1,440	8	-	-	-	22	-	**30**	**1,440**
Total	**-**	**3,154**	**610**	**111**	**669**	**-**	**61**	**8**	**1,340**	**3,273**

	Bonds		**Bank loans and borrowings**		**Related party loans and borrowings**		**Other loans and borrowings**		**Totale**	
31 December 2017 restated	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	**Floating**	**Fixed**
Within 1 year	-	599	19	41	701	-	54	3	**774**	**643**
2 to 5 years	-	1,070	76	109	-	-	24	4	**100**	**1,183**
Beyond 5 years	-	1,978	-	1	-	-	3	-	**3**	**1,979**
Total	**-**	**3,647**	**95**	**151**	**701**	**-**	**81**	**7**	**877**	**3,805**

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

	31 December 2018	*of which with related parties*	31 December 2017 restated	*of which with related parties*
Cash and cash equivalents	(2,049)		(1,893)	
Securities held for trading	-		(3)	
Liquidity	**(2,049)**		**(1,896)**	
Current loans and receivables	**(185)**	*(153)*	**(157)**	*(110)*
Current bank loans and borrowings	70		60	
Current portion of non-current loans and borrowings	408		599	
Other current loans and borrowings	712	*669*	758	*701*
Current financial debt	**1,190**		**1,417**	
Net current financial debt (funds)	**(1,044)**		**(636)**	
Non-current bank loans and borrowings	651		186	
Bonds issued	2,746		3,048	
Other non-current loans and borrowings	26	-	31	-
Non-current financial debt	**3,423**		**3,265**	
Net financial debt	**2,379**		**2,629**	

The reconciliation between Net Financial Debt and Group Net Debt, used as KPI, is as follows:

	Note	31 December 2018	31 December 2017 restated
Net financial debt com. CONSOB n. DEM/6064293		2,379	2,629
Hedging derivatives in respect of debt items	*17*	(3)	(2)
Non current financial receivables from Superjet	*12*	(25)	(48)
Group net debt (KPI)		**2,351**	**2,579**

21. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restructuring	Tax	Product guarantees	Onerous contracts (losses at completion)	Other provisions	Total
1 January 2017 restated							
Current	111	74	107	94	619	398	**1,403**
Non-current	175	107	26	92	-	597	**997**
	286	**181**	**133**	**186**	**619**	**995**	**2,400**
Allocations	-	11	18	55	60	202	**346**
Uses	(18)	(57)	(5)	(20)	-	(40)	**(140)**
Reversals	-	(4)	(5)	(44)	(197)	(81)	**(331)**
Other changes	(19)	(12)	(9)	(3)	-	(94)	**(137)**
31 December 2017 restated	**249**	**119**	**132**	**174**	**482**	**982**	**2,138**
Broken down as follows:							
Current	109	51	107	92	482	424	**1,265**
Non-current	140	68	25	82	-	558	**873**
	249	**119**	**132**	**174**	**482**	**982**	**2,138**
Allocations	10	194	38	88	36	158	**524**
Uses	(13)	(41)	(20)	(19)	(11)	(34)	**(138)**
Reversals	(99)	(2)	(43)	(39)	(156)	(89)	**(428)**
Other changes	(9)	(29)	(7)	3	33	(77)	**(86)**
31 December 2018	**138**	**241**	**100**	**207**	**384**	**940**	**2,010**
Broken down as follows:							
Current	30	86	80	120	384	425	**1,125**
Non-current	108	155	20	87	-	515	**885**
	138	**241**	**100**	**207**	**384**	**940**	**2,010**

The "Other provisions for risks and charges" mainly include:

- the provision for litigation with employees and former employees of €mil. 26 (€mil. 36 at 31 December 2017);
- the provision for litigation underway of €mil. 53 (€mil. 50 at 31 December 2017);
- other provisions mainly related to offset obligations and critical issues on contracts especially in the *Aeronautics* sector.

With regard to risks, below is a summary of the criminal proceedings that are currently underway against a number of subsidiary companies or Leonardo itself, as well as certain former directors and executives, concerning acts committed during the performance of their duties at subsidiary companies or at Leonardo itself, with specific reference to the events that occurred in 2018 and in early 2019:

- On 6 October 2017 an appeal was filed against the judgment for dismissal of charge, which was handed down by the Court of Rome on 22 September 2017 within the criminal proceedings pending against, among others, the former Commercial Director of Leonardo, for the crime under Articles 110, 319, 319-*bis*, 320, 321 and 322-*bis* of the Italian Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the Government of Panama. It should be noted that on 21 September 2017 the Judge for Pre-trial Hearing handed down a judgment for dismissal of charge against Leonardo concerning the administrative violation referred to in Article 25 of Legislative Decree 231/2001;
- On 11 August 2018 the dismissal order was issued within the criminal proceedings started by the Rome Public Prosecutor's Office against one former executive of Leonardo, three former Directors and an executive of the Company (in relation to the position as director held in the then Finmeccanica Finance SA) for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61 no.11 of the Italian Criminal Code in relation, among other things, to personal loans requested to the company in the period 2008-2014;
- On 29 October 2018, following the filing of the related grounds, an appeal was filed with the Supreme Court against the judgment of 8 January whereby the Milan Court of Appeal acquitted the defendants from the crimes attributed to them, within the proceedings brought in relation to the supply of twelve AW 101 VIP/VVIP helicopters to the Indian Government. In this regard it should be noted that on 9 October 2014 the Court of Busto Arsizio sentenced the former Chairman and Chief Executive Officer of Leonardo S.p.A. (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland S.p.A. for having committed crimes under Article 2 of Legislative Decree 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009 – June 2010 tax period, while

also ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil. 3.4) be confiscated from AgustaWestland S.p.A., considered in determining the provisions for risks. In the same decision, the Court found the defendants not guilty of having committed the crimes under Articles 110, 112, paragraph 1, 319, 321 and 322-bis, paragraph 2(2) of the Italian Criminal Code (corruption of foreign public officials), due to lack of evidence.

- On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo, and the former Chief Executive Officer of AgustaWestland S.p.A., for crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000. Subsequently, on 16 December 2016 the Supreme Court repealed the judgment appealed against and referred it to another division of the Milan Court of Appeal for consideration of new proceedings. In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding groundless, following the conclusion of investigations, the Company's involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, Giudice delle Indagini Preliminari) of the Court of Busto Arsizio – in granting the motions put forth by the companies – imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland S.p.A. and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5. As regards the investigations started by the Indian Judicial Authority (CBI) in February 2013 for the same facts referred to above, it should be noted that on 2 February 2018 a notice was served on AgustaWestland International Ltd., whereby the latter was invited to appear at the hearing to be held on 30 May 2018 before the Patiala House Court in New Delhi within the criminal proceedings brought therein against the aforesaid company and other entities and persons, including Leonardo Spa.

  On 13 April 2018 the Milan Public Prosecutor's Office served the abovementioned notice of invitation to appear on Leonardo Spa. The Company submitted an application for enforcement review before the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Milan, which was rejected on 22 May 2018, as well as an appeal before the Lazio Regional Administrative Court. The proceedings continued for the discussion of the merits, after having carried out the phase of precautionary measures. The Company has brought the same lawsuits before the administrative Court

and before the Judge for Preliminary Investigations of the Court of Milan, including with reference to the service of the notice of invitation to appear at the hearing set on 10 September 2018.

Finally, it should be noted that AgustaWestland International Ltd appeared at the hearing held on 30 May 2018 within the Indian proceedings described above; the proceedings are continuing before the Patiala House Court of New Delhi.

- The debate is still continuing within criminal proceedings pending before the Court of Naples concerning contracts awarded to the then-Elsag Datamat (now Selex ES S.p.A.) and to another company for the development, respectively, of the integrated traffic monitoring system of the city of Naples and video-surveillance systems for a number of municipalities within the Province of Naples. Under these proceedings, an employee of the then-Elsag Datamat is charged with crimes under Articles 353 and 326 of the Italian Criminal Code, the former Chief Executive Officer and an employee of the then-Elsag Datamat are charged with crimes under Articles 326, 353 and 416 of the Italian Criminal Code, as well as Selex ES for having committed administrative offences under Article 24-ter, paragraph 2, of Legislative Decree 231/2001. It should be noted that Selex ES, following service of civil summons issued by the Court at the request of the civil-action party, also entered appearance in the civil action;
- two criminal proceedings are pending in relation to the awarding of the contract for the construction and operation of the Control System for Waste Tracking (SISTRI).

  Immediate trial – Bringing of civil action (Selex Service Management)

  The proceedings are still in the debate phase before the Court of Naples against certain suppliers and sub-suppliers of Selex Service Management. Within these proceedings, the company brought a civil action at the hearing held on 7 November 2013.

  Abbreviated trial - Bringing of civil action (Selex Service Management)

  On 5 January 2018 the Naples Court of Appeal sentenced the former Chief Executive Officer of the company. It should be noted that, within the summary trial before the Court of Naples against, among others, the former Chief Executive Officer of Seles Service Management, for crimes under Article 416, paragraphs 1, 2 and 5, of the Italian Criminal Code and Articles 81-paragraph 2, 110, 319, 320 and 321 of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/2000, the Court sentenced, on 18 July 2014, the former Chief Executive Officer of Selex Service Management, in relation to the crimes charged to him and ordered him to pay damages to Selex Service Management. The company brought a civil action within these proceedings at the hearing held on 21 November 2013;

- On 17 may 2018 the Rome Court of Appeal handed down a judgment for dismissal of charge against the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati (now in liquidation), concerning the awarding of work contracts on the part of ENAV S.p.A.. It should be

noted that on 16 October 2015 the Court sentenced the defendants for the crime under Article 8 of Legislative Decree 74/2000, while acquitting them of the crime under Article 646 of the Italian Criminal Code. The aforesaid judgment was appealed against;

- The debate is still continuing within the criminal proceedings pending before the Court of Rome concerning the informal tender for awarding a contract in the ICT area for operational, contract management and procurement services launched by the Prime Minister's Office in 2010 and awarded to a temporary business combine (RTI, *Raggruppamento Temporaneo di Imprese*) established by Selex Service Management and a company outside the Leonardo Group. It should be noted that on 1 July 2015 the Judge for Preliminary Hearings (GUP, *Giudice dell'Udienza Preliminare*) ordered the committal for trial, among other things, of the former Chief Executive Officer of Selex Service Management for crimes under Articles 110, 319 and 321 of the Italian Criminal Code and Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code, as well as of Selex Service Management itself for violations under Article 25 of Legislative Decree 231/2001;
- The debate is still continuing within the criminal proceedings pending before the Court of Rome involving the Chief Executive Officer of the then-Selex Systems Integration GmbH (then Selex ES GmbH, now Leonardo Germany ES GmbH), with respect to crimes under Articles 110 and 223, paragraph 2(2), of the Italian Criminal Code, with regard to Articles 216 and 219, paragraphs 1 and 2(1), of Royal Decree no. 267/1942, in connection with the bankruptcy of a supplier;
- On 8 June 2018 the dismissal decree was issued within the criminal proceedings conducted by the Turin Public Prosecutor's Office concerning the provision of helicopters to the armed forces, police and other government entities on the part of AgustaWestland, against certain directors of Leonardo (serving from 1994 to 1998) and certain directors/executives of AgustaWestland (serving from 1999 to 2014) with respect to crimes under Article 449 of the Italian Criminal Code for violation of the regulations on the use of asbestos;
- On 26 October 2017 an appeal was filed against the acquittal judgment issued by the Court of Milan on 15 June 2017 within the criminal proceedings pending against certain directors of the then-Breda Termomeccanica S.p.A., subsequently Ansaldo S.p.A., who served during the period from 1973 to 1985, charged with having committed the crimes under Article 589, paragraphs 1, 2 and 3, Article 40, paragraph 2, Article 41, paragraph 1 of the Italian Criminal Code, Article 2087 of the Italian Civil Code and Article 590, paragraphs 1, 2, 3, 4 and 5, of the Italian Criminal Code, for violation of the rules governing the prevention of occupational diseases. It should be noted that Leonardo has entered appearance in the civil action within the abovementioned proceedings;
- On 22 January the Judge for Pre-trial Hearing, following a request for committal for trial submitted by the Vercelli Public prosecutor's Office within the criminal proceedings relating to the accident that

occurred in Santhià on 30 October 2015, postponed the hearing to 16 April 2019. It should be noted that the criminal proceedings are pending before the Vercelli Public Prosecutor's Office against three former employees of AgustaWestland S.p.A. (who are currently working for Leonardo – Helicopters Division) and an employee of AgustaWestland Philadelphia Corporation for the crime referred to in Article 449 of the Italian Criminal Code in relation to Articles 428 and 589 of the Italian Criminal Code.

Based upon the information gathered and the results of the analysis carried out so far, the Directors of Leonardo did not allocate any specific provisions. Any negative developments - which cannot be foreseen, nor determined to date - arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

* * * * * * * *

With regard to the provisions for civil, tax and administrative disputes, it is underlined that the Leonardo Group companies' operations regard industries and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity. Pursuant to the IFRSs, provisions have only been set aside for risks that are probable and for which the amount can be determined. No specific provisions have been set aside for certain disputes in which the Group is defendant as these disputes are reasonably expected to be settled, based on current knowledge, satisfactorily and without significantly impacting the Group. Of particular note are the following disputes:

- By an order dated 21 November 2018, after the papers of the case were transmitted to the President of the Supreme Court, the proceedings brought by GMR against Leonardo and AnsaldoBreda was referred to the division specialising in business law and the next hearing has been scheduled on 14 May 2019. It should be noted that in February 2011 GMR, as the sole shareholder of Firema Trasporti, summoned Leonardo and AnsaldoBreda before the Court of Santa Maria da Capua Vetere. These proceedings were concluded with the declaration of lack of jurisdiction in favour of the Court of Naples. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits prescribed by law. On 23 June 2015, GMR then served a new writ of summons before the Court of Naples, whereby it once again submitted the same claims as those brought in the previous proceedings. More specifically, according to the plaintiff company, during the period in which Leonardo held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of the company itself and in the sole interest of the Leonardo Group. Moreover, even after the sale of the investment by Leonardo, Firema Trasporti was allegedly de facto subjected to an abuse of economic dependence from the abovementioned Group in performing the various agreements existing with AnsaldoBreda. Leonardo

and AnsaldoBreda appeared before the court requesting that, on the merits, the plaintiff's claims be dismissed as clearly groundless, as a result of the non-fulfilment of any and all conditions required by law as requirements to bring an action against directors pursuant to Article 2497 of the Italian Civil Code. Moreover, the aforesaid companies also asked the Court to preliminarily hand down a ruling based on the principle of lis alibi pendens (i.e. the suit was pending elsewhere and then the claim was precluded) within these new proceedings with respect to the pending proceedings, between the same parties, before the Naples Court of Appeal, which are described below .

On 21 November 2018, the Court of Naples, pending the issue of the ruling of the Supreme Court, suspended the proceedings within which Giorgio and Gianfranco Fiore also brought a third-party action against Leonardo and AnsaldoBreda. These proceedings were brought by Firema Trasporti under Extraordinary Administration before the Court of Naples, against the aforesaid Giorgio and Gianfranco Fiore, as former directors of the company, as well as against other persons. It should be noted that, by an order dated 18 November 2014, the Court of Naples declared that both the claims submitted by Giorgio and Gianfranco Fiore against Leonardo and AnsaldoBreda and those submitted by G.M.R. (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and G.M.R. be dropped from action. On 17 June 2015 the judge responsible for preliminary investigations reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and recorded the case on the docket once again for discussion. Before being reversed, the order for dropping a party from action had been challenged before the Naples Court of Appeal by G.M.R and, on a cross-appeal basis, by Leonardo and AnsaldoBreda. On 16 June 2017 the Court declared, in the light of the reversal referred to above, that both appeals were inadmissible, due to the subsequent lack of interest. On 18 January 2018 Leonardo and AnsaldoBreda appealed against this order before the Supreme Court;

- At the hearing of 19 February 2019, the appellate proceedings brought by Pio Deiana against Leonardo against the judgment handed down by the Court of Rome on 31 May 2018, was discontinued due to the death of the appellant. The time limit for the reinstatement was set on 19 May 2019. It should be noted that on 4 March 2013 Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei S.r.l. and of Società Progetto Cina S.r.l., brought proceedings, before the Court of Rome, against Leonardo in order to ask the Court to rule the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (a company which was a subsidiary of Leonardo until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of

a waste disposal and cogeneration plant in China, which then was not built. As stated by the plaintiff in the writ of summons, the above-mentioned settlement agreement was concluded based on unfair conditions, thus taking advantage of the distress of Mr Deiana and of the economic dependence of the plaintiff companies with respect to Ansaldo Industria. The claim was also submitted against Leonardo, on the basis of the latter's alleged general liability in the capacity as the parent company of Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. On 25 September 2013 Leonardo appeared before the Court, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court rejects the plaintiffs' claims as they are entirely groundless in fact and in law. A minority shareholder of Società Progetto Cina S.r.l. and a minority shareholder of Janua Dei Italia S.r.l. intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. By a judgment dated 31 May 2018, the Court rejected the plaintiff's claim. On 10 August 2018 the opposing party filed an appeal against the abovementioned judgment;

- On 16 October 2018 the acquittal judgment became final which had been handed down by the Milan Court of Appeal against Ansaldo Energia within the criminal proceedings brought for the unlawful act referred to in art. 25 of Legislative Decree 231/01. As a result, the share of provision recognised against the related liability was released. It should be noted that, in the context of the investigation started by the Public Prosecutor's Office of Milan, by a ruling of 20 September 2011 the Court of Milan sentenced Ansaldo Energia for having committed the crime under art. 25 of Legislative Decree 231/01 and ordered the confiscation of an equivalent amount of €mil. 98.7 imposing also administrative penalties of €150,000. This sentence was also confirmed by the Court of Appeal of Milan with a ruling of 24 October 2013. Against this ruling the Company lodged an appeal with the Supreme Court which quashed this previous ruling on 10 November 2015 referring the case to another division of the same Court of Appeal. The latter, by a ruling of 28 November 2017, acquitted Ansaldo Energia setting the time limit for the filing of the related reasons at ninety days. In respect of the guarantee granted for the lawsuit at issue, at the time of the disposal of the investment, Leonardo recorded in previous financial years a risk provision covering the amount being confiscated in 2011 and the amount of the administrative penalties (€mil. 99). This provision has been maintained in the 2018 financial statements pending the outcome of the proceedings.

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Moreover, given their complexity, their cutting-edge technological content and the nature of the customers, the Group's long-term contracts are sometimes affected by disputes with customers in relation to the compliance of works with customer specifications and product performances. The Group adjusts the estimated contract costs for foreseeable issues, also taking into account the possible developments in the

relevant disputes. With regard to contracts in progress affected by uncertainties and issues under discussion with customers, there are:

- The proceedings brought by Selex Service Management against the Ministry for the Environment, Land and Sea before the Court of Rome in relation to the performance of the Sistri contract, were postponed for specifying the conclusions to the hearing scheduled on 16 May 2019. It should be noted that the Sistri contract was signed between the Ministry for the Environment, Land and Sea and Selex Service Management in December 2009 in relation to the design, operation and maintenance of the System for Waste Tracking until 30 November 2014.

  The performance of the contract was affected by a number of legislative acts aimed at postponing the time at which it was to come into force, at a drastic reduction of the categories of persons under an obligation to adopt the system, at introducing simplification and/or optimisation measures of the system and at indefinitely postponing the applicable penalties. Such legislative acts had a significant impact on the financial stability of the contract, which was further impaired by the non-payment of a large part of the amounts due to the company.

  Moreover, on 8 May 2014 the then Italian Public Contracts Regulator (*Autorità di Vigilanza dei Contratti Pubblici*) concluded the procedure that it had opened in July 2012 by resolution no. 10 whereby the Regulator ruled that the award of the Sistri contract did not comply with Article 17 of the Italian Code of Public Contracts in the matter of contracts subject to a secrecy classification and ordered the papers of the case to be sent to the Ministry and to the Court of Auditors, as well as to the DDA (*Direzione Distrettuale Antimafia*) organised crime unit at the Naples Public Prosecutor’s Office. The company then appealed against this Resolution before the Lazio Regional Administrative Court, challenging its lawfulness under various aspects and the related proceedings are still underway. In the wake of this resolution, the Ministry blocked a number of payments owed to the Company and asked the Government Lawyers (*Avvocatura dello Stato*) for an opinion on the matter. Partial payments were made in December 2014 in response, we assume, to the confirmation by the Government Lawyers that the contract is valid and legal.

  On 21 July 2014 Selex Service Management informed the Ministry that it was not its intention to continue with the operation of the system beyond the time-limit of 30 November 2014 set in the contract, forewarning that it would take steps to protect its rights in order to recoup the capital invested and obtain compensation for damages.

  Afterwards, Law 116 of 11 August 2014 as amended which converted Law Decree 91 of 24 June 2014, by introducing certain significant changes to the wording of Article 11 of Law Decree 101 of 31 August 2013 (which had provided, *inter alia*, (i) that the payment of the amounts due would be subject to an audit of the fairness of the final costs throughout 30 June 2013 and to the availability of the amounts paid by users at that date and (ii) a financial rebalancing of the contract, which was then

not carried out), extended the ultimate effective date of the contract with Selex Service Management until 31 December 2015, granting Selex Service Management the compensation for the production costs calculated up until the aforesaid date, subject to the fairness assessment by the Agency for Digital Italy (*Agenzia per l'Italia digitale*), to the maximum extent of the fees paid by the operators.
Said Law provided that by 30 June 2015 the Ministry for the Environment, Land and Sea had to start the procedures for the award of the service under concession in accordance with the provisions and methods set out in the Italian Code of Public Contracts. Decree Law no. 244 of 30 December 2016 extended again the ultimate effective date of the contract with Selex Service Management "*until the date of entry of the new concessionaire (...) and anyway with the time limit of 31 December 2017.*" Law no. 205 of 27 December 2017 once again extended the term of the SISTRI service operation on the part of Selex Service Management until 31 December 2018. On 14 December 2018, Law Decree no. 135 of 14 December 2018 – Urgent provisions on supporting and simplifying companies and Public Administration – was published on the Ordinary Supplement to the Official Gazette no. 290, as amended by Law of 11 February 2019. Article 6 of the mentioned Law Decree provides for the cancellation of the control system for waste tracking (SISTRI).
Following the refusal of jurisdiction of the arbitration panel served on the company on 19 February 2015 by the Government Lawyers, the Company brought a legal action against the said Ministry before the Court of Rome. This action aims at seeking a declaration that the contract had expired on 30 November 2014, as well as the payment of the agreed fees and compensation for damages.
By an order dated 17 February 2016, the Court granted the claims submitted by Selex Service Management pursuant to Article 186-*ter* of the Italian Code of Civil Procedure and ordered the Ministry to pay the plaintiff company an amount of €mil. 12, plus interest and VAT. By virtue of the abovementioned order, on 12 December 2016 the Ministry paid Selex Service Management an amount of €mil 17. At the hearing held on 24 January 2018, the Parties specified their conclusions and the case was retained for decision. Following the filing by Selex Service Management of the documentation proving the additional receivables accrued in the meantime, the Court referred the case back to preliminary investigations by an order dated 18 July 2018;

- Within the dispute pending between Augusta Westland International Ltd. and the Indian Ministry of Defence in relation to the supply contract for 12 helicopters signed in 2010, worth around €mil. 560 in total, at the hearing held on 28 February 2019 the company declared, before the New Delhi High Court, that it intended to withdraw, without prejudice to any right enforced therein, from the arbitration proceedings, as well as to bring ordinary proceedings before the Indian Civil courts. By order issued on the same date, the Court, in granting the request of AgustaWestland International Ltd, declared the arbitration proceedings concluded, setting a time limit of 7 days to transmit such order to the Arbitration Court. It should be noted that on 15 February 2013 the Indian Ministry of

Defence sent a Show Cause Notice asking the company to provide information on the bribery alleged to have occurred in violation of the contract and the Pre-Contract Integrity Pact. In the letter, in addition to notifying the company that it was suspending payments, the Indian government suggested that it could possibly cancel the contract if the company was unable to provide proof that it was not involved in the alleged corrupt conduct. The company promptly provided the information and documentation requested to the Indian authorities and also invited the Ministry to initiate bilateral discussions to settle the matter.

Not having received any indication of interest on the part of the Indian Ministry in beginning a dialogue, on 4 October 2013 AgustaWestland International Ltd started arbitration proceedings provided for by the contract in New Delhi. On 21 October 2013, the Indian Ministry served the second Show Cause Notice requesting further documents and once again claiming violation of the Pre-Contract Integrity Pact. In a letter sent on that date, the Ministry also challenged the applicability of the arbitration clause contained in the contract. On 25 November 2013, the company appointed its own arbitrator, the Hon. Justice B. N. Srikrishna, a former justice of the Indian Supreme Court, inviting the Ministry to designate its own arbitrator within the next 60 days.

On 1 January 2014, the Indian Ministry of Defence formally communicated its decision to cancel/terminate/rescind the contract, and simultaneously notified the company that it had taken steps to execute the guarantees and counter-guarantees given in relation to the aforesaid contract in the total amount of €mil. 306. On the same date, the Indian Ministry, altering its stance as expressed on 21 October 2013, appointed its own arbitrator, the Hon. Justice B.P. Jeevan Reddy, a former judge of the Supreme Court of India.

On 7 August 2014 the International Chamber of Commerce of Paris appointed William W. Park, Professor of Law at the Boston University, to act as the third arbitrator.

On 28 October 2014, the Indian Ministry of Defence filed a defence brief raising a number of preliminary objections challenging, among other things, whether the case could be referred to arbitration. At the hearing of 5 April 2017, the Arbitration Board requested AgustaWestland International Ltd and the Indian Ministry to file their defence papers, reserving to hand down its decision on the preliminary exceptions raised. On 29 September 2017, the company filed its own Statement of Claim whereby it specified its claims restating their reasonableness. On 28 February 2018, the Indian Ministry filed its Statement of Defence whereby it requested the rejection of the plaintiff's claim and asked a as counterclaim that AgustaWestland International Ltd be ordered to pay damages quantified in €mil. 514. On 9 January 2019 the Ministry of Defence filed a motion before the New Delhi High Court, whereby it asked said Court to hand down a ruling about the possibility of the dispute being referred to arbitration. The New Delhi High Court has set a time limit for the parties to file their statements. On 9 January 2019 the Ministry of Defence filed a motion

before the New Delhi High Court, whereby it asked the Court to hand down a ruling on the possibility of the dispute being referred to arbitration. Finally, it should be recalled that, on 23 May 2014, in the framework of the proceedings pursuant to Article 700 of the Italian Code of Civil Procedure brought by AgustaWestland S.p.A. and AgustaWestland International Ltd to prevent the enforcement of the guarantees, the Court of Milan - in partial acceptance of the complaint submitted by the Indian Ministry of Defence - partially amended the order it had previously handed down and revoked its injunction with regard to the whole amount of the Performance Bond equal to about €mil. 28 and up to an amount of about €mil. 200 as regards the Advance Bank Guarantees, as only about €mil. 50 of the guarantees cannot be enforced (corresponding to the reduction that, according to the contract, was to be made from the Advance Bank Guarantees after the customer accepted three of the helicopters).

As to the portion of the delivery already made (3 helicopters already delivered, plus spare parts and support), which is only partially covered by the advances received and not subject to the enforceability of the guarantees, the recoverability of the remaining balance as at 31 December 2018, as well as the recognition of any compensation to be paid or received, are dependent upon the settlement of the overall lawsuit.

22. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2018			31 December 2017 restated		
	Liabilities	**Assets**	**Net**	**Liabilities**	**Assets**	**Net**
Severance pay provision	302	-	302	329	-	329
Defined-benefit plans	178	309	(131)	199	335	(136)
Defined contribution plans	26	-	26	26	-	26
	506	**309**	**197**	**554**	**335**	**219**

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

	31 December 2018	**31 December 2017 restated**
GBP area	(248)	(254)
Euro area	6	6
USD area	89	91
Other	22	21
	(131)	**(136)**

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

	31 December 2018	31 December 2017 restated
Present value of obligations	(2,659)	(2,783)
Fair value of plan assets	2,790	2,919
Plan deficit	**131**	**136**
of which, related to:		
- net liabilities	(178)	(199)
- net assets	309	335

Changes in the defined-benefit plans are shown below:

31 December 2018	Present value of obligations	*Fair value of plan assets*	Net liability defined benefit plans
Opening balance	2,783	2,919	(136)
Costs of benefits paid	66	-	66
Net interest expense	66	69	(3)
Remeasurement	(169)	(182)	13
Actuarial losses (gains) through equity - demographic assumption	*39*	-	*39*
Actuarial losses (gains) through equity - financial assumptions	*(223)*	-	*(223)*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	*15*	-	*15*
Expected return on plan assets (no interest)	-	*(182)*	*182*
Curtailments	(16)	-	(16)
Contributions paid	-	75	(75)
Contributions from other plan participants	11	11	-
Exchange rate differences	(12)	(17)	5
Benefits paid	(68)	(83)	15
Other changes	(2)	(2)	-
Closing balance	**2,659**	**2,790**	**(131)**
of which, related to:			
- net liabilities	*1,910*	*1,732*	*178*
- net assets	*749*	*1,058*	*(309)*

31 December 2017 restated	Present value of obligations	*Fair value of plan assets*	Net liability defined benefit plans
Opening balance	2,802	2,831	(29)
Costs of benefits paid	53		53
Net interest expense	74	74	-
Remeasurement	53	133	(80)
Actuarial losses (gains) through equity - demographic assumption	*(43)*	-	*(43)*
Actuarial losses (gains) through equity - financial assumptions	*96*	-	*96*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	-	*23*	*(23)*
Expected return on plan assets (no interest)	-	*110*	*(110)*
Contributions paid	(14)	57	(71)
Contributions from other plan participants	11	11	-
Exchange rate differences	(118)	(112)	(6)
Benefits paid	(76)	(75)	(1)
Other changes	(2)	-	(2)
Closing balance	**2,783**	**2,919**	**(136)**
of which, related to:			
- net liabilities	2,019	1,820	199
- net assets	764	1,099	(335)

Changes in severance pay provision are shown below:

	31 December 2018	31 December 2017 restated
Opening balance	**329**	**340**
Costs of benefits paid	-	*1*
Net interest expense	*4*	*3*
Remeasurement	(4)	4
Actuarial losses (gains) through equity - demographic assumption	-	-
Actuarial losses (gains) through equity - financial assumptions	*(6)*	*5*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	*2*	*(1)*
Benefits paid	*(31)*	*(20)*
Other changes	*4*	*1*
Closing balance	**302**	**329**

The amount recognised in profit or loss on defined-benefit plans (including the severance pay provision) was calculated as follows:

	2018	2017 restated
Current service costs	67	69
Past service costs	(2)	(15)
Curtailments and settlements	1	-
Costs booked as “personnel expenses ”	**66**	**54**
Net interest expense	1	3
Costs booked as “financial expenses ”	**1**	**3**
	67	**57**

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of severance pay provision that has maintained the nature of defined-benefit plan are as follows:

	Severance pay provision		Defined-benefit plans	
	31 December 2018	31 December 2017 restated	31 December 2018	31 December 2017 restated
Discount rate (annual)	1.2%	0.9%	2,90% - 3,67%	2,5%-3,15%
Rate of salary increase	n.a.	n.a.	3,25% - 3,50%	3,3%-3,5%
Inflation rate	1.5%	1.5%	2,15% - 4,76%	2,2%-5%

The discount rate utilised to discount the defined benefits plans is determined with reference to expected returns of the AA-rated bonds.

