

Annual Financial Report 2019

Disclaimer

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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
Director (a, d)

SILVIA MERLO
Director (a, d)

MARINA RUBINI
Director (b, c)

ANTONINO TURICCHI
Director (b, c)

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

GIUSEPPE CERATI ***

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

LUCIANO ACCIARI
Secretary of the Board of Directors

* The Shareholders' Meeting held on 16 May 2019 appointed new members of the Board of Statutory Auditors, following the resignation of Riccardo Raul Bauer from the position of Regular Statutory Auditor and Chairman of the control body – which occurred on 8 November 2018 – and the Alternate Statutory Auditor Luca Rossi taking over the abovementioned positions, pursuant to law and in accordance with the By-laws and until the abovementioned Shareholders' Meeting, on the same date.

** The Shareholders' Meeting held on 16 May 2019 appointed Luca Rossi as Regular Statutory Auditor and Chairman of the Board of Statutory Auditors (on a proposal submitted by a group of asset management companies and institutional investors, which hold a total stake of about 1.06% of the share capital).

*** The Shareholders' Meeting held on 16 May 2019 appointed Giuseppe Cerati as Alternate Statutory Auditor (on a proposal submitted by a group of asset management companies and institutional investors, which hold a total stake of about 1.06% of the share capital).

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 2019

The 2019 year saw the full implementation of the growth project envisaged in the Industrial Plan, with results in line with or above the preset targets.

The significant increase in Revenues in all business sectors, driven by the success achieved in terms of sales, was accompanied by an increase in operating profit capable of also offsetting the lower contribution given by certain strategic joint ventures. The sustainability of this growth over the long term and the creation of value for the Group are guaranteed by the investments made in people, skills and innovative technologies.

The net result for the period, showing a considerable increase compared to the previous year, benefitted from sharp growth in the net result before extraordinary transactions, lower restructuring costs and a reduction in the amortisation and depreciation of assets arising from the Purchase Price Allocation, as well as from the effects arising from the transaction with Hitachi, classified under the result from "Discontinued operations".

In 2019 the Group Net Debt included the effect of the adoption of IFRS 16 on lease agreements for €mil. 451 (€mil. 458 as at the date of first application), the payment of dividends (€mil. 81), the acquisition of Vitrociset (€mil. 110) and other minor acquisitions. Without these effects, the Group's Net Debt would have remained substantially unchanged compared to 2018.

The KPIs for the period and the main changes in the Group's performance compared to 2018 are shown below. Comments are reported below for each business sector.

Group results and financial position

Key performance indicators ("KPI")

	2018	2019	Change
New orders	15,124	14,105	(6.7%)
Order backlog	36,118	36,513	1.1%
Revenues	12,240	13,784	12.6%
EBITDA	1,534	1,817	18.4%
EBITA	1,120	1,251	11.7%
ROS	9.2%	9.1%	(0.1) p.p.
EBIT	715	1,153	61.3%
EBIT Margin	5.8%	8.4%	2.6 p.p.
Net result before extraordinary transactions	421	722	71.5%
Net result	510	822	61.2%
Group Net Debt	2,351	2,847	21.1%
FOCF	336	241	(28.3%)
ROI	16.4%	16.7%	0.3 p.p.
ROE	9.7%	14.7%	5.0 p.p.
Workforce	46,462	49,530	6.6%

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

The Group data do not include the contribution given by the Joint Ventures invested in by the Group (which mainly include GIE-ATR in the Aeronautics sector, MBDA in the Defence Electronics & Security sector and JVs in the Space sector). The Group's business conducted through the JVs and their strategic and financial

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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 2019 the main Group's JVs recorded total revenues of €bil. 2.8 (€bil. 2.8 in 2018) as concerns Leonardo's share: as a result, the Group's aggregate pro-forma revenues come to about €bil. 16.6 (€bil. 15.0 in 2018).

December 2018	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	6,208	12,151	3,810	359	9.4%
Defense Electronics & Security	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 2019	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	4,641	12,551	4,025	431	10.7%
Defense Electronics & Security	7,022	12,848	6,701	613	9.1%
Aeronautics	2,788	11,640	3,390	362	10.7%
Space	-	-	-	39	n.a.
Other activities	234	372	463	(194)	(41.9%)
Eliminations	(580)	(898)	(795)	-	n.a.
Total	14,105	36,513	13,784	1,251	9.1%
Change %	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	(25.2%)	3.3%	5.6%	20.1%	1.3 p.p.
Defense Electronics & Security	2.9%	2.2%	12.6%	17.4%	0.3 p.p.
Aeronautics	8.5%	(4.7%)	17.1%	10.4%	(0.6) p.p.
Space	n.a.	n.a.	n.a.	(32.8%)	n.a.
Other activities	129.4%	154.8%	36.2%	(32.0%)	1.3 p.p.
Eliminations	(0.3%)	7.5%	(4.7%)	n.a.	n.a.
Total	(6.7%)	1.1%	12.6%	11.7%	(0.1) p.p.

Commercial performance

New orders came to about €bil. 14. The orders gained in 2018 included the acquisition of the NH90 Qatar order for about €bil. 3 in the segment of Helicopters; while excluding this event, the performance improved in all business sectors.

The book-to-bill ratio was equal to about 1. The order backlog ensures a coverage in terms of equivalent production equal to more than 2.5 years.

* * * * *

Business performance

Revenues, equal to €bil. 13.8, showed a significant increase (12.6%) compared to 2018 (€bil. 12.2), which was mainly attributable to the *Defence Electronics & Security* and *Aeronautics* Divisions.

EBITA, equal to €mil. 1,251 showed significant growth compared to 2018 (€mil. 1,120), thus confirming a sound profitability (ROS of 9.1%, in line with the previous year) as a result of an improvement recorded in the *Defence Electronics & Security*, *Helicopters* and *Aeronautics* Divisions, which more than offset a decline in

the result posted by the GIE-ATR Consortium and in the manufacturing segment in the *Space* sector. The operating profit also reflected the investments made in strengthening the central units in support of the Group's path to growth.

EBIT, equal to €mil. 1,153 showed, compared to 2018 (€mil. 715), an increase equal to €mil. 438 (+61.3%), which was due to an improvement in EBITA, as well as to a reduction in restructuring costs and the completion of a large part of the amortisation of intangible assets recognised upon the acquisition of Leonardo DRS (Purchase Price Allocation).

The **Net result before extraordinary transactions** (€mil. 722) mainly benefitted, compared to the previous year, from an improvement in the operating profit, net of related tax charge.

The **Net Result** (€mil. 822) included the effects of the release of a large part of the provision set aside against the guarantees given upon the sale of the transport business of AnsaldoBreda S.p.A. following the subsequent signature of the transaction with Hitachi. The data for 2018 included the effects of the judgment of acquittal towards Ansaldo Energia and another minor transaction, which had led to the recognition of proceeds of €mil. 89 among the result from Discontinued Operations.

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

<i>(€ millions)</i>	<i>Note</i>	2018	2019	Change	% Change
Revenues		12,240	13,784	1,544	12.6%
Purchase and personnel expenses	(*)	(10,862)	(12,104)		
Other net operating income/(expenses)	(**)	(60)	(23)		
Equity-accounted strategic JVs	(***)	216	160		
Amortisation, depreciation and write-offs	(****)	(414)	(566)		
EBITA		1,120	1,251	131	11.7%
ROS		9.2%	9.1%	(0.1) p.p.	
Non-recurring income/(charges)		(102)	(43)		
Restructuring costs		(205)	(28)		
Amortisation of intangible assets acquired as part of business combinations		(98)	(27)		
EBIT		715	1,153	438	61.3%
EBIT Margin		5.8%	8.4%	2.6 p.p.	
Net financial income/(expenses)	(*****)	(230)	(284)		
Income taxes		(64)	(147)		
Net result before extraordinary transactions		421	722	301	71.5%
Net result related to discontinued operations and extraordinary transactions	(*****)	89	100		
Net result		510	822	312	61.2%

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 at equity, 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";

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(*****) Includes “Financial income”, “Financial expense” (net of the gains and 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 and losses relating to extraordinary transactions (key acquisitions and disposals)”.

* * * * *

Financial performance

(€ millions)	Note	2018	2019	Change	% Change
Cash flows generated from operating activities	(*)	877	773	(104)	(11.9%)
Dividends received		202	174		
Cash flows from ordinary investing activities	(**)	(743)	(706)		
Free Operating Cash Flow (FOCF)		336	241	(95)	(28.3%)
Strategic transactions	(***)	(11)	(44)		
Change in other investing activities	(****)	12	(18)		
Net change in loans and borrowings		(106)	(181)		
Dividends paid		(81)	(81)		
Net increase (decrease) in cash and cash equivalents		150	(83)		
Cash and cash equivalents at 1 January		1,893	2,049		
Exchange rate differences and other changes		6	2		
Net increase (decrease) in cash of discontinued operations		-	(6)		
Cash and cash equivalents at 31 December		2,049	1,962		

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.

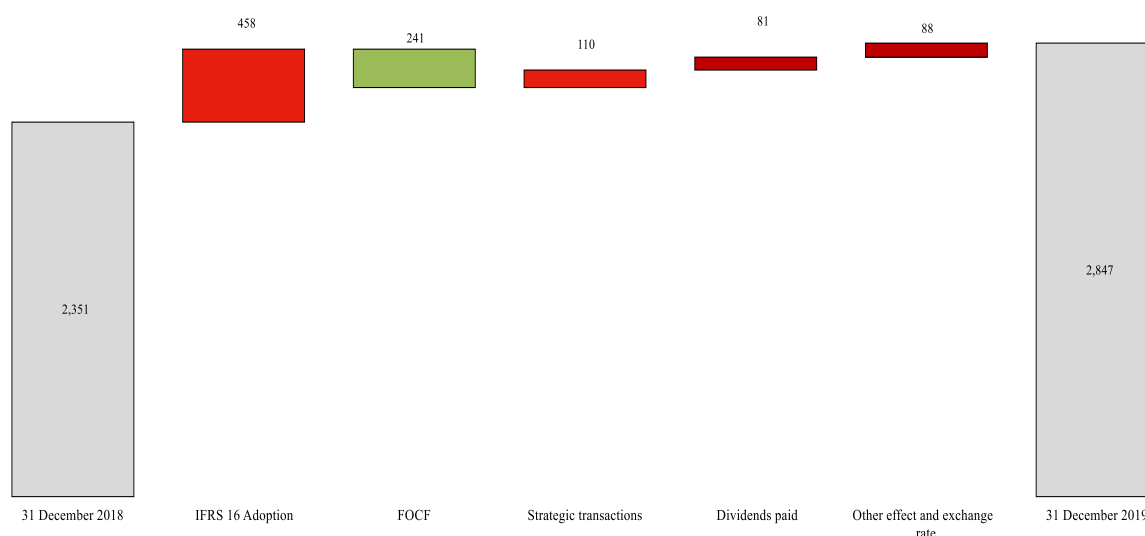
(**) Includes “Cash flow generated from (used in) investing activities, including debt payments pursuant to Law 808/1985 and net of dividends collected.

(***) 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. 241 (€mil. 336 in 2018). This performance had a positive impact on the overall value of the **Group Net Debt**, which, however, compared to the value posted at 31 December 2018 (€mil. 2,351), came to €mil. 2,847, mainly as a result of the recognition of financial liabilities arising from the application of IFRS 16 “Leases” (the effect on the Group Net Debt at 1 January 2019 was equal to €mil. 458), as well as of the impact on the net financial position of the Vitrociset transaction (€mil. 110, including the acquiree’s net financial position of €mil. 63) and the distribution of dividends (for €mil. 81). The effects of the adoption of the IFRS 16 – Leases on the 2019 financial statements are reported in the Note on the “Effects of the new IFRS16 “Leases” of this Report on operations.

Below is the breakdown of the Group Net Debt compared to 31 December 2018:



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

(€ millions)	<i>Note</i>	<u>31 December 2018</u>	<u>31 December 2019</u>
Non-current assets		11,824	12,336
Non-current liabilities		(2,611)	(2,243)
Capital assets	(*)	<u>9,213</u>	<u>10,093</u>
Inventories	(**)	(78)	947
Trade receivables		2,936	2,995
Trade payables		(3,028)	(3,791)
Working capital		<u>(170)</u>	<u>151</u>
Provisions for short-term risks and charges		(1,125)	(1,164)
Other net current assets (liabilities)	(***)	(1,064)	(968)
Net working capital		<u>(2,359)</u>	<u>(1,981)</u>
Net invested capital		<u>6,854</u>	<u>8,112</u>
Equity attributable to the Owners of the Parent		4,499	5,323
Equity attributable to non-controlling interests		11	11
Equity		<u>4,510</u>	<u>5,334</u>
Group Net Debt		<u>2,351</u>	<u>2,847</u>
Net (assets)/liabilities held for sale	(****)	<u>(7)</u>	<u>(69)</u>

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".

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Below is the breakdown of the Group Net Financial Debt:

<i>(€ millions)</i>	31 December 2018	<i>of which current</i>	31 December 2019	<i>of which current</i>
Bonds	3,154	408	2,741	94
Bank debt	721	70	983	85
Cash and cash equivalents	(2,049)	(2,049)	(1,962)	(1,962)
Net bank debt and bonds	1,826		1,762	
Current loans and receivables from related parties	(153)	(153)	(161)	(161)
Other current loans and receivables	(32)	(32)	(36)	(36)
Current loans and receivables and securities	(185)		(197)	
Non current financial receivables from Superjet	(25)	-	-	-
Hedging derivatives in respect of debt items	(3)	(3)	-	-
Related party lease liabilities	-	-	36	3
Other related party loans and borrowings	669	669	727	727
Lease liabilities	5	1	415	61
Other loans and borrowings	64	42	104	61
Group Net Debt	2,351		2,847	

The reconciliation with the net financial position required by CONSOB Communication no. DEM/6064293 of 28 July 2006 is provided in Note 21.

As detailed in the section on “Financial transactions”, to which reference should be made, “Bonds” showed a decrease as a result of:

- the repayment made in December 2019 out of the bond issue in a residual nominal amount of GBPmil. 278. The issue, which was launched in 2009 for an initial total amount of GBPmil. 400, had been the object of a partial buy-back in previous years;
- a buy-back transaction carried out in November 2019 for USDmil 127 on the part of Leonardo US Holding out of a portion of its own bond issues due 2039 and 2040.

The increase in “Bank debt” was instead affected, for €mil. 300, by the use of the loan that Leonardo raised with the European Investment Bank (EIB) in November 2018 to support certain investment projects envisaged in the Group’s Industrial Plan.

Moreover, in May 2019 the Group renewed its EMTN (Euro Medium Term Notes) programme for 12 additional months, leaving the maximum available amount of €bil. 4 unchanged. No bond issues were launched in the Euromarket within the scope of said programme during the period.

To meet the financing needs for ordinary Group activities, Leonardo has a Revolving Credit Facility amounting to €mil. 1,800, and unconfirmed short-term lines of credit for a total amount of €mil. 686. All the above-mentioned credit lines were entirely unused at 31 December 2019. Furthermore Leonardo has unconfirmed unsecured lines of credit for a total amount of €mil. 10,904. Of these an amount of €mil. 3,417 was available at 31 December 2019.

* * * * *

Below are the comments on the sectors in terms of performance, competitive position and Total Market.

It should be noted that Leonardo has the objective of strengthening its positioning in the more attractive markets in which the portfolio of its products can benefit from its specific competitive advantage: the considerations reported below relate to the analysis of the competitive position, based on these two dimensions.

Helicopters

In the **civil sector** the Group confirmed its product leadership in the Intermediate segment of civil/dual-use helicopters, now also having an actual footprint in the Light Intermediate and Medium segments, thanks to the completion of the so-called “product family” (AW169, AW139 and AW189), which was confirmed, in the dual-use segment, with the delivery of the thousandth AW139 helicopter in September 2019. In the **military sector** the development of variants for military use based on the civil configuration (AW169M and AW139M) brought important orders on domestic and international markets in 2019. In particular, note, on the international market, the important acknowledgment on the part of the US Air Force, which has chosen the MH-139 helicopter (named as Grey Wolf, the first unit of which was delivered in 2019) to replace the fleet of UH-1N Huey. In addition to the orders signed in the period, which are detailed below, in January 2020 the business was further driven towards success with the US Navy awarding the contract for a first lot of 32 TH-73 (AW119) helicopters for training missions.

Work continued in 2019 on unmanned products: development continued for the HERO (SD-150) helicopter pending the forthcoming certification and the SW-4 Solo prototype carried out its maiden flight in a fully unmanned configuration as early as in 2018. It should be noted that through the mentioned acquisition of the company Kopter, finalised in January 2020, and the future certification of the SH09 single-engine helicopter, Leonardo is entering a new market segment with an innovative product, which can attain considerable market shares whereby expanding its client base. Thanks to a further enlarged product range Leonardo can consolidate more its role in the civil sector. The new helicopter will be a dual-use product with possible military applications as well.

The trend in 2019 confirmed the effectiveness of the path the Group embarked on in the previous year, showing an excellent performance, with Revenues and profitability on the rise compared to 2018. The commercial performance was also positive, although with lower volumes of orders compared to 2018, which had benefitted from the recognition of the NH90 Qatar contract for about €bil.3.

New orders. These showed a decline compared to the previous year as a result of the acquisition of the abovementioned NH90 Qatar order in 2018. Among the main acquisitions for the period note the contract for the supply of 23 NH90 tactical helicopters to the Spanish Ministry of Defence, the contract for the supply of 4 AW101 naval multi-role helicopters to the Polish Ministry of Defence, in addition to the orders relating to Customer Support and Training operations and the orders relating to AW139, including, in particular, 17 helicopters for the Air Force, 5 helicopters for the National Fire Brigades (*Corpo Nazionale dei Vigili del Fuoco*) in Italy and 4 helicopters for the Fire Department in the Miami-Dade County.

Revenues. These showed an increase compared to 2018 due to higher volumes for Customer Support and Training operations and military and government programmes, both for domestic and foreign customers, including the programmes of NH90 Qatar, MH-139 for the US Air force and the NEES (New Exploration and Escort Helicopter) for the Italian Army. These improvements more than offset the lower revenues from customers in the civil segment, mainly on the AW109/119 and AW189 lines.

EBITA. These showed an increase compared to 2018 due to higher revenues and an improved profitability, as a result of the favourable mix of operations carried out on government programmes and Customer Support and Training, as well as of a review of the terms and conditions of the UK pension scheme.

Outlook. In line with the objectives set out in 2018 and in planning to optimise industrial processes and improve competitiveness of the main products, in 2020 the Division's path to growth is expected to be strengthened, with double-digit profitability and revenue volumes sustained by the excellent commercial performance, confirming the quality of a product portfolio positioned in the most attractive segments of the market.

Total sector market

The overall market value for the next ten years (only with reference to the deliveries of new helicopters) is equal to about €bil. 170, with a CAGR (on deliveries) equal to 3.2% over a time period of 10 years.

In recent years there has been a slowdown in the **civil sector's market**, due to a number of combined factors, including a fall in oil prices, a general economic crisis and below-expected growth rates in some emerging markets.

In terms of civil applications note an almost stable trend that was recorded in the SAR (Search and Rescue) and Law Enforcement market, as well as the growth in the EMS (Emergency Medical Services) sector and a significant decline across the entire Oil & Gas sector. As regards the geographical areas, North America, while confirming itself as a reference market, has seen a continuing decline over the last five years in favour of Europe and Asia (China in particular). Demand in Latin America has fallen sharply in the last five years due to the economic and/or political crisis in some countries, first and foremost in Argentina, Venezuela and Brazil. The total **military sector's market** also suffered a decline as a result of budget cuts, which entailed the postponement of some programmes to upgrade the installed fleet. The military utility segment (troop transport, training, CSAR [Combat Search And Rescue]) recorded the highest sales volume in the last ten years, showing a slowdown in the last two or three years, which was partly offset by the growth rates of combat platforms; deliveries in the naval military segment remained almost stable, with a slowdown in the last two or three years. Also in the light of the recent successful sales targets achieved by Leonardo, it is clear that the use of dual-use platforms is increasingly becoming established in the military field for purely non-battlefield roles. For the next five years (2020-2024) the market is still expected to suffer slightly but with clear signs of recovery, driven by a slow recovery in oil prices and by some favourable circumstances in emerging countries (e.g. airspace liberalisation in China), as well as by an increased demand for helicopter rescue, fire-fighting and

disaster relief units resulting from a greater frequency of violent weather events and natural disasters. The persistence of ongoing international crises (Middle East, Africa, Eastern Europe) and the need to replace obsolete fleets will also support the military sector market with new deliveries and Mid-Life Upgrades, pending new requirements and the new generation of aircraft (Fast Rotorcraft).

New markets are constantly evolving, such as those concerning the Fast Rotorcraft of RUAVs (Rotary Unmanned Aerial Vehicles) and the new Urban Air Mobility concepts. In the next few years, these areas will be the subject of increasing attention from the major OEMs (Original Equipment Manufacturers) (note the start of deliveries of the AW609 civil tiltrotor), albeit with a reduced economic impact in the next ten years.

During the Dubai Air Show a brand new terminal concept was launched which was dedicated to helicopters and tiltrotors, even in support of Expo 2020, to support transport operations.

During 2019, the latest generation AW149 medium helicopter was officially presented in a military equipped version. The AW149 has been certified in Italy by the Air Armament and Airworthiness Directorate (ARMAEREO) and the new model is already in service today on the international market.

In terms of deliveries, an important milestone was reached in 2019 with the delivery of the thousandth AW139 helicopter to the Italian Finance Police (*Guardia di Finanza*).

In 2019 there also was the delivery of the first abovementioned MH-139° Grey Wolf helicopter to the US Air Force, which is part of the contract for 84 helicopters that was awarded to Boeing, the prime contractor under the program, in 2018.

The first of 22 AW169M units, part of the order signed in 2018 following the military qualification obtained by ARMAEREO, was also delivered to the Italian Finance Police. Again at the end of the year, in the United Kingdom the hundredth AW169 unit was delivered to the Specialist Aviation Service for Cornwall Air Ambulance service.

Finally note, under the OCEAN2020 programme, the important demonstration coordinated by the Italian Navy in the Mediterranean Sea to attest to the integration and interoperability capabilities of remotely piloted systems with ships and helicopters, which involved the use of two unmanned helicopters, HERO and SW-4.

Defense Electronics & Security

With reference to the **Electronics Division**, in the segment of Airborne & Space Systems, there is a recognised position of strength in the field of radars and electronic warfare thanks to new technological developments that have promoted greater market penetration; a distinctive position is also to be found in the segment of drones, confirmed by the use of the Falco Evo remotely-piloted aircraft in 2019 in the operations of the European agency Frontex for the monitoring of illegal immigration and the launch of the Falco Xplorer, a unmanned aerial vehicle in the light MALE (Medium-Altitude, Long-Endurance) Aircraft category, at the Paris International Air Show (June 2019). In the segments of Naval and Land Systems and Defence Systems Leonardo has benefitted from important measures linked to the Naval Law, thus leading to a general increase

in the capabilities of the system, providing valuable opportunities and synergy in international markets in the business segments concerned.

With reference to the **Cyber Security Division**, 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, while also strengthening its position thanks to investments underway and to the enlargement of the portfolio of products.

2019 was characterised by a good performance in commercial terms confirming the growth trend recorded last year especially for Leonardo DRS, and in financial terms, with Revenues and EBITA on the rise compared to the previous year.

Below is a breakdown of the Key Performance Indicators of the sector:

December 2018	New orders	Revenues	EBITA	ROS %
Electronics - Europe	4,409	4,011	394	9.8%
DRS	2,438	1,980	128	6.5%
<i>Eliminations</i>	<i>(24)</i>	<i>(38)</i>	-	<i>n.a.</i>
Total	6,823	5,953	522	8.8%
December 2019	New orders	Revenues	EBITA	ROS %
Electronics - Europe	4,444	4,289	427	10.0%
DRS	2,611	2,438	186	7.6%
<i>Eliminations</i>	<i>(33)</i>	<i>(26)</i>	-	<i>n.a.</i>
Total	7,022	6,701	613	9.1%
Change %	New orders	Revenues	EBITA	ROS %
Electronics - Europe	0.8%	6.9%	8.4%	0.2 p.p.
DRS	7.1%	23.1%	45.3%	1.1 p.p.
<i>Eliminations</i>	<i>(37.5%)</i>	<i>31.6%</i>	<i>n.a.</i>	<i>n.a.</i>
Total	2.9%	12.6%	17.4%	0.3 p.p.

New orders. These showed an increase compared to 2018 due to the good performance in the European Defence Electronics & Security and in Leonardo DRS that confirms the excellent performance recorded in the previous year, and due to the positive effect of the USD/€ exchange rate. Among the main acquisitions during the period, Leonardo DRS was awarded the contract for the US Army mission commands for the production of the new generation of IT systems, known as Mounted Family of Computer Systems (MFoCS), and the additional supply to the US Army and Marine Corps, of TROPHY systems for the active protection of Abrams tanks; for the Electronics Division note the export order for the supply of a naval combat system and, in the United Kingdom, the orders for Airborne Systems for the development of electronically scanning radar avionics and communication systems. For the Automation business, note the orders for the upgrading of baggage handling systems for Geneva and Athens International Airports.

Revenues. These showed an increase compared to 2018, mainly due to the increased activities of Leonardo DRS and for Airborne Systems, as well as to the positive effect of the USD/€ exchange rate.

EBITA. It showed an increase compared to 2018, mainly due to higher volumes. ROS remained at good levels, although it was affected by a mix of revenues still characterised by "pass-through" activities and by programs under development or acquired in particularly competitive contexts, which are fundamental for positioning on key customers and for achieving the objectives for the coming years.

Outlook. In 2020, revenue volumes are expected to grow slightly and profitability is expected to improve further, despite the fact that the business mix is still characterised by programmes under development and significant shares of "pass-through" revenues.

Total sector market.

The market is equal to about €bil. 2,870 with a CAGR of 5.5% on a ten-year basis. The main segments in the electronics sector are:

- **Airborne & Space Systems:** the market is estimated at about €bil. 446 in the next ten years (including the value of logistics support ~30%) with an average growth of 3.0%. This growth trend is mainly driven by the demand for systems and sensors for platforms used in Combat/Special and ISR (Intelligence, Surveillance and Reconnaissance) missions. More of 50% of market demand and supply is attributable to the areas of North America and Western Europe, although there is a progressive growth in technological capacity and in the supply linked to the development of programmes for indigenous combat aircraft in South Korea, Turkey, Japan, Pakistan and China. In particular:
 - ✓ The segment of airborne radars, which is assessed at €bil. 80 in the next ten years with an average growth of 3.2%, is characterised by an increasing demand for multi-functional AESA (Active Electronically Scanned Array) radars which, with their low detectability, ensure greater stealthiness, above all for the 5th generation fighters.
 - ✓ The segment of surveillance, tracking and targeting EO/IR (Electro-Optical and Infrared) sensors is estimated at €bil. 62 in the next ten years with an average growth of 2.6%, the component of airborne EO/IR sensors of which is worth about €bil. 47, while the component of multispectral and hyperspectral sensors in the space segment is worth about €bil. 15 with an average growth of 1.6%.
 - ✓ The electronic warfare segment is estimated at €bil. 76 in the next ten years with an average growth rate of 3.1%. The continuing threat posed by Man-Portable Air-Defence Systems (MANPADS) contributes to the growing demand for Self-Protection systems especially for rotary wing platforms.
 - ✓ The segment of Communication, Navigation, Identification (CNI) systems is estimated at €bil. 56 with an average growth rate of 2.7%. In this segment there is an increasing demand for integrated CNI systems, Software Defined Radio (SDR), Mode 5 identification equipment and broadband communication systems.
 - ✓ The segments of mission systems, displays and controls are estimated at about €bil. 79 in the next ten years with an average growth of 2.9%. Also thanks to the introduction of Artificial Intelligence (AI),

the mission systems will manage more and more volumes of information, even in view of the development of Manned UnManned-Teaming (MUM-T) systems.

- ✓ The segment of Unmanned Aerial Systems, pertaining to the business area under consideration, which includes Aerial Target, Mini/Micro, Tactical and Light MALE systems, is estimated at about €bil. 33, in the next ten years, whose Tactical and Light MALE fixed wing component accounts for the most significant share (€bil. 22.5) and also includes MUM-T solutions and architecture.
- ✓ The Simulation & Training segment pertaining to the business area is estimated at €bil. 59 in the next ten years, with an average growth rate of 2.6% in line with the growth recorded in the market of airborne systems.
- **Land & Naval Defence Electronics:** the global market of land & naval defence electronics is estimated at about €bil. 600 in the next ten years, with an average growth rate of about 2.7%. The upward trend is supported by an increase in defence spending in all major geographical areas, as a result of the intensification of geopolitical tensions, new potential symmetric threats and the need to respond to growing security concerns linked to asymmetric threats and terrorism. In particular, the market for land & naval defence electronics is characterised by rising demand for:
 - ✓ command & control systems, a segment estimated at approximately €bil. 146 with an average growth of more than 3%, driven by the demand for modular and scalable Combat Management Systems solutions for multi-purpose and multi-mission surface vessels in the naval defence sector and by air defence systems, for battlefield digitalisation, territory control and border surveillance in the land defence sector;
 - ✓ land and naval communication systems are estimated at about €bil. 170 with an average growth of more than 2%. The segment is strongly characterised by the demand for flexible and interoperable radio and satellite terminals and communication networks to support strategic and tactical operations;
 - ✓ electro-optical systems for land and sea applications, which are worth about €bil. 85 with an average growth of more than 3.8%. The segment is characterised by robust demand for systems for detection, high-precision tracking and shooting control, as well as for Situational Awareness improvement and medium to high power lasers in order to also counter threats from unmanned platforms (C-UAV - Counter-Unmanned Aerial Vehicle);
 - ✓ land and naval radars: the segment is worth over €bil. 120 with an average growth of more than 2%, characterised by growing demand for air defence, land and coastal surveillance systems, systems for surface vessels and Integrated Mast (integrated turnkey sensor suite). The requirement for AESA technology remains a key driver;
 - ✓ electronic warfare systems for land and sea applications: the segment is worth about €bil. 28, with an average growth of 4.4%, mainly driven by a greater Anti Access/Area Denial (A2/AD) threat;
 - ✓ ATM (Air Traffic Management) and VTS (Vessel Traffic System) systems: the target market has a total value of €bil. 49, with a growth equal to 1.8%. The main growth drivers are linked to the growing

volume of air traffic and to the development of solutions to integrate unmanned aircraft within controlled airspace (UTM - Unmanned Traffic Management).