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

	Severance pay provision				Defined-benefit plans			
	31 December 2018		31 December 2017 restated		31 December 2018		31 December 2017 restated	
	-0.25%	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	5	(5)	5	(5)	133	(124)	140	(137)
Inflation rate	(4)	4	(4)	4	(106)	81	(92)	89

The average duration of the severance pay is 9 years while that of the other defined-benefit plans is 19 years.

The estimate of the contributions to be paid in 2019 related to defined-benefit plans is about €mil. 59.

As regards the strategies of correlation of assets and liabilities in defined-benefit plans, there is the prevalence of investing in diversified assets in order to limit the negative impact, if any, on the total return on the plan assets. Assets of defined-benefit plans include:

	31 December 2018	31 December 2017 restated
Cash and cash equivalents	242	159
Shares and investment funds	1,099	1,214
Debt instrument	1,393	1,331
Real properties	52	14
Derivatives	4	201
	2,790	**2,919**

23. CURRENT AND NON-CURRENT LIABILITIES

	31 December 2018		31 December 2017 restated	
	Non-current	Current	Non-current	Current
Employee obligations	49	351	48	323
Deferred income	106	78	105	79
Amounts due to social security institutions	-	164	-	168
Payables to MED (Law no. 808/85)	204	52	262	109
Payables to MED for royalties (Law no. 808/85)	179	19	173	45
Other liabilities (Law no. 808/85)	158	-	222	-
Indirect tax liabilities	-	117	-	102
Derivatives	-	199	-	234
Other liabilities	202	458	248	550
Other payables to related parties (Note 35)	-	104	-	134
	898	**1,542**	**1,058**	**1,744**

The payables to the Ministry for Economic Development (MED) under Law 808/1985 relate to monopoly costs accrued on national security and similar projects, as well as payables for grants received from MED for the development of programmes not related to national security and similar projects eligible for benefits under Law 808/1985.

“Other liabilities (Law 808/1985)” include the difference between the monopoly costs charged for the national security programmes and the amount actually due based on agreed repayment ratios.

“Other payables” include, in particular, the non-current payable due to Bell Helicopter amounting to €mil. 189 (€mil. 241 at 31 December 2017), deriving from the acquisition of 100% of the AW609 programme. This amount also includes the reasonably estimated potential consideration due to Bell Helicopter based on the commercial performance of the programme.

24. TRADE PAYABLES

	31 December 2018	31 December 2017 restated
Suppliers	2,875	2,889
Trade payables to related parties (Note 35)	153	73
	3,028	**2,962**

25. GUARANTEES AND OTHER COMMITMENTS

Leasing

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

	31 December 2018		31 December 2017 restated	
	Operat. lease as lessee	*Operat. lease as lessor*	*Operat. lease as lessee*	*Operat. lease as lessor*
Within 1 year	90	4	69	8
2 to 5 years	252	13	164	8
Beyond 5 years	232	7	104	1
	574	**24**	**337**	**17**

Such values are the sum of the minimum payments deriving all existing operating lease contracts, considering no discounting effect, mainly related to real estate and equipment. Therefore, contracts with a duration lower that 12 months and with a non significant unit value are included.

Guarantees

The Group has existing guarantee for €mil. 15,536 (€mil. 17,768 at 31 December 2017). The item mainly includes guarantees given to third parties, banks and insurance companies as well as commitments in favour of lenders, tax authorities and customers.

26. REVENUE

	2018	2017 restated
Revenues from contract with customers	10,235	9,556
Change in contract assets	194	310
Revenue from related parties (Note 35)	1,811	1,868
	12,240	**11,734**

The trends in revenue by business segment are largely described in the Report on Operations.

The breakdown by geographical area and business sector is reported in Note 8. The breakdown of revenue by nature is reported below:

	2018	2017 restated
Revenues at point in time	2,773	2,372
Revenues over time	9,467	9,362
	12,240	**11,734**

27. OTHER OPERATING INCOME (EXPENSES)

	2018			2017 restated		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Grants for research and development costs (*)	39	-	39	24	-	24
Other operating grants	4	-	4	11	-	11
Gains/losses on sales of intangible asset, property, plant and equipment	12	-	12	1	-	1
Reversals (accruals) to provisions for risks	273	(278)	(5)	317	(306)	11
Exchange rate difference on operating items	147	(150)	(3)	171	(174)	(3)
Insurance reimbursements	5	-	5	3	-	3
Restructuring costs	2	(29)	(27)	2	(14)	(12)
Indirect taxes	-	(33)	(33)	-	(36)	(36)
Other operating income (expenses)	111	(37)	74	36	(54)	(18)
Other operating income (expenses) from/to related parties (Note 35)	6	(1)	5	4	-	4
	599	**(528)**	**71**	**569**	**(584)**	**(15)**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil 4 (€mil. 5 at 31 December 2017), are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 12) equal to €mil. 78 (€mil. 83 at 31 December 2017).

Restructuring costs include both costs incurred during the year and accruals to the "Restructuring provision". Costs and accruals relating to personnel are found under personnel expense (Note 28).

28. PURCHASES AND PERSONNEL EXPENSES

	2018	2017 restated
Purchase of materials from third parties	4,213	3,843
Change in inventories of raw materials	(149)	(22)
Costs for purchases from related parties (Note 35)	85	15
Purchases	**4,149**	**3,836**
Services rendered by third parties	3,243	3,162
Costs of rents and operating leases	108	108
Royalties	3	6
Software fees	23	19
Rental fees	18	19
Services rendered by related parties (Note 35)	480	341
Services	**3,875**	**3,655**
Wages and salaries	2,403	2,324
Social security contributions	496	484
Costs related to defined-contribution plans	111	107
Costs related to severance pay provisionand other defined-benefit plans (Note 22)	66	54
Employee disputes	(6)	2
Restructuring costs - net	187	39
Other personnel expenses	119	102
Personnel expenses	**3,376**	**3,112**
Change in finished goods, work in progress and semi-finished products	**52**	**138**
Internal work capitalised	**(296)**	**(289)**
Total purchases and personnel expenses	**11,156**	**10,452**

Personnel expenses increased by €mil. 264, mainly as a result of higher restructuring costs, including, in particular an amount of about €mil. 170 relating to the measures laid down in Article 4 of the Fornero Act, which is described in the section on "Industrial Transactions" of the Report on Operations.

The average workforce in 2018 compared to 2017 showed a significant increase (no. 667 units), mainly due to the *Electronics, Defence and Security Systems* (no. 495 units, of which no. 379 units in DRS) and *Aeronautics* (no. 250 units). Likewise, the increase in the exact number of staff members at period-end was mainly attributable to *Electronics, Defence & Security Systems* (no. 770 units, of which no. 630 in Drs) and to *Aeronautics* (no. 343 units).

Below is the breakdown of workforce by position:

	Average Workforce			Total Workforce		
	31 December 2018	**31 December 2017**	**Change**	**31 December 2018**	**31 December 2017**	**Change**
Senior managers (*)	1,151	1,125	26	1,167	1,131	36
Middle managers	5,584	5,346	238	5,725	5,467	258
Clerical employees	26,336	26,188	148	26,922	26,489	433
Manual labourers (**)	12,451	12,196	255	12,648	12,047	601
	45,522	**44,855**	**667**	**46,462**	**45,134**	**1,328**

(*) Includes pilots

(**) Includes senior manual labourers

29. AMORTISATION, DEPRECIATION AND FINANCIAL ASSETS VALUE ADJUSTMENTS

		2018		**2017 restated**
Amortisation of intangible assets		203		260
Development costs	*30*		*62*	
Non-recurring costs	*26*		*46*	
Acquired through business combinations	*98*		*98*	
Concessions, licences and trademarks	*18*		*16*	
Other intangible assets	*31*		*38*	
Depreciation of property, plant and equipment and investment properties		298		308
Impairment of other assets		72		16
financial assets value adjustments		83		95
		656		**679**

The impairment of property, plant and equipment, intangible assets and investment property mainly refers to the writedown of non-recurring costs and of tangible assets related to the *Aeronautics* sector.

30. FINANCIAL INCOME AND EXPENSE

Below is a breakdown of financial income and expense:

	2018			2017 restated		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Interest	7	(188)	(181)	5	(252)	(247)
Premiums received (paid) on IRS	6	(6)	-	6	(8)	(2)
Commissions on borrowings	-	(15)	(15)	-	(14)	(14)
Other commissions	1	(9)	(8)	1	(5)	(4)
Income (expense) from equity investments and securities	21	(1)	20	-	(8)	(8)
Fair value gains (losses) through profit or loss	25	(16)	9	18	(22)	(4)
Premiums (paid) received on forwards	37	(57)	(20)	38	(52)	(14)
Exchange rate differences	19	(27)	(8)	141	(157)	(16)
Interest cost on defined-benefit plans (Note 22)	-	(1)	(1)	-	(3)	(3)
Financial income (expense) - related parties (Note 35)	7	(4)	3	10	(4)	6
Other financial income and expense	25	(72)	(47)	16	(163)	(147)
	148	**(396)**	**(248)**	**235**	**(688)**	**(453)**

The improvement in net financial expense compared to 2017 was substantially due to lower interest on bond issues, as a result of buy-back transactions involving a part of them, completed during 2017. Moreover, the balance at 31 December 2017 was affected by the costs arising from the abovementioned transactions equal to €mil. 97. More specifically:

- net interest decreased by €mil. 66. The item includes €mil. 178 (€mil. 241 in 2017) related to interest on bonds;
- the expenses arising from the application of fair value break down as follows:

	2018			2017 restated		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Interest rate swaps	-	(1)	(1)	-	-	-
Ineffective portion of hedging swap	24	(15)	9	18	(18)	-
Embedded derivatives	1	-	1	-	(4)	(4)
	25	**(16)**	**9**	**18**	**(22)**	**(4)**

- income from equity investments and securities are related to the capital gain arising from the sale of the stake in Aviation Training Int. Ltd.. The comparative data, on the contrary, included the effect of the capital loss arising from the disposal of the minority stake in Atitech;
- other net financial expenses include the effect of the discount-back of non-current liabilities and assets. The 2017 figure included costs arising from buy-back transactions (€mil. 97).

31. INCOME TAXES

Income taxes can be broken down as follows:

	2018	2017 restated
IRES (corporate income tax)	(12)	(7)
IRAP (reg. tax on production)	(25)	(17)
Other income taxes (foreign)	(65)	(44)
Tax related to previous periods	6	7
Provisions for tax disputes	6	(11)
Deferred tax - net	26	(57)
	(64)	**(129)**

The balance of 2018 tax was significantly lower than in 2017, mainly as a result of the US tax reform recorded in the previous year, as a result of which the amount of deferred tax assets recognised by the Group against tax losses and temporary differences was realigned in relation to federal taxes on the basis of the new reduced rates from 35% to 21%.

In 2018 the tax rate was equal to about 17%, as reported in the table below:

	2018	2017 restated	
Pre-tax net result	**485**	**408**	***a***
Income taxes	64	129	
Provisions for tax disputes	6	(11)	
Tax related to previous periods	6	7	
US *Tax reform* effects	-	(50)	
Gains on JV ATIL sale	6		
	82	**75**	***b***
Tax rate	**17%**	**18%**	**b/a**

Deferred taxes and related receivables and payables at 31 December 2018 were the result of the following temporary differences. In this regard, we point out that part of the deferred tax assets relate to tax losses valued on the basis of the taxable income envisaged in the companies' plans, in particular €mil. 98 is related to the tax consolidation mechanism (about €bil. 0.7 of unrecognised losses).

	2018	2017 restated
Deferred tax assets on tax losses	(28)	(13)
Property, plant and equipment and intangible assets	19	23
Financial assets and liabilities	-	-
Severance and retirement benefits	(2)	(4)
Provision for risks and impairment	25	(26)
Effect of change in tax rate	-	(51)
Other	12	14
Deferred taxes recognised through profit or loss	**26**	**(57)**

	31 December 2018			31 December 2017 restated		
	Balance sheet			Balance sheet		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Deferred tax assets on tax losses	221	-	221	244	-	244
Property, plant and equipment and intangible assets	63	169	(106)	59	205	(146)
Severance and retirement benefits	8	26	(18)	8	24	(16)
Financial assets and liabilities	-	-	-	-	-	-
Provision for risks and impairment	650	-	650	589	-	589
Other	184	80	104	169	73	96
Offsetting	(4)	(4)	-	(5)	(5)	-
Deferred taxes recognised through balance sheet	**1,122**	**271**	**851**	**1,064**	**297**	**767**
Cash-flow hedge derivatives	29	2	27	20	3	17
On actuarial gains and losses	57	49	8	59	52	7
Deferred taxes recognised through equity	**86**	**51**	**35**	**79**	**55**	**24**
	1,208	**322**	**886**	**1,143**	**352**	**791**

32. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As stated in Note 21, the acquittal judgment against Ansaldo Energia became final in 2018 with reference to the administrative violation referred to in art. 25 of Legislative Decree 231/01, which had ordered the confiscation of an amount of €mil. 99 imposing also administrative penalties. These amounts had been the object of a guarantee granted by Leonardo at the time of the disposal of its investment in Ansaldo Energia, with the concurrent recognition of a provision for risks, released during the year following the outcome of the judgment.

Consistently with the recognition of the accounting effects of the sale of Ansaldo Energia made in previous financial statements, the related effects through profit or loss have been classified under the result of Discontinued Operations. Specifically, the item includes the abovementioned absorption (€mil. 99), net of a provision set aside during the year out of the guarantees provided in relation to the abovementioned sale and to another transaction which was initially classified in the same item.
In 2017 there were no discontinued operations.

The figure related to assets held for sale included at 31 December 2018 and at 31 December 2017 the value of the fixed assets owned by Leonardo Global Solutions, under disposal.

33. EARNINGS PER SHARE

Earnings (Losses) per share (hereinafter “earnings per share” or “EPS”) are calculated as follows:

- for basic EPS, by dividing net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period less treasury shares;

- for diluted EPS, by dividing net profit by the average number of ordinary shares and the average number of ordinary shares potentially deriving from the exercise of all the option rights for stock-option plans less treasury shares.

	2018	2017 restated
Average shares outstanding during the reporting period (in thousands)	574,605	574,425
Earnings for the period (excluding non-controlling interests) (€ millions)	510	277
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	421	277
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	89	-
Basic and Diluted EPS (€)	**0.888**	**0.482**
Basic and Diluted EPS from continuing operations (€)	*0.733*	*0.482*
Basic and Diluted EPS from discontinued operations (€)	*0.155*	*n.a*

Basic EPS, as that relating to the comparative period, was equal to diluted earnings per share, since there are no dilutive elements.

34. CASH FLOWS FROM OPERATING ACTIVITIES

	2018	2017 restated
Net result	510	279
Amortisation, depreciation and financial assets value adjustments	656	679
Share of profits/(losses) of equity-accounted investees	(234)	(273)
Income taxes	64	129
Cost of Severance pay provision and other defined-benefit plans	66	54
Net financial expense /(income)	248	453
Net allocations to the provisions for risks and inventory write-downs	400	258
Profit from Discontinued Operations	(89)	-
Other non-monetary items	48	38
	1,669	**1,617**

Costs of pension plans include the portion of costs relating to defined-benefit pension plans that is recognised as a personnel expense (the portion of costs relating to interest is carried among net financial expense).

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and foreign currency translation differences, are as follows:

	2018	2017 restated
Inventories	(853)	(313)
Contarct assets and liabilities	569	193
Trade receivables and payables	(37)	74
	(321)	**(46)**

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and foreign currency translation differences, are as follows:

	2018	2017 restated
Payment of pension plans	(91)	(92)
Changes in provisions for risks and other operating items	(349)	(365)
	(440)	**(457)**

35. RELATED PARTY TRANSACTIONS

Related party transactions are carried out at arm's length, as is settlement of the interest-bearing receivables and payables when not governed by specific contractual conditions. The relevant financial statements amounts are shown below. The statement of cash flows presents the impact of related party transactions on cash flows.

RECEIVABLES at 31 December 2018	**Non-current loans and receivables**	**Other non-current receivables**	**Current loans and receivables**	**Trade receivables**	**Other current receivables**	**Total**
Associates						
NH Industries SAS				140		140
Eurofighter Jagdflugzeug GmbH				70		70
Macchi Hurel Dubois SAS				15		15
AgustaWestland Aviation Services LLC				13		13
Iveco - Oto Melara Scarl				11		11
Other with unit amount lower than €mil. 10			1	18	1	20
Joint Venture						
GIE ATR				60		60
Joint Stock Company Helivert				34		34
Thales Alenia Space SAS			147	21		168
MBDA SAS				13		13
Other with unit amount lower than €mil. 10			2	14	3	19
Consortiums						
Other with unit amount lower than €mil. 10			2	14		16
Companies subject to the control or considerable influence of the MEF	1		1	81		83
Total	**1**	**-**	**153**	**504**	**4**	**662**
% against total for the period	***7.7%***	***n.a.***	***82.7%***	***17.2%***	***2.2%***	

RECEIVABLES at 31 December 2017 restated	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10				2		2
Associates						
NH Industries SAS				183		183
Eurofighter Jagdflugzeug GmbH				62		62
Iveco - Oto Melara Scarl				12		12
Macchi Hurel Dubois SAS				12		12
AgustaWestland Aviation Services LLC				13		13
Advanced Air Traffic Systems SDH BHD				10		10
Other with unit amount lower than €mil. 10				15		15
Joint Venture						
GIE ATR				53		53
Joint Stock Company Helivert				38		38
MBDA SAS				21		21
Thales Alenia Space SAS			105	27		132
Telespazio S.p.A.				12		12
Rotorsim USA LLC						-
Other with unit amount lower than €mil. 10			2	5	5	12
Consortiums						
Other with unit amount lower than €mil. 10			3	15		18
Companies subject to the control or considerable influence of the MEF				89		89
Total	**-**	**-**	**110**	**569**	**5**	**684**
% against total for the period	***n.a.***	***n.a.***	***70.1%***	***17.9%***	***2.1%***	

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

PAYABLES at 31 December 2018	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Associates							
Eurofighter Jagdflugzeug GmbH			27			27	
Elettronica Spa				12		12	
Gulf System Logistic Sercives Company W.L.L.				62		62	
Other with unit amount lower than €mil. 10			2	13	7	22	
Joint Venture							
MBDA SAS			612	24		636	47
Telespazio S.p.A.			28			28	170
Rotorsim Srl				17		17	
GIE ATR					86	86	
Other with unit amount lower than €mil. 10				8	5	13	
Consortiums							
Other with unit amount lower than €mil. 10				2	-	2	
Companies subject to the control or considerable influence of the MEF				15	6	21	587
Total	**-**	**-**	**669**	**153**	**104**	**926**	**804**
% against total for the period	***n.a.***	***n.a.***	***56.2%***	***5.1%***	***8.2%***		

PAYABLES at 31 December 2017 restated	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10				2		2	
Associates							
Eurofighter Jagdflugzeug GmbH			19	11		30	
Other with unit amount lower than €mil. 10			3	14	9	26	
Joint Venture							
MBDA SAS			648	2	2	652	47
GIE ATR				2	111	113	
Rotorsim USA LLC				14		14	
Telespazio S.p.A.			31	2	6	39	201
Other with unit amount lower than €mil. 10				6		6	
Consortiums							
Other with unit amount lower than €mil. 10				4		4	
Companies subject to the control or considerable influence of the MEF				16	6	22	603
Total	**-**	**-**	**701**	**73**	**134**	**908**	**851**
% against total for the period	***n.a.***	***n.a.***	***49.5%***	***2.5%***	***9.4%***		

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

Trade receivables are commented on later, along with revenue from related parties.

Current loans and receivables and other current payables to related parties mainly refer to receivables and payables from/to joint ventures.

Trade payables related to amounts due to joint ventures, as well as mainly to amounts due to Gulf System Logistic Services Company W.L.L for operations under the EFA/Kuwait contract.

Loans and borrowings from related parties include in particular the amount of €mil. 612 (€mil. 648 at 31 December 2017) due by Group companies to the joint venture MBDA and payables of €mil. 27 (€mil. 19 at 31 December 2017) to Eurofighter, 21% owned. As regards the latter, under a cash pooling agreement its surplus cash and cash equivalents are distributed among the partners.

Income statement transactions at 31 December 2018	Revenue	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10			11			
Associates						
Eurofighter Jagdflugzeug GmbH	510		131			
NH Industries SAS	304					
Orizzonte - Sistemi Navali S.p.A.	138					
Iveco-Oto Melara Scarl	62					
Macchi Hurel Dubois SAS	58					
Advanced Air Traffic Systems SDH BHD	29					
AgustaWestland Aviation Services LLC	17					
Gulf System Logistic Sercives Company W.L.L.			224			
Elettronica Spa			21			
Other with unit amount lower than €mil. 10	17		14			1
Joint Venture						
GIE ATR	320		44			
MBDA SAS	75		42			
Thales Alenia Space SAS	65					
Joint Stock Company Helivert	10					
Rotorsim Srl			21			
Other with unit amount lower than €mil. 10	4	5	13		1	3
Consortiums						
Consorzio G.e.i.e. Eurotorp						
Other with unit amount lower than €mil. 10	17		5			
Companies subject to the control or considerable influence of the MEF	185	1	39	1	6	
Total	**1,811**	**6**	**565**	**1**	**7**	**4**
% against total for the period	***14.8%***	***1.0%***	***5.1%***	***0.2%***	***4.7%***	***1.0%***

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

Income statement transactions at 31 December 2017 restated	Revenue	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Cardprize TWO Ltd			11			
Other with unit amount lower than €mil. 10			2			
Associates						
Eurofighter Jagdflugzeug GmbH	621		207			
NH Industries SAS	275					
Orizzonte - Sistemi Navali S.p.A.	177					
Iveco-Oto Melara Scarl	70					
Macchi Hurel Dubois SAS	53					
AgustaWestland Aviation Services LLC	14					
Advanced Air Traffic Systems SDH BHD	17					
Altre di importo unitario inferiore a €Mil. 10	25		11			1
Joint Venture						
GIE ATR	236					
MBDA SAS	72					
Thales Alenia Space SAS	58					
Rotorsim Srl			22			
Other with unit amount lower than €mil. 10	10	4	26		1	3
Consortiums						
Consorzio G.e.i.e. Eurotorp	30					
Other with unit amount lower than €mil. 10	2		2			
Companies subject to the control or considerable influence of the MEF	208		75		9	
Total	**1,868**	**4**	**356**	**-**	**10**	**4**
% against total for the period	***15.9%***	***0.7%***	***3.4%***	***n.a.***	***4.3%***	***0.6%***

(*) Consortia over which the Group exercises considerable influence

The most significant trade receivables and revenues, in addition to those from joint ventures, are related to companies and consortia:

- Eurofighter in the scope of the EFA aeronautical programme;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (mainly VBM Freccia for the Italian Army);
- NHIndustries in the scope of the NH90 helicopter programme;
- Orizzonte - Sistemi Navali for the FREMM programme;
- Macchi Hurel Dubois for the commercialisation of nacelles;
- Subsidiaries or companies subject to significant influence on the part of the Ministry of Economy and Finance, including relations with Ferrovie dello Stato for train revamping, as well as Fintecna for supplies to subsidiary Fincantieri, with Poste Italiane for servicing, equipment and related maintenance for the logistics platform and with ENAV for the supply of systems and software components for flight assistance.

Costs related to those to Joint Ventures, as well as to companies:

- Eurofighter Jagdflugzeug GmbH and Gulf System Logistic Services Company W.L.L. for operations within the EFA/Kuwait programme;

- Subsidiaries or companies subject to significant influence by the Ministry of Economy and Finance, including those to Enel.

36. FINANCIAL RISK MANAGEMENT

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

- interest-rate risks, related to the Group's financial exposure;
- exchange-rate risks, related to operations in currencies other than the reporting currency;
- liquidity risks, relating to the availability of financial resources and access to the credit market;
- credit risks, resulting from normal commercial transactions or financing activities.

Leonardo carefully and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Interest rate risk

The Leonardo Group is exposed to interest rate risk on borrowings. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related borrowing costs.

To that regard and with reference to borrowings equal to €mil. 4,613 at 31 December 2018 the fixed-rate percentage amounted to around 71%, while the floating-rate percentage is around 29%. The increase in the variable rate exposure (19% in 2017) was due to the different debt mix. During 2018, in fact, there was the repayment of the fixed-rate bond issue in a nominal amount of €mil. 500, which had reached its expiry, and the execution of the Term Loan, in the same amount, stated at a variable rate.

Therefore, at the date of these financial statements, the interest-rate risk exposure continued to be moderate, with a variable component of less than 30%, which allows, at the current market conditions, the debt cost to be reduced, bringing it to about 4% with an average life of about 5.5 years.

At 31 December 2018, the transactions were the following:

- *options for €mil. 200* (CAP at 4.20% and Knock out at 5.60% in relation to the 6-month Euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group's strategy providing for a return to the floating rate and the levels of said rate should become unfavourable;
- *floating/fixed interest rate swap for €mil. 300* relating to the EIB loan in the same amount, which guarantees a fixed rate of 0.82% in addition to the spread applied to the loan.

The detail of the main interest-rate swaps at 31 December 2018 is as follows:

	Notional		**Underlying (maturity)**	***Fair value 01.01.2018***	**Changes**			***Fair value 31.12.2018***
	2018	**2017 restated**			**Income**	**Expense**	**CFH Reserve**	
IRS fixed/floating/fixed	-	200	Bond 2018	1	-	(1)	-	-
Options	200	200	Bond 2025	(3)			-	(3)
IRS floating/fixed	300	-	BEI 2025	-	-	-	(3)	(3)
Total notional	**500**	**400**		**(2)**	**-**	**(1)**	**(3)**	**(6)**

	Notional		**Underlying (maturity)**	***Fair value 01.01.2017 restated***	**Changes**			***Fair value 31.12.2017 restated***
	2017 restated	**2016**			**Income**	**Expense**	**CFH Reserve**	
IRS fixed/floating/fixed	200	200	Bond 2018	1	-	-	-	1
Options	200	200	Bond 2025	(3)		-	-	(3)
Total notional	**400**	**400**		**(2)**	**-**	**-**	**-**	**(2)**

The table below shows the effects of the sensitivity analysis for 2018 and 2017 deriving from the 50-basis-point shift in the interest-rate at the reporting date:

Effect of shift of interest rate curve	**31 December 2018**		**31 December 2017 restated**	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	1	(1)	5	(6)
Equity (*)	12	(11)	5	(6)

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

Exchange rate risk

Transaction risk

Due to its commercial operations, the Group's companies are exposed to the risk of fluctuations in the currencies related to those cases in which orders, revenue and costs are expressed in currencies other than the functional one used in the financial statements (specifically, US dollars and, to a lesser extent, the pound sterling).

Exchange rate risk management is governed by the directive in force within the Group. The purpose of the directive is to standardise management criteria based on industrial-not-speculative strategies so as to contain

risks within specific limits by carefully and constantly assessing all foreign currency transaction positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralising the effects of exchange-rate fluctuations. As a result, contracts for purchases or sales denominated in a currency different from the functional currency are hedged using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position.

The effectiveness of the hedge is tested at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is recognised through profit and loss according to accounting principles. In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash-flow hedge accounting method of recognition is adopted (Note 4.3).

Leonardo carries out these transactions with banks in its own interest and of Group companies.

At 31 December 2018 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 6,291 (notional amount). Overall, the average euro/US dollar exchange rate for hedging purposes is 1.17 on sales and about 1.2 on purchases.

	Notional			**Fair value 01.01.2018**	**Changes**				***Fair value 31.12.2018***
	Sales	**Purchases**	**Total**		***Discontinued operation***	**Income**	**Expense**	**CFH Reserve**	
Swap and forward transactions	3,079	3,212	6,291	(48)		25	(15)	(48)	(86)

	Notional			**Fair value 01.01.2017 restated**	**Changes**				***Fair value 31.12.2017 restated***
	Sales	**Purchases**	**Total**		***Discontinued operation***	**Income**	**Expense**	**CFH Reserve**	
Swap and forward transactions	2,634	3,567	6,201	(170)	-	18	(21)	125	(48)

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

	31 December 2018				31 December 2017 restated			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges								
Within 1 year	865	158	624	1,303	1,250	262	624	1,303
2 to 3 years	550	-	137	578	544	3	137	578
4 to 9 years	382	-	73	-	39	-	73	-
Total	**1,797**	**158**	**834**	**1,881**	**1,833**	**265**	**834**	**1,881**
Hedging transactions which cannot be classified as hedging transactions	224	3	420	7	421	8	420	7
Total transactions	**2,021**	**161**	**1,254**	**1,888**	**2,254**	**273**	**1,254**	**1,888**

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the US dollar (USD) and the pound sterling (GBP) and, assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2018 (equal to 1.1450 and 0.8945, respectively) and at 31 December 2017 (1.1993 and 0.8872 respectively).

	31 December 2018				31 December 2017 restated			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	8	(8)	(1)	2	3	(3)	3	(3)
Equity (*)	(25)	28	54	(49)	(23)	25	28	(25)

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

<u>*Translation risk*</u>

The Group is exposed to "translation risk", i.e. the risk that assets, liabilities and results in consolidated companies whose reporting currency is not the euro (mainly USD and GBP) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named "Translation reserve" (Note 19) and results of operations. It should be noted that Leonardo does not hedge translation risk relating to its own equity investments, the most important of which are in the USA and in the UK.

Leonardo MW Ltd., which is Leonardo's main equity holding in the UK had a positive net financial position which is transferred to Leonardo through cash pooling arrangements. Leonardo systematically hedges this exposure through exchange-rate derivatives recognised as fair value hedges. As a result, even though the Group has no economic exposure, it is subject to balance-sheet volatility directly impacting the amount of Group net debt, which is affected by the realigning payables/receivables in foreign currency from third parties or, similarly, by the cash effects deriving from the renewal of hedges.

The effects on the equity of the Group, broken down by the main currencies, are reported in Note 19.

Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk of not being able to finance the prospective requirements deriving from its usual business and investment operations, as well as those connected with the volatility of the relevant markets and with operations linked to commercial contracts for which there is the risk of renegotiation or cancellation. Furthermore, we must consider the effects of the reorganisation of the Group, specifically with regard to the financial outlays relating to efficiency-improvement processes. Finally, there is the risk of not being able to repay or refinance debts at the expiry dates.

In order to face the above-mentioned risks, the Group has adopted a series of instruments aimed at optimizing the management of financial resources through banking transactions and bonds.
Leonardo applies the EMTN programme, under which all the outstanding bonds of Leonardo on the Euromarket have been issued, was used in the amount of about €mil. 2,705 at 31 December 2018 compared to the total amount of €mil. 4,000. To such amount the bonds issued on the US market by the subsidiary Leonardo US Holding Inc. (guaranteed by Leonardo S.p.a.) must be added for a total gross value of USDmil. 432 (equivalent to €mil. 377).

Furthermore, in order to finance its own ordinary and extraordinary operations, the Leonardo Group can use the cash and cash equivalents of €mil. 2,049 generated at 31 December 2018 related to Leonardo S.p.a. (€mil. 1,621), to Group companies that, for different reasons, do not fall within the scope of the treasury centralization (€mil. 381) and for the remaining part, to cash amounts of the companies falling, directly or indirectly, within the scope of the treasury centralization, as well as to deposits made for different reasons.

It should be also recalled that in order to meet the financing needs for ordinary Group activities, Leonardo obtained a Revolving Credit Facility (RCF) amounting to €mil. 1,800 with maturity date July 2023.

Credit risk

The Group is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties.

Regarding commercial transactions, the most significant programmes are made with public sector contractors or contractors belonging to public institutions, mainly in the Euro area, in the UK, the US and the Middle East. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to highlight and mitigate insolvency risks, if any. While solvency is guaranteed with public-entity customers, collection times are longer (in some countries they are significantly longer) than for other business sectors, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. When possible, the Group hedges against potential defaults of its customers by entering into insurance

policies with leading Export Credit Agencies (ECAs) internationally and with major Italian agencies (eg. SACE).

The types of contracts entered into by the Group provide for sizeable retention money withheld by customers, as well as back-to-back clauses in case of sub-supplies. All this inherently extends the times for collection of outstanding receivables.

Furthermore, the Group operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2018, we note the following relations with countries exposed to credit risk according to the international institutions (SACE):

€mil.	**Lybia**	**Zambia**	**Pakistan**	**Other countries**	**Total**
Assets	55	-	112	21	**188**
Liabilities	(65)	(31)	(18)	(5)	**(119)**
Net exposure	**(10)**	**(31)**	**94**	**16**	**69**

Finally, the receivables related to certain existing contracts, as reported in "Leonardo and risk management" in the Report on Operations, might not be paid, renegotiated or written off. With particular regard to this, we highlight receivables linked to the Sistri programme and to the supply to the Indian government – already described in Note 21.

The table below summarises trade receivables at 31 December 2018 and 2017, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

(€ billions)	**31 December 2018**	**31 December 2017 restated**
Portion due	1.2	1.7
- of which: for more than 12 months	*0.6*	*0.9*
Portion not yet due	1.7	1.5
Total trade receivables	**2.9**	**3.2**

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.

Financial receivables, amounting to €mil. 223 (€mil. 217 at 31 December 2017) include €mil. 12 (€mil. 12 at 31 December 2017) classified as "non-current" and consequently excluded from the net financial position (vice versa, the non-current receivable from related parties and from Superjet is included within the "Group Net Debt" indicator, as indicated in Note 20). Loans and receivables are broken down in the table below:

Loans and receivables	31 December 2018	31 December 2017 restated
Loans and receivables from related parties	1	-
Non current financial receivables from Superjet	25	48
Other loans and receivables	12	12
Non-current loans and receivables	**38**	**60**
Loans and receivables from related parties	153	110
Other loans and receivables	32	47
Current loans and receivables	**185**	**157**
Total loans and receivables	**223**	**217**

Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued, using historical series, statistical data and specific probability of default, or on an aggregate basis if requirements are met.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy for the financial assets and liabilities of the Group measured at fair value. The fair value of derivatives (classified under other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called "Level 2"); the payable to Bell Helicopter (classified under other current and non-current liabilities) is determined on the basis of measurement techniques which do not consider directly observable market inputs (the so-called "Level 3"). The fair value of the payable to Bell Helicopter was determined by discounting back the estimate of the variable amounts payable on the basis of the commercial performance of the programme.

	31 December 2018			**31 December 2017 restated**		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	-	-	-	-	-
Other current assets	107	-	107	184	-	184
Other non-current liabilities	-	189	189	-	241	241
Other current liabilities	199	-	199	234	-	234

37. DISCLOSURE UNDER LAW 124/2017

The Company, having considered the subjective and objective scope of application of the regulation under article 1, paragraphs 125 and 126, of Law no. 124/2017, concluded that there are no conditions to publish any data.

38. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of Leonardo S.p.a. amounted to €mil. 11 (€mil. 20 at 31 December 2017). The decrease compared to the value for the comparative period was due to the lower impact of incentives paid to top management who left the Company.

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 2 (€mil. 1 in 2017). This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

39. SHARE BASE PAYMENTS

As largely reported in the section “Leonardo and Sustainability” of the report on operations, in order to implement an incentive and retention system for the Group’s employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2018 to €mil. 9 (€mil. 9 in 2017).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group Net Debt for 25% and ROS for 25%) was equal to € 13.12 for the first plan (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017), to €9.83 (value of Leonardo shares at the grant date of 31 July 2016) with reference to the second three-year cycle (2016-2018) and to €14.76 (value of Leonardo shares at the grant date of 31 July 2017) with reference to the third three-year cycle (2017-2019), while it was equal to € 10.25 for the second plan (value of Leonardo shares at the grant date of 31 July 2018) with reference to the first three-year cycle (2018-2020).

Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90 for the first plan with reference to the first three-year cycle (2015-2017), to € 3.88 with reference to the second three-year cycle (2016-2018) and to €8.55 with reference to the third three-year cycle (2017-2019), while it was equal to € 3.51 with reference to the first three-year cycle of the second plan (2018-2020).

The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;
- the expected volatility of the price of Leonardo shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;

- correlation coefficients between Leonardo and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis.

With reference to the co-investment plan, in 2018 the requirements for the award of the rights relating to the first cycle (no. 56,301 shares delivered) were fulfilled in respect of the bonus shares (“matching shares”).

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

Attachments

Attachment: Scope of consolidation

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	*Registered office*	*Partecipating company*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
					Direct	*Indirect*	
3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	ENGINEERED SUPPORT SYSTEMS INC	CAD	-		100	100
AGUSTA AEROSPACE SERVICES AAS SA	Grace Hollogne (Belgium)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL	EUR	500,000		100	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Essendon, Victoria (Australia)	LEONARDO INTERNATIONAL SPA	AUD	400,000		100	100
AGUSTAWESTLAND DO BRASIL LTDA	Osasco (Brazil)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	BRL	11,817,172		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	LEONARDO SPA	GBP	500,000	100		100
AGUSTAWESTLAND INDIA PRIVATE LTD (IN LIQ.)	New Delhi (India)	AGUSTAWESTLAND SPA AGUSTAWESTLAND LTD	INR	11,519,450		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Yeovil, Somerset (UK)	AGUSTAWESTLAND SPA AGUSTAWESTLAND LTD	GBP	511,000		100	100
AGUSTAWESTLAND LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1,520,304		100	100
AGUSTAWESTLAND MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	AGUSTAWESTLAND HOLDINGS LTD	MYR	2,500,000		100	100
AGUSTAWESTLAND NORTH AMERICA INC	Wilmington, Delaware (USA)	AGUSTAWESTLAND HOLDINGS LTD	USD	1		100	100
AGUSTAWESTLAND PHILADELPHIA CO	Wilmington, Delaware (USA)	LEONARDO SPA	USD	20,000,000	100		100
AGUSTAWESTLAND SPA	Rome	SOGEPA SPA	EUR	120,000		100	100
ALENIA AERMACCHI SPA	Rome	SOGEPA SPA	EUR	120,000		100	100
ANSALDOBREDA SPA	Naples	LEONARDO SPA	EUR	10,000,000	100		100
BREDAMENARINIBUS SPA	Rome	SOGEPA SPA	EUR	1,300,000		100	100
DAYLIGHT DEFENCE LLC	Wilmington, Delaware (USA)	DAYLIGHT SOLUTIONS INC.	USD	1		100	100
DAYLIGHT SOLUTIONS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS ADVANCE ISR LLC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	-		100	100
DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1		100	100
DRS CONSOLIDATED CONTROLS INC	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1		100	100
DRS DEFENSE SOLUTIONS LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	-		100	100
DRS ENVIRONMENTAL SYSTEMS INC	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	2		100	100
DRS GLOBAL ENTERPRISE SOLUTIONS INC.	Baltimore, Maryland (USA)	DRS D.S. LLC	USD	50		100	100
DRS HOMELAND SECURITY SOLUTIONS INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS INTERNATIONAL INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS NETWORK & IMAGING SYSTEMS LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS POWER & CONTROL TECHNOLOGIES INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS POWER TECHNOLOGY INC	Wilmington, Delaware (USA)	DRS POWER & C. T. INC	USD	1		100	100
DRS RADAR SYSTEMS LLC	Wilmington, Delaware (USA)	DRS C3 & AVIATION COMPANY	USD	-		100	100
DRS SIGNAL SOLUTIONS INC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	10		100	100
DRS SURVEILLANCE SUPPORT SYSTEMS INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS SUSTAINMENT SYSTEMS INC	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1,000		100	100
DRS SYSTEMS MANAGEMENT LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS SYSTEMS INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS TECHNICAL SERVICES GMBH & CO KG	Stuttgart (Germany)	DRS GLOBAL ENT. SOLUTIONS INC.	EUR	-		100	100
DRS TECHNOLOGIES CANADA INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
DRS TECHNOLOGIES CANADA LTD	Kanata, Ontario (Canada)	DRS TECHNOLOGIES CANADA INC	CAD	100		100	100
DRS TECHNOLOGIES SAUDI ARABIA LLC	Riyadh (Saudi Arabia)	LEONARDO DRS INC	SAR	2,000,000		49	100
DRS TECHNOLOGIES UK LIMITED	Farnham, Surrey (UK)	LEONARDO MW LTD	GBP	1		100	100
DRS TECHNOLOGIES VERWALTUNGS GMBH	Stuttgart (Germany)	DRS GLOBAL ENT. SOLUTIONS INC.	EUR	25,000		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee (USA)	DRS D.S. LLC	USD	510		100	100
DRS TSI INTERNATIONAL LLC	Wilmington, Delaware (USA)	DRS GLOBAL ENT. SOLUTIONS INC.	USD	-		100	100
DRS UNMANNED TECHNOLOGIES INC	Wilmington, Delaware (USA)	DRS T. & C. SYSTEMS LLC	USD	1		100	100
ENGINEERED COIL COMPANY	Jefferson City, Missouri (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1,000		100	100
ENGINEERED SUPPORT SYSTEMS INC	Jefferson City, Missouri (USA)	LEONARDO DRS INC	USD	1		100	100
ESSI RESOURCES LLC	Frankfort (USA)	DRS SUSTAINMENT SYSTEMS INC	USD	-		100	100
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)	LEONARDO GLOBAL SOLUTIONS SPA	EUR	100,000		100	100
GLOBAL NETWORK SERVICES LLC	Wilmington, Delaware (USA)	DRS GLOBAL ENT. SOLUTIONS INC.	USD	1		100	100
LARIMART SPA	Rome	LEONARDO SPA	EUR	2,500,000	60		60
LASERTEL INC	Phoenix (USA)	SELEX GALILEO INC	USD	10.00		100	100
LAUREL TECHNOLOGIES PARTNERSHIP	Wilmington, Delaware (USA)	DRS SYSTEMS MANAG. LLC DRS SIGNAL SOLUTIONS INC	USD	-		100	100
LEONARDO DRS INC	Wilmington, Delaware (USA)	LEONARDO US HOLDING, INC	USD	1		100	100
LEONARDO GERMANY GMBH ex SELEX ES GMBH	Neuss (Germany)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	EUR	2,500,000		100	100
LEONARDO GLOBAL SOLUTIONS SPA	Rome	LEONARDO SPA	EUR	49,945,983	100		100
LEONARDO HISPANIA S.A.U. ex OTO MELARA IBERICA SAU	Loriguilla, Valencia (Spain)	LEONARDO INTERNATIONAL SPA	EUR	5,189,019		100	100
LEONARDO INTERNATIONAL SPA	Rome	LEONARDO SPA	EUR	1,000,000	100		100
LEONARDO MW LTD	Basildon, Essex (UK)	LEONARDO SPA	GBP	314,500,100	100		100
LEONARDO PORTUGAL S.A. EX AGUSTAWESTLAND PORTUGAL SA	Lisbon (Portugal)	LEONARDO INTERNATIONAL SPA	EUR	100,000		100	100
LEONARDO ROMANIA AEROSPACE, DEFENCE & SECURITY S.A. ex S.C. ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	RON	10,847,960		100	100
LEONARDO TECHNOLOGIES & SERVICES LTD ex SELEX ES TECHNOLOGIES LTD	Nairobi (Kenya)	LEONARDO INTERNATIONAL SPA	KES	109,600,000		100	100
LEONARDO US AIRCRAFT, INC.	Wilmington, Delaware (USA)	LEONARDO US HOLDING, INC	USD	44		100	100
LEONARDO US HOLDING, INC	Wilmington, Delaware (USA)	LEONARDO SPA	USD	10	100		100
OTO MELARA NORTH AMERICA LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	0		100	100
PARTECH SYSTEMS PTY LTD	Yerriyong (Australia)	SELEX ES AUSTRALIA PTY LTD	AUD	330,00		60	60
PIVOTAL POWER INC	Halifax, Nova Scotia (Canada)	3083683 NOVA SCOTIA LIMITED	CAD	-		100	100
REGIONALNY PARK PRZEMYSLOWY SWIDNIK SP Z OO	Swidnik (Poland)	PZL-SWIDNIK S. A.	PLN	7,072,000		74	73
SELEX ELSAG LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	25,800,100		100	100
SELEX ES AUSTRALIA PTY LTD	Melbourne (Australia)	LEONARDO INTERNATIONAL SPA	AUD	500,000		100	100
SELEX ES DO BRASIL LTDA	Rio de Janeiro (Brazil)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	BRL	5,686,457		100	100
SELEX ES ELEKTRONIK TURKEY AS	Ankara (Turkey)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	TRY	79,557,009		100	100
SELEX ES INC	Wilmington, Delaware (USA)	LEONARDO INTERNATIONAL SPA	USD	1		100	100
SELEX ES INDIA PRIVATE LTD (IN LIQ.)	New Delhi (India)	LEONARDO MW LTD SELEX ES (PROJECTS) LTD	INR	30,100,000		100	100
SELEX ES INTERNATIONAL LTD	Basildon, Essex (UK)	LEONARDO SPA	GBP	100	100		100
SELEX ES LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
SELEX ES MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	LEONARDO INTERNATIONAL SPA	MYR	500,000		100	100
SELEX ES SPA	Rome	SOGEPA SPA	EUR	120,000		100	100
SELEX ES SAUDI ARABIA LTD	Riyadh (Saudi Arabia)	LEONARDO MW LTD SELEX ES (PROJECTS) LTD	SAR	500,000		100.00	100
SELEX GALILEO INC	Wilmington, Delaware (USA)	LEONARDO MW LTD	USD	1		100	100
SELEX SERVICE MANAGEMENT SPA (IN LIQ.)	Rome	SELEX ES SPA	EUR	3,600,000		100	100
SISTEMI DINAMICI SPA	Pisa	LEONARDO SPA	EUR	200,000	100		100
SO.GE.PA. - SOCIETA` GENERALE DI PARTECIPAZIONI SPA	Rome	LEONARDO SPA	EUR	1,000,000	100		100
T - S HOLDING CORPORATION	Austin, Texas (USA)	TECH-SYM LLC	USD	280,000		100	100
TECH-SYM LLC	Reno, Nevada (USA)	LEONARDO DRS INC	USD	10		100	100
TTI TACTICAL TECNOLOGIES INC	Ottawa (Canada)	LEONARDO MW LTD	CAD	2,500,001		100	100

VEGA CONSULTING SERVICES LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
VEGA DEUTSCHLAND GMBH	Cologne (Germany)	SELEX ES SPA	EUR	25,700		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (UK)	AGUSTAWESTLAND LTD	GBP	5,000		100	100
WORLD'S WING SA	Geneva (Switzerland)	LEONARDO SPA	CHF	811,876	100		100
WYTWORNIA SPRZETU KOMUNIKACYJNEGO ``PZL-SWIDNIK`` SPOLKA AKCYJNA	Swidnik (Poland)	LEONARDO SPA	PLN	137,401,350	99		99

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

Company name	*Registered office*	*Partecipating company*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
					Direct	*Indirect*	
A4ESSOR SAS	Neuilly Sur Seine (France)	LEONARDO SPA	EUR	100,000	23.10		23.10
ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	-		51	51
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Shah Alam (Malaysia)	SELEX ES INTERNATIONAL LTD	MYR	10,000,000		30	30
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	LEONARDO SPA	AED	58,010,000	30		30
AMSH BV	Rotterdam (the Netherlands)	LEONARDO SPA	EUR	36,296,316	50		50
AVIO SPA	Rome	LEONARDO SPA	EUR	90,964,213	25.88		25.88
C-27J AVIATION SERVICES INC.	Ottawa (Canada)	LEONARDO CANADA CO	CAD	10,000		30	30
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
CONSORZIO ATR GIE	Toulouse (France)	LEONARDO SPA	USD	-	50		50
CONSORZIO TELAER (IN LIQ.)	Rome	E - GEOS SPA SELEX ES SPA	EUR	103,291		100	67.52
DISTRETTO TECNOLOGICO AEROSPAZIALE SC A RL	Brindisi	LEONARDO SPA	EUR	150,000	24		24
E - GEOS SPA	Matera	TELESPAZIO SPA	EUR	5,000,000		80	53.60
ELETTRONICA SPA	Rome	LEONARDO SPA	EUR	9,000,000	31.33		31.33
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH (IN LIQ.)	Hallbergmoos (Germany)	LEONARDO SPA	EUR	127,823	21		21
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	LEONARDO SPA	EUR	2,556,459	21		21
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	LEONARDO SPA	EUR	260,000	24		24
EUROMIDS SAS	Paris (France)	LEONARDO SPA	EUR	40,500	25		25
EUROSYSNAV SAS (IN LIQ.)	Paris (France)	LEONARDO SPA	EUR	40,000	50		50
EUROTECH SPA	Amaro (Udine)	LEONARDO SPA	EUR	8,878,946	11.08		11.08
FINMECCANICA UK LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
GAF AG	Munich (Germany)	E - GEOS SPA	EUR	256,000		100	53.60
GULF SYSTEMS LOGISTICS SERVICES COMPANY WLL	Kuwait City (Kuwait)	ALENIA AERMACCHI SPA	KWD	75,000		40	40
IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Venice	LEONARDO SPA	EUR	208,000	25		25
ICARUS SCPA (IN LIQ.)	Turin	LEONARDO GLOBAL SOLUTIONS SPA	EUR	3,192,724		53.06	53.06
INMOVE ITALIA SRL	Naples	ANSALDOBREDA SPA	EUR	120,000		100	100
IVECO - OTO MELARA SC A RL	Rome	LEONARDO SPA	EUR	40,000	50		50
JIANGXI CHANGHE AGUSTA HELICOPTER CO LTD	Zone Jiangxi Province (China)	LEONARDO SPA	USD	6,000,000	40		40
JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	LEONARDO SPA	RUB	325,010,000	50		50
LEONARDO AEROSPACE DEFENSE & SECURITY INDIA PRIVATE LTD	New Delhi (India)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	INR	30,000,000		100	100
LEONARDO CANADA CO. ex ALENIA NORTH AMERICA-CANADA CO	Halifax, Nova Scotia (Canada)	LEONARDO INTERNATIONAL SPA	CAD	1	100		100
LEONARDO DO BRASIL LTDA ex FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	LEONARDO INTERNATIONAL SPA SELEX ES DO BRASIL LTDA	BRL	2,402,388		100	100
LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE) LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	100		100	100
LEONARDO FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES WLL ex SELEX ES FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES WLL	Kuwait City (Kuwait)	LEONARDO MW LTD	KWD	303,000		93	93
LEONARDO FUTUREPLANNER (TRUSTEE) LIMITED	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
LEONARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Libya)	AGUSTAWESTLAND SPA LEONARDO SPA	EUR	8,000,000	25	25	50
MACCHI HUREL DUBOIS SAS	Versailles (France)	LEONARDO SPA	EUR	100,000	50		50
MBDA SAS	Paris (France)	AMSH BV	EUR	53,824,000		50	25
NHINDUSTRIES (SAS)	Aix en Provence (France)	LEONARDO SPA	EUR	306,000	32		32
ORIZZONTE - SISTEMI NAVALI SPA	Genoa	LEONARDO SPA	EUR	20,000,000	49		49
OTO MELARA DO BRASIL LTDA	Rio de Janeiro (Brazil)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	BRL	1,500,000		100	100
RARTEL SA	Bucharest (Romania)	TELESPAZIO SPA	RON	468,500		61	41
ROTORSIM SRL	Sesto Calende (Varese)	LEONARDO SPA	EUR	9,800,000	50		50
ROTORSIM USA LLC	Wilmington, Delaware (USA)	AGUSTAWESTLAND PHILADELPHIA CO	USD	12.607.452		50	50
SAPHIRE INTERNATIONAL AVIATION & ATC ENGINEERING CO LTD	Beijing (China)	ALENIA AERMACCHI SPA	USD	800,000		65	65
SELEX ES (PROJECTS) LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	100		100	100
SPACEOPAL GMBH	Munich (Germany)	TELESPAZIO SPA	EUR	500,000		50	33.50
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	TELESPAZIO SPA TELESPAZIO BRASIL SA	ARS	9,900,000		100	66.96
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	TELESPAZIO LATIN AMERICA LTDA	BRL	58,724,000		99	66
TELESPAZIO FRANCE SAS	Toulouse (France)	TELESPAZIO SPA	EUR	33,670,000		100	67
TELESPAZIO IBERICA SL	Madrid (Spain)	TELESPAZIO SPA	EUR	2,230,262		100	67
TELESPAZIO LATIN AMERICA LTDA	Rio de Janeiro (Brazil)	TELESPAZIO SPA TELESPAZIO VEGA UK LTD	BRL	56,444,390		100	67
TELESPAZIO NORTH AMERICA INC. (IN LIQ.)	Dover, Delaware (USA)	TELESPAZIO SPA	USD	10		100	67
TELESPAZIO SPA	Rome	LEONARDO SPA	EUR	50,000,000	67		67
TELESPAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	TELESPAZIO SPA TELESPAZIO FRANCE SAS	EUR	44,150		100	67
TELESPAZIO VEGA UK LTD	Luton (UK)	TELESPAZIO SPA	GBP	14,400,048		100	67
TELESPAZIO VEGA UK SL	Madrid (Spain)	TELESPAZIO VEGA UK LTD	EUR	3,100		100	67
THALES ALENIA SPACE SAS	Cannes (France)	LEONARDO SPA	EUR	918,037,500	33		33
TORPEDO SOUTH AFRICA (PTY) LTD	Gauteng (South Africa)	LEONARDO SPA	ZAR	0	49		49
WIN BLUEWATER SERVICES PRIVATE LIMITED (IN LIQ.)	New Delhi (India)	LEONARDO SPA SELEX ES INTERNATIONAL LTD	INR	12,000,000	100	0	100

List of subsidiaries and associates valued at cost (amounts in currency)

Company name	*Registered office*	*Partecipating company*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
					Direct	*Indirect*	
ADVANCED MALE AIRCRAFT LLC	Al Ain, Muwaiji (United Arab Emirates)	LEONARDO SPA	AED	200,000	49		49
ANSALDOBREDA FRANCE SAS (IN LIQ)	Marseille (France)	ANSALDOBREDA SPA	EUR	200,000		100	100
CCRT SISTEMI SPA (IN FALL)	Milan	SOGEPA SPA	EUR	697,217		30	30
CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP.CO.LTD	Chongqing (China)	ANSALDOBREDA SPA	CNY	50,000,000		50	50
EARTHLAB LUXEMBOURG S.A.	Luxembourg	TELESPAZIO FRANCE SAS E - GEOS SPA	EUR	5.375.000		54.40	34.17
ELSACOM - UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	SOGEPA SPA	UAH	7,945,000		49	49
INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (AMM.STR.)	Genoa	LEONARDO SPA	EUR	103,567	30.98		30.98
UTM SYSTEMS & SERVICES SRL	Naples	LEONARDO SPA TELESPAZIO SPA	EUR	10,000	60	30	80.10
LEONARDO INTERNATIONAL LTD ex PCA ELECTRONIC TEST LTD	Rome	LEONARDO MW LTD	GBP	1		100	100

Below are the main changes in the scope of consolidation at 31 December 2018 in comparison with 31 December 2017:

COMPANY	**EVENT**	**MONTH**
Companies which entered the scope of consolidation:		
Leonardo Futureplanner (Trustee) Limited	newly established	January 2018
Torpedo South Africa (PTY) Ltd	acquired	April 2018
Leonardo International Spa	newly established	May 2018
Companies which left the scope of consolidation:		
ZAO Artetra	deconsolidated	April 2018
Indian Rotorcraft Ltd	sold	May 2018
AgustaWestland Politecnico Advanced Rotorcraft Ceenter S.C. a R.L. (in liq.)	deconsolidated	June 2018
Zaklad Obrobki Plastycznej SP. Z O.O.	sold	December 2018
Aviation Training International Ltd	sold	December 2018

Companies which changed their ccorporate name:

Old name	**New name**	**Month**
SELEX ES for Trading of Machinery Equipment and Devices WLL	Leonardo for Trading of Machinery Equipment and Devices WLL	February 2018
PCA Electronic Test Ltd	LEONARDO International Ltd	April 2018
S.C. Elettra Communications S.A.	LEONARDO Romania Aerospace, Defence & Security S.A.	May 2018
SELEX ES Technologies Ltd	LEONARDO Technologies & Services Ltd	August 2018
SELEX ES GmbH	LEONARDO Germany GmbH	September 2018
Alenia North America-Canada Co.	LEONARDO Canada Co.	November 2018
Oto Melara Iberica S.A.U.	LEONARDO Hispania S.A.U.	November 2018
AgustaWestland Portugal S.A.	LEONARDO Portugal S.A..	December 2018

Statement on the consolidated financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. The undersigned Alessandro Profumo as the Chief Executive Officer and Alessandra Genco as the Officer in charge of Financial Reporting for Leonardo S.p.a., certify, in accordance with Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2018.

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

3. It is also certified that:

   3.1 The consolidated financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation.

   3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 13 March 2019

Chief Executive Officer	Officer in charge of financial reporting
(Alessandro Profumo)	(Alessandra Genco)

Independent Auditors' Report on the consolidated financial statements as at 31 December 2018

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Leonardo S.p.a.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Leonardo Group (the "group"), which comprise the statement of financial position as at 31 December 2018, the separate income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Leonardo Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero

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Recognition of long-term contract revenue and losses

Notes to the consolidated financial statements: notes 3.9 "Revenues and contract assets/liabilities with customers", 4.4 "Estimate of revenue and final costs of long-term contracts", 15 "Contract assets and liabilities", 21 "Provisions for risks and charges and contingent liabilities" and 26 "Revenue"

Key audit matter	Audit procedures addressing the key audit matter
A significant portion of the group's revenue from long-term contracts is recognised using the percentage of completion method based on the cost-to-cost model, if the IFRS 15 requirements for recognition over time are met. Estimating the total expected contract costs, which is necessary to calculate the stage of completion, is, by its very nature, complex. It also entails a high degree of uncertainty as it may be affected by many factors, including the products' design complexity and the ability to duly meet the technical specifications of its customers and the working time contractually agreed. Moreover, any failure to comply with the contractual provisions, such as, for example, those relating to delivery times and products' and services' compliance with the customers' specific requests, may give rise to material penalties and extra-costs which shall be considered in estimating total contract costs. Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses. Accordingly, we believe that the recognition of long-term contract revenue and losses is a key audit matter.	Our audit procedures included: — updating our understanding of the process for the recognition of contract revenue and losses, including as a result of the first-time adoption of IFRS 15 "Revenue from contracts with customers"; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of contracts deemed material for the purposes of our audit: – examining the contracts signed with the customers in order to check whether their main provisions had been duly considered in management estimates; – assessing the assumptions underlying the estimated contract costs, based on (i) discussions with the relevant internal departments and (ii) any communications with customers; – analysing the most significant discrepancies between past years' estimates and actual figures, in order to assess the accuracy of the forecasting process; – agreeing the costs incurred during the year and their allocation to contract work in progress; – for certain types of production, obtaining evidence of the physical stage of completion through a physical count; – assessing the accuracy of the calculation of the percentage of completion and the related recognition of contract revenue and expected losses, if any; – assessing the appropriateness of the presentation and adequacy of disclosures about contract revenue and losses in the consolidated financial statements.

Recoverability of goodwill

Notes to the consolidated financial statements: notes 3.4.4 "Goodwill", 4.6 "Impairment of assets" and 9 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2018 include goodwill of €3,733 million. The directors tested goodwill for impairment estimating the recoverable amount of the cash-generating units (CGU) to which goodwill is allocated. The estimated recoverable amount is based on value in use, that is the present value of the future expected cash flows (discounted cash flows method). This method is characterised by a high degree of complexity and the use of estimates which are by their very nature, uncertain and subjective, about: — the expected cash flows, determined on the basis of the general and sector trends, the actual cash flows for recent years and the projected growth rates; — the financial parameters used to calculate the discount rate. The 2019-2023 business plan (the "plan") that the parent's directors approved on 13 March 2019 which is the basis for the cash flow estimates, is not only affected by the uncertainties inherent in forecasting, but also by the spending programmes of governments and public agencies, which are subject to delays, changes when work is in progress or cancellations. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the impairment testing procedure approved by the parent's board of directors on 21 February 2019; — updating our understanding of the process used to draft the group's plan; — analysing the criteria used to identify the CGU and tracing the amount of the CGU assets and liabilities to the relevant carrying amounts in the consolidated financial statements; — comparing the cash flows used for impairment testing to the cash flows included in the plan; — analysing the main assumptions used by the directors in drafting the plan for reasonableness; — considering the most significant discrepancies between the data included in the past years' plans and actual figures, in order to assess the accuracy of the forecasting process; — involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the sensitivity analysis included in the notes to the consolidated financial statements with reference to the key assumptions used in the impairment test; — assessing the appropriateness of the presentation and adequacy of disclosures about goodwill and impairment testing in the consolidated financial statements.

Recognition and measurement of non-recurring costs and development costs

Notes to the consolidated financial statements: notes 4.1 "Research and Development costs", 4.2 "Non-recurring costs", 4.6 "Impairment of assets" and 9 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
In its consolidated financial statements at 31 December 2018, the group has recognised non-recurring costs and development costs relating to the design, prototyping, start-up and technical and functional specification adjustments of its products totalling €2,236 million under intangible assets. The initial recognition and subsequent measurement of their recoverability through impairment test requires complex estimates with a high degree of uncertainty, since they are affected by many factors, including the horizon of the product business plans and management's ability to forecast the commercial success of new technologies. Accordingly, these estimates require a significant level of judgement by directors. For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.	Our audit procedures included: — updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of development projects deemed material for the purposes of our audit: – examining the main internal and external cost items recognised during the year on the basis, *inter alia*, of inquiries of the relevant internal departments and documentary evidence provided by management; – challenging the reasonableness of the assumptions underlying the product business plans; – involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the consolidated financial statements.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures.