The market for land and naval electronics is also characterised by a steady and growing demand for protection against cyber-attacks and logistics services throughout the entire life cycle, particularly in the naval market.

- **Defence Systems:** the total market, which shows an overall value of approximately €bil. 340 over ten years and an average growth rate of 2.0%, will be sustained by the upgrading of the operational life of platforms, as well as by new technologies and demand for multi-mission platforms. The land weapons component relating to military vehicles, where the turrets component (accounting for approximately 50% of the vehicle market, over €280 billion) in the period from 2019 to 2028 is equal to approximately €140 billion with a CAGR of approximately 1.7%. The business showing the best development trend is still that of tracked vehicles (CAGR of 4%) due to the current requirements of the Armed Forces, such as greater mobility and protection; it is followed by wheeled vehicles (CAGR of 2.8%); guided munitions, worth a total value of approximately €bil. 15, is expected to grow at a sustained rate (CAGR of 10.4%) both for land and sea applications; the naval weapons component shows more limited volumes (about €bil. 13). The segment of underwater systems, which is estimated at about €bil. 29 over ten years, is expected to grow with a CAGR of 3.8%. The continuing disputes concerning maritime borders, the protection and control of offshore resources and trade routes, the spread of high-performance submarines determine the strategies of the world's leading navies. Consequently, the modernisation of naval fleets capable of carrying out these missions has repercussions on demand for dedicated systems (light and heavy torpedoes, sonar and acoustic countermeasures). The torpedo segment, in particular, accounts for approximately 45% of revenues in the Underwater Systems domain, with a weighted average growth of 4.5% (2019-2028).
- **Cyber Security:** the market shows a total value of approximately €bil. 1,500 over ten years, characterised by an average growth rate of 8.2%. However, the market is very volatile over a span of ten years due to complex global dynamics, which significantly influence the needs and expenditure of target markets, programs with short life cycles and high competitiveness. The main trends in the Division are characterised by rising demand for:
 - ✓ security: (i) an increasing demand for Command, Control, Communications and Intelligence (C3I) solutions for threat prevention; (ii) border monitoring and management solutions; (iii) physical and logical security solutions for critical infrastructures and transport;
 - ✓ digitalisation: (i) a rising demand for anti-cyber threat solutions; (ii) the need to increase the efficiency and improve processes, access to information and information management.

Leonardo operates to address integrated physical and logical security solutions for Police Forces, Government agencies and Defence, but also Critical National Infrastructures (CNIs) and large enterprises.

Aeronautics

In the **military aircraft** segment, the Eurofighter gained further ground in export markets after contracts with Kuwait and Qatar and the new developments (E-SCAN electronically scanning radars) which help to enhance operational capacity and performance. The M346 remained the leader in the trainer segment, which saw the launch of new versions and developments (M346 FT/FA) and of M345 HET models (maiden flight at the end of 2018), 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 was optimised with a view to greater competitiveness, with interesting prospects of new developments, including dual-use projects. Among vehicles for special missions were the first two ATR MP72 delivered to the Italian Finance Police. As regards civil aircraft business, ATR established 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.

In the aerostructures segment note their primary role in the supply of large structural components both in traditional materials (aluminium alloys) and in advanced materials (composites and hybrids), for the main commercial aeronautical programmes such as the 787, 767, A321, ATR, A220, A380 aircraft and for military platforms such as F-35, Eurofighter, C-27J.

In 2019 new orders were gained for an amount of €bil. 2.8, 68% of which related to the *Aircraft* Division. From a production point of view, 164 deliveries were made for fuselage sections and 92 stabilisers for the B787 programme (compared to 142 fuselages and 85 stabilisers delivered in 2018) and 68 deliveries of fuselages for the ATR programme (85 delivered in 2018). For the military programmes, the deliveries involved 4 C-27J aircraft and 41 wings for the F-35 programme (31 in 2018) to Lockheed Martin.

New orders. These showed an increase compared to 2018 due to the higher orders gained for training and ATR special version aircraft. Among the main acquisitions in 2019 note:

- in the Aircraft Division the order for the supply of 13 additional M345 aircraft to the Italian Army and related logistical support for five years, the first order for the sale of 6 M346 aircraft in the new FT/FA version to a foreign customer, the orders gained from the Eurofighter Consortium for services of engineering and support to the fleet of EFA (European Fighter Aircraft), as well as from Lockheed Martin in relation to the F-35 programme and from other customers for logistical support to the C27J, ATR Maritime Patrol and training aircraft. Finally, note the execution of the export contract for 2 a/c C-27J aircraft during the last quarter of 2019, again in the military aircraft segment;
- in the Aerostructures Division the orders for the supply of B787 and ATR fuselages for production operations on the B767, A321 and A220 programmes.

Revenues. These showed an increase compared to 2018 as a result of the rump-up of the production of the EFA-Kuwait programme in the Aircraft Division and of higher production rates of the B787 programme in the *Aerostructures* Division.

EBITA. These showed an increase compared to the result posted in 2018. The improvement recorded in the *Aircraft* Division, which confirmed excellent profitability levels, and in the *Aerostructures* Division, the performance of which started to benefit from actions aimed at improving efficiency of manufacturing processes, more than offset the lower result posted by the GIE-ATR Consortium, which was penalised by lower deliveries and a different mix.

Outlook. In 2020 revenues are expected to increase in the Aeronautics sector, mainly as a result of an increase in production volumes in the *Aircraft* Division, especially correlated to the EFA Kuwait contract, with profitability that is confirmed at excellent levels.

Total sector market

As regards **fixed-wing military aircraft** the market shows a growth trend over the next ten years at an annual average rate of about 5.4%, worth €bil. 680. More than 50% of overall world demand for military aircraft – both manned and unmanned – will come from the United States, 70% of which will be satisfied by domestic products, and the Western Europe, with a predominance of demand for combat and transport aircraft. The most important segment, in terms of numbers of deliveries and related value, is that of combat aircraft, in which the F-35 programme, which is in a phase of accelerating production, the F/A-18 E/F programme, the export of Rafale and Typhoon and, even to a lesser extent, the new Gripen E/F are very important. In addition to the F-35, the first 5th-generation aircraft for Russia (Su-57) and China (J-20) is being delivered. Two projects have been planned in Europe for the development of a new generation fighter, which will have to operate within a System of Systems consisting of several assets including legacy fighters, unmanned and loyal wingman systems, ISR systems and naval and land platforms. These projects are: Tempest in the United Kingdom, Sweden and Italy and FCAS in France, Germany and Spain:

- the **Tempest** fighter should replace the Typhoon as from 2035. The governments of Italy and Sweden must still define their involvement in the programme; the **Future Combat Air System Technology Initiative** (FCAS TI) is an eight-year research programme worth over GBPbil. 2, which is funded jointly by the UK Government and industry.
- **FCAS:** at the end of 2017 the governments of France and Germany agreed to develop a new generation combat aircraft, which will replace the French Rafale and German Typhoon aircraft as from 2040. In February 2019, said governments signed a contract with Dassault and Airbus, with French leadership, for the joint concept study (JCS) phase worth €mil. 65 for the first two years of the programme. In June 2019 the Spanish government formally joined the French-German programme with an initial contribution of €mil. 25 for the first two years.

The trainer aircraft segment will be characterised by development prospects essentially linked to the development of armed versions and the tendency of some nations to modify the training model of military pilots by outsourcing flight training and using training schools (Flight Training Schools). In the segment of

aircraft for tactical transport and special versions, the trend towards the development of multi-mission platforms is now well established. In Europe the development of a new generation unmanned aircraft (UAS - Unmanned Aerial Systems) for long-persistence strategic surveillance, protection and monitoring, reconnaissance and attack applications is taking shape, i.e. the European MALE RPAS (Remotely Piloted Aircraft System) joint programme between Airbus D&S, Dassault and Leonardo. The programme has passed the preliminary design phase and should start in 2020 its first development phase, which will last two years for a value of €mil. 90. In the UCAV (Unmanned Combat Air Vehicle) segment, the study and development of the Loyal Wingman concept in support of the MUM-T system is topical and of great interest.

During 2019, about 340 defence aircraft units were sold for a value of around €bil. 35, slightly down compared to 2018, and 560 aircraft units were delivered for a value of around €bil. 54, stable compared to the previous year. With regard to combat aircraft, the Italian government ordered 5 F-35s (2 F-35A and 3 F-35B). The German government is planning to replace the Typhoon Tranche 1 with 38 new aircraft; the Typhoon Tranche 3 and the F-18 E/F are competing. Furthermore the first two ATR72 MP units were delivered to the Italian Finance Police and the first A330 MRTT tanker was delivered to the Saudi Arabia Government.

The demand for **fixed-wing civil aircraft** is estimated at around €bil. 1,485 in the next ten years, with an annual growth trend close to 1.4%. The demand is driven above all by the countries in the areas of Asia and Middle East and is affected by both macro-economic and technological dynamics.

Commercial narrow and wide-body aircraft account for about 80% of the total market of civil aircraft. The demand for new narrow-body aircraft, which was supported by the global economy performance, was also characterised and driven by the policies aimed at renewing the offer on an environmentally sustainable basis applied by leading manufacturers such as Airbus with the re-engined A320NEO family and the A220 family (formerly Bombardier's CSeries) and Boeing with the re-engined 737 Max programme. However, the deliveries for the latter programme were blocked during 2019 following two serious fatal accidents and the consequent suspension ordered by the Certifying Bodies. Production work on the 737 Max was therefore suspended (in early 2020). New narrow-body programs of innovative design are not expected to be launched before 2035.

The demand for wide-body aircraft is driven by the ramp-up of Airbus A350 and Boeing 787 programmes, while demand for large-size four-engine aircraft (A380, B747) is now exhausted due to their low cost compared to more efficient twin-engine aircraft. In the coming years, the twin-engine wide-body aircraft offer will be further enriched with the supply of the new 777X models by Boeing (as from 2020), which will compete with the A330NEOs recently added to the fleet.

In 2019 there was a negative trend in sales compared to 2018. Net new orders for aircraft with a capacity exceeding 110 seats amounted to 830 units (776 Airbus and 54 Boeing), with a decrease of approximately 50% compared to the previous year (1,670 net orders) as a result of the suspension of deliveries of Boeing 737 aircraft. There was a decline also in production accruals and global deliveries. As already occurred in the last

two years, Airbus and Boeing expanded their presence in the cross-over segment of the so-called "high-capacity regional aircraft", i.e. planes with a capacity halfway between those of actual regional aircraft (turboprops with up to 70 seats and jets with up to 100 seats) and the bigger airliners.

Boeing is establishing a new entity (Boeing Brazil - 80%-owned) in partnership with Embraer in which to integrate the Commercial Aviation division of the Brazilian manufacturer (E-Jets/E2 programme with 70 to 130 seats). This transaction requires approval from the main global Antitrust bodies: they have given their positive opinion in the United States, Japan and China; the European Union has instead requested more in-depth investigations and for this reason the incorporation of the new Boeing / Embraer entity is postponed until at least the second quarter of 2020.

During 2019, sales of 160 regional aircraft totalled approximately €6 billion, including sales of 86 turboprop aircraft. A change in the competitive scenario is also underway for regional aircraft: Bombardier has transferred the Q400 turboprop programme to De Havilland Aircraft in Canada and the CRJ regional jet programme to the Japanese company Mitsubishi, which has already declared its phase out in 2021 when the Space Jet should have entered into service. The ATR programme was still the leader in the turboprop segment, with 65 orders (24 ATR72 and 41 ATR42), while its direct competitor Q400 totalled 11 sales. Also in terms of production volumes, ATR clearly dominated in 2019 with 68 units delivered compared to 15 Q400. At the end of 2019 the backlog of regional aircraft amounted to 1,108 units (877 jets and 231 TP) equivalent to more than 5 years of production at current rates.

The total market for **civil and military aerostructures** is closely linked to demand for new aircraft, showing a net dominance of production for civil programmes (accounting for about 69% of the entire market). Over the next decade, the demand for aerostructures will reach a total value of €bil. 590 (at constant 2018 economic conditions), while the related outsourced share (assigned to the supply chain) will total approximately €bil. 226 with an average of almost €bil. 23 per year and an annual growth rate of 1.6% for 2019-2028. Both manufacturers Airbus and Boeing have so far driven outsourcing with their market and product policies and it is expected that they will continue to do so over the next decade, too; however, some critical production operations are expected to potentially go back to be carried out in house with consequent reduction and streamlining of the supplier base. Only 5% of outsourcing operations, a still limited volume, is generated by military aircraft, this market being mainly linked to intergovernmental programmes, offset policies or manufacturing collaboration agreements. 2019 was marked by several significant events, which are already described in the paragraph on civil aircraft (B737 MAX accidents, Boeing negative orders, fall in deliveries and production accruals for Boeing aircraft, postponement of the launch of new aircraft), the impact of which is gradually becoming clear on Airbus, Boeing and the entire sub-contracting chain. In addition to the considerable uncertainty regarding the impact on the subcontracting chain involved in the key programmes of Boeing and Airbus, the consequences of the gradual process aimed at strengthening the aerostructures sector, which has already been underway for some years, are also to be assessed. Some major acquisition and disposal operations should be highlighted: Spirit Aero Systems (USA) announced the acquisition of Asco Industries

(Belgium) for \$mil. 420 and the three manufacturing sites of Bombardier Aerospace (Belfast, Casablanca and Dallas), including approximately 4,000 employees, for a total cost equal to about \$bil. 1.1. In October 2019, Triumph reached an agreement with TECT Aerospace (USA) for the sale of its Nashville site. In the long term, growing competition from new products and new players in emerging countries (China, Russia, ...) will change the competitive scenario once again, thus eroding the market shares held by the Airbus-Boeing duopoly and paving the way for collaboration and partnership agreements with Western suppliers, even in the aerospace market segment. However, these new programmes (MS-21 from UAC, C919 from COMAC, CRJ929 from the CRAIC JV) are expected to report lower levels of outsourcing and lower production volumes than the current Western programmes.

Space

Leonardo's footprint in the satellite services market foresees a global expansion scenario in each of its three components: telecommunications, geo-information and satellite operation services. During the last twenty years, Telespazio has strengthened its role as a market leader in satellite operations of institutional systems for the European market, as a result of skills and expertise acquired as a Galileo System Operator (GSO) and under other major national programmes. On the other hand, interesting growth opportunities in the telecommunications market arise from the offer of services based on high-capacity satellite systems and end-to-end services, in particular in the solutions dedicated to defence and mobility. In the geo-information segment Telespazio is interested in strengthening its position as a provider of solutions for the most attractive applications, such as those dedicated to intelligence and national security, as well as to humanitarian and environmental emergencies. To this end, Telespazio may strengthen its role thanks to the capabilities offered by the new generation of the Cosmos constellation and the integration of data provided by both new satellite systems and non-satellite sources, such as ground sensors and drones, in order to deliver efficient and innovative products and services capable of meeting its customer requirements.

In 2019 the sector recorded a commercial performance characterised by the good performance of the segment of services against a decline in the manufacturing segment, in particular in the field of satellites for Earth Observation, Exploration and Navigation.

In terms of results of operations, the 2019 financial year was affected by the bad performance of the manufacturing segment, which recorded lower business volumes, particularly for telecommunications satellites, and higher costs on development programmes relating to new generation satellite platforms, as well as significant restructuring costs arising from the plan to reduce workforce in order to cope with the drop in workloads at certain French sites. This deterioration was partly offset by the positive results of the satellite services component which, on the other hand, showed higher revenues and a marked improvement in net profit compared to the previous year, as a result of higher volumes, as well as of the restructuring costs under Law 92/2012 (Fornero Act) recorded on the Italian operations in 2018.

From an operational point of view, 2019 was marked by the launch of the first second-generation COSMO-SkyMed Earth observation satellite in December and of the hyperspectral satellite PRISMA from the Italian Space Agency in March. Also worth mentioning are the successful launches during the year involving the last four satellites of the O3b telecommunication services constellation, which now has 20 satellites in orbit, the GX5 ultra-high Ka-band performance telecommunications satellite built for Inmarsat and the Yamal-601 telecommunications satellite designed and built for the Russian operator Gazprom Space System.

Outlook. 2020 was marked by substantially stable business volumes and increasing profitability as a result of a gradual recovery in the manufacturing segment and of an improvement in services.

Total sector market

Demand in the sector of space systems and services shows an overall value equal to €bil. 1,230 in the ten-year period from 2019 to 2028, associated with a stable growth rate of about 3% per year. A 46% share of total market related to space activities is accounted for by services, with a high growth rate of 8.4% for the next decade. This growth is to be attributed to the increasing availability of new technologies that pave the way for new applications and a higher demand for connectivity, even in remote locations. The remaining 54% is related to operations concerning manufacturing and launch systems. In this second cluster of activities, a stable market is expected for the next decade, with a growth rate of around 1%, due in particular to an uncertain demand that has seen the decline of traditional systems (large satellites for geostationary orbit) giving way to smaller and lighter satellites with lower costs. This trend is also having an impact on the market of launch systems, where increasingly efficient and less expensive solutions are being sought, with systems and facilities dedicated to the launch of smaller satellites. The Institutional Bodies, including space agencies, national and international civil and military government agencies, play a particularly important role in the space industry, since they represent major investors and promoters of space development, as well as major customers. The development of space capabilities and infrastructures continues to be a goal to be attained in many countries, including emerging countries, which see space as a crucial market for promoting local economic development. In this context, partnership agreements, which include technology transfer, serve to meet this need and encourage the creation of a national industry of their own.

In addition to the entry of new countries into the Space market, recent years have seen the advent of new players, with innovative offers both in terms of infrastructure and services, which are able to attract the interest of private investors. In 2018 alone, an amount of more than USD bil. 3 was invested in start-ups dedicated to Space solutions, giving rise to the phenomenon defined as New Space, indicating innovative offers and the recent incorporation of new companies, as well as the application of new business models. Among these, the phenomenon of constellations of mini satellites, which are inexpensive, mass-produced and easily replaceable, developed and operated by new players, based on an integrated supply chain approach, from manufacturing to direct service offering, is of particular importance.

The phenomenon of constellations has its greatest impact on the market component relating to satellite telecommunication services, where several new entrants are revolutionising their approach to the commercial market: from traditional long-life, high mass, single or dual satellite systems to systems of hundreds and in some cases thousands of light satellites, with a maximum life of 5 years, placed in low orbit and offering global coverage. The demand for telecommunications from the institutional segment is instead driven by the demand for secure communications in remote areas for the Military segment. The trend in the civil aircraft sector described above has encouraged fierce competition, not only due to the high number of systems and solutions available, but also as a result of the increasing verticalisation that is affecting this segment, where traditional satellite operators (owners of the system/satellite and consequently of the capacity) no longer rely on Service Providers to offer the capacity at their disposal but enter the market directly with their own service offering. The geo-information segment sees its development based on increasingly innovative solutions, where the possibility of acquiring and processing large amounts of data (Big Data) will be one of the key drivers to market growth in the next decade. The amount of data available allows in fact the offering of more and more specific solutions for each customer: alongside the traditional market represented by data provided by optical and radar sensors, there is now greater interest in data collected from different sources, such as video sensors, sensors dedicated to an accurate meteorological measurement and sensors dedicated to the monitoring of carbon emissions. In consideration of such demand, there has been an increase in systems and solutions from the major players, which are interested in ensuring their market leadership.

The trends highlighted in the telecommunication and geo-information market have an impact on the market of satellite operation services, driven by the number of systems in orbit that are operated from earth. This market is typically more stable and the main component derives from the operation of military and government systems. The main driver for growth is also the possibility to carry out in-orbit servicing of satellites through the use of specific systems built to offer repair, displacement, safe de-orbiting and support services to extend the life of the system.

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Other performance indicators

	2018	2019	Change
FFO	1,400	1,476	5.4%
Research and development expenses	1,440	1,525	5.9%
- of which IRAD	524	553	5.5%
Net Interest	(196)	(182)	7.1%

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.

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"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 have commercial substance and represent an obligation for both parties to fulfil the contract.
- **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):

<i>(€ millions)</i>	<u>2018</u>	<u>2019</u>
Income before tax and financial expenses	499	993
Equity-accounted strategic JVs	216	160
EBIT	<u>715</u>	<u>1,153</u>
Amortisation of intangible assets acquired as part of business combinations	98	27
Restructuring costs	205	28
Non-recurring (charges) expenses	102	43
EBITA	<u>1,120</u>	<u>1,251</u>

Restructuring costs for the year mainly relate to the reorganisation of the DRS activities in the *Defence Electronics and Security*. Vice versa, the amount of 2018 (€mil. 170) was mainly related to costs linked to the Fornero procedure.

Non-recurring costs are mainly related to management's estimates on particularly significant situations, which are not attributable to the normal course of business, linked to write-downs or to the effects deriving from the discontinuance of some businesses. Specifically the abovementioned costs relate to the *Defence Electronics and Security* and 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 “Profit (loss) 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:

<i>(€ millions)</i>	<u>2018</u>	<u>2019</u>
Net result	510	822
Net result of Discontinued Operations	(89)	(100)
Net result before extraordinary transactions	<u>421</u>	<u>722</u>

- **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, until 2018, the non-current financial receivable from Superjet, backed by bank guarantees. Starting from 2019, such position

was reclassified under current receivables based on the arrangements for the rescheduling of the Group's participation in this programme, which provided for the repayment within 2020. The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is reported in Note 21 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 808/1985, 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;
 - 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").The value of the Internal Research and Development (IRAD) refers to the portion of Research and Development expenditure charged to the income statement and capitalised.
- **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).

Annual financial report at 31 December 2019

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
Revenues	13,784				13,784
Purchase and personnel expenses	(12,136)			22	(12,104)
Other operating income	551	10			
Other operating expenses	(587)				
Other net operating income/(expenses)	(36)			(22)	(23)
Equity-accounted strategic JVs		35	160		160
Amortisation, depreciation and write-offs	(619)	27	26		(566)
EBITA					1,251
Non-recurring income/(charges)			(43)		(43)
Restructuring costs			(28)		(28)
Amortisation of intangible assets acquired as part of business combinations		(27)			(27)
EBIT					1,153
Financial income	168				
Financial expenses	(475)				
Share of profits/(losses) of equity-accounted investees	183				
Net financial income/(expenses)	(124)		(160)		(284)
Income taxes	(147)				(147)
Net result before extraordinary transactions					722
Net result related to discontinued operations and extraordinary transactions	100				100
Net result	822				822

Scheme	Financial receivables and cash	Financial payables	Hedging derivatives on debt items	Reclassified scheme
Non-current assets	12,336	-		12,336
Non-current liabilities	(6,218)		3,975	(2,243)
Capital assets				10,093
Current assets	14,465	(2,159)		12,306
Current liabilities	(15,318)		1,031	(14,287)
Net working capital				(1,981)
Total equity	5,334			5,334
Group Net Debt		(2,159)	5,006	2,847
Net (assets)/liabilities held for sale		(69)		(69)

Annual financial report at 31 December 2019

	Scheme	dividends received	Cash out from Law no. 808/85 payables	Strategic investments	Reclassified scheme
Gross cash flows from operating activities	1,847				
Change in trade receivables/payables, contract assets/liabilities and inventories	(528)				
Change in other operating assets and liabilities and provisions for risks and charges	(390)				
Interest paid	(216)				
Income taxes received/(paid)	(68)				
Cash flows generated (used) from operating activities	645		128		773
<i>Dividends received</i>		174			174
Investments in property, plant and equipment and intangible assets	(594)				
Sales of property, plant and equipment and intangible assets	17				
Cash flows from ordinary investing activities	(577)		(128)		(706)
Free Operating Cash Flow (FOCF)					241
Strategic transactions				(44)	(44)
Other investing activities	111	(174)		44	(18)
Cash flows generated (used) from investing activities	(466)				
Treasury shares purchase	-				-
Bond issue	-				
Term Loan and BEI Subscription	300				
Bond redemption	(423)				
Net change in other loans and borrowings	(58)				
Net change in loans and borrowings	(181)				(181)
Dividends paid	(81)				(81)
Cash flows generated (used) from financing activities	(262)				
Net increase (decrease) in cash and cash equivalents	(83)				(83)
Exchange rate differences and other changes	2				2
Cash and cash equivalents at 1 January	2,049				2,049
Net increase (decrease) in cash of discontinued operations	(6)				(6)
Cash and cash equivalents at 31 December	1,962	-	-		1,962

Effects of the new IFRS 16 accounting standard “Leases”

As from 1 January 2019 Leonardo applied the new IFRS 16 accounting standard “Leases”, which replaces the previous IAS 17, under which the financial statements at 31 December 2018 was prepared. The standard was applied from 1 January 2019, without restating the 2018 accounting balances for comparative purposes.

On the basis of the cases applicable to the Group, and as detailed in Note 5 to the consolidated financial statements to which reference should be made, the adoption of the accounting standard entailed the recognition of rights of use (€mil. 445) against the existing lease agreements and of financial liabilities equal to the present value of future lease payments (€mil. 458). Accordingly, the 2019 income statement reflects the amortisation of the aforesaid rights of use and interest on the recognised financial liabilities, in lieu of the lease rentals recorded in the financial statements at 31 December 2018.

Finally, the cash flow statement only includes, under Free Operating Cash Flow, the component of interest reimbursed in relation to the lease rentals paid during the period (€mil. 18); the component concerning the repayment of the capital quota of the financial liability is stated under the item of changes in borrowings (€mil. 54). On the contrary, the 2018 Free Operating Cash Flow included the full amount of the lease rentals paid during the period.

Outlook

The expected trend in 2020 represents another important step in achieving the target of the Business Plan set by the Group, with a further increase in Revenues accompanied by an improvement in profitability and a significant growth in cash generation, maintaining a level of investments that guarantees long-term business sustainability.

Before COVID-19 impact, Leonardo currently expects the following in 2020:

- high level of new orders (circa € 14 bn) thanks to the closing of important domestic and export orders in all business segments, demonstrating the Group's ability to effectively manage its key markets;
- revenues of € 14 - 14.5 bn, with growth compared to 2019 driven by the contribution of the EFA Kuwait programme, the solid order portfolio and the positioning of the Group's products in the most attractive market segments;
- increasing profitability, with EBITA of € 1,325 - 1,375 mln, supported firstly by growth in volumes secondly by good levels of industrial profitability that we are seeing despite increasing pass-through activities, thirdly by the progressive improvement of the profitability of specific business areas, and finally through initiatives to improve both efficiency and industrial processes;
- cash flow generation significantly improved against 2019, with FOCF of € 400 – 450 mln as a result of the financial profile of the EFA Kuwait contract as well as growth in operating income and our constant focus on working capital optimisation.
- group net debt in the range of ca. € 2.8 bn, and which includes an additional IFRS 16 effect (circa € 0.1 bn), the acquisition of Kopter (approximately € 0.2 bn), and dividend payment.

The estimates for the year 2020 are summarized below.

These estimates do not include the potential impacts of COVID-19(*)

	<i>FY2019</i>	<i>2020 Outlook</i> (**)
Orders (€bn)	14.1	ca. 14
Revenues (€bn)	13.8	14 – 14.5
EBITA (€m)	1,251	1,325 – 1,375
FOCF (€m)	241	400 – 450
Group Net Debt (€bn)	2.8	ca. 2.8 (***)

(*) Within the sections "Leonardo and risk management" and "Significant post balance sheet events", the topic related to COVID-19 is discussed

(**) Assuming a € / USD exchange rate of 1.15 and € / GBP of 0.88.

(***) Includes an additional IFRS 16 effect (approximately €0.1bn), the acquisition of Kopter (approximately €0.2bn) and dividend payment

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Related party transactions

In 2010 Leonardo adopted a specific “Procedure for Related Parties Transactions” (hereinafter referred to as the “Procedure”), which was mostly recently updated in December 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, during 2019 neither transactions of greater importance (as defined by Article 4.1.a of the Regulation and identified by the abovementioned Procedure pursuant to Annex 3 attached to the Regulation) nor other transactions with related parties were carried out which significantly affected the consolidated financial position or the results of the Leonardo Group for the period under consideration. Finally, it should be noted that no changes or developments took place in relation to the related party transactions described in the 2018 Report on Operations.