The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 16 May 2012, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

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

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Leonardo S.p.a. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Rome, 18 March 2019

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director

Separate financial statements at 31 December 2018 Leonardo - Società per Azioni

Accounting statements to the separate financial statements as at 31 December 2018

Separate income statement

Euro	*Note*	**2018**	*of which with related parties*	**2017 restated**	*of which with related parties*
Revenue	*26*	8,079,344,137	*2,210,589,533*	7,985,811,606	*2,255,919,447*
Other operating income	*27*	448,709,332	*14,237,199*	412,275,732	*13,167,640*
Purchase and personnel expense	*28*	(7,562,100,125)	*(1,374,290,213)*	(7,251,719,760)	*(1,114,980,896)*
Amortisation, depreciation and impairment losses of financial assets	*29*	(432,916,242)		(363,492,459)	
Other operating expenses	*27*	(406,133,882)	*(915,365)*	(418,723,902)	*(662,787)*
Income before tax and financial expenses		**126,903,220**		**364,151,217**	
Financial income	*30*	508,762,440	*27,006,042*	708,948,494	*35,182,182*
Financial expense	*30*	(394,081,922)	*(9,008,138)*	(588,323,280)	*(8,277,305)*
Operating profit (loss) before income taxes and discontinued operations		**241,583,738**		**484,776,431**	
Income taxes	*31*	(47,049,564)		(115,650,986)	
Profit (loss) from discontinued operations		89,266,457		-	
Net profit/(loss) for the period		**283,800,631**		**369,125,445**	

Statement of comprehensive income

Euro		**2018**		**2017 restated**
Profit (loss) for the period		**283,800,631**		**369,125,445**
Other comprehensive income (expense):				
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:				
- Measurement of defined-benefit plans:		1,269,444		(8,766,182)
- revaluation	1,269,444		(8,766,182)	
- Tax effect		(161,040)		1,555,633
		1,108,404		(7,210,549)
Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:				
- Changes in cash flow hedges:		(34,988,291)		49,514,177
- change generated in the period	(46,812,189)		55,026,189	
- transferred to the profit (loss) for the period	11,823,898		(5,512,012)	
- Tax effect		7,076,617		(7,009,174)
		(27,911,674)		42,505,003
Total other comprehensive income (expense), net of tax:		**(26,803,270)**		**35,294,454**
Total comprehensive income		**256,997,361**		**404,419,899**

Statement of financial position

Euro	*Note*	31 December 2018	*of which with related parties*	31 December 2017 restated	*of which with related parties*	1st January 2017 restated	*of which with related parties*
Intangible assets	*8*	2,922,375,563		2,825,771,208		2,745,542,303	
Property, plant and equipment	*9*	946,355,297		1,282,582,672		1,359,942,104	
Investment property	*9*	-		6,665,167		7,309,338	
Equity investments	*10*	7,381,249,609		7,345,090,773		5,640,547,044	
Receivables	*11*	400,004,675	*329,371,694*	601,880,358	*502,074,875*	196,232,261	*68,130,640*
Deferred tax assets	*31*	769,754,249		691,063,378		733,830,597	
Other non current assets	*11*	220,693,903	-	138,739,692	-	83,026,120	
Non-current assets		**12,640,433,296**		**12,891,793,248**		**10,766,429,767**	
Inventories	*12*	4,524,960,363		3,848,131,656		3,370,085,439	
Assets from contracts	*13*	1,744,027,341	-	1,625,751,845	-	1,317,814,010	
Trade receivables	*14*	2,404,583,037	*827,526,794*	2,794,879,774	*1,087,458,868*	2,834,113,644	*1,225,728,387*
Income tax receivables	*15*	41,638,207		122,229,301		100,472,708	
Loans and receivables	*14*	220,827,508	*192,578,559*	258,008,476	*231,649,852*	353,318,000	*325,549,328*
Other assets	*16*	375,374,479	*57,125,834*	525,933,976	*53,896,696*	636,940,939	*50,685,177*
Cash and cash equivalents	*17*	1,621,151,631		1,565,042,218		1,747,407,118	
Current assets		**10,932,562,566**		**10,739,977,246**		**10,360,151,858**	
Non-current assets held for sale	*18*	291,064,323	*2,046,539*	-		1,150,936,866	
Total assets		**23,864,060,185**		**23,631,770,494**		**22,277,518,491**	
Share capital		2,494,859,259		2,491,155,064		2,490,883,940	
Other reserves		3,196,307,845		3,143,378,185		2,673,045,929	
Total equity	*19*	**5,691,167,104**		**5,634,533,249**		**5,163,929,869**	
Loans and borrowings (non current)	*20*	3,056,183,685	-	2,918,488,000	-	2,931,102,770	
Employee benefits	*22*	314,994,006		341,710,013		346,476,698	
Provisions for risks and charges	*21*	620,867,095		591,887,101		680,684,442	
Deferred tax liabilities	*31*	90,251,951		90,855,626		91,846,295	
Other non-current liabilities	*23*	693,434,959	*14,260*	811,251,864	*14,260*	871,536,201	*14,260*
Non-current liabilities		**4,775,731,696**		**4,754,192,604**		**4,921,646,406**	
Liabilities from contracts	*13*	6,790,668,516	-	5,624,440,169	-	4,539,386,963	
Trade payables	*24*	2,541,509,506	*629,036,748*	2,811,893,877	*680,384,659*	2,573,088,347	*613,235,343*
Loans and borrowings (current)	*20*	1,909,167,319	*1,425,127,688*	2,358,268,488	*1,668,720,508*	2,371,351,769	*1,664,041,165*
Income tax payables	*15*	12,091,375		10,381,325		501,024,052	
Provisions for short-term risks and charges	*21*	809,839,637		948,977,032		518,536,172	
Other current liabilities	*23*	1,328,167,938	*270,329,634*	1,489,083,750	*323,893,822*	1,688,258,147	*390,956,455*
Current liabilities		**13,391,444,291**		**13,243,044,641**		**12,191,645,450**	
Liabilities associated with assets held for sale	*18*	5,717,094		-		*296,766*	
Total liabilities		**18,172,893,081**		**17,997,237,245**		**17,113,588,622**	
Total liabilities and equity		**23,864,060,185**		**23,631,770,494**		**22,277,518,491**	

Statement of cash flows

Euro	*Note*	**2018**	*of which with related parties*	**2017 restated**	*of which with related parties*
Gross cash flows from operating activities	*32*	986,820,332		956,486,451	
Change in working capital	*32*	(64,245,031)	*208,584,163*	269,776,882	*190,955,975*
Change in other operating assets and liabilities and provisions for risks and charges	*32*	(326,374,955)	*(58,839,865)*	(375,510,120)	*(113,560,060)*
Interest paid		(189,323,077)	*17,997,904*	(179,394,951)	*16,733,151*
Income taxes (paid)/received		57,428,901		(56,132,232)	-
Cash flows generated used)in operating activities		**464,306,170**		**615,226,030**	
Investments in property, plant and equipment and intangible assets		(466,559,592)		(352,201,880)	
Sales of property, plant and equipment and intangible assets		14,684,337		4,210,951	
Dividends received		386,579,803		462,714,549	
Other investing activities		(190,518,527)		(608,664,768)	
Cash flows generated (used) in investing activities		**(255,813,979)**		**(493,941,148)**	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Taking out of a term loan in pool		498,297,500			
Bond issue		-		591,272,770	
Bond buy repayments		(512,613,892)		(555,319,966)	
Net change in other loans and borrowings		(9,224,154)	*(31,818,346)*	(201,738,134)	*(320,249,875)*
Dividends paid		(80,548,863)		(80,411,106)	
Cash flows generated (used) from financing activities		**(150,409,755)**		**(292,516,782)**	
Net increase (decrease) in cash and cash equivalents		58,082,436		(171,231,900)	
Exchange rate differences and other changes		(1,973,023)		(14,204,261)	
Cash and cash equivalents at 1 January		1,565,042,218		1,747,407,118	
Effect from Mergers/Demergers		-		3,071,261	
Cash and cash equivalents at 31 December		**1,621,151,631**		**1,565,042,218**	

Statement of changes in equity

Euro	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Merger surplus	Other reserves	Total equity
1 January 2017	**2,490,883,940**	**2,274,622,813**	**(103,769,088)**	**(58,403,159)**	**721,777,748**	**-**	**5,325,112,254**
Application of IFRS 15		(161,182,385)					(161,182,385)
1 January 2017 restated	**2,490,883,940**	**2,113,440,428**	**(103,769,088)**	**(58,403,159)**	**721,777,748**	**-**	**5,163,929,869**
Profit (loss) for the period	-	369,125,445	-	-	-	-	369,125,445
Other comprehensive income (expense)	-	-	42,505,003	(2,041,735)	-	-	40,463,268
Total comprehensive income (expense)	**-**	**369,125,445**	**42,505,003**	**(2,041,735)**	**-**	**-**	**409,588,713**
Dividends resolved	-	(80,417,638)	-	-	-	-	(80,417,638)
Repurchase of treasury shares less sold shares	271,124	-	-	-	-	-	271,124
Total transactions with owners of the parent, recognised directly in equity	**271,124**	**(80,417,638)**	**-**	**-**	**-**	**-**	**(80,146,514)**
Effect from Mergers/Demergers	-	20,032	-	(120,155)	903,521		803,398
Stock option/grant plans - performance's value	-	7,440,354	-	-	-	-	7,440,354
Other changes	-	132,917,429	-	-	-	-	132,917,429
31 December 2017 restated	**2,491,155,064**	**2,542,526,050**	**(61,264,085)**	**(60,565,049)**	**722,681,269**	**-**	**5,634,533,249**
1 January 2018	**2,491,155,064**	**2,542,526,050**	**(61,264,085)**	**(60,565,049)**	**722,681,269**	**-**	**5,634,533,249**
Application of IFRS 9		**(127,992,251)**					**(127,992,251)**
1 January 2018 restated	**2,491,155,064**	**2,414,533,799**	**(61,264,085)**	**(60,565,049)**	**722,681,269**	**-**	**5,506,540,998**
Profit (loss) for the period	-	283,800,631	-	-	-	-	283,800,631
Other comprehensive income (expense)	-	-	(27,911,674)	1,108,404	-	-	(26,803,270)
Total comprehensive income (expense)	**-**	**283,800,631**	**(27,911,674)**	**1,108,404**	**-**	**-**	**256,997,361**
Repurchase of treasury shares less sold shares	3,704,195	-	-	-	-	-	3,704,195
Dividends resolved	-	(80,549,138)	-	-	-	-	(80,549,138)
Total transactions with owners of the parent, recognised directly in equity	**3,704,195**	**(80,549,138)**	**-**	**-**	**-**	**-**	**(76,844,943)**
Effect from Mergers/Demergers	-						-
Stock option/grant plans - performance's value	-	99,237	-	-	-	-	99,237
Other changes	-	4,374,451	-	-	-	-	4,374,451
31 December 2018	**2,494,859,259**	**2,622,258,980**	**(89,175,759)**	**(59,456,645)**	**722,681,269**	**-**	**5,691,167,104**

Notes to the separate financial statements at 31 December 2018

1. GENERAL INFORMATION

Leonardo is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Italian Stock Exchange (FTSE MIB).

The Company is a major Italian high technology organization operating in the *Helicopters*, *Electronics*, *Defence and Security Systems* and *Aeronautics* sectors.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2018 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

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

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

In consideration of the significant values, the figures in these notes are shown in millions of euros unless otherwise indicated. Among the options permitted by IAS 1, the Company has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the costs. Instead, the statement of cash flows was prepared using the indirect method.

The International Financial Reporting Standards (IFRS) used for preparing these separate financial statements, drawn up under the going-concern assumption, are the same that were used in the preparation of the separate financial statements at 31 December 2017 except for what indicated below (Note 4). Preparation of the separate financial statements required management to make certain valuations 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 Note 4 to the Consolidated Financial Statements, to which reference is made.

The Board of Directors of 13 March 2019 resolved to submit to shareholders the draft financial statements at 31 December 2018, authorizing their circulation on the same date and convened the Ordinary Shareholders' Meeting for the approval thereof for 6 and 16 May 2019, on first and second call, respectively.

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

3. ACCOUNTING PRINCIPLES

The accounting policies and criteria are the same adopted for the annual consolidated financial statements, to which reference is made, except for the recognition and measurement of equity investment in subsidiaries, jointly controlled companies and associates recognised at their purchase or incorporation cost. In case of any impairment losses their recoverability is verified through the comparison between their carrying amount and the higher of their value in use that is determined by discounting prospective cash flows, where applicable, of the equity investment and the assumed sales value (fair value) which is determined on the basis of recent transactions or market multiples. The portion of losses (if any) exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the Company states the existence of legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity. If the impaired investee shows a subsequent improvement in performance which leads to believe that the reasons for the impairment cease to exist, the equity investments are revalued to the extent of the impairment losses recognised in previous periods under "adjustments to equity investments". Dividends from subsidiaries and associates are recognised in the income statement in the year in which they are resolved.

Finally, with reference to transactions between entities under common control, which are not governed by IFRS, either from the point of view of the purchaser/assignee or from that of the seller/assignor, Leonardo, considering this, recognises such transactions recognising directly in equity any gain on the transfer or sale of its subsidiaries.

4. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

With effect from 1 January 2018 the Company adopted the new following accounting standards IFRS 15 "Revenue From Contracts with Customers" and IFRS 9 "Financial Instruments".

IFRS 15, which replaces IAS 11 and IAS 18, sets out new rules to recognise revenues, as well as to provide additional disclosures in the notes to the financial statements. In general the new model provides for revenues to be recognised when control over goods or services is transferred to customers, in lieu of the previous analysis based on "risks and rewards". Identifying when the transfer of control occurs – over time or at a point in time - is an area subject to strong evaluations by management.

The Company applied the standard from 1 January 2018, using a retrospective application in a practical way, restating the 2017 accounting balances for comparative purposes. The main impact areas deriving from the application of the new standard were:

a. introduction of new criteria for revenue recognition during the execution of the contract; if those criteria are not met, then revenue is recognised solely at the completion of the contract. This required a review of contracts, which are normally medium/long-term. Such analysis highlighted the necessity to change the revenue and margin recognition methods in relation to certain contracts (passing from the previous recognition of the margins of certain contracts "over time" to "at a point in time" and vice versa);
b. definition of new specific requirements to establish if goods and services included in mass-supply have to be recognised as a single performance obligation or as a separate performance obligation. In respect of certain contracts entered into by the Company it was necessary to unbundle the contracts into two or more performance obligations, with consequent effects on the remeasurement of margins;
c. definition of new criteria on contract cost recognition;
d. more defined criteria to be applied to mass productions with the consequent remeasurement of the margins of this kind of productions;
e. accounting treatment of the onerous contracts and change in the classification of provisions for final losses on existing contracts, which are recognised, based on the new standard, under provisions for current risks and charges and no longer as a decrease in contract assets and liabilities.

Finally, the application of the new standard has also entailed changes in the Order Backlog to take account of any adjustment made to those revenues that were recognised until the date of application of the new standard (these adjustments impact on the amount still to be worked, accounted for by the Backlog), as well as to exclude those orders that do not meet the requirements set out in IFRS 15.

The effects deriving from the application of IFRS 15 on the comparative periods are detailed below, together with impact areas mentioned above:

Statement of financial position	***Note***	**31 December 2017 reported**	**restatement**	**31 December 2017 restated**
(€mil.)				
Intangible assets	*a,b,c,d*	2,814	11	2,825
Property, plant and equipment		1,283		1,283
Investment property		7		7
Equity investments	*a,b,c*	7,345		7,345
Receivables		602		602
Deferred tax assets		632	59	691
Other non current assets	*a,b,c,d*	139		139
Non-current assets		**12,822**	**70**	**12,892**
Inventories	*a*	3,496	352	3,848
Assets from contracts	*a,b,c,d*	2,269	(643)	1,626
Trade receivables	*a,b,c,d*	2,797	(2)	2,795
Financial assets at fair value		-		0
Income tax receivables		122		122
Loans and receivables		258		258
Other assets		526		526
Cash and cash equivalents		1,565		1,565
Current assets		**11,033**	**(293)**	**10,740**
Non-current assets held for sale				
Total assets		**23,855**	**(223)**	**23,632**
Share capital		2,491		2,491
Other reserves		3,292	(148)	3,144
Total equity		**5,783**	**(148)**	**5,635**
Loans and borrowings (non current)		2,918		2,918
Employee benefits		342		342
Provisions for risks and charges	*a,b,c,d*	717	(125)	592
Deferred tax liabilities		91		91
Other non-current liabilities	*c*	820	(9)	811
Non-current liabilities		**4,888**	**(134)**	**4,754**
Liabilities from contracts	*a,b,c,d*	5,945	(320)	5,625
Trade payables	*a,b,c,d*	2,805	7	2,812
Loans and borrowings (current)		2,358		2,358
Income tax payables		10		10
Provisions for short-term risks and charges	*a,b,c,d*	588	361	949
Other current liabilities		1,478	11	1,489
Current liabilities		**13,184**	**59**	**13,243**
Liabilities associated with assets held for sale				
Total liabilities		**18,072**	**(75)**	**17,997**
Total liabilities and equity			**(**	**23,6**

Statement of financial position	***Note***	**1 January 2017**	**restatment**	**1 January 2017 restated**
(€mil.)				
Intangible assets	*a,b,c,d*	2,731	15	2,746
Property, plant and equipment		1,360		1,360
Investment property		7		7
Equity investments	*a,b,c*	5,641		5,641
Receivables		196		196
Deferred tax assets		670	64	734
Other non current assets	*a,b,c,d*	83		83
Non-current assets		**10,688**	**79**	**10,767**
Inventories	*a*	2,920	450	3,370
Assets from contracts	*a,b,c,d*	2,067	(749)	1,318
Trade receivables	*a,b,c,d*	2,837	(2)	2,835
Financial assets at fair value		-		-
Income tax receivables		100		100
Loans and receivables		353		353
Other assets		637		637
Cash and cash equivalents		1,747		1,747
Current assets		**10,661**	**(302)**	**10,359**
Non-current assets held for sale		**1,151**		1,151
Total assets		**22,500**	**(223)**	**22,277**
Share capital		2,491		2,491
Other reserves		2,834	(161)	2,673
Total equity		**5,325**	**(161)**	**5,164**
Loans and borrowings (non current)		2,931		2,931
Employee benefits		346		346
Provisions for risks and charges	*a,b,c,d*	809	(129)	680
Deferred tax liabilities		92		92
Other non-current liabilities	*c*	877	(6)	871
Non-current liabilities		**5,055**	**(134)**	**4,921**
Liabilities from contracts	*a,b,c,d*	4,944	(405)	4,539
Trade payables	*a,b,c,d*	2,567	7	2,574
Loans and borrowings (current)		2,371		2,371
Income tax payables		33	468	501
Provisions for short-term risks and charges	*a,b,c,d*	519	3	522
Other current liabilities		1,685		1,685
Current liabilities		**12,119**	**73**	**12,192**
Liabilities associated with assets held for sale				-
Total liabilities		**17,175**	**(61)**	**17,113**
Total liabilities and equity		**22,500**	**(223)**	**22,276**

Income statement ***(€mil.)***	***Note***	**2017 reported**	**restatement**	**2017 restated**
Revenue	*a,b,c,d*	7,861	125	7,986
Other operating income		412		412
Purchase and personnel expense	*a,b,c,d*	(7,149)	(103)	(7,252)
Amortisation, depreciation and impairment losses of financial assets	*c*	(361)	(2)	(363)
Other operating expenses		(417)	(2)	(419)
Income before tax and financial expenses		**346**	**18**	**364**
Financial income		709		709
Financial expense		(588)		(588)
Share of profits/(losses) of equity-accounted investees	*a,b*			
Operating profit (loss) before income taxes and discontinued operations		**467**	**18**	**485**
Income taxes	*a,b,c,d*	(111)	(5)	**(116)**
Profit (loss) from discontinued operations		-		-
Net profit/(loss) for the period		**356**	**13**	**369**

Statement of cash flows ***(€mil.)***	**2017 reported**	**restatement**	**2017 restated**
Gross cash flows from operating activities	936	20	956
Change in working capital	298	(28)	270
Change in other operating assets and liabilities and provisions for risks and charges	(384)	8	(376)
Interest paid	(179)		(179)
Income taxes (paid)/received	(56)		(56)
Cash flows generated used)in operating activities	**615**	**-**	**615**
Investments in property, plant and equipment and intangible assets	(352)		(352)
Sales of property, plant and equipment and intangible assets	4		4
Dividends received	463		463
Other investing activities	(609)		(609)
Cash flows generated (used) in investing activities	**(494)**	**-**	**(494)**
Increase of share capital	-		
Repayment of EIB loan	(46)		(46)
Bond issue	591		591
Bond buy repayments	(555)		(555)
Net change in other loans and borrowings	(202)		(202)
Dividends paid	(81)		(81)
Cash flows generated (used) from financing activities	**(293)**	**-**	**(293)**
Net increase (decrease) in cash and cash equivalents	(171)		(171)
Exchange rate differences and other changes	(14)		(14)
	-		-
Cash and cash equivalents at 1 January	1,747		1,747
Effect from Mergers/Demergers	3		3
Cash and cash equivalents at 31 December	**1,565**	**-**	**1,565**

IFRS 9 provides for new rules to recognise and measure financial assets and liabilities. The standard, which replaces IAS 39, has significantly amended the treatment of financial instruments, introducing a new classification based on the features of the Company's business model and cash

flows, and provides for the application of a structured impairment model for financial assets based on expected lifetime losses.

According to the type of financial assets and liabilities held by the Company, the new model for the classification of financial instruments has not reported particular critical issues, while the main area of impact has been the definition of a new impairment model for receivables, in order to take account of the particular features of the relevant customers. For this purpose the simplified impairment model has been adopted, according to which the value of financial assets also reflects a theoretical probability of default of the counterparty (Probability of Default, PD) and the capacity to recover the asset in the event that said default occurs (Loss Given Default, LGD). Finally, for some customer clusters characterised by greater parcelisation, a simplified approach has been adopted which is based on a "provision matrix", which breaks down receivables into uniform sub-sets by nature and maturity.

The Company adopted the standard as from 1 January 2018 (except for hedge accounting provisions which may be adopted at a later time). Upon first-time adoption, given the complexity to restate comparative values without reflecting elements that became known at a later time, the effects of the adoption of the new accounting standard concerning impairment were recognised in equity at 1 January 2018, the breakdown of which is reported below, based on the estimate made:

	Effect IFRS 9
Advances to suppliers	(18)
Trade receivables	(114)
Assets from contracts	(40)
Deffered Tax	44
Total effect on equity	**(128)**

5. SIGNIFICANT NON-RECURRING EVENTS ON TRANSACTIONS

In April 2018, in implementation of a memorandum of intent signed with national trade unions relating to early retirements in accordance with Article 4 of Italian Employment Law 92/2012 (also known as the "Fornero Act") - an agreement was signed involving up to 1,067 employees who will be eligible for retirement in the four years following the exits scheduled in the 2018-2019 two-year period, while defining the specific eligibility requirements. A similar arrangement was subsequently signed with the trade unions of executive staff, up to a number of 60 executives. In June 2018 the Company completed taking expressions of interest; subsequently it took steps to submit the 2018/2019 redundancy plan to INPS (Italian Social Security Institute) in order to establish whether the requirements were met for the application of early retirement

measures. The first phase of the abovementioned measure was concluded on 3 November 2018, with the exit of 444 employees and 27 executives. Costs for the measure are estimated at about €mil. 170.

In accordance with the objectives of streamlining business activities and improving efficiency at Group level – already completed in Italy and in the United Kingdom -, 2018 saw the substantial completion of the concentration of equity investments held in foreign countries (mainly Germany, America, Romania and Malaysia) in the legal entity Leonardo International S.p.A..

The judgment became final during 2018, which acquitted Ansaldo Energia of the charge of unlawful act referred to in art. 25 of Legislative Decree 231/2001, which had led to the confiscation of €mil. 98.7, in addition to a monetary penalty. These amounts had been the object of a guarantee issued by Leonardo for the sale of its equity investment in Ansaldo Energia, with the concurrent recognition of a provision for risks, which was released during the year following the favourable judgment. The effects of the provision absorption through profit or loss have been classified under the result from Discontinued Operations, consistently with the reporting of the accounting effects of the sale made in the previous financial statements.

Furthermore, the 2018 financial year was characterised by a number of key operations on capital markets; specifically:

- In February there was the execution of a new Revolving Credit Facility (RCF) with a pool of 26 Italian and foreign banks. The new RCF, which replaces that previously in place, provides, if used, for the payment of 75 bps on the Euribor for the period (zero floor), lower by 25 bps than the previous transaction completed in July 2015, with consequent lower financial costs. The amount of the Revolving Credit Facility was also reduced down to €bil. 1.8, compared to the amount of €bil. 2 of the previous line, in line with the Group's current cash requirements. The expiry date of the line was extended to 2023, i.e. the year for which no other maturities of the Group's medium/long-term debt are currently envisaged;
- In February there was the repurchase of a nominal amount of GBPmil. 10 on the market, out of the bond issue launched in 2009, due 2019 (coupon of 8%), thus further reducing the residual nominal amount down to GBPmil. 278;
- In April there was the renewal of the EMTN programme for 12 additional months, leaving the maximum available amount of €bil. 4 unchanged;
- In November there was the execution of a new Term Loan line of credit with a pool of national and international banks, to refinance existing debts. The line, amounting to €mil. 500, has a term of 5 years and provides for the payment of a margin of 110 basis points with respect to the 6-month Euribor and the repayment of a single instalment after the end of the five-year period . The amount of the loan was used in full in December;

- In November there was the execution of a loan agreement with the European Investment Bank (EIB) with a term of 12 years (4 of which being a grace period) and a value of €mil. 300, which was aimed at supporting the investment projects envisaged in the Group's Industrial Plan. The loan had not yet been used on the reporting date;
- In December there was the full repayment of the bond issue with a nominal amount of €mil. 500, issued in 2003, upon its natural expiry.

6. SIGNIFICANT POST-BALANCE SHEET EVENTS

Within the project for concentrating the real estate assets of Leonardo S.p.a., with effect from 1 January 2019, there was the contribution of the real estate assets of the Company to the subsidiary Leonardo Global Solutions S.p.A., the effects of which are reported in Note 18.

On 31 January 2019 there was the closing of the acquisition of the total stake in Vitrociset S.p.A., since all the planned conditions had been fulfilled, including the Golden Power and Antitrust authorisations.
This transaction strengthen Leonardo's services core business, especially Logistics, Simulation & Training and Space Operations, including the *Space Surveillance and Tracking* segment. Additionally, this initiative enables the consolidation of the Italian allied businesses to the Aerospace, Defence and Security industry, increasing the competitive edge under significant market prospects.

No other significant events are reported which occurred after the end of the year.

7. SEGMENT REPORTING

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Company operates: *Helicopters*, *Electronics, Defence and Security Systems* and *Aeronautics*.

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations.

8. INTANGIBLE ASSETS

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2017 restated							
Cost	985	1,090	1,958	481	96	302	**4,912**
Amortisation, depreciation and write-offs	(278)	(682)	(590)	(388)	(39)	(204)	**(2,181)**
Carrying amount	**707**	**408**	**1,368**	**93**	**57**	**98**	**2,731**
Effect from Mergers/Demergers	-	-	6	2	-	-	**8**
Investments	-	25	185	5	-	8	**223**
Sales	-	-	-	-	-	-	**-**
Depreciation	-	(56)	(44)	(19)	(4)	(28)	**(151)**
Impairment losses	-	-	-	-	-	-	**-**
Other changes	-	(1)	14	2	-	(1)	**14**
31 December 2017 restated	**707**	**376**	**1,529**	**83**	**53**	**77**	**2,825**
broken down as follows:							
Cost	985	906	1,961	492	96	310	**4,750**
Amortisation, depreciation and write-offs	(278)	(530)	(432)	(409)	(43)	(233)	**(1,925)**
Carrying amount	**707**	**376**	**1,529**	**83**	**53**	**77**	**2,825**
Effect from Mergers/Demergers	-	-	-	-	-	-	**-**
Investments	-	18	117	-	-	2	**137**
Sales	-	(1)	-	-	-	-	**(1)**
Depreciation	-	(25)	(24)	(22)	(4)	(25)	**(100)**
Impairment losses	-	(1)	(47)	-	-	-	**(48)**
Other changes	-	10	76	8	-	15	**109**
31 December 2018	**707**	**377**	**1,651**	**69**	**49**	**69**	**2,922**
broken down as follows:							
Cost	985	934	2,139	496	96	327	**4,977**
Amortisation, depreciation and write-offs	(278)	(557)	(488)	(427)	(47)	(258)	**(2,055)**
Carrying amount	**707**	**377**	**1,651**	**69**	**49**	**69**	**2,922**
31 December 2017 restated							
Gross value			4,564				
Grants			3,035				
31 December 2018							
Gross value			4,888				
Grants			3,128				

Commitments were in place for the purchase of intangible assets for €mil. 5 at 31 December 2018 (€mil. 7 at 31 December 2017).

Goodwill

Goodwill is allocated to the Cash Generating Units (CGUs) or groups of CGUs concerned, which are determined with reference to the Group's organisational, management and control structure coinciding, as is known, with the Group's four business segments. At the recognition of the mergers and demergers occurred in 2017 within the creation of the One Company, the goodwill was allocated, in accordance with the principle of "continuity of values", to the same CGUs as those in the Consolidated Financial Statements, differentiating the part of goodwill related to net assets recognised line-by-line from that related to foreign equity investments, for which goodwill was recognised on the basis of the investments' values.

The breakdown of goodwill recognised by segment at 31 December 2018 is as follows:

	31 December 2018	31 December 2017 restated
Helicopters	459	459
Electronics, Defence & Security Systems	188	188
Aeronautics	60	60
	707	**707**

Goodwill is tested for impairment in order to determine any possible loss in value, making reference to the CGU as a whole, including, in accordance with the organisational and operational model, the equity investments falling within the scope of consolidation, which are then included and tested in the same year as the impairment. Therefore, only the equity investments that are not tested together with goodwill are subject to an impairment test separately, if required. For the sake of representation only, the financial assumptions and ratios detailed below are also provided for the equity investments subject to separate tests (the most significant of which is Leonardo US Holding Inc., a company that holds, among other things, the investment in Leonardo DRS Inc.).

The test is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale (fair value). In practice, the Group has established an operational hierarchy between calculating the fair value net transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group's five-year business plans prepared by the CGU and incorporated into the plan approved by Leonardo's Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates ("g-rate") no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial expense and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. The related underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected developments in the Leonardo's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs, which were also determined using the data referable to the main competitors operating in each sector:

- the risk-free rate was determined using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU;
- the market premium determined using the Damodaran's computations;
- the sector beta;
- the cost of debt;
- the debt/equity ratio.

On the contrary, the growth rates used to project the CGU's cash flows beyond the explicit term of the plan were estimated by making reference to the growth assumptions of the individual sectors in which said CGUs operate. These assumptions are based on the internal processing of external sources, making reference to a period of time that is usually ten years. The g-rates used for the purposes of the impairment test were equal to 2%, consistently with the actions taken in previous financial years, even in the presence of higher expected growth rates in some sectors.

Below are mostly important assumptions for the purposes of estimating the cash flows used in determining the value in use:

- WACC
- g-rate
- ROS as per the plan
- trend in Defence budgets.

In estimating these basic assumptions, the management made reference, in the case of external variables, to internal information processed on the basis of external surveys, as well as on its knowledge of the markets and of the specific contractual situations.

The following WACCs (after taxes) and (nominal) growth rates were used at 31 December 2018 and 2017:

	31 December 2018		**31 December 2017 restated**	
	Wacc	***g-rate***	**Wacc**	***g-rate***
Helicopters	8.5%	2.0%	7.3%	2.0%
Electronics, Defence & Security Systems	6.4%	2.0%	5.3%	2.0%
Aeronautics	7.2%	2.0%	6.0%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The 2018 headroom amounts were affected by the increase in WACCs due to the interest rate market trend. Sensitivity analysis was conducted on the results of the tests, making reference to the assumptions for which it is reasonable to believe that a change in the same may significantly modify the results of the test.

The wide positive margins recorded are such that they may not be significantly modified by any changes in the assumptions described above; in any case, the results are reported below for information purposes. The

table below shows the headroom relating to the base scenario with reference to the goodwill value, compared with the following sensitivity analyses for 2018 and 2017: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal.

31 December 2018	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	699	447	501	531
Electronics, Defence & Security Systems	5,601	4,640	4,789	5,306
Aeronautics	9,826	9,106	9,234	9,580
31 December 2017 restated	**Margin (base case)**	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	825	431	498	615
Electronics, Defence & Security Systems	7,572	6,028	6,206	7,140
Aeronautics	9,843	8,860	8,988	9,506

Other intangible assets

The item “development costs” mainly related to *Helicopters* (€mil. 144), *Aeronautics* (€mil. 75) and *Electronics, Defence and Security Systems* (€mil. 129) divisions. Investments for the year related in particular to *Electronics, Defence and Security Systems* (€mil. 4) and *Helicopters* (€mil. 14).

The investments for the year relating to “*Non-recurring costs*” refer to the *Electronics* divisions (€mil. 65) and to programmes concerning aircraft (€mil. 51). As regards programmes that benefit from the provisions of Law 808/85 and that are classified as functional to national security, the portion of capitalised non-recurring costs, pending the fulfilment of the legal requirements for the classification under receivables, is separately disclosed under other non-current assets (Note 11). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 27.

Total research and development costs, including also “development” and “non-recurring costs” just mentioned, amount to €mil. 1,058 at 31 December 2018 (€mil. 1,190 at 31 December 2017), of which €mil. 126 expensed (€mil.123 at 31 December 2017).

“Other assets” mainly include software, intangible assets in progress and advances.

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total	Investment property
1 January 2017 restated						
Cost	478	1,204	1,656	633	**3,971**	**23**
Amortisation, depreciation and write-offs	(211)	(845)	(1,085)	(470)	**(2,611)**	**(16)**
Carrying amount	**267**	**359**	**571**	**163**	**1,360**	**7**
Effect from Mergers/Demergers	10	2	1	-	**13**	**-**
Investments	5	9	34	59	**107**	**-**
Sales	-	-	-	(3)	**(3)**	**-**
Depreciation	(10)	(61)	(96)	(23)	**(190)**	**(1)**
Impairment losses	-	-	(3)	-	**(3)**	**-**
Other changes	(16)	25	12	(22)	**(1)**	**1**
31 December 2017 restated	**256**	**334**	**519**	**174**	**1,283**	**7**
broken down as follows:						
Cost	463	1,259	1,702	655	**4,079**	**23**
Amortisation, depreciation and write-offs	(207)	(925)	(1,183)	(481)	**(2,796)**	**(16)**
Carrying amount	**256**	**334**	**519**	**174**	**1,283**	**7**
Reclassifications in assets held for sale	(240)	(20)	-	(23)	**(283)**	**(6)**
Investments	-	-	29	34	**63**	**-**
Sales	(1)	(1)	-	-	**(2)**	**-**
Depreciation	(11)	(60)	(92)	(23)	**(186)**	**(1)**
Impairment losses	-	-	(16)	-	**(16)**	**-**
Other changes	3	34	25	25	**87**	**-**
31 December 2018	**7**	**287**	**465**	**187**	**946**	**-**
broken down as follows:						
Cost	26	1,255	1,761	684	**3,726**	**-**
Amortisation, depreciation and write-offs	(19)	(968)	(1,296)	(497)	**(2,780)**	**-**
Carrying amount	7	287	465	187	**946**	**-**

The items of land and buildings and of investment property recorded a decrease mainly due to the reclassification of Leonardo S.p.a.'s real estate assets to assets held for sale with a view to the contribution to subsidiary Leonardo Global Solutions S.p.A. (€mil. 289). The value of other tangible assets showed a further reduction as a result of the depreciation for the period, which was only partially offset by investments.

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 37 at 31 December 2018 (€mil. 46 at 31 December 2017).

10. EQUITY INVESTMENTS

	2018			2017 restated		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	**7,345**	**(100)**	**7,245**	**5,641**	**(56)**	**5,585**
Acquisitions/subscriptions	181	96	**277**	1,920	52	**1,972**
Effect from Mergers/Demergers	-	-	**-**	(122)	-	**(122)**
Reclassifications in assets/liabilities held for sale	-	-	**-**	-	(5)	**(5)**
Impairment losses	(58)	(2)	**(60)**	(10)	(91)	**(101)**
Disposals	(9)	-	**(9)**	(84)	-	**(84)**
Other changes	(78)	-	**(78)**	-	-	**-**
31 December	**7,381**	**(6)**	**7,375**	**7,345**	**(100)**	**7,245**

Appendices no. 1 and 2 to these Notes provide, respectively, the changes that occurred in the year and detailed information on equity investments showing the total of assets and liabilities, as required by IFRS 12.

If the relevant conditions are fulfilled, the carrying amount of equity investments is tested for impairment in order to determine any possible loss in value. As mentioned, the carrying amount of equity investments is mainly tested by making reference to the relevant divisions as a whole; for any information on the procedures for the performance of tests and any related information, reference should then be made to Note 8.

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

- The incorporation of Leonardo International S.p.A. (equal to €mil. 142);
- The recapitalisation of So.Ge.Pa. S.p.A., equal to €mil. 125, of which €mil. 91 through the use of the provision for risks on equity investments;
- The recapitalisation of AgustaWestland Australia Pty Ltd, equal to € mil. 5;
- The recapitalisation of Oto Melara Iberica, equal to €mil. 3;
- The reduction in the carrying amount of the equity investment in Selex International Ltd, equal to €mil. 77, of which €mil. 22 for capital repayment and €mil. 55 for impairment;
- Write-downs of €mil.3 in Industria Italiana Autobus, which include losses for the period;
- A reduction in the carrying amount of the equity investment in AgustaWestland Holding Ltd as a result of a capital repayment of €mil. 55.

Disposals (€mil. 9 in the period) mainly concerned the transfer of foreign investees to subsidiary Leonardo International S.p.A., within the project aimed at reorganising, promoting and developing the Leonardo Group's business in foreign countries. These transactions generated a total capital gain of €mil. 2, directly recognised in the equity.

Finally, below is presented a comparison of the carrying amounts and the average market price of the listed shares of Eurotech SpA and Avio SpA in December 2018:

Listed company	Number of shares held	Stock exchange value		Book value		Difference unit in €	Difference total in €mil.
		Unit €	Total €mil.	Unit €	Total €mil.		
Eurotech SpA	3.936.461	3,380	13	1,469	6	1.911	7
Avio Spa	6.820.832	10,962	75	10,339	71	0.623	4

11. RECEIVABLES AND OTHER NON CURRENT ASSETS

	31 December 2018	31 December 2017 restated
Financing to third parties	-	1
Non current financial receivables from Superjet	25	48
Deferred grants under Law no. 808/85	36	40
Related parties receivables (Note 33)	329	502
Other non-current receivables	10	11
Non-current receivables	**400**	**602**
Prepayments - non-current portion	5	3
Non-recurring costs pending under Law no. 808/1985	216	136
Non-current assets	**221**	**139**

Non-current receivables decreased by €mil. 202, mainly as a result of the repayment of loans granted to So.Ge.Pa. Spa and Leonardo MW Ltd within the context of the transactions for corporate reorganisation.

Furthermore, non-current receivables include the residual amount due from Superjet S.p.A., amounting to €mil. 25 (€mil. 48 at 31 December 2017), arising from the repayment plan until 2020 agreed with the acquirer within the context of the exit of Leonardo from this programme which decreased due to the reclassification among current assets in line with the progress of payments as per the aforesaid plan.

Non-current assets increased mainly as a result of "*Non-recurring costs pending under Law no. 808/1985*".

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these Notes.

12. INVENTORIES

	31 December 2018	31 December 2017 restated
Raw materials, supplies and consumables	1,339	1,286
Work in progress and semi-finished goods	1,044	1,009
Finished goods and merchandise	20	18
Assets from contracts point in time	329	398
Advances to suppliers	1,793	1,137
	4,525	**3,848**

The increase in the period in advances to suppliers, equal to €mil. 656, mainly refer to advances paid within the EFA Kuwait programme of the Aeronautics.

Provisions for write-down are entered against the various categories of inventories to cover any obsolescence, slow-moving items or if the entry value is higher than the net realisable value, for a total amount of €mil. 613 (€mil. 518 at 31 December 2017).

Point-in-time contract assets include production progress recorded on contracts that do not meet the requirements for the recognition of revenues on an over time basis.

13. CONTARCT ASSETS AND LIABILITIES

	31 December 2018	31 December 2017 restated
Contract assets (gross)	2,734	2,550
Liabilities from contracts	(990)	(924)
Contract assets (net)	**1,744**	**1,626**
Contract liabilities (gross)	6,946	6,058
Assets from contracts	(155)	(433)
Contract liabilities (net)	**6,791**	**5,625**
Net value	**(5,047)**	**(3,999)**

Contract assets are stated among assets, net of related liabilities if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work executed at the reporting date exceeds advances received from customers, or, among liabilities, if advances exceed the relevant work. This offsetting is performed only with regard to contract assets and liabilities and not to point-in-time contract assets classified among inventories. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

Below is a breakdown of contract assets:

	31 December 2018	31 December 2017 restated
Cost incurred and margins recognised	2,895	3,306
Advanced received	(7,942)	(7,305)
Net value	**(5,047)**	**(3,999)**

14. TRADE AND FINANCIAL RECEIVABLES

	31 December 2018		31 December 2017 restated	
	Trade	Financial	Trade	Financial
Receivables	1,935	30	1,849	28
Cumulative impairments	(358)	(2)	(141)	(2)
Related parties current receivables (Note 33)	828	193	1,087	232
	2,405	**221**	**2,795**	**258**

Trade receivables include €mil. 9 (€mil. 18 at 31 December 2017) for receivables from Sukhoi and Superjet which can be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined upon the disposal of the Russian business of Superjet.

The changes in accumulated impairment were mainly due to the effect of the application of IFRS9.

The composition of assets by currency and geographical area is shown in Appendices nos. 5 and 6 to these Notes. The ageing of receivables together with an analysis of how the Company manages credit risk is reported under Note 34.

15. RECEIVABLES AND LIABILITIES FOR INCOME TAXES

Receivables mainly relate to IRES receivables for which a request for refund has been claimed. The changes during the year and the composition of assets and liabilities by maturity, currency and geographical area are shown in Appendices nos. 5, 6, 9 and 10 to these Notes.

16. OTHER ASSETS

	31 December 2018	31 December 2017 restated
Derivatives	90	158
Prepaid expenses - current portion	32	34
Receivables for grants	69	88
Receivables from employees and social security	46	51
Indirect tax receivables	7	45
Other related parties receivables (Note 33)	57	54
Other assets	74	96
	375	**526**

The item other current assets showed a decrease of €mil. 151 compared to 2017.

The changes during the year and the composition of assets by currency and geographical area are shown in Appendices nos. 5 and 6 to these Notes.

"Indirect tax receivables", equal to €mil. 7 (€mil. 45 at 31 December 2017) showed a decrease compared to 2017, mainly as a result of the reduction in Group VAT receivables from the Tax Office, which decreased from €mil. 39 in 2017 to €mil. 1 in 2018.

The table below provides the breakdown of derivative assets and liabilities.

	Fair value at					
	31 December 2018			**31 December 2017 restated**		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Interest rate swaps						
Trading	-	(3)	**(3)**	1	(3)	**(2)**
Cash flow hedge	-	(3)	**(3)**	-	-	**-**
Currency forward/swap/option						
Trading	26	(27)	**(1)**	59	(59)	**-**
Fair value hedge	-	-	**-**	6	(4)	**2**
Cash flow hedge	64	(153)	**(89)**	92	(160)	**(68)**

The cash flow hedge is the forward instrument hedging trade items denominated in foreign currency.

Vice versa, the fair value hedge is the forward instrument hedging deposits and loans made in pound sterling and US dollars that fall under the Group's financial centralisation, with reference to financial activities for the companies not falling under the One Company scope: the changes in fair value directly offset the realignment of the exchange rates applicable to loans and deposits.

Finally, trading forward instruments refer to transactions carried out with banks acting in the interest of the fully owned subsidiaries; these transactions are transferred, on a mirror-like basis, to the Group companies which reflect the relevant impacts in their balance sheet and income statement.

The "interest rate swaps" with a total notional value of €mil. 200, classified as trading instruments, were placed into effect to pursue the management objectives of hedging part of the bonds issued by Leonardo and the Group companies. The impact on the income statement is described in the section on Financial Risk Management (Note 34).

The portion of the changes that had an impact on the income statement is described in Note 30.

17. CASH AND CASH EQUIVALENTS

The balance of "Cash and cash equivalents" at 31 December 2018, equal to €mil. 1,621 (€mil. 1,565 at 31 December 2017), was mainly the result of net cash flows realised by the Company's divisions during the year. Cash and cash equivalents at 31 December 2018 include €mil. 2 of term deposits (€mil. 3 at 31 December 2017).

18. ASSETS AND LIABILITIES HELD FOR SALE

At 31 December 2018 this item included the reclassification of the Company's real estate unit performed in view of the abovementioned contribution of the real estate unit of Leonardo Spa to subsidiary Leonardo Global Solutions S.p.A., with effective date 1 January 2019.

The table below summarises the items concerned:

	2018
Property, plant, equipment	283
Investment property	6
Non-current assets	**289**
Receivables	2
Current asset	**2**
Total assets	**291**
Employee benefits	1
Non-current liabilities	**1**
Trade payables	5
Current liabilities	**5**
Total liabilities	**6**
Assets and liabilities held for sale	**285**

19. EQUITY

The equity broken down by available and distributable reserves is shown in Appendix no. 7 to these Notes.

The composition of the share capital is as follows.

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,709,133)	-	(34)	-	(34)
31 December 2017 restated	574,441,262	2,544	(34)	(19)	2,491
Repurchase of treasury shares net of the portion sold	403,903	-	4	-	4
31 December 2018	574,845,165	2,544	(30)	(19)	2,495
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,305,230)	-	(30)	-	(30)

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of € 4.40 each, including no. 3,305,230 treasury shares.

At 31 December 2018 the Ministry of Economy and Finance owned around 30.204% of the share capital.

The cash flow hedge reserve includes changes in fair value of derivatives used by the Company to hedge its exposure to currency net of the effect of deferred taxes until the moment in which the "underlying position" is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

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

The proposal for the distribution of dividends for the period is included in the Report on Operations.

20. LOANS AND BORROWINGS

	31 December 2018			31 December 2017 restated		
	Non current	Current	Total	Non current	Current	Total
Bonds	2,384	394	2,778	2,707	585	3,292
Bank loans and borrowings	640	51	691	186	52	238
Related parties loans and borrowings (Note 33)	-	1,425	1,425	-	1,669	1,669
Other loans and borrowings	32	39	71	25	52	77
	3,056	**1,909**	**4,965**	**2,918**	**2,358**	**5,276**

Bonds

Below are the bonded loans in place and listed on the Luxembourg Stock Exchange:

Year of issue	Maturity	Currency	*Outstanding* nominal amount (mil.) (*)	Annual coupon		Type of offer
2005	2025	€	500	4,875%		European istitutional
2009	2019	GBP	278	8,000%	(2)	European istitutional
2009	2022	€	556	5,250%		European istitutional
2013	2021	€	739	4,500%		European istitutional
2017	2024	€	600	1,500%		European istitutional

(1) Rate derivative transactions were made on these bonds and led the effective cost of the loan to a fixed rate better than the coupon and corresponding to an average of some 5.6%.

(2) The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged.

(*) Residual nominal amounts in case of issues subject to the buy-back transactions.

The item decreased as a result of the repayment of the bond issues which were launched in 2003 and expired in December 2018, equal to €mil. 500, and of the purchase of a nominal amount of GBPmil. 10 on the bond issued in 2009 expiring in 2019 (coupon 8%).

The main clauses that regulate the Group’s payables are reported in the section “*Financial Transactions*” of the Report on Operations. Changes in loans and borrowings are as follows:

	1 January 2018	Issues	Repayments/ Payment of coupons	Effect from Mergers/De mergers	Other net increase (decrease)	Exchange differences	31 December 2018
Bonds	3,292	-	(661)	-	150	(3)	**2,778**
Bank loans and borrowings	238	498	(46)	-	3	(2)	**691**
Related-parties loans and borrowings	1,669	-	-	-	(241)	(3)	**1,425**
Other loans and borrowings	77	-	-	-	(6)	-	**71**
	5,276	**498**	**(707)**	**-**	**(94)**	**(8)**	**4,965**

	1 January 2017 restated	Issues	Repayments/ Payment of coupons	Effect from Mergers/De mergers	Other net increase (decrease)	Exchange difference s	31 December 2017 restated
Bonds	3,263	591	(723)	-	169	(8)	**3,292**
Bank loans and borrowings	296	-	(47)	-	(10)	(1)	**238**
Related-parties loans and borrowings	1,664	-	-	-	11	(6)	**1,669**
Other loans and borrowings	79	-	-	-	-	(2)	**77**
	5,302	**591**	**(770)**	**-**	**170**	**(17)**	**5,276**

Below is the reconciliation of the movements in loans and borrowings with the cash flows from financing activities in FY 2018:

	2018		2017	
Balance at 1° january		**5.276**		**5.302**
Changes included in cash flows from financing activities		**(305)**		**(19)**
Repayment of EIB loan	*(46)*		*(46)*	
Term loan/Bond Subscription	*498*		*591*	
Repayment of Bond	*(513)*		*(555)*	
Net change in other borrowings	*(244)*		*(9)*	
Movimenti non monetari		**(6)**		**(7)**
Exchange rate effects	*(8)*		*(17)*	
Accrued interest	*2*		*10*	
Balance at 31 december		**4.965**		**5.276**

Bank loans and borrowings

The item includes the 12-year loan signed with the European Investment Bank (EIB) in 2009 to finance development in the Aeronautics segment and the issue of the term loan as reported in Note 5.

The remaining value of the EIB loan amounted to €mil. 185 at 31 December 2018 (€mil. 234 at 31 December 2017).

As provided in the loan agreement, €mil. 300 of the loan was originally used at a fixed rate of 3.45% and for €mil. 200 at a floating rate equal to the 6-month Euribor plus a margin of 79.4 basis points. The fixed-rate tranche is repaid in 11 annual instalments with a fixed principal repayment component, while the floating-rate tranche is repaid in 21 six-month instalments, also with a fixed principal repayment component. During the year €mil. 46 was repaid.

Related parties loans and borrowings

Related parties loans and borrowings remained substantially unchanged compared to the prior year. For their breakdown reference is made to Note 33.

Other financial debts

The item includes the residual balance of subsidised loans, related to programmes and projects of the companies and business units merged.

Exposure to changes in interest rates of the financial liabilities is as follows:

	Bonds		**Bank loans and borrowings**		**Related parties loans and borrowings**		**Other loans and borrowings**		**Total**	
31 December 2018	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	394	22	29	1,425	-	46	3	1,493	426
2 to 5 years	-	1,284	58	82	-	-	16	6	74	1,372
Beyond 5 years	-	1,100	500	-	-	-		-	500	1,100
Total	**-**	**2,778**	**580**	**111**	**1,425**	**-**	**62**	**9**	**2,067**	**2,898**

	Bonds		**Bank loans and borrowings**		**Related parties loans and borrowings**		**Other loans and borrowings**		**Total**	
31 December 2017 restated	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	585	23	29	1,669	-	49	3	**1,741**	**617**
2 to 5 years	-	1,062	77	109	-	-	21	4	**98**	**1,175**
Beyond 5 years	-	1,645	-		-	-	-	-	**-**	**1,645**
Total	**-**	**3,292**	**100**	**138**	**1,669**	**-**	**70**	**7**	**1,839**	**3,437**

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

	31 December 2018	*of which with related parties*	**31 December 2017 restated**	*of which with related parties*
Liquidity	**(1,621)**		**(1,565)**	
Current loans and receivables	**(221)**	*(193)*	**(258)**	*(232)*
Current bank loans and borrowings	51		52	
Current portion of non-current loans and borrowings	394		585	
Other current loans and borrowings	1,464	*1,425*	1,721	*1,669*
Current financial debt	**1,909**		**2,358**	
Net current financial debt (funds)	**67**		**535**	
Non-current bank loans and borrowings	640		186	
Bonds issued	2,384		2,707	
Other non-current loans and borrowings	32	-	25	-
Non-current financial debt	**3,056**		**2,918**	
Net financial debt	**3,123**		**3,453**	

The reconciliation between Net Financial Debt and Group Net Debt, used as KPI, is as follows:

	Note	**31 December 2018**	**31 December 2017 restated**
Net financial debt com. CONSOB no. DEM/6064293		**3,123**	**3,453**
Hedging derivatives in respect of debt items	*16*		(1)
Non current financial receivables from Group's consolidated entities	*33*	(283)	(452)
Non current financial receivables from Superjet	*11*	(25)	(48)
Net debt (KPI)		**2,815**	**2,952**

The main clauses that regulate the Leonardo's payables are reported in the section "*Financial Transactions*" of the Report on Operations.

21. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	**Restructuring**	**Penalties**	**Product guarantees**	**Contracts (final losses)**	**Other provisions**	**Total**
1 January 2017 restated							
Current	99	47	19	57	476	297	**995**
Non current	41	85	126	63	-	494	**809**
	140	**132**	**145**	**120**	**476**	**791**	**1,804**
Effect from Mergers/Demergers	-	-	-	2	-	4	**6**
Allocations	-	3	24	43	16	246	**332**
Uses	(2)	(38)	(7)	(10)	(121)	(75)	**(253)**
Reversals	-	(4)	(2)	(27)	-	(63)	**(96)**
Other changes	(18)	(9)	(128)	(22)	(1)	(74)	**(252)**
31 December 2017 restated	**120**	**84**	**32**	**106**	**370**	**829**	**1,541**
Broken down as follows:							
Current	98	34	13	65	370	369	**949**
Non current	22	50	19	41	-	460	**592**
	120	**84**	**32**	**106**	**370**	**829**	**1,541**
Effect from Mergers/Demergers	-	-	-	-	-	-	**-**
Allocations	9	176	3	69	18	155	**430**
Uses	(3)	(21)	(4)	(10)	-	(130)	**(168)**
Reversals	(99)	-	(13)	(18)	(101)	(47)	**(278)**
Other changes	-	(28)	-	-	25	(91)	**(94)**
31 December 2018	**27**	**211**	**18**	**147**	**312**	**716**	**1,431**
Broken down as follows:							
Current	27	73	11	94	312	293	**810**
Non current	-	138	7	53	-	423	**621**
	27	**211**	**18**	**147**	**312**	**716**	**1,431**

Following the first-time adoption of IFRS 15, final losses on contracts, which had been previously recognised among work in progress, were reclassified to other current provisions for risks and charges. This category includes those contracts the non-discretionary cost of which, require to fulfil the obligation undertaken, is higher than the financial benefits that can be obtained from the contract itself.

"Other provisions for risks and charges" mainly include:

- the provision for risks on equity investments of €mil. 6 (€mil. 100 at 31 December 2017), which decreased mainly due to the recapitalisation of the equity investment in So.Ge.Pa. SpA;

- the provision for tax disputes of €mil. 29 (€mil. 46 at 31 December 2017);
- the provision for litigation with employees and former employees of €mil. 19 (€mil. 26 at 31 December 2017);
- the provision for litigation in progress of € mil. 3 (€mil. 8 at 31 December 2017);
- other provisions, mainly related to critical issues on contracts, in particular of the *Aeronautics* sector.

With regard to risks, below is a summary of the criminal proceedings that are currently underway against Leonardo S.p.A., as well as certain former directors and executives, concerning acts committed during the performance of their duties at Leonardo S.p.A., with specific reference to the events that occurred in 2018 and in early 2019:

- On 6 October 2017 an appeal was filed against the judgment for dismissal of charge, which was handed down by the Court of Rome on 22 September 2017 within the criminal proceedings pending against, among others, the former Commercial Director of Leonardo, for the crime under Articles 110, 319, 319-*bis*, 320, 321 and 322-*bis* of the Italian Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the Government of Panama. It should be noted that on 21 September 2017 the Judge for Pre-trial Hearing handed down a judgment for dismissal of charge against Leonardo concerning the administrative violation referred to in Article 25 of Legislative Decree 231/2001;
- On 11 August 2018 the dismissal order was issued within the criminal proceedings started by the Rome Public Prosecutor's Office against one former executive of Leonardo, three former Directors and an executive of the Company (in relation to the position as director held in the then Finmeccanica Finance SA) for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61 no.11 of the Italian Criminal Code in relation, among other things, to personal loans requested to the company in the period 2008-2014;
- On 29 October 2018, following the filing of the related grounds, an appeal was filed with the Supreme Court against the judgment whereby the Milan Court of Appeal acquitted the defendants from the crimes attributed to them on 8 January, within the proceedings brought in relation to the supply of twelve AW 101 VIP/VVIP helicopters to the Indian Government. In this regard it should be noted that on 9 October 2014 the Court of Busto Arsizio sentenced the former Chairman and Chief Executive Officer of Leonardo S.p.A. (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland S.p.A. for having committed crimes under Article 2 of Legislative Decree 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009 – June 2010 tax period, while also ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil.

3.4) be confiscated from AgustaWestland S.p.A., considered in determining the provisions for risks. In the same decision, the Court found the defendants not guilty of having committed the crimes under Articles 110, 112, paragraph 1, 319, 321 and 322-bis, paragraph 2(2) of the Italian Criminal Code (corruption of foreign public officials), due to lack of evidence. On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo, and the former Chief Executive Officer of AgustaWestland S.p.A., for crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000. Subsequently, on 16 December 2016 the Supreme Court repealed the judgment appealed against and referred it to another division of the Milan Court of Appeal for consideration of new proceedings. In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding groundless, following the conclusion of investigations, the Company's involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio – in granting the motions put forth by the companies – imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland S.p.A. and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5. As regards the investigations started by the Indian Judicial Authority (CBI) in February 2013 for the same facts referred to above, it should be noted that on 2 February 2018 a notice was served on AgustaWestland International Ltd., whereby the latter was invited to appear at the hearing to be held on 30 May 2018 before the Patiala House Court in New Delhi within the criminal proceedings brought therein against the aforesaid company and other entities and persons, including Leonardo Spa.

On 13 April 2018 the Milan Public Prosecutor's Office served the abovementioned notice of invitation to appear on Leonardo Spa. The Company submitted an application for enforcement review before the Judge for Preliminary Investigations (GIP, Giudice delle Indagini Preliminari) of the Court of Milan, which was rejected on 22 May 2018, as well as an appeal before the Lazio Regional Administrative Court. The proceedings continued for the discussion of the merits, after having carried out the phase of precautionary measures. The Company has brought the same lawsuits before the administrative Court and before the Judge for Preliminary Investigations of the Court of Milan, including with reference to the service of the notice of invitation to appear at the hearing set on 10 September 2018.

Finally, it should be noted that AgustaWestland International Ltd appeared at the hearing held on 30 May 2018 within the Indian proceedings described above; the proceedings are continuing before the Patiala House Court of New Delhi;

- On 8 June 2018 the dismissal decree was issued within the criminal proceedings conducted by the Turin Public Prosecutor's Office concerning the provision of helicopters to the armed forces, police and other government entities on the part of AgustaWestland, against certain directors of Leonardo (serving from 1994 to 1998) and certain directors/executives of AgustaWestland (serving from 1999 to 2014) with respect to crimes under Article 449 of the Italian Criminal Code for violation of the regulations on the use of asbestos;
- On 26 October 2017 an appeal was filed against the acquittal judgment issued by the Court of Milan on 15 June 2017 within the criminal proceedings pending against certain directors of the then-Breda Termomeccanica S.p.A., subsequently Ansaldo S.p.A., who served during the period from 1973 to 1985, charged with having committed the crimes under Article 589, paragraphs 1, 2 and 3, Article 40, paragraph 2, Article 41, paragraph 1 of the Italian Criminal Code, Article 2087 of the Italian Civil Code and Article 590, paragraphs 1, 2, 3, 4 and 5, of the Italian Criminal Code, for violation of the rules governing the prevention of occupational diseases. It should be noted that Leonardo has entered appearance in the civil action within the abovementioned proceedings;
- On 22 January 2019 the Judge for Pre-trial Hearing, following a request for committal for trial submitted by the Vercelli Public Prosecutor's Office within the criminal proceedings relating to the accident that occurred in Santhià on 30 October 2015, postponed the hearing to 16 April 2019. It should be noted that the criminal proceedings are pending before the Vercelli Public Prosecutor's Office against three former employees of AgustaWestland S.p.A. (who are currently working for Leonardo – Helicopters Division) and an employee of AgustaWestland Philadelphia Corporation for the crime referred to in Article 449 of the Italian Criminal Code in relation to Articles 428 and 589 of the Italian Criminal Code.

Based upon the information gathered and the results of the analysis carried out so far, the Directors of Leonardo did not allocate any specific provisions. Any negative developments - which cannot be foreseen, nor determined to date - arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

* * * * * * * *

With regard to the provisions for civil, tax and administrative disputes, it is underlined that the Company's operations regard industries and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity.