CONSOB Market Regulation n. 20249/2017, Article 15

In accordance with CONSOB provisions contained in the Market Regulation adopted by CONSOB Resolution no. 20249 of 28 December 2017 and subsequently updated by the amendments made by Resolution no. 21028 of 3 September 2019, 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. 21016 of 24 July 2019. 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. The major transactions that took place in 2019 are described below:

- **Acquisition of Vitrociset:** on 31 January 2019, as all required conditions were met including Golden Power and Antitrust approvals, Leonardo signed the closing of the acquisition of 98.54% in Vitrociset. As amply discussed in Note 33 to the consolidated financial statements, to which reference is made, the space business unit of Vitrociset will be spun off and offered to the Space Alliance;
- **Joint Venture in Algeria:** on 25 March 2019, Leonardo signed an arrangement with the Algerian Ministry of Defence for the establishment of a joint venture for the assembly, sale and supply of services regarding Leonardo's helicopters in the country;
- **Merger of Sistemi Dinamici S.p.A. by incorporation into Leonardo S.p.A.:** on 27 June 2019 the Board of Directors approved the plan for the merger of Sistemi Dinamici S.p.A. - an engineering company, which is a direct wholly-owned subsidiary operating in the development, production and sale of remotely-controlled aircraft – by incorporation into Leonardo S.p.A.. The transaction, effective as from 1 January 2020, falls within the scope of the overall One Company project for the rationalisation of some assets, in terms of strategy and corporate structure, used in the core business of the Aerospace, Defence and Security, in order to make Leonardo's industrial operations more efficient and effective, with a view to completing the process of combination between the two companies, which had been started in 2016 with the acquisition of total control over Sistemi Dinamici;
- **Sale of the interest owned in Eurotech:** on 2 August 2019 Leonardo sold to Emera S.r.l. its entire stake held in Eurotech S.p.A., equal to 11.08% of the share capital (3,936,461 shares), at a price of €4.58 per share. The transaction was completed on 5 August 2019;
- **Acquisition of an interest in Skydweller Aero Inc.:** on 11 November 2019, Leonardo acquired an interest in Skydweller Aero Inc., a start-up specialising in the development of a new generation of unmanned aircraft. The project will entail the development and use of the Skydweller drone, the world's first solar-powered remotely-controlled aircraft capable of perpetual flight with heavy payloads. Leonardo's investment is equal to 8.02% of the share capital and to 27.96% of the "Series A Preferred Stock" issued as at the date of subscription;
- **Agreement with Precision Aviation Service:** on 20 December 2019 Leonardo signed the contract for the acquisition of Precision Aviation Service (PAS) with the objective of strengthening its local service capacity and, therefore, improving support to the fleet operating in the Sub-Saharan Africa region (in particular South Africa). PAS operates mainly on the fleet of Leonardo Helicopters, which relies on 120 aircraft in the Sub-Saharan region, with some operations for other helicopters. The closing of the transaction is expected during the first half of 2020.

Finally, it should be noted that on 28 January 2020 Leonardo signed a contract with Lynwood (Schweiz) AG to acquire 100% of the Swiss helicopter company Kopter Group AG (Kopter). The SH09, the new single-engine helicopter currently under development by Kopter, is part of Leonardo's product portfolio and offers opportunities for further technological developments in the future. The Swiss company's expertise will allow the development of new technologies, mission capabilities and increased performance, including hybrid/electric propulsion solutions, to be speed up. The acquisition will replace the investments aimed at developing a new single-engine helicopter already envisaged in the Plan. Kopter will act as an autonomous legal entity and competence centre within the Leonardo Helicopter Division. For more details on the transaction, reference should be made to Note 7 of the Consolidated Financial Statements. The operation is expected to be completed in the first half of 2020.

Financial transactions. A feature of 2019 was a major series of capital market transactions. More specifically:

- In May there was the use of the loan raised with the European Investment Bank (EIB) with a value of €mil. 300, which had been signed in November 2018 and was aimed at supporting the investment programmes envisaged in the Groups' Industrial Plan;
- In November there was the completion of a Tender Offer on the US market, concerning the repurchase of bonds due 2039 and 2040 (with coupons of 7.375% and 6.25%, respectively) for outstanding nominal amounts of USDmil. 169 and USDmil. 263, respectively, which were issued by Leonardo US Holding and guaranteed by Leonardo S.p.a.. The offer was successfully completed with bonds repurchased for an overall nominal amount of USDmil. 127, which gave rise to a residual outstanding value of the Bonds equal to USDmil. 124 due 2039 and USDmil. 182 due 2040. The bonds involved in the repurchase have been cancelled. The overall transaction cost (deriving from a total amount paid exceeding the entry value of repurchased bonds), amounted to USDmil. 23 (€mil 20). The transaction will allow the Group's future financial costs to be reduced by a gross amount of about USDmil. 154 (€mil 139) on a whole-life basis, with a present value (NPV) of about USDmil. 92 (€mil 83), net of transaction costs. The table below reports the restated nominal value of the issues involved in the transaction:

Year of issue	Maturity	Currency	Outstanding nominal amount before buy back (mil.)	Annual coupon	Outstanding nominal amount after buy back (mil.)
2009	2039	USD	169	7.375%	124
2009	2040	USD	263	6,25%	182

- In December there was the repayment of the bond issue for an initial nominal amount of GBPmil. 400 and a residual nominal amount of GBPmil. 278, which had been issued in 2009 and which had reached its natural expiry date.

Furthermore, in May there was the renewal of the EMTN programme for 12 additional months, leaving the maximum available amount of €bil. 4 unchanged.

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 2019 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 and lease liabilities)/EBITDA (including depreciation of the right of use assets) must be no higher than 3.75 and the ratio of EBITDA (including depreciation of the right of use assets) 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. Furthermore, these covenants are envisaged in certain loans granted in past years to DRS by US banks. In relation to this Annual Financial Report, there was full compliance with the covenants (the two ratios are 1.0 and 9.6, 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. On the basis of the improvement reported in terms of profitability and cash generation, Standard&Poor's upgraded Leonardo's outlook from stable to positive in December 2019.

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	December 2019	BB+	positive	BB+	stable
Fitch	October 2017	BBB-	stable	BB+	positive

(*) Furthermore, Moody's upgraded the baseline credit assessment (BCA) from Ba2 to Ba1, while maintaining both the rating (Ba1) (Corporate Family Rating – CFR) and the outlook (stable) unchanged, in May 2019.

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 from its shareholders.

Finally, it should be noted that on 29 January 2020, after the end of the year, Leonardo signed a loan agreement with Cassa Depositi e Prestiti (CDP) amounting up to €mil. 100 to support investments in R&D and innovation, which was used in February 2020. The loan is aimed at co-financing some investment projects envisaged in the Industrial Plan, which have already been 50% financed by the European Investment Bank (BEI).

Leonardo and the scenario

General macroeconomic scenario

The feature of the world scenario in 2019 was great uncertainty affecting the main macroeconomic variables.

Below is a graph representing the world performance of trade, investment and consumption:



The growth rate for world trade was dramatically declining in 2019 but then showed a slight rebound in 2020. This trend, which is well below the long-term average, is due to the protectionist measures put in place globally. In particular, the United States continued with its protectionist policy, introducing duties and tariffs, especially in order to counter China's growth as a global leader but also hurting Western countries such as those in the European Union, Mexico and Canada. The aim of these policies is to obtain more favourable trade terms, as happened with NAFTA.

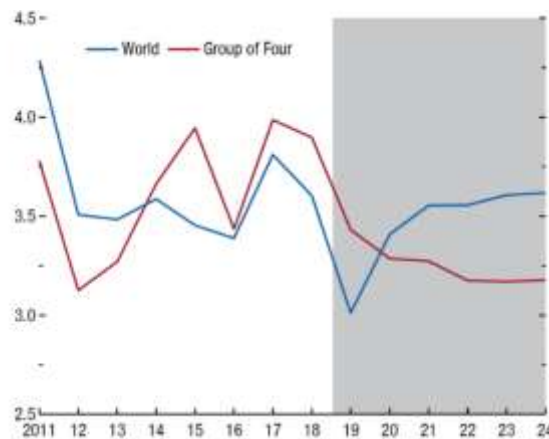
Investment is also declining, albeit moderately, because of the modest support of the tax policies.

The consumption figure is somewhat stable and in line with the long-term average data.

The prices of raw materials grew moderately, in any case to the benefit of exporting countries. Externally, the EU had to handle the immigration phenomenon and internally it was under pressure from nationalists and had the Brexit process to deal with.

In 2019 the New York stock exchange fully recovered the drop in 2018, while the Japanese stock market recorded a fall owing to profound doubts concerning the efficacy of the policies that had been put in hand. European markets chalked up a 15% recovery in 2019, which more than offset the decline in 2018. In Europe returns on bonds are still low thanks to the ECB's quantitative easing and other policies.

GDP performance in the world and in the four more industrialised countries is shown below:



The more industrialised areas (China, Japan, the Euro area and the United States) have been on the wane since 2018, while the world figure has been on the rise starting from 2019. All the indications are that the growth of many economies in emerging countries is forecast to rise sharply and this will bring the two trends to meet in 2020 at a value approximating a 3.25% growth rate.

The European economies were conditioned by external factors in 2019 that reduced growth (from 1.8% in 2018 to 1.2% in 2019). The most serious threats come from the United States in the form of customs tariffs.

In the Eurozone, Germany's economic strength wobbled, also owing to Angela Merkel's announced withdrawal in 2021. The CDU/CSU remained the biggest party (29.0%) in the 2019 European elections even if it lost ground. Germany, which recorded modest growth (1.2%), also renewed the Elysée Treaty with France, with which it keeps up a privileged relationship. Italy, particularly reliant on export, was adversely affected by the slowdown in the economies of some European countries and the protectionist policy embarked upon by the United States. Growth in Spain was satisfactory (2.2%) while Greece improved its economic position and is able to place its debt on the market again. The unemployment rate in the Eurozone went down to 7.7% in 2019.

Among the non-Eurozone EU countries, Poland's economy grew again (4.0% in 2019) although slower growth is forecast for 2020, while the scenario in the United Kingdom is uncertain owing to Brexit: economic growth in 2019 was 1.2%.

Outside the European Union, Russia continues to suffer from the sanctions imposed by the United States and the European Union and its economy slackened in 2019 in spite of the signs of recovery that emerged in 2017 and 2018.

In the United States GDP continues to rise whereas unemployment was below 5% thanks to the tax reform in 2017. In foreign policy, the US abandonment of the Paris climate accords and its exit from the nuclear agreement with Iran heightened tensions with its European allies, while as regards domestic policy Trump confirmed officially that he would be standing for a second mandate.

In South America unemployment started rising again in Brazil despite economic growth in 2017 and 2018, while in Argentina, the upturn in the cost of money resulted in a contraction of foreign loans and the country has gone into recession. In Chile economic growth in 2019 was fairly good (2.5%), owing to exports, while Venezuela has been in a total political crisis for years and the economy plummeted by 18%.

Asia is the continent with the highest growth rate (5.3% in 2019).

China, the second economy in the world in nominal terms and the first for purchasing power, recorded a progressive slowdown (from 9.5% in 2011 to 6.1% in 2019) which is likely to continue in 2020, also owing to the crisis due to the spreading of the coronavirus.

In spite of a quarter of the population lives under the poverty threshold, India continues to grow steadily (6.1% in 2019).

Although expansionary monetary policy in Japan encouraged exports, labour costs and public debt rose with a low economic growth rate (0.8%).

Growth exceeds 5% in Indonesia but this is insufficient to support a country with a continuously expanding population and the government accordingly cut subsidies in order to obtain resources to invest in infrastructures.

South Korea, in a context of stable growth (2% in 2019), tried to enter into a new, positive relationship with North Korea, which however went on with missile tests, and it started to be active diplomatically also with China.

In the Middle East the economy is bound up with hydrocarbons quotations, making it increasingly urgent to diversify development models.

Substantial reforms are being made in Saudi Arabia, but growth was almost nil in 2019 (0.2%) and the chronic budget deficit was aggravated by the costs of the war in Yemen, while in the United Arab Emirates and Qatar growth rates were 1.6% and 2.0%, respectively, during the period.

Iran, which had just began enjoying the benefit of the reduction of international sanctions after its nuclear programme accords, was hit by the United States' withdrawal from the treaty in 2018 and the simultaneous resumption of sanctions and tension heightened at the end of the year.

The complex political situation in Turkey put a brake on foreign investment, while the rising deficit and the absence of reforms undermined international confidence. A more and more aggressive foreign policy (Turkey invaded Syrian territory and took up an active role in conflict in Libya) and ties with Russia, not only at political level but also in the defence sector, became causes of disagreement with the United States and its other NATO allies.

Sub-Saharan Africa continued to grow at a satisfactory rate (3.6%) in 2019 but the picture is anything but homogeneous.

There was a recovery in Nigeria (2.5%) after the 2016 recession, brought about by the fall in the prices of hydrocarbons, while growth slowed down in South Africa (0.7%) and inflation held at 4%-5%; the political crisis caused by the resignation of President Zuma in 2018 and the uncertain management of the economy slowed down foreign investment and increased the volatility of the rand.

Libya remains the victim of a civil war that has not been resolved by negotiations; oilfields are controlled by different factions, reducing exports to very low levels. In Egypt falling revenues obliged the country to ask the IMF for a heavy loan while inflation remains high. Growth fell in Algeria (2.6% in 2019); the government raised taxes and introduced import disincentives and the statist economic structure does not encourage diversification.

Finally, after decades of continuous growth and low unemployment, Australia had to deal with fluctuations in the prices of raw materials, of which it is a strong exporter; nevertheless, the economy responded positively, recording a growth rate of 1.7%. There was an unprecedented environmental disaster in the second half of 2019, which affected its natural heritage with serious adverse impacts in various sectors.

Trend of world defence budget

The global defence budget (equal to about €bil. 1,600 in 2019) shows an average compound annual growth rate (CAGR) of 1.4% in the period from 2019 to 2024. Expenditure on procurement and investments in R&D remains on a growth trend (0.8% in the period), mainly in MENA, Asia-Pacific, Eastern Europe and Sub-Saharan Africa regions.

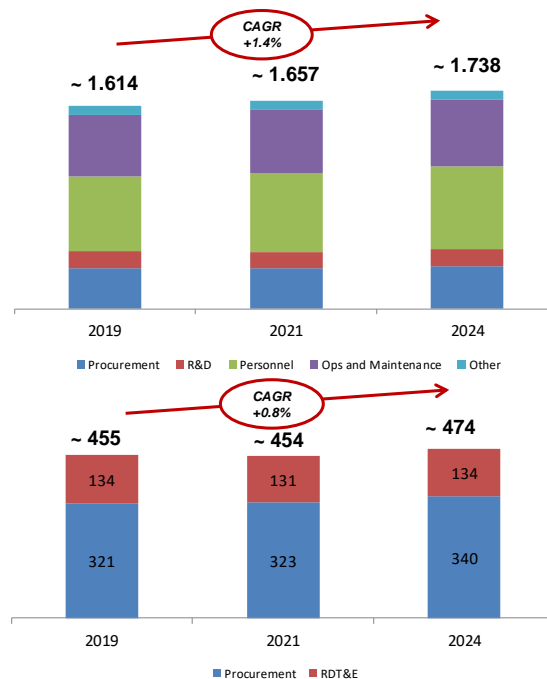
Even if the world economic growth has slackened, the challenges in strategy resulting from the new global tensions stimulates NATO investments and common European defence projects.

Observance of the commitments entered into at the NATO summit in Wales in September 2014, confirmed in Warsaw in 2016 with the Defence Investment Pledge, continues to be one of the fundamental political issues in debates in the Atlantic Alliance. The Member States signed an undertaking to allocate 2.0% of their GDP within 2024 to expenditure on defence, on which the 20.0% to the contribution for NATO missions, operations and other activities.

A very important question is that of Turkey, not only owing to the recent Turkish military campaign in north-eastern Syria, but also as a result of the acquisition of the Russian S-400 anti-missile system.

Finally, for the first time NATO considers Chinese growth as a challenge to transatlantic security.

The trend of defence budgets (total and procurement + R&D) is as follows (values in €bil.):



The United States defence budget increased substantially in the two-year period 2018-2019 and the President’s request for 2020 was extremely high (€bil. 670, reduced to €bil. 659 by the Congress). The draft bill forbids all military cooperation with Russia and proposes sanctions against Turkey, also blocking the transfer of Lockheed Martin’s F-35s owing to the Turkish acquisition of S-400s from Russia. The draft bill also institutes the Space Force under the Air Force as the sixth United States armed force and contains a number of provisions

that meet the potential threats from China, asking for special reports on Chinese investments and its military relations with Russia. Finally, the draft bill's intention is to prevent North Korea from developing nuclear weapons by imposing fresh sanctions.

The United Kingdom has allocated €bil. 49.6 to the 2019 defence budget, equivalent to 2.1% of GDP. Military investments, which felt the effects of the austerity measures brought in after the global economic crisis in 2009, have steadied. The uncertainties arising from the Brexit implementation weigh down on the next few years. In 2020 major investments are expected for Astute and Dreadnought nuclear submarines, Type-31e frigates, F-35B fighter-bombers, P-8 maritime patrol vessels, E-7 Wedgetail aircraft and land platforms (AJAX, BOXER). The Tempest project for the new 6th generation fighter aircraft has been launched officially, with €bil. 2.3 allocated for development until 2025 and involves Italy and Sweden.

The forecast for economic growth in France is only modest, with an estimated real GDP growth of 1.3% on average per year. President Macron has announced that he wishes to raise the defence budget to 2.0% of GDP within 2025. The official plan has been outlined in the *Loi de Programmation Militaire* (LPM) 2019-2025, which was submitted to Parliament in 2018, and the 2020 basic defence budget, equal to €48.2 billion, is in line with 1.98% of GDP. There are big investments in transport aircraft C-130J and A400M, Reaper UAVs, Meteor missiles, the upgrading of Mirage and Rafale aircraft, land platforms (Scorpion programme) and Barracuda submarines in 2020. France has set up a military space command too.

In Germany the White Book published in 2016 set out a more assertive policy than that in its previous political approach. Chancellor Angela Merkel announced that the country must raise defence spending to 1.5% of GDP in order to work towards the 2% NATO target. The budget proposal for 2020 submitted to the Bundestag has allocated a budget of €bil. 44.2. Future projects include the MEADS (Medium Extended Air Defence System) air defence system, the MKS 180 programme for multi-role combat vessels, K130 corvettes and two other submarines. Germany is also cooperating with France (with which it has preferential bilateral relations in the defence sector) on the joint development of a 6th generation fighter aircraft (Future Combat Air System, FCAS) intended to replace the Eurofighter within 2040.

Poland has launched a technical modernisation programme (TMP) for long-term military capacity, which is a part of the wider armed forces development plan (2017-2026). The programme is worth €bil. 44.6 from 2017 to 2026. The latest version of the TMP covers the acquisition of F-35 combat aircraft, additional F-16 aircraft, unmanned aerial systems, anti-aircraft systems, surveillance systems, ground combat systems, helicopters and the Orca submarine programme.

The total Italian integrated defence budget for 2019 (funds from the Ministry of Defence, the Ministry for Economic Development and the Ministry of Economy and Finance) accounts for 1.36% of GDP, while procurement, including investments in defence and in the Ministry for Economic Development, accounted for 0.3% of GDP. Even if more funds are allocated in the coming years, Italy will remain well under the 2.0% NATO target. The country has expressed its intention to raise its budget to 1.58% by the end of 2024. The

inclusion of the G2G (Government to Government) rules in the tax decree is very important: this is a new factor that has long been expected in the sector which will allow the Ministry of Defence to support companies by negotiating contracts in the name and on behalf of foreign countries.

NATO/EU defence projects

In recent years the European Union has taken some vital steps forward on the front of common security and defence and at the end of 2017 set up the Permanent Structured Cooperation (PESCO), 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), whose intention is to foster competitiveness and innovation capacity in the European defence industry. This initiative is divided into two phases in time:

- The starting phase, which encompasses two separate projects already started:
 - Preparatory Action on Defence Research (PADR), devoted to research with a total €mil. 90 allocation over 3 years (2017-2018-2019);
 - 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, with a proposed total budget still under review of €bil. 13, of which €bil. 4.1 for research and €bil. 8.9 for capacity development.

The European funds are additional to national defence budgets and they do not take their place and are a contribution for individual member states to jointly develop projects that they cannot bring to fruition individually.

As regards the Preparatory Action on Defence Research (PADR) phase, Leonardo achieved an outstanding success during 2018 in being awarded the OCEAN2020 project, which shows its expertise in systems, in addition to unmanned platforms, and consolidates its position on the naval market.

The first demonstration of the OCEAN2020 successfully took place in the Gulf of Taranto under the coordination of the Navy in November 2019, involving a high number of assets, including unmanned and space assets.

With reference to the European Defence Industrial Development Program (EDIDP), Leonardo is involved in the 2 direct award projects: MALE RPAS (Medium Altitude Long Endurance Remotely Piloted Aircraft System) and European Secure Software-defined Radio (ESSOR) and has submitted project proposals in response to almost all the other calls issued for 2019.

Within the scope of PESCO, 43 cooperative projects have been approved by the Council, some of which involve the development of new military systems, with the involvement of the Defence industry.

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.

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.

Leonardo is also active in the Alliance Future Surveillance and Control (AFSC) programme, which is aimed at replacing the fleet of NATO AWACS (Airborne Warning & Control System) of aircraft in 2035. In December 2019, for the High Level Technical Concept phase of this major programme, Leonardo, in participating in a team of companies led by Boeing, was awarded one of the 6 contracts assigned by the NATO Support and Procurement Agency (NSPA).

Leonardo and risk management

The Group is subject to a number of risks that can affect the achievement of its objectives and results. Risk analysis and management processes are therefore carried out systematically, which include any related treatment actions, based on specific methods and practices which, in compliance with international regulations and standards, look at the probability of occurrence and the related impacts.

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 2019.

MAJOR RISKS	ACTIONS
<p><i>Effects of spreading of infectious diseases</i></p>	<p>Leonardo has adopted processes that support the identification, management and monitoring of those events that can have a significant potential impact on the Company's resources and business. These processes are the responsibility of decision-making inter-functional committees, which have been appropriately set up, and are aimed at maximising the timeliness and efficacy of the measures taken.</p>
<p><i>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</i></p>	<p>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.</p> <p>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 in multinational collaborations. 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. Geopolitical and economic scenarios mostly characterised by an increasing uncertainty, represent important challenges for the companies operating on foreign markets. 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.</p> <p>The acquisition of contracts, especially outside Europe, may be affected by local preferences for certain products.</p>

MAJOR RISKS	ACTIONS
<p>Moreover, any possible pressure on public budgets might further reduce their contribution to research and development activities (R&D).</p> <p>In Italy, in particular, R&D 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.</p> <p><i>The Group operates in civil sectors that are highly exposed to growing levels of competition</i></p> <p>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 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.</p> <p>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.</p>	<p>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 enhance its competitive capacity.</p> <p>The Group maintains its competitive positioning on markets by ensuring highly qualitative and innovative product standards, while continuing to pay constant attention to exploiting and updating its technological edge with the constant trend toward the environmental sustainability. The organisational "One Company" structure ensures a higher ability to compete in domestic and foreign markets, as well as a strengthening of the synergies between company functions involved in the development of new products.</p>
<p><i>The capacity for innovation and growth depends on the strategic planning and management of skills, on the attraction and development of talents</i></p> <p>The constant technological innovation and the growing complexity of the Group's businesses require constant alignment of skills, in order to provide high added-value products and services and consolidate the role of System Integrator and Prime Contractor. A lack of specialist expertise might impact on the full achievement of the corporate objectives, including possible repercussions in terms of time-to-market of new products and services, as well as of access to emerging business segments.</p>	<p>The Group continued to implement the 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,</p>

MAJOR RISKS	ACTIONS
<p><i>The Group operates in some business segments through partnerships or joint ventures</i></p> <p>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 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.</p>	<p>Technology, Engineering and Mathematics) with the aim of creating specific expertise in the high technology sectors and supporting social and economic growth.</p> <p>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.</p>
<p><i>The Group is exposed to the risk of fraud or illegal activities on the part of employees and third parties</i></p> <p>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.</p>	<p>The Group has set out a model of responsible business conduct aimed at preventing, identifying and responding to the risk of corruption, based on:</p> <ul style="list-style-type: none"> • 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). <p>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. The certification was confirmed during 2019. Specific actions have also been taken in the responsible management of the supply chain, through the strengthening of supplier</p>

MAJOR RISKS	ACTIONS
<p><i>The settlement of legal disputes can be extremely complex and might require a considerable period of time.</i></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>The Group regularly monitors potential and existing disputes, taking the necessary corrective actions and adjusting its provisions for risks on a quarterly basis.</p>
<p><i>The Group operates in particularly complex and regulated markets, which require compliance with specific regulations (e.g. export control)</i></p> <p>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 geopolitical 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</p>	<p>The Group ensures, through specific functions, a timely implementation and management of 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.</p>

MAJOR RISKS	ACTIONS
<p>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.</p> <p><i>The Group operates through a number of industrial plants and processes that may expose it to risks to the health and safety of workers and to environmental risks.</i></p> <p>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. The mentioned rule of Law also proposes to plan measures that 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.</p> <p>The Group's activities are subject to compliance with laws, rules and regulations governing the protection of environment and energy management, which imply specific environmental permits aimed at ensuring the compliance with restrictions and conditions on emissions into the atmosphere, water discharges, storage and use of chemicals (e.g. REACH Regulation and RoHS Directive) and waste management and disposal.</p>	<p>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.</p> <p>Risks to the workers' health and safety are based on the principle of zero tolerance, in strict compliance with the relevant regulations, and are managed through targeted risk analyses, specific action and training plans, within the framework of 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 also confirms its commitment to extend the coverage in terms of Health and Safety System, for example through the OHSAS 18001 certification.</p> <p>The Group complies with the ever-increasing limits and restrictions imposed by the environmental protection regulations as regards sites and production processes. The Group also confirms its commitment to extent coverage in terms of Environmental Management System, for example through the ISO 14001 certification. The Group regularly performs environmental assessments of sites and monitoring, and it also takes out specific insurance policies in order to mitigate the consequences of unexpected events.</p>
<p><i>The Group defines its industrial strategy also taking into consideration environmental sustainability objectives, in order to face the uncertainties</i></p> <p>The Group's activities may be subject to transition risks towards an economy with low polluting emissions, with possible impacts on business processes, with particular reference to production processes, as well as on the products and services offered.</p> <p>Corporate sites and assets may also be affected by natural events (floods, drought, fires and others) generated by the effects of climate change.</p>	<p>The Group pursues an industrial strategy aimed improving the efficiency of its production systems and processes on an ongoing basis for the reduction of energy consumption and atmospheric emissions and, thanks also to the participation, as a partner of excellence, in the main European programs for research and innovation such as Horizon 2020 to which Phase 2 of Clean Sky and</p>

MAJOR RISKS	ACTIONS
<p><i>linked, among other things, to climate change</i></p>	<p>SESAR is linked, it develops low environmental impact technological solutions which are functional to the fight against climate change.</p> <p>The Group takes out specific insurance policies in order to cover against any possible consequence arising from disastrous weather and natural events.</p>
<p><i>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</i></p>	<p>Companies are required to face the risks associated with information security, deriving from cyber-attacks, increased digitalization and the use of innovative technologies.</p> <p>Computer incidents, business interruption, the leakage of data and information, including personal data, may compromise the business but also the Group's image, especially in the case of theft of third-party data stored in its archives.</p> <p>IT incidents in the supply chain might have repercussions on the Group's operations.</p>
<p><i>The Group operates significantly on long-term contracts at a given price for supplies of highly complex products, systems and services</i></p>	<p>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.</p> <p>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 plan to develop and improve the professional skills of its staff.</p> <p>Leonardo continues to take any action to extend computer data processing methods and processes to its own suppliers.</p> <p>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 analyses systematically. The Group reviews the estimated costs of contracts regularly. 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</p>

MAJOR RISKS	ACTIONS
<p>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.</p>	<p>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.</p>
<p><i>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</i></p>	<p>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.</p> <p>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 in progress the LEAP2020 programme (Leonardo Empowering Advanced Partnerships), 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 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.</p> <p>In addition, contract procurement forms provide clauses for exchange of information with the supply chain on project risks.</p>
<p><i>The Group is required to fulfil direct or indirect offset obligations in certain countries</i></p>	<p>Some international customers require the application of some types of offset related to the award of contracts in the aerospace and defence sector.</p> <p>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.</p> <p>Failure to meet offset obligations may result in the application of penalties and, in certain cases, might</p> <p>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.</p> <p>It has also set up a dedicated central organisational unit to guide and supervise offset activities.</p>

MAJOR RISKS	ACTIONS
	<p>prevent the Group from participating in contract award procedures in the countries concerned.</p>
<p><i>A substantial amount of consolidated assets is attributable to intangible assets, goodwill in particular</i></p>	<p>The recoverability of amounts recognised in intangible assets (including goodwill and development costs) is linked to the implementation of future plans and the business plans for the relevant products.</p> <p>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.</p>
<p><i>The Group's debt shows high level and could have an impact on the Group's operational and financial strategies</i></p>	<p>The debt level, beside impacting the profitability 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.</p> <p>Leonardo pursues an ongoing strategy of limiting its debt by paying steady attention to cash generation, which is used, market conditions permitting, to partially reduce the existing debt. As a matter of fact, the financial measures adopted during the years on the bond and bank market have ensured sources of liquidity that meet the Group's short- and medium/long-term financial requirements.</p>
<p><i>The Group's credit rating is also linked to the opinions of the credit rating agencies</i></p>	<p>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 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.</p> <p>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.</p> <p>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.</p>
<p><i>The Group realises part of its revenues in currencies other than the currencies in</i></p>	<p>The Group reports a significant portion of revenues and costs in currencies other than euro (mainly in dollars and pounds). Accordingly, any negative changes in the reference exchange rate might have negative effects (transaction risk).</p> <p>The Group continuously applies an organised hedge policy to combat transaction risk for all contracts using the financial instruments available on the market.</p>

MAJOR RISKS	ACTIONS
<p><i>which costs are incurred, exposing it to the risk of exchange-rate fluctuations. A part of consolidated assets is denominated in US dollars and pound sterling</i></p>	<p>Moreover, the Group made significant investments in the United Kingdom (Brexit took place on 31 January 2020, with a transitional phase until December 2020) 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).</p>
<p><i>The Group is a sponsor of defined-benefit pension plans in the UK and the US and of other minor plans in Europe</i></p>	<p>Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the central level.</p>
<p><i>The UK leaving the European Union and transition phase 2020 (Brexit)</i></p>	<p>The Group monitors pension funds' investment plans and strategies on an ongoing basis and takes immediate deficit corrective action when necessary.</p>
<p><i>The UK leaving the European Union and transition phase 2020 (Brexit)</i></p>	<p>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.</p> <p>Following the UK leaving the EU, the Parties could not reach, at the conclusion of the planned negotiations, a deal on a future partnership and, at the same time they could decide not to extend the transition period lasting until 31 December 2020. The complex negotiations and the relative implications could end in a “no deal” thus requiring, unless already in place, arrangements between the United Kingdom and the single country involved. In the event of a no-deal, there would be a discontinuous cooperation that could affect defence programmes.</p> <p>Leonardo keeps an eye on the progress of the negotiations between the UK and the EU, beside supporting the relevant institutional bodies and associations (in the defence sector) in their actions. Moreover, based on internal analyses recently performed, the Company has identified a first set of management measures to cope, if necessary, with the “no deal” situation, especially in relation to the management of customs operations.</p>

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 enhances the skills and ability of its people, as well as invests in R&D and searches 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 the objectives laid down by the United Nations Organisation in the 2030 Agenda (Sustainable Development Goals, SDG): through the dissemination of technical and scientific education and innovation culture, the creation of quality jobs, industrial, social and economic development in local areas, the strengthening of SMEs' chain of production and fight against climate change.

To bear witness to its commitment to Sustainability, in 2019 Leonardo was appointed as Industry leader of 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 decreasing scale from "A" to "F") in 2019.

The development guidelines, the Sustainability objectives, together with any action and initiative taken during the year, are described in the Sustainability and Innovation Report 2019, which also constitutes a consolidated Disclosure of non-financial information 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), while also taking account of the standards issued by the SASB (Sustainability Accounting Standards Board) and of the framework of the International Integrated Reporting Council (IIRC). The document is subject to limited audit by KPMG.

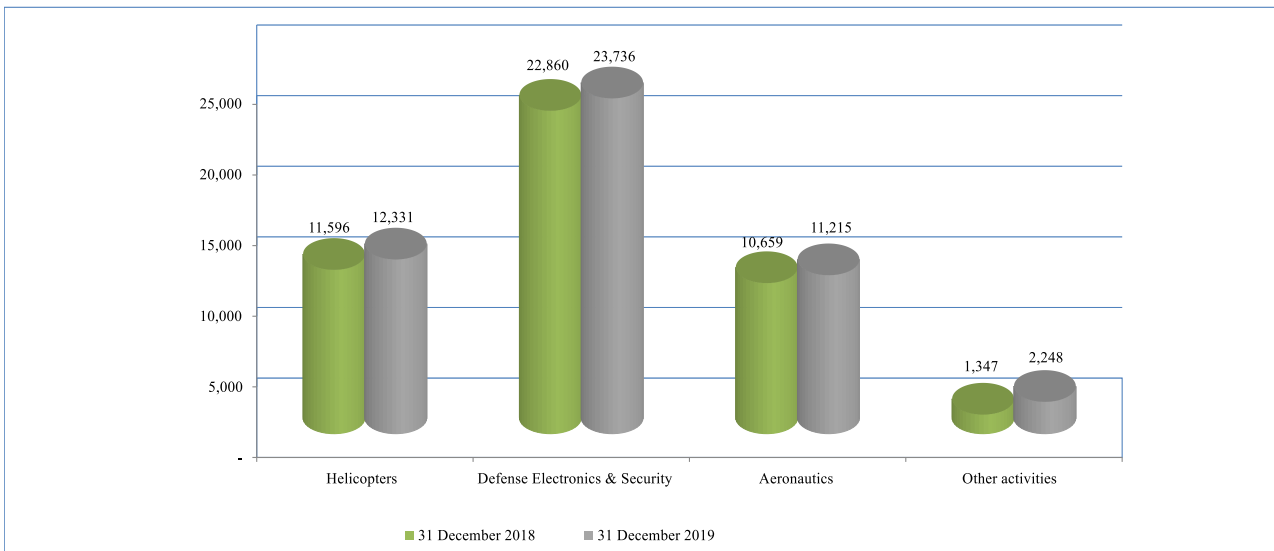
The following paragraphs report a description of the activities relating to human resources, environment and R&D.

Human resources

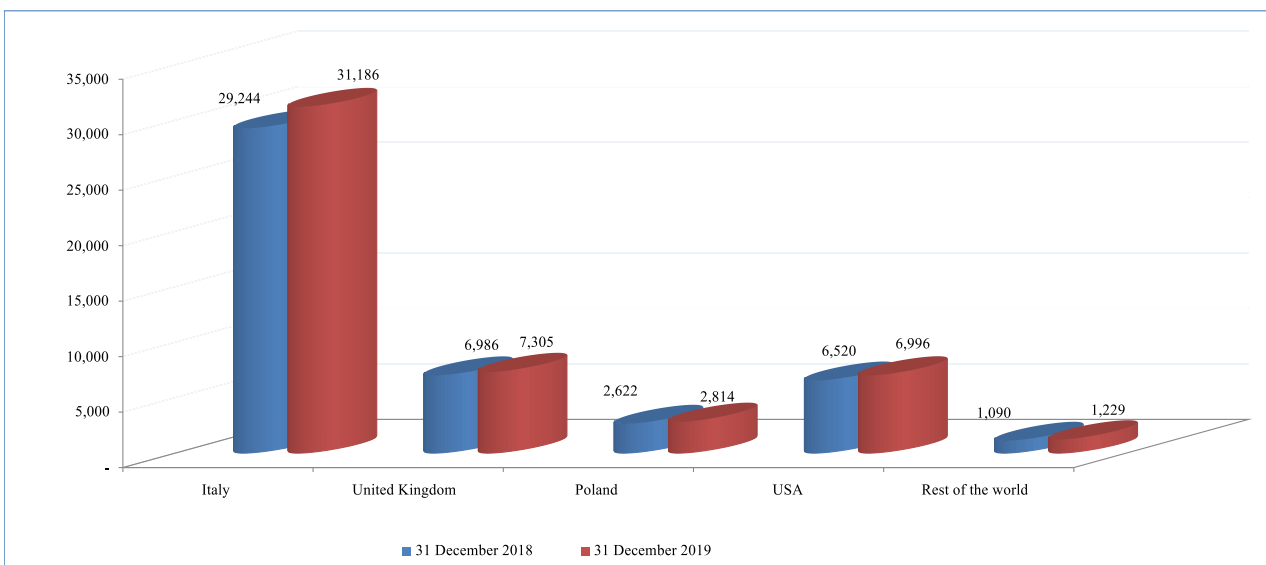
Employees

The Group's workforce at 31 December 2019 was equal to 49,530 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 and processes

In terms of organisation, the year 2019 saw considerable changes in the first-level structure of Leonardo, with the creation of two new business Divisions (Cyber Security and Electronics), and the strengthening of the “One Company” model through the creation of new central units. Specifically, the most significant guidelines in terms of organisation with reference to central units concerned:

- the creation of three new first-level Organisational Units: Chief Strategic Equity Officer, Chief Strategy and Market Intelligence Officer and Chief Technology & Innovation Officer (with the consequent closure of the Chief Strategy & Innovation Officer Organisational Unit, in order to give a stronger impetus to the attainment of the challenging objectives in the Business Plan and long-term sustainable

growth, through technological innovation and the improvement of the positioning in the target market of AD&S (Aerospace, Defence & Security);

- the creation of the Communication Organisational Unit, reporting directly to the Chief Executive Officer (with the closure at the same time of the Chief Stakeholder Officer Organisational Unit) in order to support the Top Managers in achieving corporate objectives and strategies and assist in creating business value by laying down the communication strategy and the promotion of the Group's identity, brand and image. The first-level International Relations Organisational Unit was merged into the new Unit as from 1 January 2020.

Furthermore, note the design of the structuring of the organisational units of Unmanned Systems and Programme Production and Management Optimisation and the new structure of the organisational units of Group Internal Audit, Security and, within the CPOTO (Chief People Organization and Transformation Officer, Human Resources and IT, as well as changes in terms of organisational within the units of Chief Commercial Officer, Chief Financial Officer and Risk Management.

As regards the divisions the most significant provisions in terms of organisation concerned:

- within the **Aerostructures Division**, the creation of the New Initiatives Organisational Unit, reporting directly to the Head of Division, with the objective of supporting new business development activities by promoting the Division's technological and production capacity, pursuing the process of relaunching and promoting business and fostering the development of new products and markets;
- within the **Helicopters Division**, the creation of the Safety Systems Governance Organisational Unit, reporting directly to the Head of Division, in order to set up an overall, organic and strategic Operational Safety addressing mode at division level;
- within the **Aircraft Division**, the creation of the Quality Assurance and Certification Organisational Unit, reporting directly to the Head of Division, in order to spread a Quality culture as a value that ensures an outstanding product and total customer satisfaction.

Furthermore, the new Electronics Division was created in order to streamline the entire sector of Defence and Security Electronics, to respond appropriately to technological and competitive challenges, align the organisational model to the main players in the market and provide a unified, consistent process of strategic development. The Electronics Division brought together the Land & Naval Defence Electronics, Airborne & Space Systems, Defence Systems Divisions, as well as the Traffic Control Systems and Automation Systems LoBs (previously forming part of the Security & Information Systems Division). Norman Bone was made responsible for the new Division. The reorganisation continued by forming four Business Units that report to the Head of Division:

- Electronics UK;
- Electronics IT;
- Defence Systems;
- Automation Systems.

Newly acquired Vitrociset was also included within the Electronics Division coordination perimeter.

Finally, the new Cyber Security Division was created, whose responsibility was entrusted to Barbara Poggiali. The new Division brought together the Lines of Business of Cyber Security & ICT Solutions and Homeland Security & Critical Infrastructures of the former Security & Information Systems Division. The first-level structure of the Division was also set up during the year.

From the point of view of internal regulations, during 2019 the oversight of transversal processes was reinforced by laying down One Company rules, applicable across the whole of the Leonardo S.p.A. legal entity. Also with a view to strengthening the One Company Model, an inter-division and inter-function project commenced in order provide a logical tree of One Company processes, which will provide an immediate view of the company and its functioning and will become a tool preparatory to:

- ensuring the integration of the company's Corporate and Divisional regulations;
- monitoring and improving the Internal Control and Risk Management System.

Management and Development of Human Resources

Performance & Development Management (PDM) – For the fourth year running, the employees involved were called upon to appraise themselves and their fellow workers with the aim of helping to create a corporate culture based on the principles of transparency and meritocracy. With a view to this, some innovations were introduced in 2019 in order further to foster the relationship of trust between managers and other workers and their full sense of responsibility for the appraisal process in which they play the main part.

About 60% of the Group's employees took part in the project, which was rolled out in five languages (Italian, English, French, German, Polish). In detail, 21,692 persons were appraised with a participation rate of 97% among the executives, middle managers and office workers called upon (blue-collar staff were also included in some foreign branches). This process allowed the resources 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.

People Review – The People Review process commenced in 2018 in order to foster the professional development of Leonardo's human resources and then ensure the future sustainability of the Group. This process focuses on identifying and developing key resources through sessions that support their personal and

professional growth. The analysis involved 1,264 employees, including executives, middle managers and office workers. “High potential” resources also belong to this catchment group, which are called Future Leaders, equal to 41.2% of the population involved in the process, for which a dedicated Talent Management programme has been designed.

In 2019 coverage was higher than in the previous year and some new projects were introduced:

- univocal criteria for the appraisal of all the resources analysed;
- an Action Plan dedicated to each Division or Function concerned, aiming to assign clear responsibilities regarding the development of key personnel.

Making the best use of human resources – All appraisals process have supported and guided the operational and organisational methods for making the best use of human resources during 2019, including the appointments of new Executives, the Salary Review process and the involvement in the Accelerate Programme which is the project dedicated to the Future Leaders.

Succession Planning – In 2019 the plans for succession to the first-level organisational positions were updated and a similar process was conducted to select candidates for the succession to positions up to the third organisational level under Chief Executive Officer totalling 260 positions analysed. Such high coverage in the implementation of the succession plans has the purpose 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. Furthermore, during 2019 in as many as 49 positions connected with the previous year’s succession plans were filled by new holders from the previous year’s analysis process.

Additional appraisal and development activities – The Group’s appraisal and development systems were also at the basis of specific organisational development projects in 2019. In fact during the year Leonardo equipped itself with processes and tools that have been at the basis, for example, of the Marketing & Sales project, in the framework of which an analysis of certain professional profiles was conducted in order to obtain an overview of human resources’ aptitudes with a view to continuous improvement. This project, directed at about 300 Leonardo Group personnel, was also valuable from the point of view of getting to know the human resources in addition to listening to their points of view, especially those regarding the new commercial challenges.

Development of Pillar Leaders in support of the implementation of the LPS (Leonardo Production System) – The Leonardo Production System (LPS) is a production system taking inspiration from World Class Manufacturing (WCM) methodology based on a continuous improvement technique that deals with the technical aspects of day-to-day work and focuses on the operational issues with a sound governance. Its purpose is to increase the efficiency and efficacy of company performance, eliminating waste and losses and at the same time raising the level of competence of all the workers involved in manufacturing processes, so as to make the organisation more competitive. LPS encompasses all typical processes of the Operations grouped

in 10 Technical Pillars. The necessary continuous improvement actions for each Pillar, managed by a Pillar Leader and its team, are established according to a common approach based on assessments of quality, safety and cost. Pillar Leaders, through learning by doing, are called upon to convey their technical and professional competencies to their respective teams (and trickle them down to other colleagues). In the manufacturing plants in which LPS has been put in place, the Pillar Leaders responsible for the various areas of development of the programme were chosen also thanks to the results of some appraisal tools that analyse behaviours at work. The personnel that took part in the analysis and appraisal stage received structured and personalised feedback, one of whose objectives was to set out a growth path for the enhancement of competencies.

Compensation systems – The Board of Directors' meeting held on 28 March 2019 approved, and then presented to the Shareholders' Meeting, the remuneration policy for 2019 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 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, an objective linked to sustainability/ESG (Environmental, Social and Governance) was extended to all the participants in the short-term incentive plan - MBO in 2019.

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 2019, in accordance with the guidelines on which the previous cycles had been based. 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 incentives 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 2020 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 2019 the remuneration and incentive policies were aimed at attracting and retaining personnel with high professionalism and technical and management skills, paying them appropriately according to the responsibilities assigned to them, the abilities they give proof of and their performance of the requisite behaviour. 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 based on a policy 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.

Training and enhancement of competencies

A number of projects were put in place in 2019 in support of the integrated management of competencies. Among the most important are the Leonardo Learning Academy, the agreement signed for the introduction of the Coursera online training platform, the launch of new training and change management programs aimed at supporting the evolution of the operational models of the main business functions.

Leonardo Learning Academy – In order to make the most of its human capital and render its people increasingly capable of responding to the new challenges laid down by the market, Leonardo launched Leonardo Learning Academy LLA in 2019, i.e. a Company in-house workshop focused on strengthening the key competencies for the Group's success and the sustainability of its business. Its aim is to ensure the ongoing alignment of the competencies available in the company, which Leonardo has come to know in detail from 2018 thanks to the processes of mapping professional expertise and measuring competencies, and their short- and medium-to-long term requirements. The approach taken enables Leonardo to manage obsolescent professionalism by means of training programmes directed at continuous learning and the constant enhancement of technical and transversal competencies, both of upskilling and of reskilling. This is a first important contribution that the Academy provides, even to assisting personnel at an advanced stage of their career. Another fundamentally important contribution to the active ageing process is given by some of the most experienced Leonardo professionals acting as lecturers and tutors, even with a view to the management of

generational diversity. About 200 members of Leonardo took part in this project in 2019 in six different training programmes addressed at the following areas of competence: Project Management, Procurement, Cyber Security & Resilience, Data Management, Bid & Tender, Marketing & Sales.

Coursea - Leonardo signed a three-year agreement for the use of the Coursea online training platform by all its personnel in Italy and abroad. This platform, with 30 million users all over the world, is the world leader in digital training, is designed and delivered in collaboration with the major world Universities (e.g. Stanford University, Yale, London Imperial College, Columbia University) and with many major hi-tech sector enterprises. By making use of the courses that are to be made available, all Group personnel will be able to study technical and technological content, acquire their own professional and personal competencies and update them constantly, obtain ad hoc certifications and, above all, contribute to the continuity of the company's market competitiveness. With the introduction of this important online training tool, Leonardo will be in a position to involve all its personnel on a huge scale, with a coverage of 100% of employees, support the employability and internal mobility of its resources in the framework of an approach based on self-development and life-long learning.

Projects in support of Professional Families – Action was taken to review and reinforce the models for required competencies in all the transformation programmes that Leonardo has put in place to develop the models for the functioning of the various business line areas and for the support of its business in general.

Specifically, note the following initiatives:

- **Procurement & Supply Chain** – A project was carried out for the updating of professional competencies with a related competencies catalogue in order to allow the mix of competencies to be managed in line with organisational and operational efficiency requirements, and with the development trends of the market (e.g. big data management). A training plan was laid down to support this organisational development after this task had been completed and together with the aggregate analysis of the main gaps observed during assessment processes, which will be implemented in 2010.
- **Customer Support, Services & Training** - The development of the Customer Support, Services & Training business is another pillar in Leonardo's business plan, which is founded on the adoption of a new pattern of attention to service, the evolution of customer satisfaction as a stimulus for the conduct of business and the reinforcement of new abilities consistently with changes in market trends. A Workshop to launch the professional family was held in 2019, attended by about 100 managers, the objective of which was to start a process of engaging in the transformation in progress which will spread through the organisation by means of a programme of training and change management which was structured in 2019 and will be implemented in 2020;
- **Program Management** – In 2019 the third edition of the Excellence in Execution - Project Management programme, started up in 2018, ended after involving about 800 members working in various ways in project teams with the objective of equipping them with core PM competencies; at the same time about 75 persons started the programme for the SMEs certification in Project or Risk Management. A project

has also started for the optimisation of programme management processes, one of the objectives of which is to revise role and competence models to ensure their alignment to the new operating model. A new training plan will be implemented in 2020 to support this organisational development after this task had been completed and together with the aggregate analysis of the main gaps observed during assessment processes.

- *Leonardo Production System* – In 2019 various training projects were launched:
 - training sessions with Professor Yamashina, the inventor of the World Class Manufacturing method, on which the Leonardo Production System is based;
 - transversal training for personnel in Pillars functions in the form of speakers from the outside world and in-house lecturers for Cost Deployment, Quality Control, Logistics;
 - theoretical and practical training course at FCA WCM Academy for Plant Managers and Operations Managers involved and to be involved in the LPS.
- *Risk Management* – Leonardo has recently updated its Enterprise Risk Management (ERM) process and methodology, with a view to continuous improvement and increasing support for business corporate decision-making processes. A training programme has been designed and started to help staff to adopt the revised model, aligning the competencies necessary for its effective implementation, which was developed with the MIP, the Business School of Milan Polytechnic University, which involves about 80 members of the Professional Family.

Mapping of professional skills – Line managers assessed human resources' professional competencies in 2019, to supplement the information collected in the Professional Self Assessment implemented in 2018. This step, unlike previous measures, only regarded Office Workers and Middle Managers and the special competencies connected with the person's present role. For the purposes of the assessment, each member of staff was associated with a professional profile belonging to a group classification according to his or her occupational area and the work performed. By combining the findings of the self-appraisal and assessment of competencies, the Company gathered information that was helpful for any future opportunities of internal mobility or temporary assignment to particular business projects. The overall results of the process have been made available to all personnel and have made it possible to steer training and self-development programmes more efficaciously.

These processes have also contributed to optimising the Job Rotation systems and to assisting in planning upskilling and reskilling programmes within the Leonardo Learning Academy. They also enabled the Company to find the gaps towards which to steer Professional Family projects to be developed in 2020. The process has seen the overall performance of about 14,500 assessments, thus obtaining a redemption of almost 70%.

Accelerate Programme – This is the international Talent Management programme of Leonardo, having the purpose of boosting the talent of the Future Leaders and conveying cultural change throughout the Company,

as well as further promoting the leadership model and speeding up integration, innovation and knowledge sharing processes. Two editions took place in 2019 with about 60 participants each from all the Divisions and main geographic areas of Leonardo (Italy, the United Kingdom, Poland, the United States of America), also with the involvement of the colleagues from the investees MBDA Italy and Telespazio France for the first time. The Community of participants in the various editions of the Accelerate programme, who are called Leonardo Ambassadors, now relies on 180 people, involved in training and change management projects, both within and outside the Company, for various reasons. Two Community events were held in 2019 in order to strengthen and expand this network: one based on creativity using a method combining artistic and scientific disciplines that stimulated the participants to think and act outside the traditional patterns of their comfort zones and the other one to launch the Diversity & Inclusion project at Group level.

Managerial Training Catalogue – This, conceived in the framework of the actions taken for the promotion and diffusion of the Leonardo Leadership Model, is a tool that supports the development of people’s competencies and helps to reinforce a common, distinctive managerial identity. With the adoption of a Group Catalogue, Leonardo, for the first time, has put in place a range of training programmes that has homogeneous content and methodologies throughout the Group, added to by management and development processes. The catalogue structures the Leadership Model in 31 modular courses with variable durations in order to respond to each person’s professional and personal needs flexibly while providing abundant content. More than 2,700 colleagues took part in the first phase, 2019-2020, from all the Divisions and Companies in Italy and the catalogue will be progressively extended to all Leonardo managers in the various countries for continuous use in response to specific requirements. Through this managerial training catalogue, Leonardo augments the opportunities for continuous learning and occasions for its people to meet and network, encouraging them to open up to innovation at the same time. In 2019 Leonardo also continued to use business coaching as a means for the support of professional growth and in order to guide them towards deciding upon and pursuing their development and improvement path according to the corporate objectives. Similarly, some sessions of individual coaching, which also involved the Executive population, as well as of team coaching, in support of some professional families and group coaching based on discussion and negotiation dynamics, were given in response to specific requirements. In particular, team and group coaching projects were also included in more wide-ranging and detailed training programmes.

Enhancement of Leonardo Culture and Employer Identity

“SpeakYourMind” People Survey – Leonardo’s commitment to bringing its people into the processes of Group change is borne witness to in the People Survey, conducted in 2019. More than 31,300 colleagues – equal to 64% of the company staff involved - from all over the world answered this survey anonymously. The massive support of this initiative enabled Leonardo to produce a reliable analysis of the results, on the basis of which 164 improvement actions were taken in order to respond to the priorities that emerged from the survey. These actions concentrated on engaging with and valuing personnel, sharing information, efficiency in

processes and innovation, diversity and inclusion, support of local communities and the recognisability of our brand. The Action Plan started in response to the results was the subject of an in-depth study at the Executive Convention which was held at the Auditorium della Tecnica in Rome on 5 December 2019 and which involved all Group Executives, thus giving rise to a cascade communication process that involved all Leonardo resources.

Instant Surveys - Leonardo's desire to encourage ongoing dialogue with its people also took the form of conducting some Instant Surveys focused on specific themes. In particular, some employees were involved in the pilot phase of a Survey on Mobility during the first part of the year, with the objective of taking actions in line with the growing attention to the Group' environmental sustainability. This Survey was extended to all Leonardo human resources in Italy at the end of the year. A Survey of our colleagues' satisfaction with certain external supplier services in which various samples of employees answered questions was also held in 2019.

In Leonardo, Insieme – In 2019 for the first time, Leonardo opened the doors of 41 sites in Italy to give its people and the members of their families the opportunity to live their workplace in an informal and convivial atmosphere. The objective was totally attained, as confirmed by the numbers and enthusiasm of the employees and their guests. More than 53,000 persons visited the company's open sites, of which almost 10,000 children and more than 400 Seniors. The younger were drawn into workshops, games and didactic activities while the older were able to recount their experience in the company live. This was also an opportunity for the promotion of Leonardo's image through the social media, where content and images were shared leading to over 90,000 views of the official Twitter account and 32,00 on Instagram.

Leonardo Experience - To talk about Leonardo and the numerous opportunities it offers young people, some Group talents, already with roles in the *Accelerate* programme, took part in the Leonardo Experience project. As a part of this initiative some interviews were published in the "Careers" section of the corporate website in which the young Leonardo employees were able to relate their experience in the Group in terms of professional and personal opportunities and challenges in a multicultural and stimulating environment that makes the utmost of each member of staff.

Innovation Award - In 2019 again, the Leonardo Innovation Award for employees fostered the innovation culture and made use of the capital of knowledge and competencies in the Group. Novelties were the introduction of a new category, "Production processes for continuous improvement" to stimulate proposals for innovation in manufacturing, and a new Group award on the transversal theme of artificial intelligence, particularly important for Leonardo. In considering the entries, particular attention was paid to projects that contribute to the company's environmental and social sustainability performance. Over 900 candidatures were submitted from Italy and abroad, with an increase of 27% compared to 2018. The winning teams were awarded during the final ceremony that was held on 2 December in Genoa.

Innovathon - In 2019 the Company's Innovation Award for external competitors took on the new guise of the *Innovathon*, a marathon of ideas that was conducted according to the hackathon method. This Open Innovation tool was conceived by Leonardo to stimulate the outside world with technological challenges aiming at

contributing to the corporate innovation process. On 16 and 17 November university students and graduates in STEM (*Science, Technology, Engineering and Mathematics*) disciplines were contestants in a 48-hour non-stop competition at the Talent Garden in Rome, in which they were asked to conceive and develop working prototypes in a situation of critical infrastructures. The success of this new approach was borne out above all by the number of candidatures received: more than 240 students from 27 various universities, including 43 foreign students from 13 countries all over the world. 55 young people were selected and grouped in 11 teams, representing 5 different nationalities and 13 universities. All the participants showed evidence of creativity, a spirit of adaptation, problem solving ability and teamwork. The first three teams ranked received a prize in money and received their awards in Genoa on 2 December, during the ceremony of the Leonardo Innovation Award.

Relations with Schools and Universities - In 2019 Leonardo again committed itself to attracting the young generations to attending study programmes and technical and scientific disciplines, collaborating actively with the major Italian universities and schools. The Company, coordinating a network of HR colleagues of the Group, went to more than 20 Career Days organised by the best Italian universities, reaching a pool of over 40,000 young undergraduates. Thanks to the applications gathered at these events more than 500 interviews were held at Group level for internships or recruitments that led to the inclusion of nearly 200 new employees in Leonardo's various operations. In addition to optimising the recruiting processes, its presence on these occasions enhanced Leonardo's image as Employer of Choice. The Company profile, which was already present on the "Job Meeting" and "AlmaLaurea" portals, was reinforced in order to promote the Company among young people on the threshold of the working world and it was published in its new version in the Naples Federico II University webpage dedicated to businesses and on Talents in Motion, a platform for young Italian talents working abroad who wish to return to their country.

Industrial Relations and Labour Regulations

In continuity with the previous financial year, during 2019 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 2019 year was also marked by the start of trade union negotiations for the renewal of the second-level supplementary agreement applied to personnel up to the 8th grade of Middle Managers (One Company Agreement) during the second half of the year.

In particular, the general structure of the performance bonus referred to in the One Company agreement and that of the Target Bonus for "High-level Professionals" remained unaltered in 2019 and the "proximity indicators" at Division and individual production unit level were determined. Talks with the Unions focused

on the following issues and arrangements were agreed whose effects will be seen after renegotiation and final signature of the entire renewal agreement:

- the update of the Industrial Relations Model as a factor allowing the attainment of growth targets, the generation and development of innovative know-how and the stronger competitiveness in international markets set out in the Business Plan; the new model clearly redetermined the limits of the autonomy of the three different negotiating levels (Group, Division, Plant) and, above all, outlined the procedures for linking, referral and coordination between these levels;
- the redetermination of the general approach to the performance bonus for the two years from 2020 to 2021, increasingly useful for the measurement of productivity in the organisational units in which it is actually achieved and for the encouragement of over-performance, as well as to support the processes for production optimisation and productivity and efficiency recovery, including through the introduction of new indicators and benchmarks based on the WCM method, in support of the implementation of the Leonardo Production System organisational model;
- the redefinition of the Target Bonus award system for the two years from 2020 to 2021 to reward High-level Professionals” (in Grade 7 employees and Middle Managers).