Pursuant to the IFRSs, provisions have only been set aside for risks that are probable and for which the amount can be determined. No specific provisions have been set aside for certain disputes in which the Company is defendant as these disputes are reasonably expected to be settled, based on current knowledge, satisfactorily and without significantly impacting the Company. Of particular note are the following disputes:

- By an order dated 21 November 2018, after the papers of the case were transmitted to the President of the Supreme Court, the proceedings brought by GMR against Leonardo and AnsaldoBreda was referred to the division specialising in business law and the next hearing has been scheduled on 14 May 2019. It should be noted that in February 2011 GMR, as the sole shareholder of Firema Trasporti, summoned Leonardo and AnsaldoBreda before the Court of Santa Maria da Capua Vetere. These proceedings were concluded with the declaration of lack of jurisdiction in favour of the Court of Naples. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits prescribed by law. On 23 June 2015, GMR then served a new writ of summons before the Court of Naples, whereby it once again submitted the same claims as those brought in the previous proceedings. More specifically, according to the plaintiff company, during the period in which Leonardo held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of the company itself and in the sole interest of the Leonardo Group. Moreover, even after the sale of the investment by Leonardo, Firema Trasporti was allegedly *de facto* subjected to an abuse of economic dependence from the abovementioned Group in performing the various agreements existing with AnsaldoBreda. Leonardo and AnsaldoBreda appeared before the court requesting that, on the merits, the plaintiff's claims be dismissed as clearly groundless, as a result of the non-fulfilment of any and all conditions required by law as requirements to bring an action against directors pursuant to Article 2497 of the Italian Civil Code. Moreover, the aforesaid companies also asked the Court to preliminarily hand down a ruling based on the principle of *lis alibi pendens* (i.e. the suit was pending elsewhere and then the claim was precluded) within these new proceedings with respect to the pending proceedings, between the same parties, before the Naples Court of Appeal, which are described below;

  On 21 November 2018 the Court of Naples, pending the issue of the ruling of the Supreme Court, suspended the proceedings within which Giorgio and Gianfranco Fiore also brought a third-party action against Leonardo and AnsaldoBreda. These proceedings were brought by Firema Trasporti under Extraordinary Administration before the Court of Naples, against the aforesaid Giorgio and Gianfranco Fiore, as former directors of the company, as well as against other persons. It should be noted that, by an order dated 18 November 2014, the Court of Naples declared that both the claims submitted by Giorgio and Gianfranco Fiore against Leonardo and AnsaldoBreda and those submitted by G.M.R. (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and G.M.R. be dropped

from action. On 17 June 2015 the judge responsible for preliminary investigations reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and recorded the case on the docket once again for discussion. Before being reversed, the order for dropping a party from action had been challenged before the Naples Court of Appeal by G.M.R and, on a cross-appeal basis, by Leonardo and AnsaldoBreda. On 16 June 2017, the Court declared, in the light of the reversal referred to above, that both appeals were inadmissible, due to the subsequent lack of interest. On 18 January 2018 Leonardo and AnsaldoBreda appealed against this order before the Supreme Court;

- at the hearing of 19 February 2019, the appellate proceedings brought by Pio Deiana against Leonardo against the judgment handed down by the Court of Rome on 31 May 2018, was discontinued due to the death of the appellant. The time limit for the reinstatement was set on 19 May 2019. It should be noted that on 4 March 2013 Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei S.r.l. and of Società Progetto Cina S.r.l., brought proceedings, before the Court of Rome, against Leonardo in order to ask the Court to rule the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (a company which was a subsidiary of Leonardo until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built. As stated by the plaintiff in the writ of summons, the above-mentioned settlement agreement was concluded based on unfair conditions, thus taking advantage of the distress of Mr Deiana and of the economic dependence of the plaintiff companies with respect to Ansaldo Industria. The claim was also submitted against Leonardo, on the basis of the latter’s alleged general liability in the capacity as the parent company of Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. On 25 September 2013 Leonardo appeared before the Court, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court rejects the plaintiffs’ claims as they are entirely groundless in fact and in law. A minority shareholder of Società Progetto Cina S.r.l. and a minority shareholder of Janua Dei Italia S.r.l. intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. By a judgment dated 31 May 2018, the Court rejected the plaintiff’s claim. On 10 August 2018 the opposing party filed an appeal against the abovementioned judgment;

- On 16 October 2018 the acquittal judgment became final which had been handed down by the Milan Court of Appeal against Ansaldo Energia within the criminal proceedings brought for the unlawful act referred to in art. 25 of Legislative Decree 231/01. As a result, the share of provision recognised

against the related liability was released. It should be noted that, in the context of the investigation started by the Public Prosecutor's Office of Milan, by a ruling of 20 September 2011 the Court of Milan sentenced Ansaldo Energia for having committed the crime under art. 25 of Legislative Decree 231/01 and ordered the confiscation of an equivalent amount of €mil. 98.7 imposing also administrative penalties of €150,000. This sentence was also confirmed by the Court of Appeal of Milan with a ruling of 24 October 2013. Against this ruling the Company lodged an appeal with the Supreme Court which quashed this previous ruling on 10 November 2015 referring the case to another division of the same Court of Appeal. The latter, by a ruling of 28 November 2017, acquitted Ansaldo Energia setting the time limit for the filing of the related reasons at ninety days. In respect of the guarantee granted for the lawsuit at issue, at the time of the disposal of the investment, Leonardo recorded in previous financial years a risk provision covering the amount being confiscated in 2011 and the amount of the administrative penalties (€mil. 99). This provision has been maintained in the 2017 financial statements pending the outcome of the proceedings.

22. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2018	31 December 2017 restated
Severance pay provision	289	317
Defined contribution plans	26	25
	315	**342**

The severance pay provision showed a reduction essentially due to early retirements under art. 4 of Law 92/2012 (Fornero Act) s detailed in Note 5.

The entire amount of the costs related to employee benefit obligations, which was recognised under financial expense, is equal to €mil. 3 and remained unchanged compared to 31 December 2017.

Below are the changes in the severance pay provision:

	31 December 2018	31 December 2017 restated
Opening balance	317	326
Net interest expense	3	*3*
Remeasurement	(3)	3
Actuarial losses (gains) through equity - financial assumptions	*(3)*	*3*
Effect from Mergers/Demergers	-	2
Benefits paid	(27)	(17)
Other changes	(1)	-
Closing balance	**289**	**317**

It should be noted that the portion of cost for the year relating to amounts transferred to pension funds or to a treasury fund managed by INPS is recognised according to the rules for defined-contribution plans, without any actuarial assessment.

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of the severance pay provision that has maintained the nature of defined-benefit plan are as follows:

	31 December 2018	31 December 2017 restated
Discount rate (annual)	1.2%	0.9%
Inflation rate	1.5%	1.5%

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

	31 December 2018		31 December 2017 restated	
(€ thousands)	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	5	(5)	5	(5)
Inflation rate	(4)	4	(4)	4

The average duration of the severance pay is 9 years.

23. OTHER NON CURRENT AND CURRENT LIABILITIES

	31 December 2018		31 December 2017 restated	
	Non current	Current	Non current	Current
Employee obligations	47	252	46	239
Deferred income	102	36	105	40
Amounts due to social security institutions	-	155	-	151
Payables to MED (Law no. 808/85)	204	52	262	109
Payables to MED for monopoly costs (Law no. 808/85)	179	19	173	45
Other liabilities (Law no. 808/85)	158	-	222	-
Indirect tax liabilities	-	70	-	53
Derivatives	-	185	-	226
Other liabilities	3	289	3	302
Other payables to related parties (Note 33)	-	270	-	324
	693	**1,328**	**811**	**1,489**

The payables to the Ministry for Economic Development (MED) under Law 808/1985 relate to monopoly costs accrued on national security and similar projects, as well as payables for grants received from MED for the development of programmes not related to national security and similar projects eligible for benefits under Law 808/1985.

“Other liabilities (Law 808/1985)” include the difference between the monopoly costs charged for the national security programmes and the amount actually due based on agreed repayment ratios.

Payables to subsidiaries mainly arise from the Group VAT mechanism.

“Deferred income” specifically includes subsequent years rentals already collected in past years in relation to the agreements for the sale of “Ansaldo” trademark.

"Other payables" include, in particular, down payments received from customers for €mil. 58, penalties on programmes for €mil. 111 and payables for royalties amounting to €mil. 7.

24. TRADE PAYABLES

	31 December 2018	31 December 2017 restated
Suppliers	1,913	2,132
Trade payables to related parties (Note 33)	629	680
	2,542	**2,812**

25. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Company has a number of operating leases in place for the purposes of acquiring the use of plant and equipment. The non-cancellable minimum future payments relating to operating lease contracts and commitments taken (as lessor) with respect to financial leases are as follows:

	31 December 2018				31 December 2017 restated			
	Operating lease		*Financial lease*		*Operating lease*		*Financial lease*	
	as lessee	*as lessor*	*as lessee*	*as lessor*	*as lessee*	*as lessor*	*as lessee*	*as lessor*
Within 1 year	115	2	1	-	88	7	16	-
2 to 5 years	340	7	-	-	266	2	1	-
Beyond 5 years	69	2	-	-	13	1	-	-
	524	**11**	**1**	**-**	**367**	**10**	**17**	**-**

With regard to operating leases in which the Company is a lessee, commitments amounted to €mil. 391 with respect to subsidiaries and to €mil. 133 in respect of other parties, mainly for the lease of office space. For those leases in which the Company acts as lessor, commitments amounted to €mil. 11 (€mil. 7 at 31 December 2017) in respect to related parties.

Below is the personal security provided:

Guarantees	31 December 2018	31 December 2017 restated
Guarantees in favour of related parties (Note 33)	4,380	4,461
Guarantees in favour of third parties	8,527	7,411
Guarantees given to third parties	2,503	2,523
Unsecured guarantees given	**15,410**	**14,395**

Specifically, the main guarantees issued consist of:

- bank and insurance sureties in favour of third-party companies for an amount of €mil. 8,524 (€mil. 7,408 at 31 December 2017);
- bank and insurance counter-guarantees issued in the interest of related parties for €mil. 981 (€mil. 1,033 at 31 December 2017) and in the interest of third-party Companies for €mil. 3 (€mil. 3 at 31 December 2017);
- direct commitments issued by the Company in favour of tax authorities, customers and co-suppliers (Parent Company Guarantee) for €mil. 2,314 (€mil. 1,931 at 31 December 2017), in favour of related parties for €mil. 3,399 (€mil. 3,429 at 31 December 2017) and in favour of other companies for €mil. 189 (€mil. 592 at 31 December2017).

In addition to the above commitments, the Company issued non-binding letters of patronage on behalf of subsidiaries and certain associates in support for their commercial activities.

26. REVENUE

	2018	2017 restated
Revenue from contracts with customers	5,820	5,509
Change in work in progress	48	221
Revenue from related parties (Note 33)	2,211	2,256
	8,079	**7,986**

The trends in revenue by business segment at a Group level are described in the Report on Operations.

Below is the breakdown of revenue by nature:

	2018	2017 restated
Revenue recognized at point in time	1.942	1.465
Revenue recognized over time	6.137	6.521
	8.079	**7.986**

Revenue was realised in the following geographical areas:

	2018	2017 restated
Italy	1,729	1,798
United Kingdom	396	380
Rest of Europe	2,652	2,216
North America	1,165	1,197
Rest of the world	2,137	2,394
	8,079	**7,986**

27. OTHER OPERATING INCOME (EXPENSES)

	2018			2017 restated		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	25	-	25	22	-	22
Other operating grants	2	-	2	1	-	1
Gains/losses on sales of intangible asset, property, plant and equipment	11	-	11	-	-	-
Reversals (accruals) to provisions for risks and final losses on orders and reversal of impairment of receivables	173	(217)	(44)	209	(218)	(9)
Exchange rate difference on operating items	123	(129)	(6)	145	(140)	5
Insurance reimbursements	5	-	5	3	-	3
Restructuring costs	-	(17)	(17)	2	(1)	1
Indirect taxes	-	(13)	(13)	-	(12)	(12)
Other operating income (expenses)	96	(29)	67	17	(47)	(30)
Other operating income (expenses) from related parties (Note 33)	14	(1)	13	13	(1)	12
	449	**(406)**	**43**	**412**	**(419)**	**(7)**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil 4 (€mil.5 at 31 December 2017), are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 11) equal to €mil. 78 (€mil.83 at 31 December 2017).

28. PURCHASE AND PERSONNEL EXPENSE

	2018	2017 restated
Purchase of materials from third parties	2,368	2,356
Change in inventories of raw materials	(56)	(28)
Costs for purchases from related parties (Note 33)	564	426
Purchases	***2,876***	***2,754***
Services rendered by third parties	1,944	1,973
Costs of rents and operating leases	104	122
Royalties	2	5
Software fees	22	27
Rental fees	10	7
Services rendered by related parties (Note 33)	810	689
Services	***2,892***	***2,823***
Wages and salaries	1,370	1,332
Social security contributions	400	384
Costs related to defined-contribution plans	92	90
Employee disputes	(3)	3
Restructuring costs - net	180	27
Other personnel expenses net of cost recovery	23	19
Personnel expenses	***2,062***	***1,855***
Change in finished goods, work in progress and semi-finished products	***10***	***69***
Internal work capitalised	***(278)***	***(249)***
Total purchases and personnel expenses	**7,562**	**7,252**

The average workforce at 31 December 2018 was equal to 27,699 units, showing an increase of 392 units compared to 2017.

The figure of total workforce at 31 December 2018, compared to the data at 31 December 2017 increased by 344 units.

The figure related to the average workforce is affected by the presence of part-time employees, personnel that took extended leave, redundant staff and employees with solidarity contracts in the workforce.

Below is the breakdown of workforce by category:

	Average Workforce			Total Workforce		
	31 December 2018	*31 December 2017*	*Change*	*31 December 2018*	*31 December 2017*	*Change*
Senior managers (*)	752	710	42	769	729	40
Middle managers	3,275	3,184	91	3,312	3,258	54
Clerical employees	16,499	16,429	70	16,836	16,857	(21)
Manual labourers (**)	7,173	6,984	189	7,223	6,952	271
Total	**27,699**	**27,307**	**392**	**28,140**	**27,796**	**344**

(*) Includes pilots
(**) Includes senior manual labours

29. AMORTISATION, DEPRECIATION AND WRITE-OFFS

	2018		2017 restated	
Amortisation of intangible assets		100		151
Development costs	*25*		*56*	
Non-recurring costs	*24*		*42*	
Acquired through business combinations	*4*		*4*	
Concessions, licences and trademarks	*22*		*19*	
Other intangible assets	*25*		*30*	
Depreciation of property, plant and equipment and investment properties (Note 9)		187		191
Impairment of other assets		64		3
financial assets value adjustments		82		18
		433		**363**

30. FINANCIAL INCOME AND EXPENSE

	2018			2017 restated		
	Income	Expenses	Net	Income	Expenses	Net
Interest to/from banks	1	(5)	(4)	1	(7)	(6)
Interest and other charges on bonds	-	(152)	(152)	-	(171)	(171)
Commissions	1	(22)	(21)	1	(18)	(17)
Dividends	386	-	386	463	-	463
Premiums (paid) received on IRS	6	(6)	-	6	(8)	(2)
Premiums (paid) received on forwards	37	(57)	(20)	38	(51)	(13)
Income and charges from equity investments and securities	-	(1)	(1)	-	(8)	(8)
Value adjustments on equity investments	-	(60)	(60)	-	(102)	(102)
Fair value gains (losses) through profit or loss	21	(15)	6	20	(13)	7
Exchange rate differences	12	(11)	1	128	(143)	(15)
Financial income (expense) - related parties (Note 33)	27	(9)	18	35	(8)	27
Other financial income and expense	18	(56)	(38)	17	(59)	(42)
	509	**(394)**	**115**	**709**	**(588)**	**121**

Net financial income and costs at 31 December 2018 were substantially in line with the previous year.

Value adjustments to equity investments are mainly related to Selex International Ltd. (€mil.55).

Fair value results through profit or loss are as follows:

	2018			2017 restated		
	Income	Expenses	Net	Income	Expenses	Net
Exchange rate swap	1	(1)	-	-	(1)	(1)
Interest rate swaps	-	(1)	(1)	-	(1)	(1)
Ineffective portion of hedging swap	19	(13)	6	20	(11)	9
Gains (charges) on FVTPL	1	-	1	-	-	-
	21	**(15)**	**6**	**20**	**(13)**	**7**

31. INCOME TAXES

Income taxes can be broken down as follows:

	2018	2017 restated
IRES (corporate income tax)	(32)	(54)
IRAP (reg. tax on production)	(23)	(14)
Tax related to previous periods	-	(1)
Provisions for tax disputes	(20)	(8)
Deferred tax - net	28	(35)
Other taxes	-	(4)
	(47)	**(116)**

Below is an analysis of the composition of the theoretical and effective tax rates for 2018 and 2017:

	2018	2017 restated
Profit (loss) before income taxes	**331**	**485**
Tax rate	**(14.2%)**	**(23.9%)**
Theoretical tax	(79)	(116)
Permanent differences	1	(10)
Timing differences	23	-
Dividends	78	66
Impairment of equity investments	(33)	(24)
IRAP tax	(23)	(18)
Net deferred tax assets	6	-
Tax provision	(20)	(15)
Previous years' tax	-	1
Total tax through profit or loss	**(47)**	**(116)**
Theoretical tax	**(23.9%)**	**(24.0%)**
Permanent differences	0.3%	(2.1%)
Timing differences	6.9%	n.a.
Dividends	23.6%	13.6%
Impairment of equity investments	(10.0%)	(4.9%)
IRAP tax	(6.9%)	(3.7%)
Net deferred tax assets	1.8%	n.a.
Tax provision	(6.0%)	(3.1%)
Previous years' tax	n.a.	0.2%
Total tax	**(14.2%)**	**(23.9%)**

The effective tax rate went from 23.9% in 2017 to 14.2% in 2018.

Deferred taxes and related receivables and payables at 31 December 2018 were the result of the following temporary differences:

	2018	2017 restated
Deferred tax assets on tax losses	(18)	(10)
Property, plant and equipment and intangible assets	11	(1)
Provision for risks and impairment	48	(42)
Other	(13)	18
Deferred taxes recognised through profit or loss	**28**	**(35)**

	31 December 2018			31 December 2017 restated		
	Financial statement			Financial statement		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	30	-	30	48	-	48
Property, plant and equipment and intangible assets	29	(62)	(33)	18	(71)	(53)
Severance and retirement benefits	4	(4)	-	4	(4)	-
Provision for risks and impairment	537	-	537	433	-	433
Other	135	(22)	113	161	(16)	145
Deferred taxes recognised through balance sheet	**735**	**(88)**	**647**	**664**	**(91)**	**573**
Cash-flow hedge derivatives	29	(2)	27	22	-	22
On actuarial gains and losses	6	-	6	5	-	5
Deferred taxes recognised through equity	**35**	**(2)**	**33**	**27**	**-**	**27**
	770	**(90)**	**680**	**691**	**(91)**	**600**

32. CASH FLOWS FROM OPERATING ACTIVITIES

	2018	2017 restated
Net result	284	369
Amortisation, depreciation and write-offs	369	364
Income taxes	47	116
Net allocations to the provisions for risks and inventory write-downs	380	187
Net financial expense /(income)	(115)	(121)
Other non-monetary items	22	41
	987	**956**

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

	2018	2017 restated
Payment of pension plans	(28)	(17)
Changes in provisions for risks and other operating items	(298)	(359)
Change in other operating assets and liabilities and provisions for risks and charges	**(326)**	**(376)**

	2018	2017 restated
Inventories	(774)	(567)
Contarct assets and liabilities	867	722
Trade receivables and payables	(158)	115
Change in trade receivables/payables, contract assets/liabilities and inventories	**(65)**	**270**

33. FINANCIAL TRANSACTIONS WITH RELATED PARTIES

Commercial and financial relations with related parties are carried out at arm's length, as is settlement of interest-bearing receivables and payables. Below are the balance sheet amounts relating to the 2018 and 2017 financial years:

RECEIVABLES at 31 December 2018	**Non-current loans and receivables**	**Current loans and receivables**	**Trade receivables**	**Receivables from consolidated tax mechanism**	**Other current receivables**	**Total**
Subsidiaries						
Agustawestland Philadelphia Co			91			91
Agustawestland SpA				34	5	39
Agustawestland Malaysia SDN BHD			15			15
Sistemi Dinamici SpA		10				10
Leonardo MW Ltd	117		166			283
Leonardo Global Solutions SpA	47			4	6	57
Leonardo International		22				22
So.Ge.Pa.Società Generale di Partecipazioni SpA	155					155
Other with unit amount lower than €mil. 10	9	11	84	2	3	109
Associates						
NHIndustries SAS			139			139
Eurofighter Jagdflugzeug Gmbh			67			67
Iveco - Oto Melara S.c.a.r.l.			10			10
Agustawestland Aviation Services LLC			13			13
Macchi Hurel Dubois SAS			15			15
Other with unit amount lower than €mil. 10			17			17
Joint Venture						
CONS. ATR GIE			60			60
Thales Alenia Space SAS		147	20			167
Joint Stock Company Helivert			32			32
Other with unit amount lower than €mil. 10		1	18	2	1	22
Consortiums						
Other with unit amount lower than €mil. 10		1	6			7
Companies subject to the control or considerable influence of the MEF						
Fintecna SpA			50			50
Other with unit amount lower than €mil. 10	1	1	25			27
Other related parties						
Other						0
Total	**329**	**193**	**828**	**42**	**15**	**1,407**
% against total for the period	***82.3%***	***87.3%***	***34.4%***	***11.2%***	***4.0%***	

RECEIVABLES at 31 December 2017 restated	**Non-current loans and receivables**	**Current loans and receivables**	**Trade receivables**	**Receivables from consolidated tax mechanism**	**Other current receivables**	**Total**
Subsidiaries						
Agustawestland Philadelphia Co			193			193
Agustawestland SpA			9	33	4	46
Agustawestland Ltd	14	9				23
W.S.K. PZL-Swidnik S.A.			17			17
Agustawestland Australia Pty Ltd		5	12			17
Agustawestland Malaysia SDN BHD			14			14
Selex ES SpA			17			17
Sistemi Dinamici SpA		12	1			13
Selex ES International Ltd		37	2			39
Leonardo MW Ltd	180	43	216			439
Leonardo Global Solutions SpA	50		3	3	7	63
So.Ge.Pa.Società Generale di Partecipazioni SpA	258	16	2			276
Other with unit amount lower than €mil. 10		2	46	3	1	52
Associates						
NHIndustries SAS			182			182
Eurofighter Jagdflugzeug Gmbh			59			59
Iveco - Oto Melara S.c.a.r.l.			11			11
Orizzonte - Sistemi Navali SpA			13			13
Macchi Hurel Dubois SAS			12			12
Other with unit amount lower than €mil. 10			28			28
Joint Venture						
CONS. ATR GIE			53			53
MBDA SAS			16		1	17
Thales Alenia Space SAS		105	26		1	132
Joint Stock Company Helivert			39			39
Telespazio SpA		2	11			13
Altre di importo unitario inferiore a €mil. 10			1		1	2
Consortiums						
Other with unit amount lower than €mil. 10		1	6			7
Companies subject to the control or considerable influence of the MEF						
ENAV SpA			17			17
Fintecna SpA			56			56
Poste Italiane SpA			6			6
Other with unit amount lower than €mil. 10			9			9
Other related parties						
Other with unit amount lower than €mil. 10			10			10
Total	**502**	**232**	**1,087**	**39**	**15**	**1,875**
% against total for the period	***83.4%***	***89.9%***	***38.9%***	***7.4%***	***2.9%***	

PAYABLES at 31 December 2018	**Current loans and borrowings**	**Trade payables**	**Payables from consolidated tax mechanism**	**Other current payables**	**Total**	**Guarantees**
Subsidiaries						
Agustawestland Malaysia SDN BHD		12			**12**	
Agustawestland Philadelphia Co		100			**100**	327
Agustawestland SpA		37		12	**49**	122
Leonardo MW Ltd	588	135		11	**734**	1,602
Alenia Aermacchi SpA			3			49
Ansaldobreda SpA			24	87	**111**	515
BredaMenarinibus SpA			1			13
Larimart SpA		10			**10**	
Gruppo DRS		12			**12**	700
Fata Logistic Systems SpA	13	40			**53**	2
Leonardo Global Solutions SpA	93	31	5		**129**	3
Leonardo US Aircraft, Inc		16			**16**	
Selex Service Management SpA (in liq.)				12	**12**	10
W.S.K. PZL-Swidnik S.A.		46			**46**	22
Selex ES SpA						3
Selex ES Inc.						5
Selex ES Australia PTY ltd						1
Selex ES Malaysia SDN BHD						35
Selex ES Elektronik Turkey AS						23
Leonardo Germany GmbH						107
Leonardo Technologies & Services Ltd						8
Selex ES International Ltd	47				**47**	22
So.Ge.Pa.Società Generale di Partecipazioni SpA			6	5	**11**	1
Other with unit amount lower than €mil. 10	17	45		2	**64**	
Associates						
Eurofighter Jagdflugzeug GmbH	27				**27**	
Elettronica SpA		12			**12**	
Gulf System Logistic Services Company WLL		62			**62**	
Industria Italiana Autobus SpA						6
Other with unit amount lower than €mil. 10		11		7	**18**	
Joint Venture						
CONS. ATR GIE				86	**86**	
MBDA SAS	612	24			**636**	47
Telespazio SpA						170
Rotorsim Srl		17			**17**	
Other with unit amount lower than €mil. 10	28	4		4	**36**	
Consortiums						
Other with unit amount lower than €mil. 10		2			**2**	
Companies subject to the control or considerable influence of the MEF		13		5	**18**	587
Total	**1,425**	**629**	**39**	**231**	**2,320**	**4,380**
% against total for the period	***74.6%***	***24.7%***	***2.9%***	***26.6%***		***28.4%***

PAYABLES at 31 December 2017 restated	**Current loans and borrowings**	**Trade payables**	**Payables from consolidated tax mechanism**	**Other current payables**	**Total**	**Guarantees**
Subsidiaries						
AgustaWestland Malaysia SDN BHD		18			**18**	
Agustawestland Philadelphia Co		178			**178**	**117**
Agustawestland SpA		16	2	11	**29**	**137**
Leonardo MW Ltd	888	185		7	**1,080**	**1,645**
Ansaldobreda SpA	1		46	89	**136**	**799**
Larimart SpA	1	16		1	**18**	
Gruppo DRS		13			**13**	**605**
Fata Logistic Systems SpA	7	38		1	**46**	**4**
Leonardo Global Solutions SpA	53	38		4	**95**	**3**
Leonardo US Aircraft Inc		16			**16**	
Selex Service Management SpA (in liq.)		5	1	8	**14**	**12**
W.S.K. PZL-Swidnik S.A.		46			**46**	**15**
Selex ES SpA	11	11	1	1	**24**	**3**
Selex ES GmbH		1			**1**	**114**
Sirio Panel SpA					**-**	**85**
So.Ge.Pa.Società Generale di Partecipazioni SpA			5	5	**10**	**1**
Other with unit amount lower than €mil. 10	9	26	3	5	**43**	**70**
Associates						
Eurofighter Jagdflugzeug Gmbh	20	11			**31**	
Other with unit amount lower than €mil. 10		17		9	**26**	
Joint Venture						
CONS. ATR GIE		2		111	**113**	
MBDA SAS	648	1		2	**651**	**47**
Telespazio SpA	30	1	1	6	**38**	**201**
Rotorsim srl		14			**14**	
Other with unit amount lower than €mil. 10		1			**1**	
Consortiums						
Other with unit amount lower than €mil. 10		2			**2**	
Companies subject to the control or considerable influence of the MEF	1	16		5	**22**	**603**
Other related parties						
Other		8			**8**	
Total	**1,669**	**680**	**59**	**265**	**2,673**	**4,461**
% against total for the period	***70.8%***	***24.2%***	***4.0%***	***17.8%***		***31.0%***

As regards the most important transactions we note that:

- Loans and borrowings from related parties include, in particular, the payable of 612 (€mil. 648 at 31 December 2017) to the Joint venture MBDA. Other current loans and borrowings reflect the net cash inflows realised by the Group companies during the year, converged on Leonardo as a result of the centralisation of the Group treasury resources.
- Current financial receivables of €mil. 193 (€mil. 232 at 31 December 2017) arise from financing activities conducted by Leonardo in favour of the Group companies, again as a result of this centralisation of Treasury resources;
- Other receivables and payables (equal to €mil. 57 and €mil. 270, respectively) including amounts deriving from the Group tax consolidation mechanism and from the Group VAT mechanism (€mil. 112

of payables), are recognised by the Leonardo S.p.a., the party having a legal relationship with the Tax Authority, against payables and receivables recognised by the companies that adopt the national tax consolidation and the Group VAT. Receivables and payables recognised by the Company did not have any impact on the income statement since these items were offset with balancing tax items in the balance sheet;

- Trade receivables equal to €mil. 828 (€mil. 1,087 at 31 December 2017), include receivables related to services rendered in the interests and in favour of the Group’s companies, also consistently with the direction and coordination activity.

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these Notes.

Below are all income statement transactions with the Leonardo’s related parties for the years 2018 and 2017:

Income statement transactions at 31 December 2018	Revenue	Otheroperating revenues and expenses expenses	Purchase and Service expenses	Financial income	Financial expenses
Subsidiaries					
Agustawestland SpA			21		
Agustawestland Ltd					
Agustawestland Philadelphia Co	110		117		
Agustawestland Australia Pty Ltd					
Agusta Aerospace Services SA	19				
Agustawestland Malaysia SDN BHD	31		19		
Fata Logistic Systems SpA			81		
Leonardo Global Solutions SpA			170		
Leonardo MW Ltd	237		187		
Larimart SpA			15		
Selex Galileo inc			10		
W.S.K. PZL-Swidnik S.A.	20		144		
Other with unit amount lower than €mil. 10	64	7	65	20	5
Associates					
Eurofighter Jagdflugzeug GmbH	510		131		
Elettronica SpA			21		
Gulf System Logistic Services Company WLL			224		
NHIndustries SAS	304				
Orizzonte Sistemi Navali S.p.A.	138				
Iveco-Oto Melara Scarl	62				
Macchi Hurel Dubois SAS	58				
Agustawestland Aviation Services LLC	17				
Advanced Air Traffic Syst. SHD BHD	29				
Other with unit amount lower than €mil. 10	17		14		1
Joint Venture					
CONS. ATR GIE	320		44		
MBDA SAS	44		42		
Telespazio SpA					
Thales Alenia Space France Sas	64				
Rotorsim Srl			21		
Joint Stock Company Helivert	10				
Other with unit amount lower than €mil. 10	3	5	5	1	3
Consortiums					
Cons. G.e.i.e. Eurotorp					
Other with unit amount lower than €mil. 10	10		4		
Companies subject to the control or considerable influence of the MEF					
Enel SpA			33		
Fintecna SpA	77				
Enav SpA	17				
Poste Italiane SpA	26				
Other with unit amount lower than €mil. 10	24	1	6	6	
Other related parties					
Other					
Total	**2,211**	**13**	**1,374**	**27**	**9**
% against total for the period	***27.4%***	***n.a.***	***18.2%***	***5.3%***	***2.3%***

Income statement transactions at 31 December 2017 restated	Revenue	Otheroperating revenues and expenses expenses	Purchase and Service expenses	Financial income	Financial expenses
Subsidiaries					
Agustawestland Philadelphia Co	118	5	120		
Agustawestland Australia Pty Ltd	10		2		
Agusta Aerospace Services SA	12		11		
Agustawestland Malaysia SDN BHD	27		19		
Fata Logistic Systems SpA			76		
Leonardo Global Solutions SpA	1		167		
Leonardo MW Ltd	261	3	157	10	4
Larimart SpA			15		
W.S.K. PZL-Swidnik S.A.	27		143		
Other with unit amount lower than €mil. 10	31		59	15	1
Associates					
Eurofighter Jagdflugzeug GmbH	621		207		
NHIndustries SAS	275				
Orizzonte Sistemi Navali S.p.A.	176		1		
Iveco-Oto Melara Scarl	70		3		1
Macchi Hurel Dubois SAS	53				
Agustawestland Aviation Services LLC	14				
Advanced Air Traffic Syst. SHD BHD	17				
Other with unit amount lower than €mil. 10	26		14		
Joint Venture					
CONS. ATR GIE	236		7		
MBDA SAS	36		3		2
Telespazio SpA	2		1	1	
Thales Alenia Space France Sas	57		2		
Rotorsim Srl	2	3	22		
Other with unit amount lower than €mil. 10					
Consortiums					
Cons. G.e.i.e. Eurotorp	30				
Other with unit amount lower than €mil. 10	2		2		
Companies subject to the control or considerable influence of the MEF					
Enel SpA	3		74		
Fintecna SpA	66				
Enav SpA	31				
Poste Italiane SpA	32				
Other with unit amount lower than €mil. 10	10	1	2	9	
Other related parties					
Other	10		8		
Total	**2,256**	**12**	**1,115**	**35**	**8**
% against total for the period	***28.2%***	***n.a.***	***15.4%***	***4.9%***	***1.4%***

"Financial income (expense)" relates to interest on financial receivables and payables and commissions which mainly arise from the centralisation of the management of Group treasury resources within Leonardo. In carrying out its treasury management functions, the Company acts as the main counterparty, always at arm's length, for the financial assets and liabilities of the subsidiaries within the scope of such centralisation.