At the same time, after the successful trials with the utilisation of smart working, both with reference to the Pilot Project agreed upon with the unions on 10 April 2018 involving a group of 200 employees all over the country and in relation to the measures taken to help about 900 employees at the Genoa site to face the emergency caused by the collapse of the Morandi Bridge, Leonardo and the Unions extended the term of the respective union agreements pending possible more innovative arrangements for the conciliation of life and work. Finally, 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.

During the second half of 2019 negotiations started for the renewal of the National Collective Labour Agreement (CCNL, Contratto Collettivo Nazionale di Lavoro) for the Metalworking sector, expired at the end of the year, which will continue during 2020; Leonardo is a standing member of the General Council and of the negotiating delegation of Federmeccanica.

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.

While 2018, the year of full entry into force of the GDPR, was when Leonardo implemented an important plan to recognise the impacts of the new legislation on its business activities, 2019 was the year when it implemented the actions and strengthened its privacy management system.

The most significant actions are described below.

Disclosures – The documents regarding the various Disclosures have been prepared and circulated to those concerned (employees, customers, suppliers, website users, visitors, others), with the aim of providing specific information on personal data processing on the part of data controllers. Within the scope of these documents, in compliance of Articles 13 and 14 of Regulation (EU) 2016/679 (GDPR), Leonardo observed the minimum legal content, which includes the Data Protection Officer’s contact details, the legal basis for processing, any procedures for transferring the personal data to other countries and the appropriate guarantees. Moreover, the information produced meets the criteria of simplicity of language, completeness and transparency. Special attention in each information sheet is paid to the matter of the erasure of data (also referred to as the “right to be forgotten”), stressing the principle that Leonardo preserves personal data for the time strictly necessary to achieve the purposes of their processing, i.e. for the shortest time required by law.

Organisational Privacy Model (OPM) - An organisational model has been formalised to support the management of privacy obligations and the application of the accountability principle, namely that of making Leonardo staff that process personal data responsible for putting compliance rules into actual practice and adopting appropriate protection technical and organisational measures.

Accountability - During 2019, as in the previous year, many activities were carried out and tactics were adopted that acted as a solid foundation for the application of the accountability principle on which the GDPR is based. Even more emphasis than in the past was laid on drawing up agreements between Leonardo and third parties, whether customers or suppliers, in order to regulate their respective roles (controller or processor) in accordance with Article 28 of the GDPR.

Registers - In 2019 a Software for the management of data processing tasks called *Sirena (Sistema REgistri Notifiche Adempimenti)*, a task notification record system, was selected and installed in order to strengthen Leonardo’s accountability in connection with the digital tool used to keep the Register of processing activities.

Training – Leonardo has an ongoing privacy training plan made up of various components, including some basic training courses available on the Group’s online platform HRevolution, which are mandatory for all employees. Additionally, classroom training was arranged by the Group DPO in 2019, appropriately assisted by technical and legal specialists, for the employees and freelance professionals and workers most involved in processing data and those filling positions of responsibility and management in the company (privacy delegates and sub-delegates authorised to process data).

Data subjects’ rights – Leonardo functions are increasingly proficient in responding to data subjects’ requests by activating in-house processes required to ensure the exercise of rights provided for in Articles 15 to 22 of the GDPR.

Data breach – The Group completed the setting out of 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.

Privacy by Design/Default – A method was set up which is aimed at applying 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.

Data protection impact assessment – A method was adopted and used for various processing activities 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.

The Environment

The Group demonstrates its commitment through the adoption of tools and the implementation of actions, paying attention 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 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 voluntarily to adopt

Environmental Management Systems (EMSs) and Occupational Health and Safety Management Systems (OHSMSs), which are certified according to the International Standards ISO 14001:2015 and OHSAS 18001:2015 respectively (recently replaced by Standard ISO 45001:2018 “Occupational health and safety management systems – Requirements with guidance for use”, with a transition period of 3 years as from 2018), 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.

In particular, in March 2019 Leonardo Global Solutions completed the certification process of its Environmental Management System according to Standard ISO 14001:2015, in 28 company-owned sites. It is planned to extend the Certification to 16 additional company-owned sites during 2019.

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:

- 12 sites used by Leonardo are subject to the Integrated Pollution Prevention & Control (IPPC1) Directive, which suggests the adoption of best available techniques (BATs) in designing, managing, servicing and decommissioning industrial processes. The sites used by Leonardo 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 sites used by Leonardo are graded as Major Accident Hazard (MAH2) 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;
- 22 Italian sites used by Leonardo hold a Single Environmental Authorisation (SEA3).

Finally, environmental audit and law compliance programmes are also drawn up and observed in the framework of the management and enhancement of the Leonardo Group’s real estate assets. Their aims are to investigate and assess environmental risks and apply monitoring and control instruments.

In 2019, 131 environmental audits (sites included in the environmental reporting scope for 2019) were carried out, which were mainly aimed at:

- obtaining or maintaining certifications of site management systems;

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

² Directive 2012/18/EU (Seveso III), on the control of major-accident hazards involving dangerous substances, which was transposed into the Italian legal system under Legislative Decree 105/2015, as amended and supplemented.

³ This is the measure provided for in Presidential Decree no. 59/2013, as amended and supplemented, which was issued at the request of the party concerned, which incorporates various environmental authorisations required by the sector regulations into a single one.

- certifying the EU-ETS emission allowances;
- checking the activities related to environmental reporting;
- checking and assessing environmental risks.

In particular, during 2019 Leonardo Global Solutions conducted:

- 31 environmental risk audits at sites owned by LGS used by Leonardo Divisions and third-party Companies on any basis, decommissioned sites and land, as required by the annual environmental risk 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;
- 21 audits, within LGS' Environmental Management System which is ISO 14001:2015-certified, in order to establish whether LGS comply with applicable regulations as the company managing real estate assets and service provider. After each audit carried out, the Heads of the relevant Business Units 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.

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 in 2019 were 38,499 tons, with an increase of about 13%⁴ connected to non-recurring operations compared to those produced in 2018. The amount of recycled waste out of the total quantity was 51%. 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;
- **CO₂ Emissions:** Leonardo has been engaged for some time in a process of reducing its CO₂ 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:

⁴ The value does not include: quantities of waste produced by JVs.

- no. 10 sites located throughout Italy are covered by the application of the Emission Trading Directive⁵, 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)⁶, 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, in line with the EU regulations;
- **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 with the support of Leonardo Global Solutions after the signature of specific agreements in support of 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. A total of 20 reclamation procedures (including those that are “suspended” or being monitored *post operam* pending their completion) were in progress in the Leonardo Group in 2019: two of these procedures were formally ended and two procedures were opened during the period between the end of 2018 and 2019. 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

Leonardo applies a structured Energy Management model, aimed at the governance and integrated and sustainable management of consumption and energy expenditure of its operating sites. Among the main activities carried out in 2019 were:

- the **“Smart Facilities” project**, aimed at the integrated and innovative management of the energy and maintenance issues of plants. In 2019 about 100 energy efficiency operational projects were implemented in relation to both production and general plants, including through the support of

⁵ Directive 2003/87/EC, establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

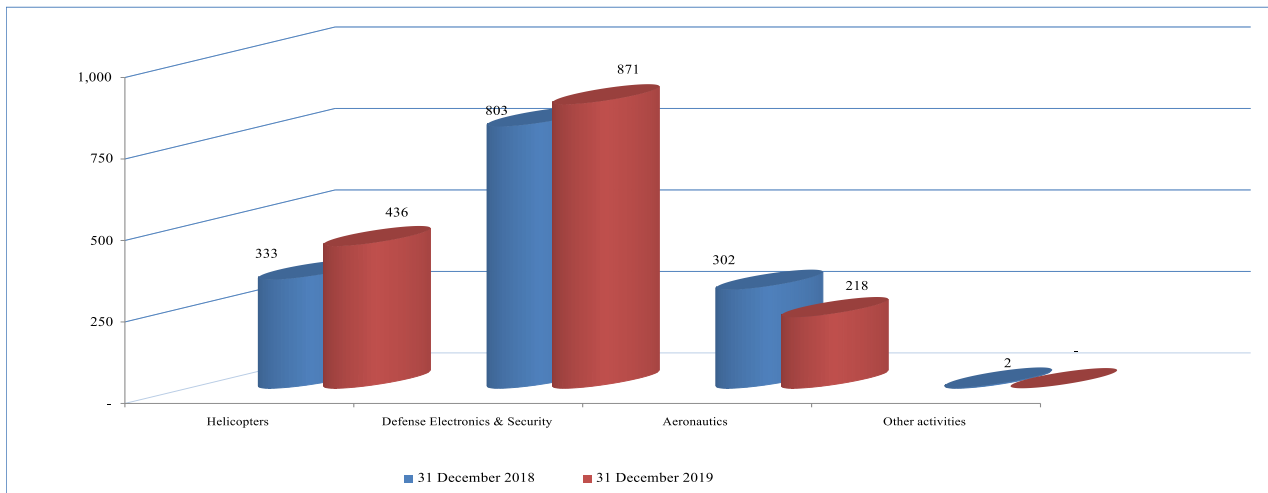
⁶ Directive 2008/101/EC amending Directive 2003/87/EC so as to include aviation activities in the scheme for greenhouse gas emission allowance trading within the Community.

the new monitoring platform installed at the sites used by Leonardo which are more energy intensive;

- the **Leonardo Energy Self-production programme**, which provides a list of more than 10 plants with potential capacity of distributed energy generation. The objective of the programme, which is under consideration at the moment, is a substantial increase in the amount of electricity self-produced by Leonardo, which would put the Group among the Italian companies most committed to energy and environmental sustainability issues;
- **Energy Governance processes**, which will be detailed through the new Leonardo Operating Instructions, are currently in the phase of their final review. The action to be taken for the systematic consumption of less energy will be put on an operational basis in this way;
- **regulatory compliance in the energy sector**: 14 efficiency improvement audits were conducted in accordance with Legislative Decree 102/2014 on the main plants and sites used by Leonardo. Another result of the project has been to update site energy performance indicators and establish which plants could be upgraded in the near future;
- **energy procurement**: 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; specifically, buys electricity produced indirectly from renewable sources thereby adhering to the Guarantee of Origin regime on a voluntary basis. Furthermore, suppliers are also 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 invests every year in R&D aimed at the refinement and progress of its technological and product portfolio and make it market competitive and remunerative for the company itself. The breakdown of R&D costs by segment is as follows (data in €mil.):

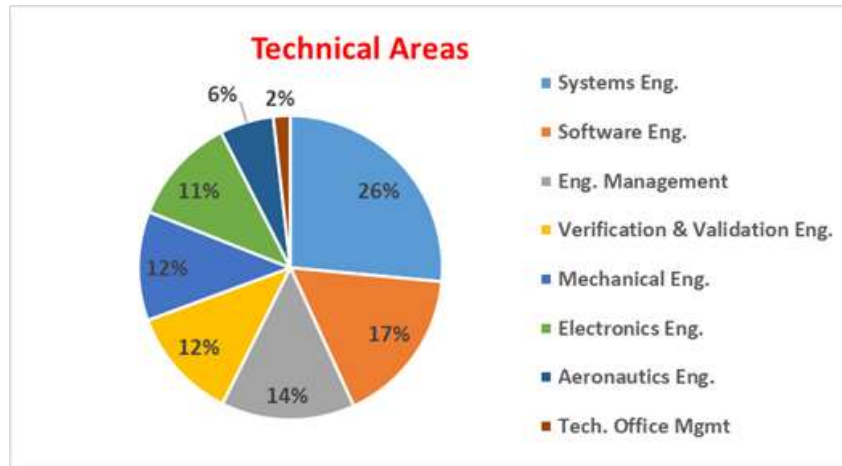


Group Governance of Technologies and Products

The aim of the management of technological and product research in Leonardo is to ensure constant, ongoing equilibrium between technological enhancement projects whose objectives are to develop technologies, competencies and products with a medium- to long-term impact on one hand and to improve existing products on the other.

In order to seize the best opportunities, also on the basis of different TRLs (Technology Readiness Levels), Leonardo’s technological strategy is to involve various other players in an Open Innovation scenario, such as the major national and international universities and research centres and innovative start-ups and SMEs, as well as to collaborate with other industrial players within the scope of financed projects.

In 2019 Leonardo invested about 11% 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, 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 2019 the following main activities were carried out and used in the Group's Innovation and Technology Governance area:

- consolidating the methods for evaluating investments, both in technology and in product development, to assist in utilising human and financial resources as well as possible, reducing development times and maximising return on investments;
- strengthening the technology assessment processes and Product and Technology Innovation Plans, which are now well-established within the Group;
- creating cross-sector technology communities impacting on the Group's future products, relating to artificial intelligence, additive manufacturing and graphene issues;
- commitment to future and disruptive technologies: Leonardo opened central laboratories at the end of the year. Their purpose is to study, conduct research into and try out technological innovation and product development programs with an impact across all the corporate areas of business. Among the main research areas are big data, high-performance computing and simulation, artificial intelligence and unmanned systems, quantum technology, materials and electric mobility. The laboratories will also enable Leonardo to have a continuous flow of talents providing flexibility and renewal in terms of both ability and professional expertise in addition to keeping the company always up to date with global technological trends;
- defining the skills matrix of the "Engineering Professional Family", on the basis of which a process was started to assess the training gaps of in-house resources in the various disciplinary areas of "One Leonardo" Engineering (Systems Engineering, Mechanics, Electronics, Software), continuing to support the Supply Chain rationalisation processes and framing training schemes for core Competencies, including through re-skilling and continuous learning for competencies deriving from ongoing digitisation processes;
- Open Innovation, in relation to which particular attention during the year was paid to the world of start-ups by taking part in national programmes that scout for start-ups that meet special needs or that seize

technological opportunities. Furthermore, there was the launch of PoC (Proof of Concept) programmes with various Italian and European start-ups on blockchain, composite recycling, quantum technology, unmanned systems and additive manufacturing issues.

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 holds the chairmanship of the “National Aerospace Technology Cluster”) and the Regional Technology Districts.

In 2019 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 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 2019 Leonardo submitted, and was awarded a number of proposals, mainly within the scope of security, space and ICT issues:

- SURPRISE (SUper-Resolved comPRessive InStrument in the visible and medium infrared for Earth observation applications) H2020 Space;
- Graphene Core 3 – H2020 FET (Future and Emerging Technologies);
- SAFETY4RAIL – H2020 Secure Societies – protecting critical rail transport infrastructure;
- INSECTT (Intelligent Secure Trustable Things) – ECSEL (Electronics Components and Systems for European Leadership) - underwater coastal protection – vein biometrics testing in airport environment – urban transport safety and security.

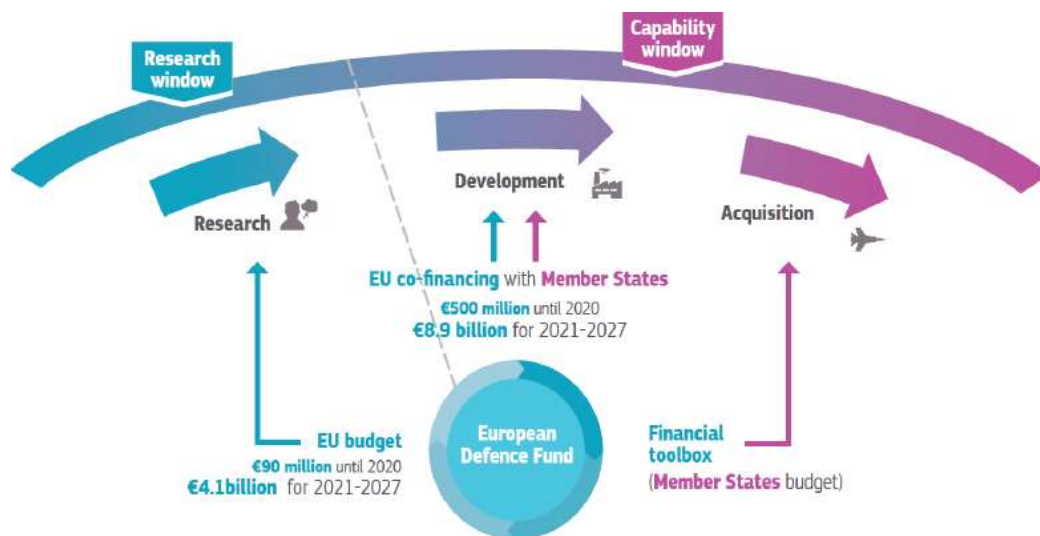
Again at a European level, Leonardo continued to participate in research and innovation efforts through the following Joint Technology Initiatives (JTIs) and Public Private Partnerships (PPPs):

- Clean Sky 2, which focuses on the development of the most appropriate technologies to reduce the environmental impact of aircraft;
- SESAR (Single European Sky ATM Research) 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 components and electronic systems, including big data applications, clouds, software and artificial intelligence for 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: for the creation of future generation communication networks providing a high level of connectivity and associated professional services.
- ECCSA (European Centre for Cybersecurity in Aviation), established by the EASA (European Aviation Safety Agency) with the aim of acting as a centre of expertise for sharing information on IT security for the aeronautics sector.

In the Preparatory Action on Defence (PAOD), Leonardo has presented several projects within the open, emerging and study areas which are still being considered; the other activities continued in line with the scheduled plans. As regards the OCEAN2020 programme, which is the main initiative in this sector, trial work in the Mediterranean sea was carried out successfully, thus ensuring a significant return in terms of image for the Company.

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 activities related to the themes of PESCO (Permanent Structured Cooperation) programmes led by Italy and presented, within the scope of the 2019 EDIDP (European Defence Industrial Development Programme) calls, 9 projects with other European consortium companies, 4 of which as coordinator.



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 supported by the Ministry of Education, University and Research (MIUR, Ministero dell'Istruzione, dell'Università e della Ricerca).

As regards initiatives by Italian Regional Governments various security and ICT projects are being developed and executed in Liguria, Tuscany, Puglia and Sicily.

In 2019 Leonardo managed the work done by the Italian Technological Aerospace Cluster (CTNA, Cluster Tecnologico Nazionale Aerospazio) of which it has been the chair since 2018, fostering a change of pace that enhanced its strategic role. Among the main results were:

- the preparation, with the support of all the members, of technological aeronautical and space Roadmaps which laid down Italian development strategies and determined specific technological research projects through which it is proposed that these strategies are put into practice;
- the publication of a Three-year 2020-2022 Plan of Action, a key document regarding the status, scenarios and ambitions of the Italian aerospace community, including large, small and medium enterprises, universities and research centres;
- obtaining funds from the MIUR to finance the work carried out by the CTNA and in support of the activities the members will carry out together with the CTNA, in line with the Plan.

The CTNA is a coordination infrastructure with the ability to mobilise, jointly, the industrial, research and central and regional government systems in order to generate shared research programmes and technological development roadmaps with a view to steering regional, national and European R&D plans.

NMRP and EDA

During 2019 Leonardo continued to work with Department V of the Defence Secretariat-General on co-financed technological innovation study, research and projects both at national (with the National Military Research Plan, NMRP) and European level (with the CapTech [Capability Technology] EDA (European Defence Agency) groups and related projects).

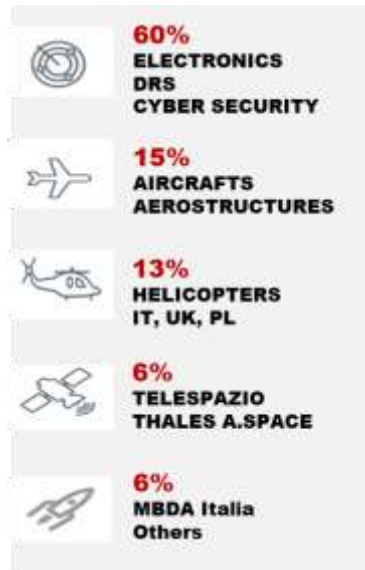
In particular, 8 NMRP projects were awarded to Leonardo and 15 new proposals were submitted in response to the 2020 NMRP call for tender that closed in October 2018.

As regards the EDA activities, Leonardo was awarded a Cyber Defence Situational Awareness project and continued to take part in all the CapTech areas it is interested in and to collaborate with the EDA and the companies in other Nations, as well as with our MoD, for the determination of its priority areas of interest.

Patents

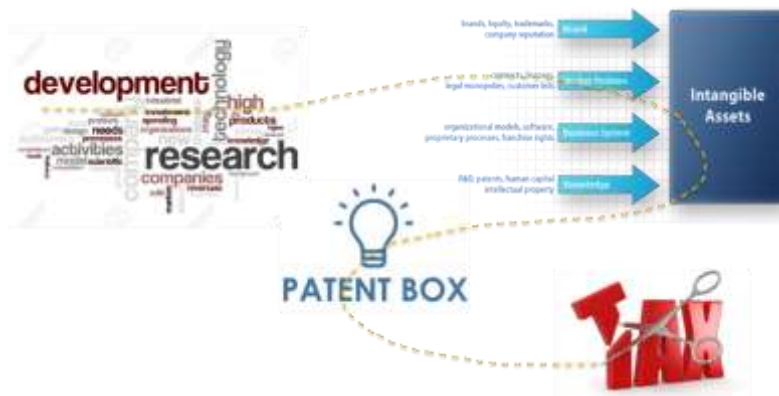
In 2019 routine portfolio management activities continued, including through the supervision over patent activities of our leading competitors in the Helicopters, Space, Aeronautics, Defence & Security Electronics sectors, so as to protect the Group's know-how and freedom-to-operate, in key business and emerging technology sectors.

Leonardo's current patent portfolio is broken down as follows by sectors, with a large and widespread geographical distribution and business protection.



Furthermore, note that the intellectual property management and enhancement projects, which had been launched in 2018, were strengthened through:

- further strengthening, in the Helicopters and Aircraft Divisions, of the network of experts in protection and enhancement of intellectual property (IP Correspondants Network) with the task of identifying any potential infringement of proprietary or third-party IP committed by or against Leonardo;
- further development of Leonardo Divisions which have submitted new applications for ruling to the Revenue Agency to access tax concessions on the income connected with the use of intangible assets being involved in R&D investments, provided for in National regulations governing the Patent Box;



- further developing the project for enhancement of Intellectual Property started through the “Leonardo Patent Shop Window” (transferring R&D results in industrial relations to SMEs throughout Italy). Leonardo’s cooperation with MESAP (*Meccatronica e Sistemi Avanzati di Produzione*, Mechatronics and Advanced Production Systems) for the technology transfer of Leonardo patents in the Mechatronics sector and with some Patent Brokers offered the opportunity in 2019 to licence some solutions patented by Leonardo. Furthermore, there was the launch of the website www.

<https://techtransfer.leonardocompany.com/>, which is the main initiative for the exploitation of intellectual property in sectors that rub shoulders with Aerospace and Defence, on a dual-use basis.



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 and, in general, with the entire Open Innovation ecosystem also play a key role.

Helicopters:

- In 2019 the Next Generation Civil Tiltrotor (NGCTR) project, which defines a new architecture for a next generation Convertiplane within the scope of the Clean Sky 2 European programme, led to the systems architecture being strengthened, while continuing work on the design of the technology demonstrator in its main parts such as wing, tail and transmission system, with the objective of the first flight in 2023. Furthermore, analysis activities were started on materials and processes with the selection of production technologies with low environmental impact (Eco-Design) developed in collaboration with the consortia that support the project;
- In the framework of the COMFORT project, whose purpose is the reduction of vibration and noise on board, a system of noise insulation has been created for the cabin panels and prototype systems have been created for insulation from vibrations of various kinds and vibrations of the transmission and rotor area;
- In the field of Additive Layer Manufacturing (ALM) Technology, development, engineering and production activities were carried out for secondary parts, in addition to the design and approval of construction processes for primary components (e.g. motion transmission system);
- Actions were taken to increase the use of electrical systems on board helicopters to replace hydraulic and mechanical systems and to improve the existing ones. In this area, note that the concept was developed of an innovative way of generating electric power from the fixed system (fuselage) to the rotating system (rotor) in order to fuel on-board systems and sub-systems with auxiliary functions;

- The HUMS (Health and Usage Monitoring System) & Big Data & Analytics project was launched with the aim of applying the latest Machine Learning and Anomaly Detection techniques to the analysis of on-board data generated by the fleet in service. Within the scope of the SESAR (Single European Sky ATM Research) 2020 European research project, flight demonstrations were completed for advanced satellite navigation methods for take-off and approach procedures in complex, high traffic intensity air spaces.

Aeronautics

- Work continued on the European SESAR 2020 programme, focusing in particular on the issues of integration of the RPAS (Remotely Piloted Aircraft Systems) in civil airspace, while the validation was completed for the functionalities regarding trajectory management and the operation of aircraft at airports;
- Work continued on the Clean Sky 2 Programme, with the aim of further reducing environmental impact through activities carried out within the Regional Innovative Aircraft Demonstration Platform (REG IADP) and within the Airframe Integrated Technology Demonstrator (Airframe ITD), for the maturation of innovative technologies and their validation on full-scale demonstrators. The project is now at a very advanced stage with the execution of all the Critical Design Reviews for on-ground demonstrators and manufacturing and assembly operations have been started for all demonstrators;
- Projects were started on research into unmanned aircraft (detect and avoid) for the insertion of the UAS (Unmanned Aircraft Systems) in non-segregated air space. Proposals were put forward in national and European military research projects to support new training concepts, new training technologies and feasibility studies for trainers with Light Combat capability as a secondary role. In December 2019 an AIR4MAM (*Addestramento Immersivo e Manutenzione a distanza 4.0 per l'A.M.*, Immersive Training and Remote Maintenance 4.0 for AF) military research agreement was signed with the Ministry of Defence, with the objective of working on a solution to enhance the efficiency of maintenance training and remote support to operational maintenance on site by making use of advanced IT technologies;
- 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;
- Work was completed on the design, installation and preliminary set-up of the automated press-forming cell for thermoplastic matrix composite parts (a technology patented by Leonardo - flat charge maintenance system for zero-waste parts).

Defence Electronics & Security

In line with the actions taken, work continued on:

- developments on AESA (Active Electronically Scanned Array) enabling technologies such as digital receiver, Fully Digital Beam Forming, GaN (Gallium Nitride) technology, even through the use of COTS (Commercial Off-The-Shelf) components in order to make products more competitive;
- developments of high-performance compact laser technology for applications in the field of defence both in airborne and land domains;
- investments for the development of technologies for targeting and the stabilisation of the system of weapon for high power laser-based Directed-Energy Weapons (DEW);
- developments on enabling technologies for Electronic Signals Measurement (ESM) and future Electronic Counter Measures (ECM) and Electronic Warfare (EW) systems;
- research on new materials for the new generation Infra-Red (IR) detectors and for the improvement of those for missile seekers, as well as on innovative 2D materials such as graphene and metamaterials.

Finally, the first phase was completed within the "swarm" programme, an innovative system for surveillance and reconnaissance missions based on the use of swarms of mini- and micro-UAVs.

In the Cyber field innovative technologies were studied, following current trends, in cooperation with leading Research Centres. In particular:

- neural networks, artificial intelligence algorithms for video/audio analysis for the detection and classification of drones, planes, objects, people and for the creation of annotated databases for the training of artificial intelligence algorithms;
- biometrics - on-the-move (palm vein recognition) techniques for rapid authentication;
- study of solutions for the protection of data storage from quantum computing attacks;
- security solutions for SCADA (Supervisory Control And Data Acquisition) systems;
- development of an orchestrator prototype compliant with current 5G standards for the life cycle management of a network slice dedicated to mission critical professional services for public safety applications;
- License Plate Recognition for which a convolutional neural network was developed and trained for vehicle classification and plate identification.

Space:

- Work commenced on the implementation of integrated prototype solutions for vertical flight of drones on satellite navigation, hybrid satellite/land communication and geo-information in order to provide location-based services even in BRLOS (Beyond Radio Line of Sight) situations. The analysis and design phase of an Urban Mobility digital service platform to be provided by drones was completed.
- Work commenced on the analysis of the requisites for dynamic navigation in support of CAD (Connected and Automated Driving) land vehicles (automotive);

- Technology developments continued in relation to Artificial Intelligence and Big Data Analytics for integration into application platforms and CLEOS (CLOud Earth Observation Services);
- Work was completed on the implementation of hybrid service architectures based on ground (LTE, Long-Term Evolution) and satellite (HTS, High-Throughput Satellite) broad-band connectivity for terrestrial and maritime mobility services;
- Study of architectures of 5G/ satellite integration.

For the development of new Products, 2019 was devoted to going on with the new work already started 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 continued on its way to certification by the Federal Aviation Administration (FAA). In 2019 work on flight loads data gathering was completed on the AC1 prototype (Aircraft 1); the AC3 prototype continued certification activities, completing the aeroelastic stability engine performance trials. The AC4 aircraft made its first flight;
- In the AW249 programme all the Critical Design Reviews (CDRs) were completed, thus allowing the development of the final configuration to be continued;
- In the AW139 programme, operations were carried out for the development of the final fitting out of the helicopter for the US armed forces in the required configuration (identified as MH139), which culminated in delivery and the first craft coming into service in operating units;
- The work on the RUAV (Rotary-wing Unmanned Aerial Vehicle) enabled Leonardo to pursue with the development of the AWHEREO platform with a view to obtaining certification for military use, which is expected in 2020. At the same time as the development programme, experiments continued in demonstrating the operational capacities of the AWHEREO and SOLO platforms, ending with an operational demonstration in the Mediterranean within the OCEAN 2020 European research programme.