34. FINANCIAL RISK MANAGEMENT

Leonardo S.p.a. is exposed to financial risks associated with its operations, specifically related to these types of risks:

- *interest-rate risks*, related to exposure to financial instruments;
- *exchange-rate risks*, related to operations in currencies other than the reporting currency;
- *liquidity ris*ks, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from normal commercial transactions or financing activities.

The Company closely and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Below is the main information related to the abovementioned risks. However, for further details reference is made to the section on "*Financial risk management*" of the consolidated financial statements.

Interest rate risk

Leonardo is exposed to interest rate risk on borrowings. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related borrowing costs.

To that regard and with reference to loans and borrowings equal to €mil. 4,965 at 31 December 2018 the fixed-rate percentage amounted to around 58%, while the floating-rate percentage is around 42%.

At 31 December 2018 the transactions were the following:

- *options* for €mil. 200 (CAP at 4.20% and Knock out at 5.60% in relation to the 6-month Euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group's strategy providing for a return to the floating rate and of the levels of said rate becoming unfavourable;
- *floating/fixed rate interest rate swap for €mil. 300* relating to the EIB loan in an equal amount, which guarantees a fixed rate of 0.82% in addition to the spread applied to the loan.

The detail of the main interest rate swaps at 31 December 2018 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2018	Changes			Fair value 31.12.2018
	2018	2017 restated			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	-	200	Bond 2018	1	-	(1)	-	-
Options	200	200	Bond 2025	(3)	-	-	-	(3)
IRS variabile/fisso	300	-	BEI 2025	-	-	-	(3)	(3)
Total notional	**500**	**400**		**(2)**	**-**	**(1)**	**(3)**	**(6)**

	Notional		Underlying (maturity)	Fair value 01.01.2017 restated	Changes			Fair value 31.12.2017 restated
	2017 restated	2016			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	1	-	-	-	1
Options	200	200	Bond 2025	(3)	-	-	-	(3)
Total notional	**400**	**400**		**(2)**	**-**	**-**	**-**	**(2)**

The table below shows the effects of the sensitivity analysis for 2018 and 2017 on IRS at 31 December 2018 deriving from the 50-basis-point shift in the interest rate curve:

Effect of shift of interest rate curve	**31 December 2018**		**31 December 2017 restated**	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	-	-	5	(5)
Equity (*)	10	(9)	4	(5)

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

Exchange rate risk

Exchange-rate risk management for the Group is governed by the directive issued by Leonardo S.p.a., the purpose of which is to standardise the management criteria based on industrial-not speculative-strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency trading positions.

The Company hedges its own risks related to short-term financial payables and receivables denominated in currencies other than the euro and enters into foreign exchange transactions in the interest of other Group companies totalling €mil. 5,176 (notional amount) (substantially in line with the previous year), as detailed in the following table:

	Notional 2018			**Notional 2017 restated**		
	Sales	**Purchases**	**Total**	**Sales**	**Purchases**	**Total**
Swap and forward transactions	2,373	2,803	5,176	2,326	3,327	5,653

As a result of the financial centralisation, the cash flows of the Group's foreign companies were recharged in several ways to Leonardo through intercompany transactions mainly denominated in GBP and USD. For this type of risks, the income statement is hedged using mirror transactions of payables/receivables to/from third parties in the currency of intercompany items or through specific exchange-rate derivatives, classified as fair-value hedges. The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2018				31 December 2017 restated			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges	606	158	783	1,067	-	-	-	-
Within 1 year	418	-	139	311	1,071	262	570	1,295
2 to 3 years	377	-	23	98	417	3	92	579
4 to 9 years	-	-	-	-	31	-	63	-
Total	1,401	158	945	1,476	1,519	265	725	1,874
Hedging transactions which cannot be classified as hedging transactions	224	3	224	3	420	8	420	8
Total transactions	**1,625**	**161**	**1,169**	**1,479**	**1,939**	**273**	**1,145**	**1,882**

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the pound sterling and the US dollar, assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2018 (1.1450 and 0.89453, respectively) and at 31 December 2017 (1.19930 and 0.88723, respectively).

	31 December 2018				31 December 2017 restated			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	4	(5)	(1)	1	2	(2)	4	(4)
Equity (*)	(29)	32	49	(49)	(26)	30	27	(24)

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

Liquidity risk

Leonardo is exposed to liquidity risk, i.e. the risk of not being able to finance the prospective requirements arising from usual business and investment operations, as well as those connected with the volatility of the relevant markets, as well as with commercial contracts at risk of renegotiation or cancellation. Furthermore, we must consider the effects of the reorganisation plan, specifically with regard to the financial outlays relating to efficiency-improvement processes. Finally, there is the risk of not being able to repay or refinance debts at the expiry dates.

In order to face the series of above-mentioned risks, Leonardo has adopted a series of instruments aimed at optimizing the management of financial resources by resorting to bank and bond transactions.

Leonardo has an EMTN programme (Euro Medium Term Program*)* in place, under which all the bonds have been issued which are currently outstanding for Leonardo on the Euromarket and which had been used, at 31 December 2018, for a total amount of €mil. 2,705 compared to its total amount of €mil. 4,000.

Furthermore, Leonardo has a RCF (Revolving Credit Facility) amounting to €mil. 1,800 expiring in 2023, to meet its requirements for the financing of the Group's core business operations.

During 2018, €mil. 46 was repaid of the principal portion of the EIB loan, which was signed by the Company in 2010.

Credit risk

The Company is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties.

Regarding commercial transactions, the most significant programmes are made with public sector contractors or contractors belonging to public institutions, mainly in the Euro area, in the UK, the US and the Middle East. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to highlight and mitigate insolvency risks, if any. While solvency is guaranteed with public-entity customers, collection times are longer (in some countries they are significantly longer) than for other business sectors, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. When possible, the Company hedges against potential defaults of its customers by entering into insurance policies with leading Export Credit Agencies (ECAs) internationally and with major Italian agencies (eg. SACE).

The types of contracts entered into provide for sizeable retention money withheld by customers, as well as back-to-back clauses in case of sub-supplies. All this inherently extends the times for collection of outstanding receivables.

Furthermore, the Company operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2018, we note the following relations with countries exposed to credit risk according to the international institutions (SACE):

€mil.	Libia	Zambia	Pakistan	Altri paesi	Totale
Assets	5	-	112	20	**137**
Liabilities	(15)	(31)	(18)	(6)	**(70)**
Net exposure	**(10)**	**(31)**	**94**	**14**	**67**

Finally the receivables related to these agreements, as reported in "Leonardo and risk management" in the Report on Operations, might not be paid, renegotiated or written off.

The table below summarises trade receivables at 31 December 2018 and 2017 (values in €bil.):

	31 December 2018	31 December 2017 restated
Portion due	1.0	1.6
- of which: for more than 12 months	*0.4*	*0.8*
Portion not yet due	1.4	1.2
Total trade receivables	**2.4**	**2.8**

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.

Both trade and financial receivables are impaired individually if they are significant.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy of financial assets and liabilities of Leonardo S.p.a. measured at fair value. The fair value of derivatives (classified in other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called "Level 2"). In particular, the inputs used for the fair value measurement are the foreign exchange rate and interest rate observable on the market (spot exchange rates and forwards) and, exclusively in relation to options, the volatility of these inputs.

	31 December 2018			31 December 2017 restated		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other assets	185	-	185	226	-	226
Other current liabilities	90	-	90	158	-	158

35. DISCLOSURE UNDER LAW 124/2017

The Company, having considered the subjective and objective scope of application of the regulation under article 1, paragraphs 125 and 126, of Law no. 124/2017, concluded that there are no conditions to publish any data.

36. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of Leonardo S.p.a. are reported in Note 37 to the Consolidated Financial Statements.

37. SHARE-BASED PAYMENTS

As largely reported in the section "Leonardo and Sustainability" of the report on operations of the consolidated financial statements, in order to implement an incentive and retention system for the Group's employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2018 to €mil. 9 (€mil. 9 in 2017).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group Net Debt for 25% and ROS for 25%) was equal to € 13.12 for the first plan (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017), to €9.83 (the value of Leonardo shares at the grant date of 31 July 2016) with reference to the second three-year cycle (2016-2018) and to € 14.76 (the value of Leonardo shares at the grant date of 31 July 2017) with reference to the third three-year cycle (2017-2019); it was equal to € 10,25 for the second plan (the value of Leonardo shares at the grant date of 31 July 2018) with reference to the first three-year cycle (2018-2020).

Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value ("adjusted fair value"). The adjusted fair value, calculated using the "Monte Carlo" method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90, for the first plan, with reference to the first three-year cycle (2015-2017), to € 3.88 with reference to the second three-year cycle (2016-2018) and to € 8.55 with reference to the third three-year cycle (2017-2019), while, with reference to the three-year cycle of the second plan (2018-2020) was equal to € 3.51.

The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;
- the expected volatility of the price of Leonardo shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;

- correlation coefficients between Leonardo and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis

With reference to the co-investment plan, during 2018, in respect of the bonus shares ("matching shares") the requirements for the award of the rights have been fulfilled in relation to the first cycle (56,301 shares delivered).

38. PROPOSAL OF SHAREHOLDERS' MEETING

Dear Shareholders,

The 2018 financial statements, which we submit for your approval, close with a net profit of € 283,800,630.37.
In light of the foregoing, we submit the following proposed resolution for your approval:

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

- considering the Report of the Board of Directors;
- considering the Report of the Board of Statutory Auditors;
- having examined the financial statements at 31 December 2018;
- having acknowledged the report of KPMG S.p.A.

resolves

- to approve the Directors' Report on operations and the financial statements of Leonardo - Società per azioni at 31 December 2018;
- to approve the proposal posed by the Board of Directors of allocating the 2018 net profit of Euro 283,800,630.37 as follows:
- Euro 14,190,031.52 equal to 5% of the net profit, to legal reserve;
- Euro 0.14 as the dividend to be paid - before tax, if any – starting from 22 May 2019, with the ex-dividend date of coupon no. 10 falling on 20 May 2019 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to article 83-terdecies of Legislative Decree no. 58 of 24 February, 1998 and article 2.6.6, paragraph 2, of the Rules of the markets organised and managed by Borsa Italiana S.p.A.) falling on 21 May 2019; the foregoing is with reference to each ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, without prejudice to the regime of those actually assigned in the current financial year based on the incentive plans in force;

- the residual as retained earnings.”

Appendices

Appendix no.1 (€ mil) - EQUITY INVESTMENTS

		31.12.2017 restated											31.12.2018		
		Cost	Impairment	Carrying amount	Transfers/acquisition of business unit	Acquis./Subscriptions /payments of capital	Disposal	Reclass.	Stock grant	Financial Revalut./Impairment	Capital replenishment	Other changes	Cost	Impairment	Carrying amount
					(a)		(b)	(c)				(d)			
%	**Equity investments in subsidiaries**														
100	AGUSTAWESTLAND HOLDING LTD	58	-	58								(55)	3	-	3
100	AGUSTAWESTLAND PHILADELPHIA CORP	217	-	217									217	-	217
100	ANSALDOBREDA SpA	509	(492)	17									509	(492)	17
60	LARIMART SpA	14	-	14	-	-	-	-		-	-	-	14	-	14
100	LEONARDO GLOBAL SOLUTIONS SpA	570		570									570		570
100	LEONARDO HISPANIA SAU (**)	5	-	5		3	(8)						-	-	-
100	LEONARDO INTERNATIONAL SpA					142							142		142
100	LEONARDO MW Ltd	2,804		2,804									2,804		2,804
100	LEONARDO US HOLDING, Inc	3,234	(1,290)	1,944									3,234	(1,290)	1,944
100	SELEX ES INTERNATIONAL LTD	131	-	131						(55)		(22)	109	(55)	54
100	SO.GE.PA.- Società Generale di Partecipazioni SpA	28	(28)	-		22					12		50	(16)	34
67	TELESPAZIO SpA (*)	171	-	171									171	-	171
98	W.S.K. PZL-SWIDNIK S.A.	142	-	142									142	-	142
	controllate di valore inferiore a €mil. 1	1		1									-	-	-
		7,884	**(1,810)**	**6,074**	**-**	**167**	**(8)**	**-**	**-**	**(55)**	**12**	**(77)**	**7,965**	**(1,853)**	**6,112**
	Equity investments in associates														
30	AGUSTAWESTLAND AVIATION SERVICES LLC	4		4									4	-	4
50	AMSH BV (*)	873	(392)	481									873	(392)	481
26	AVIO SpA	102	(31)	71									102	(31)	71
50	CONS. ATR GIE	232	-	232	-	-	-	-		-	-	-	232	-	232
31	ELETTRONICA SpA	54	(47)	7									54	(47)	7
21	EUROFIGHTER JAGDFLUGZEUG GmbH	9	-	9	-	-	-	-		-	-	-	9	-	9
24	EUROFIGHTER SIMULATION SYSTEMS GmbH	2	-	2	-	-	-	-		-	-	-	2	-	2
11	EUROTECH SPA	18	(12)	6									18	(12)	6
26	INDIAN ROTORCRAFT LTD	2	(2)	-			(2)			2			-	-	-
30	INDUSTRIA ITALIANA AUTOBUS SpA	-	-	-				2		(2)			2	(2)	-
40	JIANGXI CHANGHE AGUSTA HELICOPTERS CO	2		2									2	-	2
25	LIBYAN ITALIAN ADVANCED TECH. Co.	2	(2)	-									2	(2)	-
32	NH INDUSTRIES SAS	1		1									1	-	1
49	ORIZZONTE SISTEMI NAVALI SpA	16	-	16	-	-	-	-		-	-	-	16	-	16
50	ROTORSIM S.R.L.	28		28									28	-	28
33	THALES ALENIA SPACE SAS (*)	546	(145)	401		-							546	(145)	401
	Altre imprese di valore inferiore a €mil. 1	2	-	2								(1)	1		1
		1,893	**(631)**	**1,262**	**-**	**-**	**(2)**	**2**	**-**	**-**	**-**	**(1)**	**1,892**	**(631)**	**1,261**
	Other companies														
99	CONS. CREO	1	(1)	-		-				-	-		1	(1)	-
12	INDUSTRIA ITALIANA AUTOBUS SpA	1	-	1		1		(2)					-	-	-

3	ISTITUTO TRECCAN I SPA	2	-	2									2		2
15	PANAVIA AIRCRAFT GMBH	3	-	3	-	-	-	-		-	-	-	3	-	3
1	VITROCISET S.p.A.	2	(1)	1	-	-	-	-		-	-	-	2	(1)	1
	Altre imprese di valore inferiore a €mil. 1	2	-	2									2	-	2
		11	**(2)**	**9**	**-**	**1**	**-**	**(2)**	**-**	**-**	**-**	**-**	**10**	**(2)**	**8**
	TOTAL EQUITY INVESTMENTS	**9,788**	**(2,443)**	**7,345**	**-**	**168**	**(10)**	**-**	**-**	**(55)**	**12**	**(78)**	**9,867**	**(2,486)**	**7,381**

	Subsidiaries	**Associates**	**Other companies**
(a) of which			
Cost			
Impairment losses			
(b) of which			
Cost	8	2	
Impairment losses			
	8	2	
(c) of which			
Cost		2	(2)
Impairment losses			
	0	2	(2)
(d) of which			
Cost	(77)	(1)	
Impairment losses			
	(77)	(1)	0

(*): joint control
(***): company name changed from "OTO MELARA IBERICA SAU" to "LEONARDO HISPANIA SAU"

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

Name	Office	Reporting date	Share capital (total)	Currency	Equity	Total Assets	Total Liabilities	Prifit (loss)	Ownership	Net equity in financial statements	Carrying amount
Equity investments in subsidiaries											
AGUSTAWESTLAND HOLDING LTD	Yeovil - UK	31/12/18	500,000	GBP	3.0	3.0	0.0	7.0	100.0	3.0	3
AGUSTAWESTLAND PHILADELPHIA CORP	Philadelphia - USA	31/12/18	121,200,000	USD	193.0	719.0	526.0	(6.0)	100.0	192.0	217
ANSALDOBREDA SpA	Napoli (Italia)	31/12/18	10,000,000		43.0	278.0	235.0	2.0	100.0	43.0	17
LARIMART SpA	Roma (Italia)	31/12/18	2,500,000		22.0	36.0	14.0	3.0	60.0	13.0	14
LEONARDO GLOBAL SOLUTIONS SpA	Roma (Italia)	31/12/18	49,945,983		603.0	771.0	168.0	10.0	100.0	603.0	570
LEONARDO INTERNATIONAL SpA	Roma (Italia)	31/12/18	1,000,000		141.0	169.0	28.0	(1.0)	100.0	141.0	142
LEONARDO MW Ltd	Basildon (UK)	31/12/18	314,500,100	GBP	1,879.0	2,309.0	430.0	214.0	100.0	1,879.0	2,804
LEONARDO US HOLDING Inc. (**)	Wilmington (USA)	31/12/18	10	USD	2,155.0	2,632.0	477.0	14.0	100.0	2,155.0	1,944
SELEX ES INTERNATIONAL LTD	Basildon (UK)	31/12/18	100	GBP	54.0	56.0	2.0	0.0	100.0	54.0	54
SISTEMI DINAMICI SpA	Pisa	31/12/18	200,000		0.0	29.0	29.0	0.0	100.00	0.0	0
SO.GE.PA.- Società Generale di Partecipazioni SpA	Roma (Italia)	31/12/18	1,000,000		39.0	233.0	195.0	5.0	100.0	39.0	34
TELESPAZIO SpA	Roma (Italia)	31/12/18	50,000,000		226.0	511.0	285.0	21.0	67.00	151.4	171
W.S.K. PZL-SWIDNIK SA	Swidnik - Polonia	31/12/18	307,642,000	PLN	141.0	235.0	94.0	30.0	98.0	138.8	142
WIN BLUE WATER SERVICES PVT LTD (in Liq.)	Nuova Delhi (IN)	31/12/18	8,534,800	INR	0.1	0.1	0.0	(0.1)	100.0	0.1	0
WORLD'S WING SA	Ginevra (Svizzera)	31/12/18	811,876	CHF	(135.0)	0.0	(135.0)	0.0	100.0	0.0	0
											6,112
Equity investments in associates											
A4ESSOR S.A.S.	Cedex - Francia	31/12/17	100,000		0.0	0.0	0.0	0.0	23.10	0.0	**0**
ADVANCED MALE AIRCRAFT LLC	Al Ain (Emirati Arabi)	n.d.	n.d.	SED	n.d.	n.d.	n.d.	n.d.	49.00	nd	**0**
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi City (Emirati Arabi)	31/12/18	58,010,000	AED	16.0	34.0	18.0	0.0	30.00	4.8	**4**
AMSH BV	Amsterdam (Olanda)	31/12/17	36,296,316		953.0	999.0	46.0	119.0	50.00	476.5	**481**
AVIO SpA	Torino (Italia)	31/12/17	90,964,213		267.0	728.0	461.0	13.0	25.88	69.1	**71**
CONSORZIO GIE ATR	Tolosa (Francia)	31/12/17	0	USD	262.0	1,125.0	863.0	254.0	50.00	131.0	**232**
ELETTRONICA SpA	Roma (Italia)	31/12/17	9,000,000		98.0	583.0	485.0	19.0	31.33	30.7	**7**
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH (in Liq)	Hallbergmoos (DE)	31/12/17	255,646		0.0	0.0	0.0	0.0	21.00	0.0	**0**
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germania)	31/12/17	639,114.00		29.0	1,166.0	1,137.0	5.0	21.00	6.1	**9**
EUROFIGHTER SIMULATION SYSTEMS GmbH	Hallbergmoos (Germania)	31/12/17	260,000		3.0	19.0	16.0	1.0	24.00	1.0	**2**
EUROMIDS SAS	Paris - Francia	31/12/17	40,500		3.0	25.0	22.0	0.0	25.00	1.0	**1**
EUROSYSNAV SAS (in Liq.)	Parigi (Francia)	31/12/17	40,000		3.0	4.0	0.0	0.0	50.00	1.5	**0**
EUROTECH SpA	Udine (Italia)	31/12/17	8,878,946		109.0	128.0	19.0	(4.0)	11.08	12.1	**6**
IND. A. E M. R. PIAGGIO SpA(Amm.strd)	Genova (Italia)	31/12/13	103,567		n.d.	n.d.	n.d.	n.d.	30.98	n.d.	**0**
INDUSTRIA ITALIANA AUTOBUS SpA	Roma (Italia)	31/12/16	50,000		8.0	91.0	83.0	0.0	30.00	2.4	**0**
IVECO OTO MELARA S.C.R.L.	Roma (Italia)	31/12/17	40,000		0.0	32.0	32.0	0.0	50.00	0.0	**0**
JIANGXI CHANGHE AGUSTA HELICOPTERS CO	Jingdezhen (Cina)	31/12/18	48,403,000	CNY	5.0	7.0	2.0	0.0	40.00	2.0	**2**
JOINT STOCK COMPANY HELIVERT	Mosca (Russia)	31/12/18	325,010,000	RUB	(10.0)	34.0	44.0	(4.0)	50.00	(5.0)	**0**
LIBYAN ITALIAN ADVANCED TECH. Co.	Tripoli (Libia)	31/12/11	13,568,000	LYD	5.0	28.0	24.0	(4.0)	25.00	1.3	**0**
MACCHI HUREL DUBOIS SAS	Plaisir (Francia)	31/12/18	100,000		0.0	32.0	32.0	0.0	50.00	0.3	**0**
NH INDUSTRIES SAS	Aix en Provence - (Francia)	31/12/18	306,000		7.0	7,483.0	7,476.0	1.0	32.0	2.2	**1**
ORIZZONTE SISTEMI NAVALI S.P.A.	Genova (Italia)	31/12/17	20,000,000		35.0	2,337.0	2,302.0	0.0	49.00	17.0	**16**
ROTORSIM Srl	Sesto Calende (Italia)	31/12/18	9,800,000		72.0	94.0	22.0	5.0	50.00	36.0	**28**
THALES ALENIA SPACE SAS	Parigi (Francia)	31/12/16	918,037,500		1,188.0	1,452.0	264.0	198.0	33.00	392.0	**401**
											1,261
Consortiums											
CONS RE.MEDIA	Milano (Italia)	31/12/17	1,554,976		5.0	18.0	14.0	2.0	0.4	0.0	0
CONSORZIO CALS ITALIA (in Liq.)	Roma (Italia)	31/12/18	55,548		0.0	0.0	0.0	0.0	16.7	0.0	0
CONSORZIO CONSAER	Napoli (Italia)	31/12/17	211,123		0.0	2.0	2.0	0.0	65.4	0.0	0

CONSORZIO CREO	L'Aquila (Italia)	31/12/18	774,685		0.0	3.0	2.0	0.0	99.0	0.0	0
CONSORZIO DHITECH SCARL	Lecce (Italia)	31/12/17	231,800		1.0	8.0	7.0	0.0	2.8	0.0	0
CONSORZIO E-SPAT	Roma (Italia)	31/12/18	10,000		0.0	2.0	2.0	0.0	92.0	0.0	0
I.M.A.S.T. - DISTRETTO SULL`INGEGNERIA DEI MATERIALI	Napoli (Italia)	31/12/17	689,000		1.0	18.0	17.0	0.0	6.5	0.0	0
CONSORZIO IMPRENDITORI GIUGLIANO ASI	Giugliano (Italia)	31/12/17	50,000		0.0	1.0	1.0	0.0	16.0	0.0	0
CONSORZIO ISICT	Genova (Italia)	31/12/18	42,614		0.0	0.0	0.0	0.0	16.7	0.0	0
CONSORZIO KIDS	Roma (Italia)	31/12/18	100,000		0.0	0.0	0.0	0.0	90.0	0.0	0
CONS. PER IL CONTRATTO DI PROGRAMMA PER L' AREA AQUILANA	L'Aquila (Italia)	31/12/14	n.d.		0.0	0.0	0.0	0.0	7.1	0.0	0
CONSORZIO PER L'ENERGIA VARESE	Varese (Italia)	31/12/17	83,240		0.0	0.0	0.0	0.0	0.6	0.0	0
CONSORZIO S3LOG	Roma (Italia)	31/12/18	600,000		1.0	7.0	6.0	0.0	60.0	1.0	1
CONSORZIO TECHNOVA SCARL	Napoli (Italia)	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	13.8	n.d.	0
CONSORZIO TESSERA	Venezia (Italia)	31/12/17	40,000		0.0	1.0	1.0	0.0	90.0	0.0	0
CONSORZIO TICOM	Campi Bisenzio (Italia)	31/12/18	10,000		0.0	0.0	0.0	0.0	100.0	0.0	0
CONSORZIO TOP IN SCARL	Napoli (Italia)	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	11.4	n.d.	0
EUROTORP G.E.I.E	Sophia Antipolis (FR)	31/12/16	0		0.0	0.0	0.0	1.4	50.0	0.0	0
IAMCO-INT. AEROSPACE MANAG. COMPANY SCRL	Venezia (Italia)	31/12/17	208,000		1.0	10.0	9.0	0.0	25.0	0.3	0
TECNESUD CONSORZIO TECNOLOGICO DEL SUD (in Liq.)	Lamezia Terme (Italia)	31/12/18	70,400		0.0	0.0	0.0	0.0	50.0	0.0	0
											1
Other companies											
CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA SpA	Genova (Italia)	31/12/17	1,000,000		4.0	16.0	13.0	1.0	2.6	0.0	0
CIRA CENTRO ITALIANO RICERCHE AEROSPAZIALI S.C.P.A.	Capua (Italia)	31/12/17	985,224		109.0	150.0	41.0	0.0	12.0	12.7	0
DISTRETTO AEROSPAZIALE DELLA CAMPANIA SCARL	Capua (Italia)	31/12/17	737,500		1.0	3.0	2.0	0.0	6.1	0.1	0
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE S.c.r.l	La Spezia (Italia)	31/12/17	1,140,000		1.0	18.0	17.0	0.0	11.8	0.1	0
DISTRETTO TECNOLOGICO AEROSPAZIALE Scarl	Brindisi (Italia)	31/12/17	150,000		1.0	3.0	2.0	0.0	17.0	0.2	0
EUROPEAN ORGANISATION FOR SECURITY S.C.R.L.	Bruxelles (Belgio)	31/12/17	86,000		0.0	1.0	1.0	0.0	2.4	0.0	0
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH (in Liq.)	Ottobrunn (Germania)	12/11/15	264,000		0.0	3.0	3.0	0.0	18.9	0.0	0
ISTITUTO DELLA ENCICLOPEDIA ITALIANA TRECCANI SpA	Roma (Italia)	31/12/17	62,724,105		n.d.	n.d.	n.d.	n.d.	3.3	n.d.	2
PANAVIA AIRCRAFT GMBH	Hallbergmoos (Germania)	31/12/17	6,437,165		50.0	163.0	113.0	8.0	15.0	7.5	4
SIIT SOCIETA' CONSORTILE PER AZIONI	Genova (Italia)	31/12/17	600,000		0.6	1.8	1.8	0.0	12.1	0.0	0
SECBAT SARL	Saint - Cloud (Francia)	31/12/17	32,000		1.0	31.0	30.0	0.0	13.6	0.1	0
UTM SYSTEMS & SERVICES S.R.L.	Roma (Italia)	31/12/18	10,000		0.0	0.0	0.0	0.0	60.0	0.0	0
VITROCISET S.p.A.	Roma (Italia)	31/12/17	24,500,000		43.0	224.0	181.0	0.0	1.5	1.0	1
											7
	TOTAL EQUITY INVESTMENTS										**7,381**

	31.12.2017 restated							31.12.2018		
	Residual nominal amount	Impairment	Carrying amount	Disbursement	Reclassifications	Reimbursements	Other changes	Residual nominal amount	Impairment	Carrying amount
Receivables	100		100		(29)	1	1	71		71
- Receivables from subsidiaries	502		502	9	(42)	140	-	329		329
Total receivables	**602**	**-**	**602**	**9**	**(71)**	**141**	**1**	**400**	**-**	**400**

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

	31.12.2018 Amounts due			31.12.2017 restated Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	**Total**	from 2nd to 5th subsequent year	beyond 5th year	**Total**
Receivables	37	9	46	43	7	50
Other non current receivables from related parties	24	23	47	50	-	50
						-
Loans and receivables	25	-	25	50	-	50
Non-current loans and receivables from relates parties	282	-	282	452	-	452
Other non current assets	142	79	221	83	56	139
Total receivables and non-current assets	**510**	**111**	**621**	**678**	**63**	**741**

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

	31.12.2018			31.12.2017 restated		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Receivables	-	46	46	1	49	50
Other non current receivables from related parties	-	47	47	-	50	50
Loans and receivables	-	25	25	-	50	50
Non-current loans and receivables from relates parties	117	165	282	194	258	452
Other non current assets	-	221	221	-	139	139
Total receivables and other non-current assets	**117**	**504**	**621**	**195**	**546**	**741**
Deferred tax assets	-	769	769	-	691	691
Total non-current assets	**117**	**1,273**	**1,390**	**195**	**1,237**	**1,432**
Loans and receivables	-	28	28	2	24	26
Loans and receivables form related parties	12	181	193	95	137	232
	12	**209**	**221**	**97**	**161**	**258**
Trade receivables	481	1,096	1,577	423	1,285	1,708
Trade receivables from related parties	283	545	828	414	673	1,087
	764	**1,641**	**2,405**	**837**	**1,958**	**2,795**
Other assets	22	296	318	11	461	472
Other receivables from related parties	1	56	57	-	54	54
	23	**352**	**375**	**11**	**515**	**526**
Income tax receivables	-	42	42	-	122	122
Cash and cash equivalents	132	1,489	1,621	204	1,361	1,565
Total current assets	**931**	**3,733**	**4,664**	**1,149**	**4,117**	**5,266**