Aeronautics

- In the M-346 programme work continued on the development of the LFFA (Light Fighter Family of Aircraft) version. In June 2019 the Critical Design Review was completed for the Pre-Series aircraft with reinforced wing. After the execution of loads data gathering flights in the first part of the year, the Prototype M-346 X-622 aircraft underwent a lay-up phase for the application of aerodynamic

modifications which are peculiar to the Fighter Attack at the end of which it performed the first flight in this configuration;

- In the 345 programme, after the first flight of the M-345 X-624 Pre-Series aircraft at the end of 2018, a development and demonstration campaign for certification purposes was simultaneously launched on the two M-345 Pre-Series (named W01) and Series (W02) aircraft. At the same time as test flights, in-lab and ground tests continued and results were gathered for the Military Type Certificate. About 170 experimental flights were carried out with various intervals for lay-up that prepared the two aircraft for the representative configuration for the Initial Certification at the end of 2019. A preview in flight was conducted at the end of November with pilots from the Italian Air Force Experimental Flight Unit for a preliminary assessment of the product with a view to certification;
- In the European “MALE 2025” MALE RPAS (Medium Altitude Long Endurance - Remotely Piloted Aircraft System) programme the Design Baseline was refined with a series of optimisations in 2019;
- A study in cooperation between Italian and British companies was completed to assess the feasibility of a Future Air Combat System programme, after which a Statement of Intent was signed by the industries in the two countries that affirms a desire to cooperate in working out an innovative and effective product concept and a partnership.

Defence Electronics & Security

In line with the technology strategy work was commenced and continued on:

- developments on the new UAS Falco Xplorer;
- the Grifo Evo radar with an AESA antenna, confirming leadership in the market for airborne radars;
- research in support of the Tempest project, i.e. the classified programme between the UK Ministry of Defence and the manufacturing industry for the future 6th-generation fighter;
- developments on: Wide Band Data Link for satellite communications, the MAIR (Multiple Aperture InfraRed) system; SkyWard 2B, the new version of the IRST (InfraRed Search and Track) System; future AESA radar systems for Eurofighter and Gripen; Osprey surveillance radars; Infra-Red Counter Measure systems; compact systems for airborne communications Electronic Signals Measurement (ESM) and Electronic Counter Measures;
- investments in DRS on Survivability/Protection systems, new sensors, marine propulsion systems and EW systems;
- developments for the Space Operational Center for Space Surveillance and Tracking purposes;
- the development of the family of multi-mission tactical radars for applications in the sectors of Counter Unmanned Aircraft Systems (CUAS), border control, boats/small ships and AESA seekers;
- research in the sector of radio communications relating to the Software Defined Radio (SDR) for avionics applications, while work was completed for the SDR in naval version;

- the work on the Multi-Channel Doppler LIDAR: the laser class certification was successfully carried out and the first free field measurement and testing campaign was completed.

The year also saw the completion of:

- the development of the new L-Band radar for air traffic control;
- the smart surveillance system based on artificial intelligence applied to computer vision (in the field of transport);
- the first prototype of the IS3 system, i.e. an integrated security system for uses in the security operational rooms for large infrastructures such as ports and airports;
- the functional approval of deck-mounted gun 76/62;
- the approval obtained for the new light torpedo with the new primary battery;
- the approval for the Vulcano guided ammunition (127/155);
- the development of the parcel sorting machine (for e-commerce applications);
- DRS continued to invest in Survivability/Protection systems, new sensors, marine propulsion systems and EW systems.

Cyber Security and Intelligence

- Solutions based on Artificial Intelligence were developed to support decision-making processes, Situational Awareness and anti-fraud systems, as well as solutions on industrial security issues and critical infrastructure by increasing automation in Security Operations Center (SOC) processes;
- An intense collaboration activity continued (with the Defence Administration, EDA, etc.) in the fields of Military Cyber Security, Cyber Range, security of automation-SCADA systems and in the security of weapon systems, in order to manufacture new products compliant with the requirements of key markets and customers;
- Work continued on the evolution of the Professional Communication Networks and broadband professional services were developed for mobile terminals in heterogeneous solutions which use various communication technologies integrated in the 5G ecosystem (e.g. 5G experimentation with the Ministry of Economic Development in Bari, Matera and PIT programme);
- Developments continued on the family of ISSCR (Integrated Security Solutions & Control Rooms) products based on the SC2 (Safety & Security Command & Control) platform.

Space

- Work was completed on the development of a multi-mission user segment (EASE, Earth dAta InfraStructurE) was completed within the ground satellite segment infrastructures and systems until obtaining a minimum viable product, while it continued on the development of a new generation satellite

control segment, from CubeSat to SmallSat, for the New Space market (ENABLE), as well as for larger satellites used in the Institutional and Government market (CORE);

- An action plan was designed and launched for the development of a platform (Ionolab) for the provision of ionospheric navigation services for High Accuracy corrections. A first release of this platform is already an integral part of the broader pilot platform for the provision of GNSS (Global Navigation Satellite Systems) services that Telespazio is developing for SpaceOpal;
- A concept was developed for the design of an integrated Space Traffic Management and Space Intelligence architecture in collaboration with the Italian Space Weather community and shared with the main institutional Stakeholders (SMA, SMD, Segredifesa).

The basic requisites for research related to **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

- AW169 and AW189 programmes: most of the work done was on upgrading avionic systems to respond to market requirements and to improve navigation and flight management systems according to the best standards applicable on the market;
- the AW119 model's avionics configuration was certified, which meets the requirements for operating an aircraft according to instrumental flight procedures, which enables the model to offer greater operational flexibility and increased market opportunities;
- the AW109 Trekker model was certified by the US aviation authorities, ensuring new business opportunities in a key market.

Aeronautics

- Eurofighter Typhoon: the P3Eb Inc0 package was completed for the Entry Into Service version of Kuwait aircraft. Flight campaigns were conducted with two IPA2 (Instrumented Production Aircraft) prototype aircraft - devoted to the integration of new loads. On 23 December, after a complex configuration lay-up, there was the first flight of the ISPA6 (Instrumented Series Production Aircraft) prototype in full Kuwait configuration, including the new E-SCAN Radar;
- the "LTE ACE (Long Term Evolution - Assessment of Capability Exploitation) Study" contract was signed between NETMA and Eurofighter; furthermore, assessment and trade-offs of architectural and systems solutions started in order to give the aircraft the necessary ability to deal with operational scenarios in the years 2025 and after;
- C-27J: work was completed on the development of the New Industrial Baseline configuration, thus obtaining software qualification of Block 1 being accepted for the first two aircraft for the Customer Kenya, which took place at the end of 2019. The new standard for this product includes a new avionic system, new pilot's cabin control panels and systems and sensors upgraded to the latest technological

standards. The standard ensures full compliance with current civil regulations and the most rigorous military requirements;

- Work continued on upgrading the US Coastguard C-27J fleet in a mission configuration. The objective of the programme is to achieve an ISR (Intelligence, Surveillance and Reconnaissance) capacity configuration;
- M-346 AJT (Advanced Jet Trainer) programme: work continued on the development and approval of configuration upgrading;
- Work was completed on the new Cargo version of ATR 72. The development of the ATR 42 STOL (Short Take-Off & Landing) variant also started. The goal is to give the aircraft greater take-off and landing capacity on short runways, thus expanding its possible market.

Defence Electronics & Security

In line with the actions taken, work continued on:

- investments in the evolution of the product portfolio: 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 manned and unmanned platforms - overall mission and integrated on-board sensor management), Airborne AESA Radar (for surveillance and targeting applications), FF (Identification Friend or FOE) Systems (developments in the interrogation system family), SkywardIRST (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), upgrading of targeting systems, ITSS (Integrated Test & Simulation Systems) and training systems for M-345;
- large programmes, both National and International: Eurofighter Typhoon, NEES (New Exploration and Escort Helicopter);
- the development on space devices such as the new generation “Rb POP” atomic clock, on attitude sensors, payloads (Spectrometers) and robotic arms, which searches for and collects samples for planetary exploration and debris during its in-orbit service;
- developments of the X-, C- and L-band AESA radars for naval applications and Long Range Radar;
- investments in the sector of radio communications for strengthening the capabilities for Software Defined Radio (MR-CNR/Multi Role Combat Net Radio) and the improvement of Galileo PRS (Public Regulated Service);
- developments in the sector of optronics, in particular on the LEOSS (airborne domain), DSS-IRST [Distributed Static Surveillance – InfraRed Search and Track] (marine domain) and Janus D (terrestrial domain);

- optimisation of C2&C4 Systems and coastal surveillance systems, C-UAS (Counter-Unmanned Air Systems) systems, ATM (Air Traffic Management) and ATS (Ait Traffic Service) products, in the military field of Driver Night Vision Systems (DNVS) and IR detectors and cameras.

Space

- the development of application platforms (SEonSE, braINT, AssetWatch, agriGEO, mapcy) and inclusion of new Data Analysis services in the segments that are relevant to Geo-Information: agriculture, defence and security, territory management, asset management, crisis management, maritime surveillance, image intelligence;
- the completion and entry into operation of the transversal CLEOS platform for satellite data management/pre-processing;
- the development of multi-constellation satellite navigation systems and solutions (Navigation Gateway) in support of applications for unmanned systems (RPAS, Remotely Piloted Aircraft Systems)/drones);
- the improvement of the architecture for the supply of SST (Space, Surveillance & Tracking) services and e2e simulation capacity for planning visual debris observation missions. Specifically, a prototype based on COTS was set up to measure mission performance and plan observations.

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:

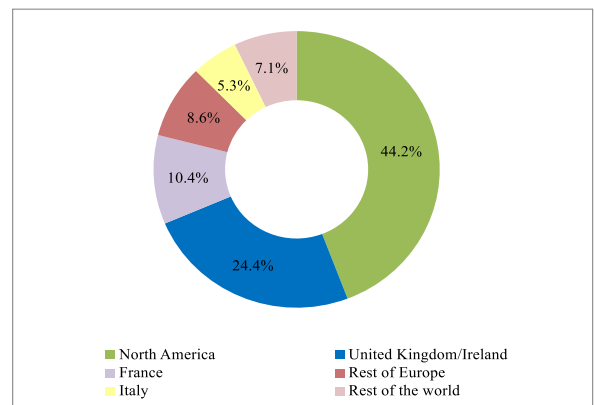
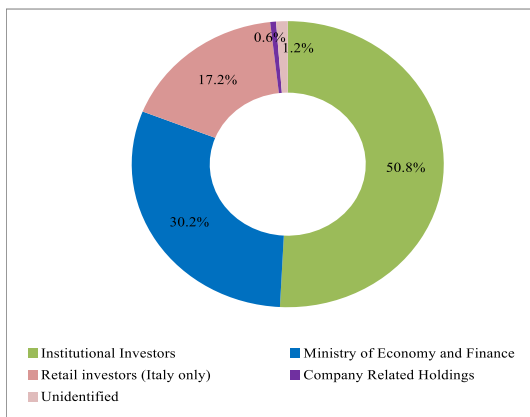
- *ISIN Code: IT0003856405;*
- *Nasdaq: LDO-MTAA;*
- *Bloomberg: LDO IM.*

Leonardo S.p.a.'s Investor Relations and Credit Rating Agencies organisational unit, which directly reports to the Chief Financial Officer, is, among other things, in charge of managing relations with its shareholders, institutional investors, credit rating agencies and financial analysts, through delivering ongoing, proactive, transparent and prompt communication.

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

Major shareholders

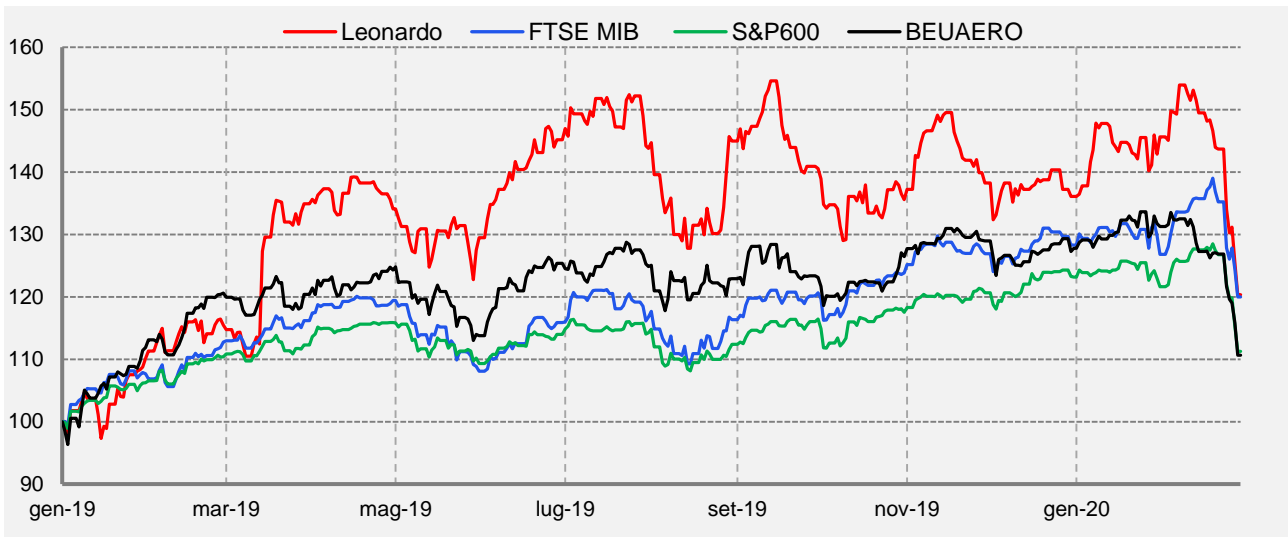
Below is the last Shareholder Analysis performed in February 2020 showing the geographical distribution of the Leonardo's share capital and the total shareholder composition:



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&Defence (BEUAERO) and the leading Italian and European indexes (29 February 2020 = 100)

Below is Leonardo’s stock performance from the beginning of 2019 to 29 February 2020, compared with the Bloomberg EMEA Aerospace&Defence (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 the Company adheres to. This model is aimed at maximising value for shareholders, at controlling business risks and ensuring higher transparency to the market, as well as ensuring integrity and correctness in the 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 said 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 applicable Code in force, 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 current Corporate Governance Code is available on the website of the Corporate Governance Committee (<https://www.borsaitaliana.it/comitato-corporate-governance/homepage/homepage.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, paragraphs 1 and 2 of the Consolidated Law on Financial Intermediation and on the basis of the articles of the current 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 2019 and in the first months of the current year, as well as on the initiatives and implementing 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 next 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 the Chief Executive Officer 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, as well as powers relating to the Company's legal representation and signatory powers (within the limits of powers granted pursuant to law and to the By-laws), along with the power to implement the resolutions passed by the governing body (including resolutions adopted before his appointment on 16 May 2017);
- **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.

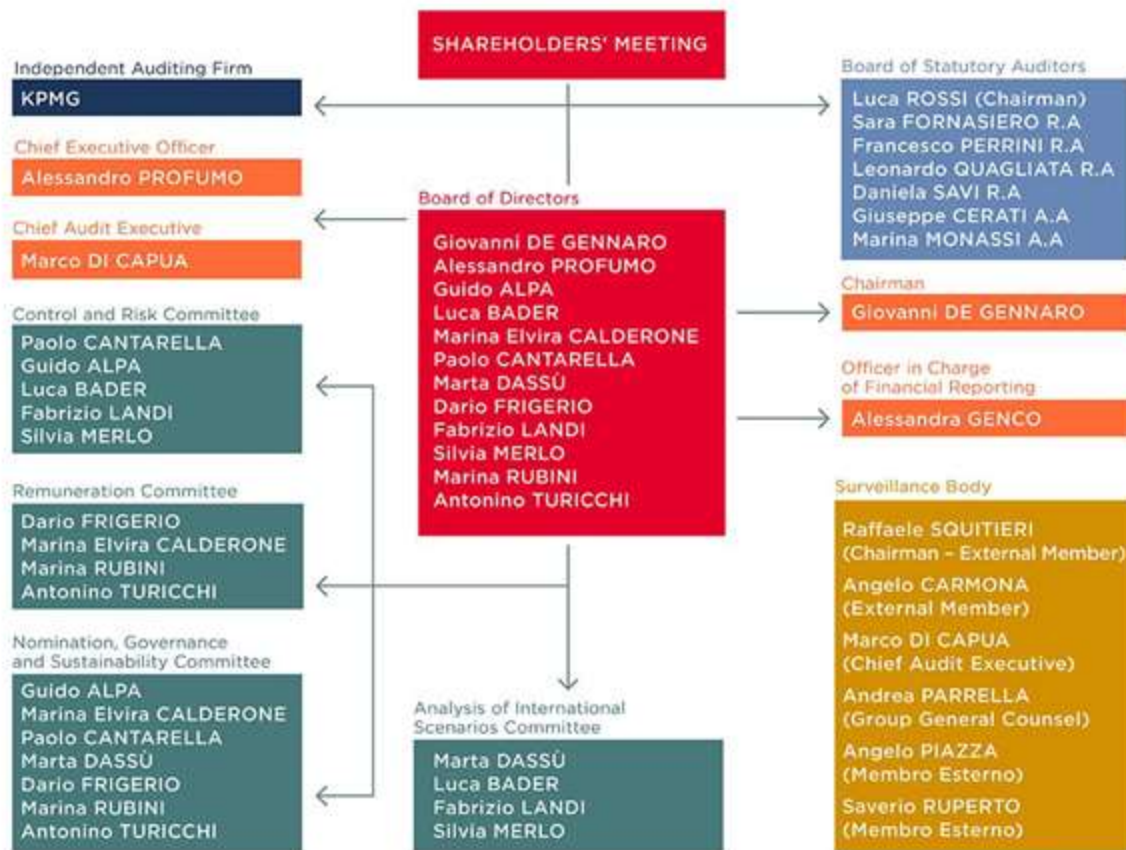
Even in the absence of the specific situations contemplated in the Corporate Governance Code, the Rules of Procedure provide for such power of appointment on the part of the Board, with the abstention of the executive Directors and in any case of the non-independent Directors; in any case the Board shall 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; as well as members added by the Shareholders' Meeting of 16 May 2019, as largely described in the Corporate Governance Report to which reference is made;
- **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.

OUR GOVERNANCE AT A GLANCE



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's website (www.leonardocompany.com), reference should be made to the specific contents in 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	2019	Change
New orders	10,169	9,163	(9.9%)
Order backlog	28,030	27,987	(0.2%)
Revenue	8,079	9,010	11.5%
EBITDA	699	1,025	46.6%
EBITA	410	568	38.5%
ROS	5.1%	6.3%	1.2 p.p.
EBIT	127	538	323.6%
EBIT Margin	1.6%	6.0%	4.4 p.p.
Net result before extraordinary transactions	195	390	100.0%
Net result	284	390	37.3%
Net Debt	2,815	3,874	37.6%
FOCF	134	(264)	(297.0%)
ROI	4.9%	6.3%	1.4 p.p.
ROE	3.4%	6.7%	3.3 p.p.
Workforce	28,140	29,348	4.3%

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

The performance of Leonardo S.p.a.’s key indicators in 2019 confirms the growth trends forecasted in the Industrial Plan already analysed in the section dedicated to the consolidated financial statements, to which reference should be made.

Specifically:

- New orders, equal to €bil. 9.2, showed a decrease of 9.9%, compared to 2018 (€bil. 10.2), mainly due to the acquisition of the NH90 Qatar contract in 2018. Net of this figure, all the company businesses were on the rise;
- Revenues, equal to €bil. 9.0, showed a significant increase of about 11.5% compared to 2018 (€bil. 8.1), with a considerable growth of operating profits (ROS from 5.1% in 2018 to 6.3% in 2019));
- Net result, equal to €mil. 390 (€mil. 284 at 31 December 2018) benefits, compared to the previous year, of the improvement in operating profits, net of the related tax charge;
- The Company’s net debt at 31 December 2019 is mainly affected, in addition to the cash flows figure, by the recognition of financial liabilities arising from the adoption of IFRS 16 “Leases” (the effect on the Company’s net debt was equal to €mil. 626 at 31 December 2019; the effects of the adoption of the accounting standard on the 2019 financial statements are described in Note 4 of the separate financial statements), as well as by the impact of the distribution of dividend (€mil. 81) and the acquisition of equity investments (see Note 11 to the separate financial statements).

The table below provides the performance of earnings:

<i>(€ millions)</i>	<i>Note</i>	<i>2018</i>	<i>2019</i>	<i>Change</i>	<i>% Change</i>
Revenues		8,079	9,010	931	11.5%
Purchase and personnel expense	(*)	(7,318)	(7,949)		
Other net operating income(expenses)	(**)	(62)	(36)		
Amortisation, depreciation and write-offs	(***)	(289)	(457)		
EBITA		410	568	158	38.5%
ROS		5.1%	6.3%	1.2 p.p.	
Non-recurring income/(expenses)		(97)	(21)		
Restructuring costs		(182)	(5)		
Amortisation of intangible assets acquired as part of business combinations		(4)	(4)		
EBIT		127	538	411	323.6%
EBIT Margin		1.6%	6.0%	4.4 p.p.	
Net financial income (expense)	(****)	115	(51)		
Income taxes		(47)	(97)		
Net result before extraordinary transactions		195	390	195	100.0%
Net result related to discontinued operations and extraordinary transactions	(*****)	89	-		
Net result		284	390	106	37.3%

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 revenues/costs) and "Provisions (Reversals) for onerous contracts.
- (**) Includes "Other operating income/(costs)" (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" items.
- (****) Includes "Financial income (costs)" (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)"

Annual financial report at 31 December 2019

The following table compares the balance sheets at 31 December 2019 and at 31 December 2018:

<i>(€ millions)</i>	<i>Note</i>	31 December 2018	31 December 2019
Non-current assets		12,333	13,221
Non-current liabilities		(1,719)	(1,449)
Capital assets	(*)	10,614	11,772
Inventories	(**)	(522)	41
Trade receivables		2,405	2,698
Trade payables		(2,542)	(3,057)
Working capital		(659)	(318)
Provisions for short-term risks and charges		(810)	(804)
Other net current assets (liabilities)	(***)	(924)	(756)
Net working capital		(2,393)	(1,878)
Net invested capital		8,221	9,894
Equity		5,691	6,020
Net Debt		2,815	3,874
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”, in addition to contract assets and liabilities.
- (***) Includes “Income tax receivables/payables” and “Other current assets/(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 Net Debt in line with the previous year:

<i>(€ millions)</i>	31 December 2018	<i>of which current</i>	31 December 2019	<i>of which current</i>
Bonds	2.778	394	2.469	83
Bank debt	691	51	942	48
Cash and cash equivalents	(1.621)	(1.621)	(1.407)	(1.407)
Net bank debt and bonds	1.848		2.004	
Current loans and receivables from related parties	(193)	(193)	(263)	(263)
Other current loans and receivables	(28)	(28)	(26)	(26)
Current loans and receivables and securities	(221)		(289)	
Non current financial receivables from Superjet	(25)		-	
Non current financial receivables from Group's consolidated entities	(283)		(402)	
Hedging derivatives in respect of debt items	-	-	-	-
Related-parties loans and borrowings	1.425	1.425	1.842	1.842
Lease liabilities from related parties	-	-	573	97
Lease liabilities	-	-	53	15
Other loans and borrowings	71	39	93	61
Net Debt	2.815		3.874	

The increase in “borrowings from related parties”, compared to the previous year, was mainly due to the adoption, as reported earlier, of the new IFRS 16 that regulates the treatment of leases, in an amount of €mil. 573 together with other borrowings from related parties (Note 34 to the separate financial statements).

The table below reports the cash flow for the year:

Annual financial report at 31 December 2019

<i>(€ millions)</i>	<i>Note</i>	<u>2018</u>	<u>2019</u>	<u>Change</u>	<u>% Change</u>
Cash flows generated/(used) from operating activities	(*)	464	(40)		
Dividends received		121	171		
Cash flows from ordinary investing activities	(**)	(451)	(395)		
Free Operating Cash Flow (FOCF)		<u>134</u>	<u>(264)</u>	<u>(398)</u>	<u>(297.0%)</u>
Strategic transactions	(***)	-	(28)		
Change in other investing activities	(****)	75	4		
Net change in loans and borrowings		(70)	152		
Dividends paid		(81)	(81)		
Net increase (decrease) in cash and cash equivalents		<u>58</u>	<u>(217)</u>		
Cash and cash equivalents at 1 January		1,565	1,621		
Effect from Mergers/Demergers		-	-		
Exchange rate differences and other changes		(2)	3		
Cash and cash equivalents at 31 December		<u>1,621</u>	<u>1,407</u>		

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 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 2019

<i>(€ millions)</i>	<i>2019</i>	
	Equity	of which: Net profit (loss) for the year
Group Parent equity and net profit (loss)	6,020	390
Excess of shareholders' equities in the annual financial statements compared with the carrying amounts of the equity investments in consolidated companies	(3,846)	562
Consolidation adjustments for:		
- <i>difference between purchase price and corresponding book equity</i>	3,304	10
- <i>elimination of intercompany profits</i>	101	54
- <i>deferred tax assets and liabilities</i>		(196)
- <i>dividends from consolidated companies</i>		1
- <i>Translation differences</i>	(256)	
Group equity and net profit (loss)	5,323	821
Non-controlling interests	11	1
Total consolidated equity and net profit (loss)	5,334	822

Proposal to the Shareholders' Meeting

Dear Shareholders,

The 2019 financial statements, which we submit for your approval, close with a net profit of € 389,777,585.94. 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 2019;
- 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 2019;
- to approve the proposal posed by the Board of Directors of allocating the 2019 net profit of Euro 389,777,585.94 as follows:
 - Euro 19,488,879.30 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 24 May 2020, with the ex-dividend date of coupon no. 11 falling on 22 June 2020 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 23 June 2020; 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 2019

Consolidated accounting statements

Consolidated separate income statement

<i>(€ millions)</i>	<i>Note</i>	2018	<i>of which with related parties</i>	2019	<i>of which with related parties</i>
Revenues	27	12,240	1,811	13,784	1,895
Other operating income	28	599	6	551	4
Purchase and personnel expenses	29	(11,173)	(565)	(12,136)	(669)
Amortisation, depreciation and financial assets value adjustments	30	(656)		(619)	
Other operating expenses	28	(511)	(1)	(587)	(1)
Income before tax and financial expenses		499		993	
Financial income	31	148	7	168	5
Financial expenses	31	(396)	(4)	(475)	(4)
Share of profits/(losses) of equity-accounted investees	12	234		183	
Operating profit (loss) before income taxes and discontinued operations		485		869	
Income taxes	32	(64)		(147)	
Profit (loss) from discontinued operations	33	89		100	
Net profit/(loss) for the period attributable to:		510		822	
- owners of the parent		509		821	
- non-controlling interests		1		1	
Earnings/(losses) per share	34	0.888		1.428	
- basic and diluted from continuing operations		0.733		1.254	
- basic and diluted from discontinued operations		0.155		0.174	

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 5.

Consolidated statement of comprehensive income

<i>(€ millions)</i>	<i>Note</i>	<u>2018</u>	<u>2019</u>
Profit (loss) for the period		510	822
Other comprehensive income (expenses):			
<u>Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:</u>			
- Measurement of defined-benefit plans:	20	(15)	(70)
- revaluation		(9)	(74)
- exchange rate gains (losses)		(6)	4
- Tax effect	20	3	13
- Tax rate adjustment		-	-
		<u>(12)</u>	<u>(57)</u>
<u>Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:</u>			
- Changes in cash flow hedges:	20	(53)	30
- change generated in the period		(58)	26
- transferred to the profit (loss) for the period		5	4
- Translation differences	20	68	141
- change generated in the period		65	142
- transferred to the profit (loss) for the period		3	(1)
- Tax effect	20	10	(6)
		<u>25</u>	<u>165</u>
<u>Current portion of "Other comprehensive income (expenses)", equity-accounted investees</u>		2	(27)
Total other comprehensive income (expense), net of tax:		15	81
Total comprehensive income (expense), attributable to:		525	903
- Owners of the parent		524	902
- Non-controlling interests		1	1
Total comprehensive income (expense), attributable to Owners of the parent		524	902
- from continuing operations		435	802
- from discontinued operations		89	100

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 5.

Consolidated statement of financial position

(€ millions)	Note	31 December 2018	<i>of which with related parties</i>	31 December 2019	<i>of which with related parties</i>
Intangible assets	9	6,591		6,764	
Property, plant and equipment	10	2,166		2,177	
Investment property		56		103	
Right of use	11	-		431	
Investments accounted for under equity method	12	1,139		1,154	
Receivables	13	450	1	436	8
Deferred tax assets	32	1,208		1,096	
Other non-current assets	13	239	-	175	-
Non-current assets		11,849		12,336	
Inventories	15	5,449		5,823	
Contract assets	16	2,528		2,928	
Trade receivables	17	2,936	504	2,995	537
Income tax receivables		72		71	
Loans and receivables	17	185	153	197	161
Other assets	18	444	4	489	6
Cash and cash equivalents	19	2,049		1,962	
Current assets		13,663		14,465	
Non-current assets held for sale	33	7		92	
Total assets		25,519		26,893	
<i>Share capital</i>	20	2,495		2,496	
<i>Other reserves</i>		2,004		2,827	
Equity attributable to the owners of the parent		4,499		5,323	
Equity attributable to non-controlling interests		11		11	
Total equity		4,510		5,334	
Loans and borrowings (non-current)	21	3,423	-	3,975	33
Employee benefits	23	506		509	
Provisions for risks and charges	22	885		675	
Deferred tax liabilities	32	322		245	
Other non-current liabilities	24	898	-	814	-
Non-current liabilities		6,034		6,218	
Contract liabilities	16	8,055		7,804	
Trade payables	25	3,028	153	3,791	350
Loans and borrowings (current)	21	1,190	669	1,031	730
Income tax payables		35		43	
Provisions for short-term risks and charges	22	1,125		1,164	
Other current liabilities	24	1,542	104	1,485	63
Current liabilities		14,975		15,318	
Liabilities associated with assets held for sale	33	-		23	
Total liabilities		21,009		21,559	
Total liabilities and equity		25,519		26,893	

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 5.

Consolidated statement of cash flows

(€ millions)	<i>Note</i>	2018	<i>of which with related parties</i>	2019	<i>of which with related parties</i>
Gross cash flows from operating activities	35	1,669		1,847	
Change in trade receivables/payables, contract assets/liabilities and inventories	35	(321)	150	(528)	164
Change in other operating assets and liabilities and provisions for risks and charges	35	(440)	(26)	(390)	(40)
Interest paid		(235)	3	(216)	1
Income taxes received/(paid)		14	-	(68)	-
Cash flows generated (used) from operating activities		687		645	
Investments in property, plant and equipment and intangible assets		(577)		(594)	
Sales of property, plant and equipment and intangible assets		24		17	
Other investing activities		203	-	111	-
Cash flows generated (used) from investing activities		(350)		(466)	
Term Loan and BEI Subscription		498		300	
Bond redemption		(513)		(423)	
Net change in other loans and borrowings		(91)	(75)	(58)	1
Dividends paid		(81)		(81)	
Cash flows generated (used) from financing activities		(187)		(262)	
Net increase (decrease) in cash and cash equivalents		150		(83)	
Exchange rate differences and other changes		6		2	
Cash and cash equivalents at 1 January		1,893		2,049	
Net increase (decrease) in cash of discontinued operations		-		(6)	
Cash and cash equivalents at 31 December		2,049		1,962	

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 5.

Consolidated statement of changes in equity

(€ millions)	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 2018	2,491	2,401	(57)	(158)	(478)	4,199	14	4,213
<i>IFRS 9 adoption</i>		<i>(147)</i>				<i>(147)</i>		<i>(147)</i>
1 January 2018	2,491	2,254	(57)	(158)	(478)	4,052	14	4,066
Profit (loss) for the period	-	509	-	-	-	509	1	510
Other comprehensive income (expenses)	-	-	(47)	(7)	69	15	-	15
Total comprehensive income (expenses)	-	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
1 January 2019	2,495	2,685	(104)	(168)	(409)	4,499	11	4,510
Profit (loss) for the period	-	821	-	-	-	821	1	822
Other comprehensive income (expenses)	-	-	34	(106)	153	81	-	81
Total comprehensive income (expenses)	-	821	34	(106)	153	902	1	903
Dividends resolved		(80)				(80)	(1)	(81)
Repurchase of treasury shares less shares sold	1					1		1
Total transactions with owners of the parent, recognised directly in equity	1	(80)	-	-	-	(79)	(1)	(80)
Other changes	-	1	-	-	-	1	-	1
31 December 2019	2,496	3,427	(70)	(274)	(256)	5,323	11	5,334

Notes to the consolidated financial statements at 31 December 2019

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, Defence Electronics and Security, 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 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 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 2018 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 2019 of the Leonardo Group were approved by the Board of Directors on 12 March 2020 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 2019 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 defence.

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 acquired, 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, Defence Electronics and Security, 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 current year has been marked by the following changes in the euro against the main currencies of interest for the Group:

	31 December 2018		31 December 2019		% Change	
	average	final	average	final	average	final
US dollar	1.1815	1.1450	1.1195	1.1234	(5.2%)	(1.9%)
Pound sterling	0.8847	0.8945	0.8777	0.8508	(0.8%)	(4.9%)

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
<i>Customer backlog and commercial positioning</i>	7-15
<i>Backlog</i>	10-30
<i>Software/know how</i>	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 time.

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 are initially measured at their transaction price, since this is representative of the fair value.

At initial recognition financial assets are classified in one of the categories listed above and can be subsequently reclassified in other categories, only when the Group changes its own business model for their management.

The Group recognises as value adjustment 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.

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 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 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.

If there are uncertain tax treatments, the Group determines whether they are likely to be accepted by the tax authorities. If acceptance is considered probable, the tax values must take account of the uncertain tax treatment, while, if acceptance is considered unlikely, the Group calculates the effect of this uncertainty using the most probable amount or expected value method.

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

The Group recognises the right of use and the lease liability for a lease agreement or an agreement that contains a lease component.

Right-of-use assets are valued at cost, net of accumulated amortisation and impairment losses (if any) (Note 3.7), as adjusted by any re-measurement of lease liabilities. The cost includes the value of lease liabilities, any initial direct costs sustained and the lease payments made on the commencement date or before the inception of the same agreement, net of incentives received (if any). Right-of-use assets are amortised on a straight-line basis from the commencement date to until the end of the lease term. If the agreement transfers the ownership of the underlying asset, the Group will amortise the right-of-use assets until the end of the useful life of the underlying asset at the end of the lease term.

Lease liabilities are measured at the present value of the lease payments due and not yet paid as at the commencement date of the agreement. The due payments include fixed payments, net of any lease incentives to be received, variable payments (linked to an index or an interest rate) and the amounts the Group expects to pay as security on the remaining value. Lease payments also include any possible exercise price of a purchase option that is reasonably certain to be exercised by the Group and the payment of penalties that the latter believes it shall incur for any possible early termination of the agreement. The Group restates the lease liabilities in the event of subsequent amendments being made to the agreement.

In calculating the present value of due payments the Group uses the incremental borrowing rate prevailing at the commencement date of the agreement when the implicit interest rate cannot be determined easily.

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 Group entities as lessors in an operating lease

Receipts 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 in the balance sheet, grants are recognised as a reduction of the capitalised 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 expenses*

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 adoption of IFRS 9 – Financial Instruments relating to hedge accounting will redefine the method of accounting for hedging derivatives, with particular reference to the component of award credits. The application of the new provisions is allowed until the entry into force of macro-hedging and the impact of the adoption of this standard on the Group is currently being analysed.

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, 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.

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, which in some cases is particularly long, 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 revenues 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 contracts 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. Failure to comply with such contractual terms and conditions 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 with definite useful life 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 2019 (First Time Adoption) the Group adopted IFRS 16 "Leases", which redefines the methods of recognition of agreements in the financial statements of lessee companies, thus providing for a single method of accounting for any and all types of agreements. The distinction between operating and finance leases is maintained for lessor companies.

IFRS 16 replaces IAS 17 and related Interpretations (IFRIC 4) and, in particular, the standard provides that all agreements that grant the right to use an identified or identifiable asset for a given period of time in exchange for a consideration are recognised by recording, in the statement of financial position, non-current assets and

financial liabilities equal to the present value of future lease payments using the implicit interest rate of the lease (or the lessee's incremental lending rate if the implicit interest rate cannot be identified).

After the first entry, the lessee recognises the amortisation of the rights of use and the interest accrued on the liability.

According to the approach previously adopted by the Group, in the cash flow statement the repayment of the capital quota of the financial liability is stated under "cash flow from financing activities", while the amount of interest is recognised under "cash flow from operating activities".

Upon first-time adoption, the Group adopted the "modified" retrospective approach, which provides for the recognition of the impact arising from first-time adoption as at 1 January 2019, without restating any comparative value and determining the value of the right of use relating to each lease agreement as equal to the financial liability for leases, as adjusted by any advance or accrued payment at 1 January 2019.

The Group has made use of the following practical expedients provided by the standard:

- the possibility of not reviewing agreements existing at 1 January 2019, applying IFRS 16 only to agreements previously identified as leases (formerly IAS 17 and IFRIC 4);
- excluding, from the scope of application, leases with a term of less than 12 months from the date of first-time adoption and of leases involving assets of modest value (less than € 5,000);
- excluding, from the scope of application, leases with a residual term of less than 12 months at 1 January 2019;
- applying a single discount rate for leases with similar characteristics taking account of the time period and geographical area.

The effects arising from the adoption of the new standard on the position at 1 January 2019 were as follows (values recognised at 1 January 2019):

Rights of use	445
Financial liabilities for leases	458
Other liabilities	(13)

Finally, the cash flow statement includes, under "Cash flow generated from (used in) operating activities", the component of interest reimbursed in relation to the lease rentals paid during the period (€mil. 18); the component concerning the repayment of the capital quota of the financial liability is stated under the item of "Cash flow generated from (used in) financing activities" (€mil. 54). On the contrary, the 2018 "Cash flow generated from (used in) operating activities" included the full amount of the lease rentals paid during the period.

Below is the reconciliation between the amount of future minimum lease payments due for non-cancellable operating lease agreements, shown in the financial statements at 31 December 2018, and the balance of financial liabilities for leases at 1 January 2019:

Payments for non-cancellable Leases at 31 December 2018	574
Effect of discounting-back at 1 January 2019	(95)
Exclusion of “exempt” lease agreements	(22)
Recognition of instalments of leases signed but not yet started	(52)
Other changes	53
Financial liability for leases at 1 January 2019	458

Other changes mainly encompass payments related to the renewal periods not included among the commitments for operating lease liabilities at 31 December 2018.

The lessee's weighted average rate of indebtedness applied to lease liabilities was 3.3% as at 1 January 2019.

Any leases that are previously classified as finance leases under IAS 17 have been reclassified to rights of use. The definition of lease provided in IFRS 16 has been applied only to agreements signed or amended as from 1 January 2019.

The other new standards and interpretations that came into force on 1 January 2019 had no significant impact on the Group's financial statements..

6. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

On 31 January 2019 there was the closing of the acquisition of the entire stake in Vitrociset S.p.A.. The details of the accounting effects recognised are reported in Note 14.

Furthermore, on 12 June 2019 Ansaldoenergia S.p.A., Leonardo S.p.A., Hitachi Ltd. and Hitachi Rail signed a proposal concerning the settlement of the positions arising from the disposal of the transport business unit of Ansaldoenergia, which took place in 2015, the related effects through profit or loss have been classified under the result of “Discontinued operations” (Note 33 to which reference is made).

With reference to 2018 it should be noted that, during the period, 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 subsequently released 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”. Furthermore, during 2018 an agreement was signed under art. 4 of Law 92/2012 (Fornero Act), with the consequent allocation amounting to about €mil. 170.

7. SIGNIFICANT POST BALANCE SHEET EVENTS

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

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

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

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

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

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

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

On 28 January 2020 Leonardo signed a contract with Lynwood (Schweiz) AG to acquire 100% of the Swiss helicopter company Kopter Group AG (Kopter).

The acquisition price of the company includes a fixed amount of €mil. 185, in addition to an earn-out mechanism linked to specific milestones in the life of the programme, starting from 2022.

The company's preliminary financial statements at 31 December 2019 showed assets of about CHFmil. 230 (equivalent to about €mil. 215), mainly relating to the capitalisation of development costs incurred, and a negative equity of about CHFmil. 185 (equivalent to about €mil. 170). Given the full development phase which Kopter is going through, the preliminary result for 2019 is negative by approximately CHFmil. 40 (equivalent to approximately €mil. 35), as the marketing phase has not yet started.

The contract is subject to specific conditions and the transaction is expected to be completed by the first half of 2020.

Furthermore, it should be noted that on 31 January 2020 the United Kingdom left the European Union, with a so-called transition phase being expected to last until December 2020. The Group is monitoring the negotiations between the United Kingdom and the European Union, as well as supporting the competent institutional bodies and associations (defence sector) for the relevant actions. On the basis of internal analyses recently conducted, Leonardo has identified a first set of operational actions to deal with the "no deal" scenario, if required, with particular reference to the management of customs 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, Defence Electronics and Security, Aeronautics, Space and Other activities.

The Group assesses the performance of its operating segments and the allocation of its financial resources on the basis of revenue and EBITA (EBITA is calculated by eliminating from EBIT any impairment losses, amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, restructuring costs and other exceptional costs or income).

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.

The results for the operating sectors at 31 December 2019, as compared to 2018, are as follows:

31 December 2018	Defense					Eliminations	Total
	Helicopters	Electronics & Security	Aeronautics	Space	Other Activities		
Revenues	3,810	5,953	2,896	-	340	(759)	12,240
Inter-segment revenues (*)	(5)	(498)	(3)	-	(253)	759	-
Third party revenues	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 2019	Defense					Eliminations	Total
	Helicopters	Electronics & Security	Aeronautics	Space	Other Activities		
Revenues	4,025	6,701	3,390	-	463	(795)	13,784
Inter-segment revenues (*)	(15)	(491)	(4)	-	(285)	795	-
Third party revenues	4,010	6,210	3,386	-	178	-	13,784
EBITA	431	613	362	39	(194)	-	1,251
Investments (***)	231	167	146	-	107	-	651
Non-current assets (**)	3,219	3,567	1,290	-	968	-	9,044

(*) 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.

(***) Investments relate to intangible assets and property, plant and equipment as well as to investment property.

The reconciliation of EBITA, EBIT and earnings before income taxes and financial expense for the periods concerned is shown below:

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2018	Defense					Total
	Helicopters	Electronics & Security	Aeronautics	Space	Other Activities	
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
2019	Defense					Total
	Helicopters	Electronics & Security	Aeronautics	Space	Other Activities	
EBITA	431	613	362	39	(194)	1,251
Amortisation of intangible assets acquired as part of business combinations	(9)	(18)	-	-	-	(27)
Restructuring costs	-	(24)	(1)	-	(3)	(28)
Non-recurring income/charges	(16)	(8)	(19)	-	-	(43)
EBIT	406	563	342	39	(197)	1,153
Equity-accounted strategic JVs	-	(68)	(53)	(39)	-	(160)
Income before tax and financial expenses	406	495	289	-	(197)	993

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

31 December 2018	Helicopters	Defense Electronics & Security	Aeronautics	Other Activities	Eliminations	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
United states of America	252	2,052	910	1	(3)	3,212
Rest of the world	1,288	742	752	3	-	2,785
Revenues	3,810	5,953	2,896	340	(759)	12,240
Inter-segment revenues (*)	(5)	(498)	(3)	(253)	759	-
Third party revenues	3,805	5,455	2,893	87	-	12,240
31 December 2019	Helicopters	Defense Electronics & Security	Aeronautics	Other Activities	Eliminations	Total
Italy	628	1,537	268	458	(667)	2,224
United Kingdom	622	905	-	-	(122)	1,405
Rest of Europe	1,442	817	937	4	(1)	3,199
United states of America	340	2,623	1,023	1	(5)	3,982
Rest of the world	993	819	1,162	-	-	2,974
Revenues	4,025	6,701	3,390	463	(795)	13,784
Inter-segment revenues (*)	(15)	(491)	(4)	(285)	795	-
Third party revenues	4,010	6,210	3,386	178	-	13,784

(*) Inter-segment revenue includes revenue among Group consolidated undertakings belonging to various business sectors.

* * * * *

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 2019
Italy	5,024	5,044
United Kingdom	1,688	1,818
Rest of Europe	134	133
United states of America	1,953	2,032
Rest of the world	14	17
	8,813	9,044

9. INTANGIBLE ASSETS

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
<i>1 January 2018</i>							
Cost	5,847	1,100	2,078	627	1,283	429	11,364
Amortisation and impairment losses	(2,169)	(641)	(437)	(362)	(871)	(334)	(4,814)
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	5,988	1,147	2,261	585	1,331	458	11,770
Depreciation	-	(570)	(453)	(378)	(1,009)	(344)	(2,754)
Impairment losses	(2,255)	(101)	(48)	-	-	(21)	(2,425)
Carrying amount	3,733	476	1,760	207	322	93	6,591
Investments	-	66	204	6	-	44	320
Sales	-	(2)	-	-	-	-	(2)
Amortisation	-	(29)	(54)	(16)	(27)	(29)	(155)
Impairment losses	-	(3)	(48)	-	-	(3)	(54)
Increase for business combination (*)	1	-	4	-	2	-	7
Other changes	91	(5)	(61)	22	8	2	57
31 December 2019	3,825	503	1,805	219	305	107	6,764
broken down as follows:							
Cost	6,117	1,269	2,435	635	1,363	486	12,305
Depreciation	-	(628)	(508)	(416)	(1,058)	(353)	(2,963)
Impairment losses	(2,292)	(138)	(122)	-	-	(26)	(2,578)
Carrying amount	3,825	503	1,805	219	305	107	6,764
31 December 2018							
Gross value			4,888				
Grants			3,128				
31 December 2019							
Gross value			4,902				
Grants			3,097				

(*): increases from business combinations, net of reclassification to “Assets held for sale”

2019 overall investments were mainly made in the Helicopters (€mil. 175), Aeronautics (€mil. 80) and Defence Electronics and Security (€mil. 38) sectors. Commitments are in place for the purchase of intangible assets for €mil. 8 at 31 December 2019 (€mil. 5 at 31 December 2018).

The impairment of non-recurring costs mainly refers to the write-down of the non-recurring costs related to the Aeronautics sector. As set out in Note 4.1 of the consolidated financial statements, to which reference is made, development costs and non-recurring charges are tested for impairment, if the conditions obtain, using the discounted cash flow based on the cash flows included in the each product business plan discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method.

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 2019 and 2018:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Helicopters	1,243	1,266
Defense Electronics & Security	2,430	2,499
<i>DRS</i>	1,459	1,490
<i>Leonardo Divisions</i>	971	1,009
Aeronautics	<u>60</u>	<u>60</u>
	<u><u>3,733</u></u>	<u><u>3,825</u></u>

The net increase compared to 31 December 2018 was mainly 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). 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;
- 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 and (nominal) growth rates were used at 31 December 2019 and 2018:

	31 December 2018		31 December 2019	
	Wacc	g-rate	Wacc	g-rate
Helicopters	8.5%	2.0%	7.7%	2.0%
Defense Electronics & Security				
<i>DRS</i>	8.2%	2.0%	7.5%	2.0%
<i>Leonardo Divisions</i>	6.4%	2.0%	6.1%	2.0%
Aeronautics	7.2%	2.0%	6.8%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The 2019 headroom amounts benefitted from a decrease 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 2019 and 2018 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
Defense Electronics & Security				
<i>DRS (USD millions)</i>	1,319	1,050	1,118	1,158
<i>Leonardo Divisions</i>	6,679	5,719	5,867	6,385
Aeronautics	9,823	9,103	9,231	9,577
31 December 2019	Margin (base case)	Margin post sensitivity		
		Wacc	g-rate	ROS TV
Helicopters	1,314	940	1,011	1,110
Defense Electronics & Security				
<i>DRS (USD millions)</i>	1,995	1,624	1,693	1,779
<i>Leonardo Divisions</i>	7,436	6,234	6,410	7,050
Aeronautics	8,348	7,685	7,794	8,091

Other intangible assets

Investments in “development costs” refer to the Defence Electronics and Security (€mil. 37) and Helicopters (€mil. 29) sectors. Investments attributable to “non-recurring costs” are mainly related to the Helicopters (€mil. 140), Defence Electronics and Security (€mil. 50) and Aeronautics (€mil. 72) 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 13). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 28.

Total research and development costs, comprising also “development” and “non-recurring costs” just mentioned, are equal to €mil. 1,525.

“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 24).

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

	<u>31 December 2018</u>	<u>31 December 2019</u>
Know-how	105	99
Trademarks	45	44
Backlog and commercial positioning	172	162
	<u>322</u>	<u>305</u>

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 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
<i>1 January 2018</i>					
Cost	1,542	1,537	2,109	1,240	6,428
Amortisation, depreciation and write-offs	(662)	(1,111)	(1,508)	(914)	(4,195)
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)
Other changes	53	36	40	(108)	21
31 December 2018	894	402	551	319	2,166
broken down as follows:					
Cost	1,599	1,592	2,169	1,277	6,637
Amortisation, depreciation and write-offs	(705)	(1,190)	(1,618)	(958)	(4,471)
Carrying amount	894	402	551	319	2,166
Investments	3	21	42	258	324
Sales	(8)	-	-	(5)	(13)
Depreciation	(43)	(77)	(131)	(57)	(308)
Impairment losses	-	-	(1)	-	(1)
Increase for business combination	19	2	-	-	21
Other changes	(32)	15	49	(44)	(12)
31 December 2019	833	363	510	471	2,177
broken down as follows:					
Cost	1,518	1,649	2,281	1,520	6,968
Amortisation, depreciation and write-offs	(685)	(1,286)	(1,771)	(1,049)	(4,791)
Carrying amount	833	363	510	471	2,177

The 2019 investments were related to the sectors of Defence Electronics and Security for €mil. 129, Aeronautics for €mil. 66, Helicopters for €mil. 55 and Other Activities for €mil. 74.

“Other tangible assets” also include the value of tangible assets under construction (€mil. 249 at 31 December 2019 against €mil. 133 at 31 December 2018).

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 78 at 31 December 2019 (€mil. 37 at 31 December 2018).

The future receipts attributable to operating leases are equal to €mil. 19, of which €mil. 6 beyond 5 years (€mil. 24 at 31 December 2018).

11. RIGHT OF USE

	Right of use of land and buildings	Right of use of plant and machinery	Right of use of other tangible assets	Total
<i>31 December 2018</i>	-	-	-	-
broken down as follows:				
Cost	-	-	-	-
Amortisation, depreciation and write-offs	-	-	-	-
Carrying amount	-	-	-	-
IFRS 16 adoption	399	4	42	445
New Contract submission	66	1	4	71
Closing and contract modifications	(38)	-	-	(38)
Depreciation	(55)	(2)	(17)	(74)
Other changes	21	1	5	27
<i>31 December 2019</i>	393	4	34	431
broken down as follows:				
Cost	448	6	51	505
Amortisation, depreciation and write-offs	(55)	(2)	(17)	(74)
Carrying amount	393	4	34	431

Right of use were recognised in the application of the new IFRS 16 “Leases”, for €mil. 445 (Note 5) at 1 January 2019.

During 2019 this item showed an increase as a result of the execution of new agreements, which were partly offset by contract changes and amortisation allowances.

As described above, the Group has opted to exclude from the scope of application, the leases with a term of less than 12 months and those concerning assets of modest value, the effects of which were therefore recognised among “costs for purchases” (Note 29).

At 31 December 2019 the contract commitments in place was equal to €mil. 79, mainly related to the completion of a new production plant of DRS.

12. EQUITY INVESTMENTS AND SHARE OF PROFITS (LOSSES) OF EQUITY-ACCOUNTED INVESTEEES

	2018			2019		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
Material joint venture	929		929	902		902
Joint venture not individually material:	60	(3)	57	62	(5)	57
- Rotorsim Srl	34		34	37		37
- Advanced Acoustic Concepts LLC	19		19	19		19
- Rotorsim USA LLC	7		7	6		6
- Closed Joint Stock Company Helivert	-	(3)	(3)	-	(5)	(5)
	989	(3)	986	964	(5)	959
Associates	150	-	150	190		190
	1,139	(3)	1,136	1,154	(5)	1,149

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, would have changed the Group's main indicators as follows:

	2018	2019
Revenues	+486	+526
EBITA	+32	+27
EBIT	+22	+26
Net result (non-controlling interests)	+10	+13
FOCF	+37	+52
Group Net Debt	-35	-4

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:

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	31 December 2018					Total
	Telespazio	Thales Alenia Space	MBDA (through AMSH BV)	GIE ATR	Other JV not individually material	
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		
Revenues (100%)	493	2,454	3,477	1,497		
Amortisation, depreciation and impairment losses (100%)	17	63	108	18		
Financial income (expenses) (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 (expenses) (100%)	(1)	5	(4)			
Total comprehensive income (expenses) (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 (expenses)	(1)	2	(1)	-		-
% Groups' interest in total comprehensive income (expenses)	15	45	60	97	5	222
Dividends received	(19)	(29)	(17)	(125)	(4)	(194)
Acquisitions						-
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				

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	31 December 2019					Total
	Telespazio	Thales Alenia Space	MBDA (through AMSH BV)	GIE ATR	Other JV not individually material	
Non-current assets	322	1,976	2,706	253		
Current assets	339	1,681	5,065	851		
- of which cash and cash equivalent	15	11	161	6		
Non-current liabilities	63	347	1,016	204		
- of which non-current financial liabilities	16	-	5	64		
Current liabilities	312	1,549	6,127	677		
- of which current financial liabilities	30	352	25	52		
NCI net equity (100%)	16	-	1	-		
Group net equity (100%)	270	1,761	627	223		
Revenues (100%)	535	2,141	3,877	1,439		
Amortisation, depreciation and impairment losses (100%)	19	65	126	30		
Financial income (expenses) (100%)	(2)	(7)	(6)	(3)		
Income taxes (100%)	(11)	(18)	(129)	(3)		
Profit (loss) from continuing operations (100%)	33	48	270	106		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expenses) (100%)	6	(15)	(77)	(8)		
Total comprehensive income (expenses) (100%)	39	33	193	98		
% Groups' interest in equity at 1 January	174	571	131	150	59	1,085
% Groups' interest in profit (loss) from continuing operations	22	16	68	53	5	164
% Groups' interest in profit (loss) from discontinued operations, net of taxes	-	-	-	-		-
% Groups' interest in other comprehensive income (expenses)	4	(5)	(19)	(4)		(24)
% Groups' interest in total comprehensive income (expenses)	26	11	49	49	5	140
Dividends received	(14)		(56)	(90)	(3)	(163)
Subscriptions and capital increases (decrease)						-
Acquisitions						-
Disposals						-
Exchange differences and other movements	(5)	(1)	(1)	2		(5)
% Groups' interest in equity at 31 December	181	581	123	111	61	1,057
Consolidation adjustments	2	(211)	115	-	1	(93)
Equity investments at 31 December	183	370	238	111	62	964
% Groups' interest in profit (loss)	22	16	68	53	5	164
Consolidation adjustments	-	1	-	-		1
Share of profits (losses) of equity-accounted investees	22	17	68	53	5	165
		160				

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 2019
% Groups' interest in equity at 1 January	140	150
% Groups' interest in profit (loss) from continuing operations	20	20
% Groups' interest in profit (loss) from discontinued operations, net of taxes		
% Groups' interest in other comprehensive income (expenses)	-	(1)
% Groups' interest in total comprehensive income (expenses)	20	19
Dividends received	(8)	(10)
Subscriptions and capital increases (decrease)	(1)	37
Acquisitions	-	-
Disposals	-	(2)
Exchange differences and other movements	(1)	(4)
% Groups' interest in equity at 31 December	150	190
Consolidation adjustments	-	-
Equity investments at 31 December	150	190
% Groups' interest in profit (loss)	20	20
Consolidation adjustments		
Share of profits (losses) of equity-accounted investees	20	20

13. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2019
Financing to third parties	12	10
Non current financial receivables from Superjet	25	-
Deferred grants under Law no. 808/85	36	61
Defined benefit plan assets, net (Note 23)	309	289
Related party receivables (Note 36)	1	8
Other non-current receivables	67	68
Non-current receivables	450	436
Prepayments - non-current portion	5	5
Equity investments at cost	18	19
Non-recurring costs pending under Law no. 808/1985	216	151
Non-current assets	239	175

Loans and receivables from Superjet were reclassified under current receivables due to their approaching date of collection.

14. BUSINESS COMBINATION

On 31 January 2019 there was the closing of the transaction that saw the acquisition, on the part of Leonardo S.p.A., of 98.54% of the shares of Vitrociset S.p.A. and of four properties on the part of Leonardo Global Solutions. Following the above-mentioned transaction Leonardo now holds the total shares of Vitrociset S.p.A.. The consideration paid for the transaction was €mil. 47 (including the acquisition of Vitrociset shares and of properties).

The acquisition contributed to strengthening Leonardo's core business of services, in particular Logistics, Simulation & Training and Space Operations, including the Space Surveillance and Tracking segment. Leonardo has also reinforced its domestic supply chain in the Aerospace, Defence and Security sector, increasing its competitiveness with significant market prospects.

2019 saw the completion of the Purchase Price Allocation process on acquired values, with the results shown below:

	<i>Book values</i>	<i>ADJ Fair value</i>	<i>Fair value</i>
Intangible assets	50	(16)	34
Property, plant and equipment	21	-	21
Other non-current assets	7	6	13
Inventories	6	(1)	5
Contract assets	67	(17)	50
Trade receivables	76	(3)	73
Loans and receivables	13	-	13
Other assets	15	(1)	14
Cash and cash equivalents	13	-	13
	268	(32)	236
Loans and borrowings (non-current)	(27)	-	(27)
Employee benefits	(8)	-	(8)
Other non-current liabilities	(8)	5	(3)
Trade payables	(87)	-	(87)
Loans and borrowings (current)	(55)	-	(55)
Other current liabilities	(15)	5	(10)
Net assets acquired	68	(22)	46
Cash paid			47
Goodwill			1

The Space Alliance agreements signed in 2005 by the then Finmeccanica S.p.A. with Alcatel Participations (now Thales) included, among non-competition clauses, a prohibition on the joint venture's partners operating in space-related businesses. These clauses also provided for the obligation to grant the Space Alliance a right of first refusal on any space-related business that the shareholders had acquired after the establishment of the space joint ventures. In compliance with these provisions, Leonardo completed the identification of the space business unit included in the Vitrociset Group's operations and set its fair value at 31 December 2019 at €mil. 51, classified in this annual financial report as a group of assets held for sale and "Discontinued Operations" (the related details are provided in Note 33).