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

	31.12.2018					31.12.2017 restated				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Receivables	46	-	-	-	46	50	-	-	-	50
Other non current receivables from related parties	47	-	-	-	47	50	-	-	-	50
Loans and receivables	25	-	-	-	25	50	-	-	-	50
Non-current loans and receivables from relates parties	165	117	-	-	282	258	194	-	-	452
Other non current assets	221	-	-	-	221	139	-	-	-	139
Total receivables and other non-current assets	**504**	**117**	**-**	**-**	**621**	**547**	**194**	**-**	**-**	**741**
Deferred tax assets	769	-	-	-	769	691	-	-	-	691
Total non-current assets	**1,273**	**117**	**-**	**-**	**1,390**	**1,238**	**194**	**-**	**-**	**1,432**
Loans and receivables	25	-	-	3	28	22	-	-	4	26
Loans and receivables form related parties	40	145	2	6	193	33	192	1	6	232
	65	**145**	**2**	**9**	**221**	**55**	**192**	**1**	**10**	**258**
Trade receivables	296	426	212	643	1,577	676	404	105	523	1,708
Trade receivables from related parties	125	553	100	50	828	138	616	206	127	1,087
	421	**979**	**312**	**693**	**2,405**	**814**	**1,020**	**311**	**650**	**2,795**
Other assets	269	24	-	25	318	441	19	-	12	472
Other receivables from related parties	56	-	1	-	57	54	-	-	-	54
	325	**24**	**1**	**25**	**375**	**495**	**19**	**-**	**12**	**526**
Income tax receivables	42	-	-	-	42	122	-	-	-	122
Cash and cash equivalents	1,576	1	-	44	1,621	1,482	3	-	80	1,565
Total current assets	**2,429**	**1,149**	**315**	**771**	**4,664**	**2,968**	**1,234**	**312**	**752**	**5,266**

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

Nature/descriptiom	Amount	Possible use	Distributable portion
Share capital (*)	2,495		
Revenue reserves			
Legal reserve	285	B	
Extraordinary reserve	391	A,B,C	391
Reserve for actuarial gains (losses) in equity	(59)	B	
Cash flow hedge reserve	(89)	B	
Stock grant Reserve	19	B	
Reserve for merger and demerger surplus	723	A,B,C	723
Retained earnings and other reserve	1,642	A,B,C	1,490
Total	5,407		2,604
Net profit/(loss) for the period	284	A,B,C	270
Constraint ex art. 2426 paragraph 1 no. 5 Civil Code			(2,028)
Total equity	5,691		846

(*) less treasury shares for € mil. 34 and costs for capital increase for € mil. 19

Keys:

A: for capital increase

B: for loss coverage

C: for distribution to shareholders

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

	31.12.2018			**31.12.2017 restated**		
	Amounts due			**Amounts due**		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Other non-current liabilities	475	232	707	503	308	811
Loans and borrowings (non current)	1,963	1,093	3,056	1,270	1,648	2,918
Total non-current liabilities	**2,438**	**1,325**	**3,763**	**1,773**	**1,956**	**3,729**

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

	31.12.2018			31.12.2017 restated		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Loans and borrowings (non current)	-	3,056	3,056	324	2,594	2,918
Non-current loans and borrowings to related parties	-	-	-	-	-	-
	-	3,056	3,056	324	2,594	2,918
Deferred tax assets	-	91	91	-	91	91
Other non-current liabilities	-	707	707	-	811	811
Total non-current liabilities	**-**	**3,854**	**3,854**	**324**	**3,496**	**3,820**
Loans and Borrowings	311	173	484	4	685	689
Related-parties loans and borrowings	695	730	1,425	1,006	663	1,669
	1,006	903	1,909	1,010	1,348	2,358
Trade payables	328	1,585	1,913	494	1,638	2,132
Trade payables to related parties	357	272	629	390	290	680
	685	1,857	2,542	884	1,928	2,812
Other liabilities	38	1,007	1,045	39	1,126	1,165
Other payables to related parties	86	184	270	111	213	324
	124	1,191	1,315	150	1,339	1,489
Income tax payables	-	12	12	-	10	10
Total current liabilities	**1,815**	**3,963**	**5,778**	**2,044**	**4,625**	**6,669**

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

	31.12.2018					31.12.2017 restated				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Loans and borrowings (non current)	2,917	139	-	-	3,056	2,733	185	-	-	2,918
	2,917	139	-	-	3,056	2,733	185	-	-	2,918
Deferred tax assets	91				91	91	-	-	-	91
Other non-current liabilities	700	7	-	-	707	804	7	-	-	811
Total non-current liabilities	**3,708**	**146**	**-**	**-**	**3,854**	**3,628**	**192**	**-**	**-**	**3,820**
Loans and Borrowings	436	48	-	-	484	641	48	-	-	689
Related-parties loans and borrowings	150	1,275	-	-	1,425	105	1,564	-	-	1,669
	586	1,323	-	-	1,909	746	1,612	-	-	2,358
Trade payables	897	659	179	178	1,913	1,292	364	259	217	2,132
Trade payables to related parties	149	233	131	116	629	178	262	217	23	680
	1,046	892	310	294	2,542	1,470	626	476	240	2,812
Other liabilities	937	38	8	62	1,045	1,011	80	9	65	1,165
Other payables to related parties	170	93	-	7	270	206	118	-	-	324
	1,107	131	8	69	1,315	1,217	198	9	65	1,489
Income tax payables	12	-	-	-	12	10	-	-	-	10
Total current liabilities	**2,751**	**2,346**	**318**	**363**	**5,778**	**3,443**	**2,436**	**485**	**305**	**6,669**

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

Statement on the separate financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. The undersigned Alessandro Profumo as the Chief Executive Officer and Alessandra Genco as the Officer in charge of Financial Reporting for Leonardo S.p.a., certify, in accordance with Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the separate financial statements at 31 December 2018.

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

3. It is also certified that:

   3.1 The separate financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation.

   3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 13 March 2019

Chief Executive Officer	Officer in charge of financial reporting
(Alessandro Profumo)	(Alessandra Genco)

Indipendent Auditors' Report on the separate financial statements as at 31 December 2018

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Leonardo S.p.a.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Leonardo S.p.a. (the "company"), which comprise the statement of financial position as at 31 December 2018, the separate income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Leonardo S.p.a. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

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Società per azioni
Capitale sociale
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Recognition of long-term contract revenue and losses

Notes to the separate financial statements: notes 3 "Accounting principles", 13 "Contract assets and liabilities", 21 "Provisions for risks and charges and contingent liabilities" and 26 "Revenue"

Key audit matter	Audit procedures addressing the key audit matter

A significant portion of the company's revenue from long-term contracts is recognised using the percentage of completion method based on the cost-to-cost model, if the IFRS 15 requirements for recognition over time are met.
 	
Estimating the total expected contract costs, which is necessary to calculate the stage of completion, is, by its very nature, complex. It also entails a high degree of uncertainty as it may be affected by many factors, including the products' design complexity and the company's ability to duly meet the technical specifications of its customers and the working time contractually agreed. Moreover, any failure to comply with the contractual provisions, such as, for example, those relating to delivery times and products' and services' compliance with the customers' specific requests, may give rise to material penalties and extra-costs which shall be considered in estimating total contract costs.
 	
Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses.
 	
Accordingly, we believe that the recognition of long-term contract revenue and losses is a key audit matter.
	Our audit procedures included:
	— updating our understanding of the process for the recognition of contract revenue and losses, including as a result of the first-time adoption of IFRS 15 "Revenue from contracts with customers";
	— assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;
	— for a sample of contracts deemed material for the purposes of our audit:
	  – examining the contracts signed with the customers in order to check whether their main provisions had been duly considered in management estimates;
	  – assessing the assumptions underlying the estimated contract costs, based on (i) discussions with the relevant internal departments and (ii) any communications with customers;
	  – analysing the most significant discrepancies between past years' estimates and actual figures, in order to assess the accuracy of the forecasting process;
	  – agreeing the costs incurred during the year and their allocation to contract work in progress;
	  – for certain types of production, obtaining evidence of the physical stage of completion through a physical count;
	  – assessing the accuracy of the calculation of the percentage of completion and the related recognition of contract revenue and expected losses, if any;
	  – assessing the appropriateness of the presentation and adequacy of disclosures about contract revenue and expected contract losses in the separate financial statements.

Recoverability of equity investments and goodwill

Notes to the separate financial statements: notes 3 "Accounting principles", n. 8 "Intangible assets" and 10 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2018 include equity investments of €7,381 million and goodwill of €707 million. The directors tested equity investments and goodwill for impairment estimating the recoverable amount of the cash-generating units (CGU) to which they relate. The estimated recoverable amount is based on value in use, that is the present value of the future expected cash flows (discounted cash flows method). This method is characterised by a high degree of complexity and the use of estimates which are by their very nature, uncertain and subjective, about: — the expected cash flows, determined on the basis of the general and sector trends, the actual cash flows for recent years and the projected growth rates; — the financial parameters used to calculate the discount rate. The 2019-2023 business plan (the "plan") that the company's directors approved on 13 March 2019 which is the basis for the cash flow estimates is not only affected by the uncertainties inherent in forecasting, but also by the spending programmes of governments and public agencies, which are subject to delays, changes when work is in progress or cancellations. For the above reasons, we believe that the recoverability of equity investments and goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the impairment testing procedure approved by the company's board of directors on 21 February 2019; — updating our understanding of the process used to draft the company's plan; — analysing the criteria used to identify the CGU and tracing the amount of the CGU assets and liabilities to the relevant carrying amounts in the separate financial statements; — comparing the cash flows used for impairment testing to the cash flows included in the plan; — analysing the main assumptions used by the directors in drafting the plan for reasonableness; — considering the most significant discrepancies between the data included in the past years' plans and actual figures, in order to assess the accuracy of the forecasting process; — involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the sensitivity analysis included in the notes to the consolidated financial statements with referencein relation to the key assumptions used in the impairment test; — assessing the appropriateness of the presentation and adequacy of disclosures about equity investments, goodwill and impairment testing in the separate financial statements.

Recognition and measurement of non-recurring costs and development costs

Notes to the separate financial statements: notes 3 "Accounting principles" and 8 "Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter

In its separate financial statements at 31 December 2018, the company has recognised non-recurring costs and development costs relating to the design, prototyping, start-up and technical and functional specification adjustments of its products totalling €2,028 million under intangible assets.
 	
The initial recognition and subsequent measurement of their recoverability through impairment test requires complex estimates with a high degree of uncertainty, since they are affected by many factors, including the horizon of the product business plans and management's ability to forecast the commercial success of new technologies. Accordingly, these estimates require a significant level of judgement by directors.
 	
For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.
	Our audit procedures included:
	— updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs;
	— assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;
	— for a sample of development projects deemed material for the purposes of our audit:
	  – examining the main internal and external cost items recognised during the year on the basis, *inter alia*, of inquiries of the relevant internal departments and documentary evidence provided by management;
	  – challenging the reasonableness of the assumptions underlying the product business plans;
	  – involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information;
	— assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the separate financial statements.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the separate financial statements

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

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

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on

the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 16 May 2012, the company's shareholders engaged us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The company's directors are responsible for the preparation of the a directors' report and a report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the company's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

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

Rome, 18 March 2019

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director

Report of the Board of Statutory Auditors to the Shareholders' Meeting

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING
PURSUANT TO ART. 153 OF LEGISLATIVE DECREE NO. 58/1998

To the Shareholders' Meeting of the company Leonardo S.p.a.

Shareholders,

the Board of Statutory Auditors of the company Leonardo S.p.a. (hereinafter also referred to as "the Company") hereby submits its report pursuant to Article 153 of Legislative Decree No. 58/1998 (T.U.F. - Testo Unico della Finanza, Consolidated Law on Financial Intermediation) to report on the activity performed.

The Board of Statutory Auditors was appointed by the Shareholders' Meeting on 15 May 2018 and therefore terminates its mandate with the next Shareholders' Meeting to approve the Financial Statements as at 31 December 2020.

On 5 November 2018, Prof. Riccardo Raul Bauer resigned from the office of Regular Auditor and Chairman of the Board of Statutory Auditors with effect from the end of the Board's meeting of 8 November 2018. On the same date, in accordance with the current provisions of law and the Articles of Association, the Alternate Auditor Mr. Luca Rossi, appointed by the Shareholders' Meeting of 15 May 2018 and taken from the same minority list, took on the office of Regular Auditor and Chairman of the Board of Statutory Auditors until the next Shareholders' Meeting.

The statutory audit activity was entrusted, pursuant to Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010, to the auditing company KPMG S.p.A. (hereinafter referred to as the "Auditing Firm"). The task was granted by the Shareholders' Meeting of 16 May 2012 for the period from 2012 to 2020.

During the financial year ended on 31 December 2018, the Board of Statutory Auditors carried out checks and other supervisory activities in compliance with the provisions of the laws and regulations in force on the subject, as well as the Corporate Governance Code for companies listed at the Italian Stock Exchange, of the Rules of Conduct of the Board of Statutory Auditors of the listed companies issued by the National Board of Chartered Accountants and Accounting Experts and of the Communications issued by CONSOB concerning the company checks and the activities of the Board of Statutory Auditors. This report is prepared in accordance with the indications provided by CONSOB with DAC/RM/97001574 communication of 20 February 1997 and with DEM/1025564 communication of 6 April 2001, amended and supplemented by the DEM/3021582 communication of 4 April 2003 and DEM/6031329 communication of 7 April 2006.

The Board met regularly in 2018, taking minutes of the supervisory activities carried out.

The Board also provided for the self-assessment of the independence of its members, whose outcome confirmed the existence of the requirements imposed by law and by the above-mentioned Code of Corporate Governance. It is hereby acknowledged that no Statutory Auditor has had any interests, on his/her own behalf or on behalf of third parties, in any transaction of the Company during the financial year and that the members of the Board of Statutory Auditors have complied with the accumulation of offices required by art. 144-*terdecies* of the Issuer Regulation.

The Board also positively assessed the criteria used by the Board of Directors to evaluate the permanence of the independence requirements provided for by the Corporate Governance Code and those required by the T.U.F. in relation to the non-executive Directors qualified as independent.

The Board also carried out a self-assessment process in 2018, following the same method as in the previous year, with particular focus on the activities carried out by it as an Internal Control and Audit Committee (pursuant to art. 19 of Legislative Decree No. 39/2010). This process is aimed at gathering the opinions of the members of the Supervisory Body regarding both the work and the composition of the Board itself - taking into account the entire three-year mandate of the Body in charge, in line with the provisions of the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by the National Board of Chartered Accountants and Accounting Experts. The results, the assessments carried out and the final indications of the Board were jointly discussed and subsequently collected in the "Final Report of Self-assessment of the Board", as well as reported by the Company within the Annual Report on Corporate Governance and Ownership Structure.

* * *

As part of the activities and tasks assigned to the Supervisory Board while implementing the relevant standards, the Board during 2018:

a) held eighteen meetings, carried out audits and gathered information from the heads of the different corporate functions, periodically meeting the top positions for an exchange of information on the performance of the corporate transactions, thus acquiring the knowledge necessary to monitor, pursuant to art. 149 of TUF, the compliance with the law and the deed of incorporation, the compliance with the principles of correct management and the adequacy of the organizational structure, the internal control system, the administrative-accounting system, as well as the implementation of the corporate governance rules from the codes of conduct and the adequacy of the instructions given to the subsidiaries, without any remark; relations with the Company's personnel were inspired by mutual collaboration in

compliance with the subjective roles and areas of competence and each body or function of the Company has fulfilled the information obligations provided for by the applicable standards;

b) attended the Ordinary Shareholders' meeting;

c) attended the eleven meetings held by the Board of Directors, during which it was informed of the work done and of the main financial and of the most important economic, patrimonial and financial transactions carried out by the Company and its subsidiaries, thus obtaining adequate and timely information on their performance;

d) attended the ten meetings held by the Control and Risks Committee, the six meetings held by the Remuneration Committee and the five meetings held by the Appointment, Governance and Sustainability Committee, thus acknowledging that they have acted in compliance with the provisions of the Corporate Governance Code and its own Regulations. In addition, it attended the three meetings of the International Scenarios Analysis Committee set up by the Company on a voluntary basis.

The collaboration with the Control and Risk Committee, also through the organization of joint meetings on topics of common interest, has been fruitful and effective and has, among other things, allowed to complete the analysis process of the Board of Statutory Auditors on risk control and management, thus acquiring further information with respect to that obtained autonomously through the constant contacts with the manager *Chief Audit Executive* ("CAE") and the Risk Manager of the Company.

The Board of Statutory Auditors, in particular, acknowledges that during the meetings of the Control and Risk Committee, checks were carried out, as established by the Corporate Governance Code and the Committee's Rules, regularly presented to the Board of Statutory Auditors as Committee for internal control and auditing. In particular, the Board monitored the adequacy and effectiveness of the internal control and risk management system, with respect to the characteristics of the Company and the risk profile taken, of the Work Plan prepared by CAE, the adequacy of the resources assigned to it, as well as its organizational effectiveness and efficiency. Furthermore, the Board of Statutory Auditors acknowledged that the Control and Risk Committee expressed its favourable opinion on 12 March 2019 on the annual assessment of the adequacy of the Internal Control and Risk Management System.

e) As part of the periodic meetings with CAE, it was implemented the strengthening process in terms of human resources assigned to the *Group Internal Audit* ("GIA") organizational unit aimed at achieving a qualitative level fully adapted to the size of the Group and to the variety and complexity of the issues to be addressed, also following the *"One Company"* Model. The GIA organizational unit completed the "Quality Assurance and Improvement" plan prepared to monitor and improve the effectiveness, efficiency and quality of the Internal Audit activities for 2018; the results showed a "general compliance" with international standards and best practices or "maximum positive evaluation" envisaged by

the *Institute of Internal Auditors*. These results were analysed by the Control and Risks Committee at its meeting on 21 February 2019 and discussed on the same date the Board of Directors;

f) periodically met with the Executive in charge of preparing the corporate accounting documents;

g) periodically met the Supervisory Body pursuant to Legislative Decree No. 231/2001;

h) was informed, during meetings of the Control and Risk Committee and of the Board of Directors, on the updating of the Organization, Management and Control Model pursuant to Legislative Decree 231/2001, made taking into account some internal organizational changes and regulatory changes that occurred;

i) also participated, in the person of the Chairman, in the meeting of the Coordination and Consultation Body for the Prevention of Corruption, chaired by the Chairman of the Board of Directors and composed of the Chairman of the Control and Risks Committee, the Chairman of the Supervisory Body and the Chairman of the Board of Statutory Auditors; it was also informed of the activity carried out by the same Body within the framework of the reports that it periodically makes to the Board;

j) was informed about the process initiated by the Company for the establishment of the new "Anti-corruption" organizational unit and for obtaining the ISO 37001 certification (Anti-corruption Management System);

k) was periodically updated regarding the main disputes of the Company and the Group, thus monitoring their performance during the financial year;

l) periodically met with the representatives of the Auditing Company who explained the Board the audit strategy, the areas of attention, the checks performed and the related outcomes, as well as the essential issues encountered in carrying out the activity, also in relation to the provisions of art. 19 of Legislative Decree 39/2010 and art. 11 of EU Regulation No. 537/2014;

m) verified the full observance of the obligations regarding information regulated, privileged or required by the Supervisory Authorities;

n) verified that the information flows between the Parent Company and the other Group companies took place in a timely manner and that the instructions given to the subsidiaries, pursuant to Art. 114, paragraph 2, of TUF are adequate;

o) received adequate information, with reference to the provisions of the articles 15 and subsequent ones of the Market Regulation (as amended by CONSOB Resolution no. 20249 of 28 December 2017), relating to the subsidiary companies established and regulated by the laws of non-EU countries by the CAE on 12 March 2019, brought to the attention also of the Control and Risks Committee, showing, for the companies that are significant in terms of the criteria set by the Issuers Regulation, the existence of an administrative-accounting system that presides over the preparation of the *Financial Reporting*, suitable and substantially

adequate to the requirements envisaged in the mentioned art. 15. Therefore, the preparation of a specific adjustment plan is not required;

p) verified that the Report on Corporate Governance and Ownership Structure contains all the information required by art. 123 bis of T.U.F. as well as other information provided in compliance with the standards governing issuers listed on regulated markets;

q) verified the adequacy of the administrative accounting system and its suitability to correctly represent the management facts;

r) was informed of the changes in the organizational structure, thus monitoring the existence, the updating and the actual dissemination of the company directives and procedures;

s) met with the Boards of Statutory Auditors of the main subsidiaries in order to acquire information in particular regarding the operation of the company activity, the reliability of the internal control system and the company organization, the relevant dispute - as required by art. 151 of T.U.F. - and compliance with internal procedures issued by the parent Company. In particular, the audits were aimed at acquiring information and assessments regarding the management and control systems of the subsidiary companies: on these profiles, the Boards of Statutory Auditors of the Group companies did not find critical issues worthy of reporting. All the Boards of Statutory Auditors involved also expressed a positive opinion regarding the adequacy of the organizational, administrative and accounting system of the respective companies; no violations of procedures qualifying as important or significant, nor any gaps or inadequacies in the internal control systems emerged; for foreign companies controlled directly by Leonardo S.p.a. the supervisory activity of the Board developed with the collaboration of the Group Internal Audit organizational unit;

t) received periodic reports prepared by the Reporting Committee; in this regard, the Board asked the Company to supplement the "Reporting Guidelines" by providing that the Statutory Auditors are also informed by the Supervisory Body together with the members of the Reporting Committee about the reports received by the Company that the Body itself considers to be founded; the aforementioned guidelines were amended last November 2018;

u) actively participated in all the meetings organized by the Company or by the Independent Directors as part of the *"Induction"* program proposed to the Corporate Bodies, in compliance with the Corporate Governance Code, in order to increase the skills and knowledge of the business sectors in which the Company works and to investigate news introduced by the standards and regulations that have a direct impact on the supervisory role of the Board;

v) received, on a quarterly basis, an update by the Chief Executive Officer regarding the exercise of the powers granted by the Board of Directors and the implementation of the Board's resolutions.

The Board, also in compliance with the recommendations of the CONSOB Resolution DEM/1025564 of 6 April 2001, reports that it has not found any critical issues regarding the main transactions of major economic, financial and equity importance, carried out during the reference financial year, including through subsidiaries, which are summarized in the draft financial statements to which you must expressly refer.

With particular regard to transactions of greater significance having an impact on the overall model of the Company's operation, the Board of Statutory Auditors monitored, in close collaboration with the independent directors (and in particular with the Control and Risks Committee), a series of organizational changes issued by the Company during the year necessary for the implementation and monitoring of the initiatives envisaged in the Business Plan, including the establishment of the new "Cyber Security" and "Electronics" Divisions.

The Board did not detect any atypical and/or unusual transactions that, due to their significance or relevance, the nature of the counterparties, the object of the transaction, the methods for determining the transfer price and the timing of the event, could give rise to doubts regarding the correctness/completeness of the information in the financial statements, conflict of interests, safeguarding of corporate assets, protection of minority shareholders.

Furthermore, the Board, in the course of the activities carried out:

a) find no omissions or reprehensible facts;

b) acknowledged that no complaints have been submitted by the Shareholders pursuant to art. 2408 of the Italian Civil Code;

c) expressed its opinion in all the cases provided for by the law and, in particular, regarding the correct application of the criteria for assessing the independence of the directors, the remuneration of the Chief Executive Officer, the variable incentive assigned to CAE;

d) verified the methods of concrete implementation of the corporate governance rules provided for by the Corporate Governance Code of listed companies of Borsa Italiana, to which the Company has adhered;

e) also supervised the corporate documents and information on the market, in particular:

- noted that the Report on Operations for the financial year 2018 contains adequate information on transactions with related parties and has verified, pursuant to art. 4, sixth paragraph, of the Regulation approved by CONSOB with resolution 17221 of 12 March 2010 as amended, the compliance of the “Procedure for Transactions with Related Parties”, implemented by the Company, with the principles listed in the same Regulation, as well as full compliance with this procedure for individual transactions with related parties entered into during the financial year;

- supervised communications to the market, thus monitoring the adaptation of the related procedures; in this regard, the Board examined, during some meetings with the internal Board Committees and the Board of Directors, the changes made to the internal procedures and to the organizational structure in charge of these activities by virtue of the new regulation on the *Market Abuse Regulation*, verifying together with the Control and Risk Committee their control bodies;

d) acknowledges that, in compliance with the recommendations of the joint Banca d'Italia-CONSOB-ISVAP document No. 4 of 3 March 2010, the *Impairment Test* procedure governed by IAS 36 received the favourable opinion of the Control and Risk Committee on 21 February 2019 and was approved by the Board of Directors on the same date; in this regard, the Board monitored the substantive and formal legitimacy of the impairment process;

e) verified that the Company has fulfilled the obligations provided by the Legislative Decree No. 254/2016 (supplemented by the Budget Law 2019) and that, in particular, prepared the Consolidated Statement of a non-financial nature - prepared and approved by the Board of Directors - in accordance with the provisions of articles 3 and 4 of the same decree; in particular, it verified that the above-mentioned Declaration was accompanied by the report of the Auditing Firm pursuant to art. 3, paragraph 10, of Legislative Decree 254/2016 that confirmed the preparation by the directors of the non-financial declaration, in a separate form from the Report on Operations, through the 2018 Sustainability and Innovation Report; by virtue of a task specifically assigned, the Auditing Company also released, on 18 March 2019, a "Limited Assurance" certificate, without remark, regarding the compliance of the information provided in the Non-Financial Statement, with respect to what is required by the aforementioned decree and with respect to the principles, methods and modes of preparation, as well as art. 5 of the CONSOB Regulation adopted by resolution No. 20267 of 18 January 2018;

f) was informed by the Company about the evaluation process and the related outcomes regarding the subjective and objective scope of application of the rule pursuant to art. 1, paras. 125 and 126 of Law 124/2017, whose conclusions were reported in the "Annual Financial Report as at 31 December 2018".

* * *

The Auditing Firm released the reports pursuant to Art. 14 of Legislative Decree No. 39 of 27 January 2010 and of the EU Regulation no. 537/2014; the aforementioned reports show that there are no findings or recalls of information, nor statements issued pursuant to subparas. e) and f) of Art. 14, second paragraph of Legislative Decree No. 39/2010.

More specifically, the Board examined the Independent Auditors' Report on the financial statements for the year ended on 31 December 2018 issued, pursuant to art. 14 of

Legislative Decree No. 39/2010 and art. 10 of the EU Reg. No. 537/2014 of 18 March 2019 and with which the auditor certified that:

- the separate financial statements of the Company and the consolidated financial statements of the Group as at 31 December 2018 provide a true and fair view of the financial and econominc situation as at 31 December 2018, the economic result and the cash flows for the financial year ended on that date in compliance with the *International Financial Reporting Standards* implemented by the European Union as well as the provisions issued pursuant to art. 9 of the Legislative Decree No. 38/2005;
- the Report on Operations and some specific information contained in the Report on Corporate Governance and Ownership Structure indicated in art. 123-bis, 4th paragraph, of Legislative Decree No. 58/1998 are consistent and compliant with the separate financial statements of the Company and with the consolidated financial statements of the Group and drafted in compliance with the law;
- the opinion on the separate and consolidated financial statements expressed in the aforementioned Reports is in line with what is shown in the Additional Report prepared pursuant to art. 11 of EU Regulation No. 537/2014.

The Board also examined the contents of the Additional Report pursuant to art. 11 of EU Regulation No. 537/2014, which is sent to the Board of Directors, whose examination shows no aspects that need to be highlighted in this report.

The Board, pursuant to art. 19 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016, had a constant exchange of information with the Independent Auditors and in particular:

- monitored the observance of the Company's procedure and directive for the assignment of tasks to the Group Auditing Company, which envisages specific information and authorization flows and procedures for the assignment of such appointments aimed at allowing the Board of Statutory Auditors to carry out its supervision activities properly. From the set of information flows implemented, which are deemed appropriate by the Board, no reports of criticality or anomalies emerged that could affect the opinions expressed on the financial statements and the consolidated financial statements of the Company;
- verified that the Independent Auditors, in relation to the "non-audit" services provided to Leonardo S.p.a. and its subsidiaries in the last three financial years, has complied with the limits set by art. 4, paragraph 2, of EU Regulation No. 537/2014;
- declares that the fees for the aforementioned offices amount to a total of EUR 259,000 and are reported, pursuant to art. 149-duodecies of the Issuers Regulations, in the summary table attached to the Financial Statements.

Taking into account the declarations of independence issued by KPMG S.p.A. and the transparency report issued by the Auditing Firm pursuant to art. 18 of Legislative Decree No. 39/2010, as well as the tasks assigned to it and to the companies belonging to its network by Leonardo S.p.a. and by its subsidiaries, the Board believes that there are no critical aspects to report on the independence of the Auditing Firm.

During the supervisory activity performed by the Board of Statutory Auditors in accordance with the methods described above, on the basis of the information and data acquired, no facts emerged from which to infer that the law and the deed of establishment were not complied with or justified the reports to the Supervisory Authority or the mention in this report.

* * *

The Board of Statutory Auditors believes it can waive the terms set forth in art. 2429 of the Italian Civil code for the purposes of drafting and filing its Report.

With regard to the result for the 2018 financial year, which recorded an operating profit of € 283.8 millions, the Board of Directors set out in detail the formation of the result and the events that generated it in the Report on Operations and in the Explanatory Notes.

On the basis of the supervisory activities carried out up to today, taking into account the above and within its competence, the Board of Statutory Auditors, pursuant to Article 153, paragraph 2, of the T.U.F. Finds no grounds for impeding the proposal to approve the financial statements for the year ended on 31 December 2018, nor the proposal for the allocation of the relevant operating profit as requested by the Board of Directors.

18 March 2019

THE BOARD OF STATUTORY AUDITORS

Mr. Luca Rossi (Chairman)

Mrs. Sara Fornasiero

Mr. Leonardo Quagliata

Mr. Francesco Perrini

Mrs. Daniela Savi

Information pursuant to article 149 duodecies of the issuer regulation

The following statement reports the fees for the year 2018 for auditing and certification services and for tax and other services provided by the same auditing firm and entities belonging to the auditing firm's network.

	Entity providing the service	To	Fees for the year 2018 (€ thousands)
Auditing services	KPMG SpA	Parent Company	2,367
	KPMG SpA	Subsidiaries	575
	KPMG network	Subsidiaries	3,283
Assurance services	KPMG SpA	Parent Company	188
	KPMG SpA	Subsidiaries	-
	KPMG network	Subsidiaries	34
Other services	KPMG SpA	Parent Company	18
	KPMG SpA	Subsidiaries	-
	KPMG network	Subsidiaries	19
Total			**6,484**