There were no significant business combinations during 2018.

15. INVENTORIES

	31 December 2018	31 December 2019
Raw materials, supplies and consumables	1,857	2,052
Work in progress and semi-finished goods	1,382	1,411
Assets deriving from point in time contracts	424	491
Advances to suppliers	1,786	1,869
	5,449	5,823

Inventories are shown net of impairment charges of €mil. 875 (€mil. 857 at 31 December 2018).

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.

16. CONTRACT ASSETS AND LIABILITIES

	<u>31 December 2018</u>	<u>31 December 2019</u>
Contract assets (gross)	3,897	5,094
Contract liabilities	(1,369)	(2,166)
Contract assets (net)	2,528	2,928
Contract liabilities (gross)	8,126	7,823
Contract assets	(71)	(19)
Contract liabilities (net)	8,055	7,804
Net value	(5,527)	(4,876)

Contract assets include the net value of the work executed for amounts exceeding the advances received from customers. Similarly, contract liabilities include the opposite case.

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:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Cost incurred and margins recognised	3,968	5,113
Advances received	(9,495)	(9,989)
Net value	(5,527)	(4,876)

17. TRADE AND FINANCIAL RECEIVABLES

	<u>31 December 2018</u>		<u>31 December 2019</u>	
	<u>Trade</u>	<u>Financial</u>	<u>Trade</u>	<u>Financial</u>
Receivables	3,097	47	3,129	51
<i>Cumulative impairments</i>	(665)	(15)	(671)	(15)
Related party current receivables (Note 36)	504	153	537	161
	2,936	185	2,995	197

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 37.

18. OTHER CURRENT ASSETS

	<u>31 December 2018</u>	<u>31 December 2019</u>
Derivatives	107	100
Prepaid expenses - current portion	64	79
Receivables for grants	69	60
Receivables from employees and social security	48	46
Indirect tax receivables	47	44
Deferred receivables under Law no. 808/85	11	14
Other related party receivables (Note 36)	4	6
Other assets	94	140
	444	489

The fair value performance of portfolio derivatives is broken down below:

	<i>Fair value at</i>					
	31 December 2018			31 December 2019		
	Assets	Liabilities	Net	Assets	Liabilities	Net
<u>Interest rate swaps</u>						
<i>Trading</i>	-	(3)	(3)	-	(2)	(2)
<i>Fair value hedge</i>	-	-	-	-	-	-
<i>Cash flow hedge</i>	-	(3)	(3)	-	(17)	(17)
<u>Currency forward/swap/option</u>						
<i>Trading</i>	-	-	-	-	-	-
<i>Fair value hedge</i>	-	3	3	-	-	-
<i>Cash flow hedge</i>	102	(196)	(94)	100	(150)	(50)
<u>Embedded derivative (trading)</u>	5	-	5	-	-	-

19. CASH AND CASH EQUIVALENTS

The change in the year is shown in the statement of cash flows. Cash and cash equivalents at 31 December 2019 included €mil. 2 of term deposits (€mil. 5 at 31 December 2018).

20. 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	(3,305,230)	-	(30)	-	(30)
31 December 2018	574,845,165	2,544	(30)	(19)	2,495
Repurchase of treasury shares less shares sold	162,733	-	1	-	1
31 December 2019	575,007,898	2,544	(29)	(19)	2,496
<i>broken down as follows:</i>					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Company Related Holdings	(3,142,497)	-	(29)	-	(29)

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 3,142,497 treasury shares.

At 31 December 2019 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 relating to consolidated companies showed the following changes:

	<u>2018</u>	<u>2019</u>
US dollar	95	38
Pound sterling	(18)	99
Other currencies	(9)	4
	<u>68</u>	<u>141</u>

Overall, the reserve is negative for €mil. 256, 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

	<u>Group - consolidated entities</u>			<u>Group - equity accounted investments</u>		
	<u>Amount before taxes</u>	<u>Tax effect</u>	<u>Net amount</u>	<u>Amount before taxes</u>	<u>Tax effect</u>	<u>Net amount</u>
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	<u>-</u>	<u>13</u>	<u>13</u>	<u>2</u>	<u>-</u>	<u>2</u>
2019						
Revaluation of defined-benefit plans	(70)	13	(57)	(63)	14	(49)
Changes in cash-flow hedges	30	(6)	24	13	(3)	10
Foreign currency translation difference	141	-	141	12	-	12
Total	<u>101</u>	<u>7</u>	<u>108</u>	<u>(38)</u>	<u>11</u>	<u>(27)</u>

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

21. LOANS AND BORROWINGS

	<u>31 December 2018</u>			<u>31 December 2019</u>		
	<u>Non-current</u>	<u>Current</u>	<u>Total</u>	<u>Non-current</u>	<u>Current</u>	<u>Total</u>
Bonds	2,746	408	3,154	2,647	94	2,741
Bank loans and borrowings	651	70	721	898	85	983
Lease liabilities	4	1	5	354	61	415
Related party lease liabilities	-	-	-	33	3	36
Other related party loans and borrowings (Note 36)	-	669	669	-	727	727
Other loans and borrowings	22	42	64	43	61	104
	<u>3,423</u>	<u>1,190</u>	<u>4,613</u>	<u>3,975</u>	<u>1,031</u>	<u>5,006</u>

Changes in loans and borrowings are as follows:

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	1 January 2018	New borrowings	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
Lease liabilities	5	-	-	-	-	5
Related party lease liabilities	-	-	-	-	-	-
Other related party loans and borrowings	701	-	-	(32)	-	669
Other loans and borrowings	83	-	(1)	(18)	-	64
	4,682	498	(735)	151	17	4,613

	1 January 2019	IFRS 16 adoption	New borrowings	Repayments/Payment of coupons	Other net increase (decrease)	Exchange differences	31 December 2019
Bonds	3,154	-	-	(571)	150	8	2,741
Bank loans and borrowings	721	-	300	(46)	9	(1)	983
Lease liabilities	5	422	71	(54)	(38)	9	415
Related party lease liabilities	-	36	-	-	(2)	2	36
Other related party loans and borrowings	669	-	-	-	58	-	727
Other loans and borrowings	64	-	-	-	39	1	104
	4,613	458	371	(671)	216	19	5,006

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 increase for the period was mainly due to the use of the loan (equal to €mil. 300) raised with the European Investment Bank (EIB), to support some investment projects envisaged in the Group's Industrial Plan and to the adoption of the new IFRS 16 (for €mil. 451 at 31 December 2019) which regulates the treatment of lease operations, partially offset by the reduction in bonds (as commented below) and by the amount repaid (€mil. 46) of the loan in place with the EIB raised in July 2009 and aimed at carrying out development work in the aeronautics sector. The total remaining value of the payable to EIB, equal to €mil. 439 at 31 December 2019, is stated in payables to banks.

During the year, receivables were assigned without recourse for a total of €mil. 2,588 (€mil. 2,391 in 2018). The amount of the assignments was largely due to the particular trend in cash inflows which, as usual, were concentrated in the last part of the year and, as in 2018, to contracts in which Leonardo, acting as prime contractor, ensured a timely flow down of payments to subcontractors. Such assignments allowed a more linear distribution of the cash profile during the year.

It should be noted that financial covenants are included in the Revolving Credit Facility in place at 31 December 2019 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 and lease liabilities)/EBITDA (including depreciation of the right of use assets) must be no higher than 3.75 and the ratio of EBITDA (including depreciation of the right of use assets) 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. Furthermore, these covenants are envisaged in certain loans granted in past years to DRS by US banks. In relation to this Annual Financial Report, there was full compliance with the covenants (the two ratios are 1.0 and 9.6, respectively).

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

	<u>2018</u>	<u>2019</u>
Balance at 1 January	4,682	4,613
Changes included in cash flows from financing activities of the statement:	(89)	(117)
- Bond issues	-	-
- Repayments of bonds	(513)	(423)
- Term Loan and BEI Subscription	498	300
- Net change in other borrowings	(74)	6
Non-monetary changes:	20	510
- Non monetary items of lease liabilities		489
- Exchange rate effect	17	19
- Accrued interest	3	2
Balance at 31 December	4,613	5,006

Bonds

The decrease in the year is due to the full repayment of the bond issue denominated in pound sterling (issued in 2009 for a nominal amount of GBPmil. 400 and repaid for the remaining amount of GBPmil. 278 during the period), which had reached its natural expiry and to the partial repurchase (buy-back) carried out by Leonardo US Holding on a part of its own bond issues (for a nominal amount of USDmil. 127).

Below is the detail of the bonds at 31 December 2019 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	2022	€	556	5.250%	European institutional
LH	(***)	2009	2039	USD	124	7.375%	American institutional Rule 144A/Reg. S
LH	(***)	2009	2040	USD	182	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.

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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 2019	New borrowings	Interest	Repayments/ Repurchases	Payments of coupons	Effect of exchange rate	31 December 2019	Fair value
€mil. 500 LDO 2018 *	-		-	-	-	-	-	-
€mil. 500 LDO 2025 *	516		25		(24)		517	605
GBPmil. 400 LDO 2019 *	310		25	(310)	(25)	-	-	-
€mil. 600 LDO 2022 *	581		30		(30)		581	616
USDmil. 300 LH 2039 *	149		11	(40)	(12)	3	111	137
USDmil. 500 LH 2040 *	234		14	(73)	(15)	5	165	179
600 €mil. LDO 2024*	598		10		(9)		599	620
€mil. 950 LDO 2021 *	766		35		(33)	-	768	774
	3,154	-	150	(423)	(148)	8	2,741	2,931

(*) 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		Lease liabilities		Related party lease liabilities		Other related party loans and borrowings (Note 36)		Other loans and borrowings		Totale	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
31 December 2018														
Within 1 year	-	408	41	29	-	-	1	-	669	-	38	4	748	442
2 to 5 years	-	1,306	561	82	-	-	-	-	-	-	-	4	561	1,392
Beyond 5 years	-	1,440	8	-	-	-	4	-	-	-	18	-	26	1,444
Total	-	3,154	610	111	-	-	5	-	669	-	56	8	1,335	3,278

	Bonds		Bank loans and borrowings		Lease liabilities		Related party lease liabilities		Other related party loans and borrowings (Note 36)		Other loans and borrowings		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
31 December 2019														
Within 1 year	-	94	58	27	-	61	-	3	727	-	61	-	846	185
2 to 5 years	-	1,882	592	55	-	158	-	16	-	-	-	-	592	2,111
Beyond 5 years	-	765	251	-	-	196	-	17	-	-	43	-	294	978
Total	-	2,741	901	82	-	415	-	36	727	-	104	-	1,732	3,274

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

	31 December 2018	<i>of which with related parties</i>	31 December 2019	<i>of which with related parties</i>
Liquidity	(2,049)		(1,962)	
Current loans and receivables	(185)	<i>(153)</i>	(197)	<i>(161)</i>
Current bank loans and borrowings	70		85	
Current portion of non-current loans and borrowings	408		94	
Other current loans and borrowings	712	<i>669</i>	852	<i>730</i>
Current financial debt	1,190		1,031	
Net current financial debt (funds)	(1,044)		(1,128)	
Non-current bank loans and borrowings	651		898	
Bonds issued	2,746		2,647	
Other non-current loans and borrowings	26	-	430	<i>33</i>
Non-current financial debt	3,423		3,975	
Net financial debt	2,379		2,847	

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

	<i>Note</i>	31 December 2018	31 December 2019
Net financial debt com. CONSOB n. DEM/6064293		2,379	2,847
Hedging derivatives in respect of debt items	<i>18</i>	(3)	-
Non current financial receivables from Superjet	<i>13</i>	(25)	-
Group net debt (KPI)		2,351	2,847

22. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restructuring	Tax	Product guarantees	Onerous contracts (losses at completion)	Other provisions	Total
<i>1 January 2018</i>							
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
<i>Broken down as follows:</i>							
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
Allocations	8	19	6	80	107	203	423
Uses	(6)	(93)	(7)	(17)	(19)	(21)	(163)
Reversals	(98)	-	(5)	(50)	(129)	(137)	(419)
Other changes	-	(4)	-	-	42	(50)	(12)
31 December 2019	42	163	94	220	385	935	1,839
<i>Broken down as follows:</i>							
Current	32	81	74	125	385	467	1,164
Non-current	10	82	20	95	-	468	675
	42	163	94	220	385	935	1,839

The “Other provisions for risks and charges” mainly include:

- the provision for litigation with employees and former employees of €mil. 31 (€mil. 26 at 31 December 2018);

- the provision for litigation underway of €mil. 52 (€mil. 53 at 31 December 2018);
- other provisions mainly related to offset obligations and critical issues on contracts especially in the Aeronautics and Helicopters sectors.

The decrease in provisions for guarantees given reflects the positive outcome of the settlement agreement signed with Hitachi concerning the guarantees issued by Leonardo upon the disposal of the transport business that took place in 2015 (€mil. 92).

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 2019 and in early 2020:

- on 27 November 2019 the Rome Court of Appeal confirmed the judgment for acquittal, 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 22 May 2019 the Supreme Court rejected the appeals submitted against the judgment whereby on 8 January 2018 the Milan Court of Appeal had acquitted the former Chairman and Chief Executive Officer of Leonardo and the former Chief Executive Officer of AgustaWestland S.p.A. of the charges for the 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, within the proceedings brought in relation to the supply of twelve AW 101 VIP/VVIP helicopters to the Indian Government.

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, 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 at the hearing on 30 May 2018 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. By a judgment dated 3 July 2019, the latter rejected the appeals submitted by Leonardo S.p.A.. The time limits for the appeal before the Council of State are still pending.

Leonardo S.p.A. 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 finally set on 18 December 2019.

On the contrary AgustaWestland International Ltd appeared at the hearings set within the proceedings brought by the Central Bureau of Investigation; the proceedings are continuing before the Patiala House Court of New Delhi.

On 28 August 2019 the Public Prosecutor's Office of Milan served on Leonardo S.p.A. a notice of invitation to appear at the hearing of 18 September 2019 within further proceedings brought by the Indian Judicial Authority (Directorate of Enforcement) in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian Government. The Company submitted an application for enforcement review before the Judge for Preliminary Investigations of the Court of Milan, as well as an appeal with the Lazio Regional Administrative Court, even in relation to this notice and to that for the hearing scheduled on 18 December 2019.

Finally, it should be noted that on 11 February 2020 a notice was served on AgustaWestland International Ltd whereby it was invited to appear at the hearing of 25 March 2020 within the proceedings brought by the Indian Judicial Authority (Directorate of Enforcement);

- The phase of debate concluded 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), in particular:

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

The proceedings are still in the debate phase before the Court of Naples against certain suppliers and sub-suppliers of Selex Service Management in liquidation. 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 in liquidation)

On 26 June 2019 the Supreme Court rejected the appeals submitted, among others, by the former Chief Executive Officer of the Company against the sentence of conviction handed down by the Naples Court of Appeal for crimes under Article 416 of the Italian Criminal Code and Articles 81-paragraph 2, 110, 320 and 321 of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/2000, with referral to the Naples Court of Appeal, limited to the application of the penalty and incidental sanctions, in relation to the award of a contract for the implementation and operation of the Control System for Waste Tracking (SISTRI). It should be noted that, within these proceedings, the Company had brought a civil action;

- On 17 July 2019 the Court of Rome handed down a judgment of acquittal against the former Director Selex Service Management for the crime 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 for Selex Service Management itself for violations under Article 25 of Legislative Decree 231/2001, within the criminal proceedings concerning the 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;
- 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 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;
- The criminal proceedings are still pending before the Milan Court of Appeal 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 on 26 October

2017 an appeal was filed against the judgment of acquittal that had been handed down by the Court of Milan on 15 June 2017; Leonardo has entered appearance in the civil action within the abovementioned proceedings;

- The phase of debate is still continuing within the criminal proceedings pending before the Court of Vercelli 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, relating to the accident that occurred in Santhià on 30 October 2015;
- Criminal proceedings are pending before the Public Prosecutor's Office of Benevento against the Manager responsible under Legislative Decree 152/06 for the Benevento Plant (Helicopters Division) as to the crime referred to in Article 452-quinquies 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 in relation to these cases. 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 deemed 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:

- Within the proceedings brought by Firema under extraordinary management before the Court of Naples against the directors and statutory and independent auditors of Firema Trasporti in order to have them declared responsible for the financial collapse caused to the company – within which Giorgio and Gianfranco Fiore, in turn, summoned Leonardo and AnsaldoBreda in court – the Supreme Court handed down a judgment on 11 December 2019, whereby it rejected the appeal submitted by Leonardo and by AnsaldoBreda for being dropped from action. 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 submitted an appeal against this order, which was rejected by the Supreme Court with the aforesaid judgment. The proceedings brought by Firema under extraordinary management had been suspended pending the ruling of the Supreme Court.

As to the action brought by GMR against Leonardo and AnsaldoBreda before the Court of Naples, these proceedings had been also suspended by an order issued on 14 June 2019 pending the judgment of the Supreme Court referred to above. Following the ruling of the Supreme Court, the Court of Naples has ordered the reinstatement of the proceedings, although it has not yet set a date for the hearing to continue the proceedings.

With reference to the aforesaid proceedings, 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;

- The proceedings brought by Mr Pio Deiana before the Rome Court of Appeal – which were discontinued due to his subsequent death – have been resumed by one of the heirs within the prescribed time limits. The next hearing to be held for specifying the conclusions has been scheduled on 12 October 2021. 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.

* * * * *

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 before the Court of Rome by Selex Service Management against the Ministry for the Environment, Land and Sea in relation to the performance of the Sistri contract, were finally postponed for specifying the conclusions to the hearing scheduled on 16 July 2020. 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 (SISTR).

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; the hearing to be held for specifying the conclusions has been scheduled on 16 July 2020;

- 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, following the conclusion of the arbitration proceedings, the Company give a notice to the Ministry in accordance with Article 80 of the Indian Code of Civil Procedure on 6 August 2019, whereby it repeated the same claims as those submitted within the arbitration proceedings; on 1 October 2019 the Indian Ministry of Defence gave its reply, rejecting the claims submitted by AgustaWestland International Ltd in the aforesaid notice. It should be noted that on 15 February 2013 the Indian Ministry of Defence sent a Show Cause Notice asking AgustaWestland International Ltd 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 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 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 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. At the hearing at 28 February 2019, AgustaWestland International Ltd declared, before the New Delhi High Court, that it intended to abandon the arbitration proceedings, without prejudice to and affecting the rights enforced therein, while also announcing its intention to initiate ordinary proceedings before the Indian Civil courts. The Court, in accepting the request submitted by AgustaWestland International Ltd, declared the arbitration proceedings concluded by an order issued on the same date.

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 2019, as well as the recognition of any compensation to be paid or received, are dependent upon the settlement of the overall lawsuit.

- Under the contract for the design and construction of Al Bayt Stadium in Al Khor City (Qatar), on 22 September 2016 the GSIC JV (set up by Galfar Misnad Engineering & Contracting W.L.L., Salini - Impregilo S.p.A. and Cimolai S.p.A.), as Prime Contractor, awarded the work to the unincorporated Joint Venture set up by Leonardo S.p.A. and PSC S.p.A. (L&P JV) for the procurement, delivery, installation and testing & commissioning of the entire package of electronic and mechanical components of the stadium infrastructure. It should be noted that, from the beginning, the regular

progress of the work was strongly conditioned by a number of delays not attributable to the L&P JV, as well as by the introduction of numerous additions and changes to the initial project, which was found to be incomplete during the execution of the order. The above circumstances led to considerable extra costs for the L&P JV, which the Prime Contractor did not intend to pay. For this reason, on 25 October 2019 the L&P JP brought arbitration proceedings within which it requested, in addition to the payment of some activities envisaged as per contract and regularly performed, compensation for damage suffered as a result of the abovementioned circumstances, which allegedly amounted to a total of € 258 million. The GSIC JV appeared in court according to formal procedures and, in addition to asking the Court to reject the plaintiff's claims, also submitted a counterclaim seeking for compensation for damage it had allegedly suffered as a result of an alleged instance of non-compliance on the part of the L&P JV, which amounted to approximately €mil. 176. The arbitration proceedings are still in progress.

23. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2018			31 December 2019		
	Liabilities	Assets	Net	Liabilities	Assets	Net
Severance pay provision	302	-	302	290	-	290
Defined-benefit plans	178	309	(131)	191	289	(98)
Defined contribution plans	26	-	26	28	-	28
	506	309	197	509	289	220

The change in the deficit under defined-benefit plans was due to a decrease in discounting rates, which was partially offset by the income generated as a result of a review of the terms and conditions for the UK pension plan in the Helicopters segment.

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

	31 December 2018	31 December 2019
GBP area	(248)	(232)
Euro area	6	6
USD area	89	101
Other	22	27
	(131)	(98)

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

	31 December 2018	31 December 2019
Present value of obligations	(2,659)	(3,236)
<i>Fair value of plan assets</i>	2,790	3,334
Plan deficit	131	98
of which, related to:		
- net liabilities	(178)	(191)
- net assets	309	289

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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 expenses	66	69	(3)
Remeasurement	(169)	(182)	13
<i>Actuarial losses (gains) through equity - demographic assumption</i>	39	-	39
<i>Actuarial losses (gains) through equity - financial assumptions</i>	(223)	-	(223)
<i>Actuarial losses (gains) through equity resulting from adjustments based on the experience</i>	15	-	15
<i>Expected return on plan assets (no interest)</i>	-	(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 2019	Present value of obligations	Fair value of plan assets	Net liability defined benefit plans
Opening balance	2,659	2,790	(131)
Costs of benefits paid	36	-	36
Net interest expenses	74	76	(2)
Remeasurement	413	340	73
<i>Actuarial losses (gains) through equity - demographic assumption</i>	(49)	-	(49)
<i>Actuarial losses (gains) through equity - financial assumptions</i>	462	-	462
<i>Actuarial losses (gains) through equity resulting from adjustments based on the experience</i>	-	-	-
<i>Expected return on plan assets (no interest)</i>	-	340	(340)
Curtailments	-	-	-
Contributions paid	-	52	(52)
Contributions from other plan participants	10	10	-
Exchange rate differences	142	152	(10)
Benefits paid	(98)	(98)	-
Other changes	-	12	(12)
Closing balance	3,236	3,334	(98)
of which, related to:			
- net liabilities	2,254	2,063	191
- net assets	982	1,271	(289)

Changes in severance pay provision are shown below:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Opening balance	329	302
Costs of benefits paid	-	1
Net interest expenses	4	3
Remeasurement	(4)	1
<i>Actuarial losses (gains) through equity - demographic assumption</i>	-	-
<i>Actuarial losses (gains) through equity - financial assumptions</i>	(6)	(1)
<i>Actuarial losses (gains) through equity resulting from adjustments based on the experience</i>	2	2
Increase for business combination		7
Benefits paid	(31)	(26)
Other changes	4	2
Closing balance	<u>302</u>	<u>290</u>

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

	<u>2018</u>	<u>2019</u>
Current service costs	67	65
Past service costs	(2)	(28)
Curtailments and settlements	1	-
Costs booked as “personnel expenses ”	<u>66</u>	<u>37</u>
Net interest expenses	1	1
Costs booked as “financial expenses ”	<u>1</u>	<u>1</u>
	67	38

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	
	<u>31 December 2018</u>	<u>31 December 2019</u>	<u>31 December 2018</u>	<u>31 December 2019</u>
Discount rate (annual)	1.2%	0.7%	2,90% - 3,67%	2,00% - 2,80%
Rate of salary increase	n.a.	n.a.	3,25% - 3,50%	2,75% - 3,00%
Inflation rate	1.5%	0.7%	2,15% - 4,76%	2,00% -3,00%

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			
	<u>31 December 2018</u>		<u>31 December 2019</u>		<u>31 December 2018</u>		<u>31 December 2019</u>	
	<u>-0.25%</u>	<u>+0.25%</u>	<u>-0.25%</u>	<u>+0.25%</u>	<u>-0.25%</u>	<u>+0.25%</u>	<u>-0.25%</u>	<u>+0.25%</u>
Discount rate (annual)	5	(5)	5	(4)	133	(124)	181	(166)
Inflation rate	(4)	4	(3)	3	(106)	81	(76)	98

The average duration of the severance pay is 7 years while that of the other defined-benefit plans is 21 years.

The estimate of the contributions to be paid in 2020 related to defined-benefit plans is about €mil. 62.

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:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Cash and cash equivalents	242	214
Shares and investment funds	1,099	1,680
Debt instrument	1,393	1,312
Real properties	52	16
Derivatives	4	112
	<u>2,790</u>	<u>3,334</u>

24. OTHER CURRENT AND NON CURRENT LIABILITIES

	<u>31 December 2018</u>		<u>31 December 2019</u>	
	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>	<u>Current</u>
Employee obligations	49	351	51	389
Deferred income	106	78	87	102
Amounts due to social security institutions	-	164	-	181
Payables to MED (Law no. 808/85)	204	52	155	-
Payables to MED for royalties (Law no. 808/85)	179	19	180	12
Indirect tax liabilities	-	117	-	117
Derivatives	-	199	-	169
Other liabilities	360	458	341	452
Other payables to related parties (Note 36)	-	104	-	63
	<u>898</u>	<u>1,542</u>	<u>814</u>	<u>1,485</u>

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” include, in particular, the non-current payable due to Bell Helicopter amounting to €mil. 221 (€mil. 189 at 31 December 2018), 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.

25. TRADE PAYABLES

	<u>31 December 2018</u>	<u>31 December 2019</u>
Suppliers	2,875	3,441
Trade payables to related parties (Note 36)	153	350
	<u>3,028</u>	<u>3,791</u>

26. GUARANTEES

The Group has existing guarantee for €mil. 14,755 (€mil. 15,536 at 31 December 2018). 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.

27. REVENUES

	<u>2018</u>	<u>2019</u>
Revenues from contract with customers	10,235	11,071
Change in contract assets	194	818
Revenues from related parties (Note 36)	1,811	1,895
	12,240	13,784

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

	<u>2018</u>	<u>2019</u>
Revenues at point in time	2,773	2,830
Revenues over time	9,467	10,954
	12,240	13,784

28. OTHER OPERATING INCOME (EXPENSES)

	<u>2018</u>			<u>2019</u>		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Grants for research and development costs (*)	39	-	39	29	-	29
Other operating grants	4	-	4	35	-	35
Gains/losses on sales of intangible asset, property, plant and equipment	12	-	12	1	(1)	-
Reversals (accruals) to provisions for risks	273	(261)	12	304	(391)	(87)
Exchange rate difference on operating items	147	(150)	(3)	91	(94)	(3)
Restructuring costs	2	(29)	(27)	-	(18)	(18)
Indirect taxes	-	(33)	(33)	-	(36)	(36)
Other operating income (expenses)	116	(37)	79	87	(46)	41
Other operating income (expenses) from/to related parties (Note 36)	6	(1)	5	4	(1)	3
	599	(511)	88	551	(587)	(36)

(*) To which assessments of “Non-recurring costs pending under Law 808/1985” (Note 13) are added equal to €mil. 1 (€mil. 78 at 31 December 2018).

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 29).

29. PURCHASES AND PERSONNEL EXPENSES

	2018	2019
Purchase of materials from third parties	4,230	5,094
Change in inventories of raw materials	(149)	(158)
Costs for purchases from related parties (Note 36)	85	195
Purchases	4,166	5,131
Services rendered by third parties	3,243	3,414
Costs of leases	149	69
Royalties	3	5
Services rendered by related parties (Note 36)	480	474
Services	3,875	3,962
Wages and salaries	2,403	2,603
Social security contributions	496	537
Costs related to defined-contribution plans	111	117
Costs related to severance pay provision and other defined-benefit plans (Note 23)	66	37
Employee disputes	(6)	6
Restructuring costs - net	187	10
Other personnel expenses	119	139
Personnel expenses	3,376	3,449
Change in finished goods, work in progress and semi-finished products	52	(126)
Internal work capitalised	(296)	(280)
Total purchases and personnel expenses	11,173	12,136

The average workforce in 2019 compared to 2018 showed a significant increase (no. 2,275 units), mainly due to the Defence Electronics and Security (no. 710 units, of which no. 518 units in Leonardo Drs) and Aeronautics (no. 403 units), as well as to the acquisition of Vitrociset (no. 528 units, excluding the staff allocated to the space business unit, equal to 472 units). Likewise, the increase in the exact number of staff members at period-end was mainly attributable to Defence Electronics and Security (no. 832 units, of which no. 359 in Leonardo Drs), Aeronautics (no. 558 units) and the acquisition of Vitrociset (no. 530 units, excluding the staff allocated to the space business unit, equal to 486 units).

Below is the breakdown of workforce by position:

	Average Workforce			Total Workforce		
	31 December 2018	31 December 2019	Change	31 December 2018	31 December 2019	Change
Senior managers (*)	1,151	1,193	42	1,167	1,241	74
Middle managers	5,584	5,891	307	5,725	6,004	279
Clerical employees	26,336	27,466	1,130	26,922	28,428	1,506
Manual labourers (**)	12,451	13,247	796	12,648	13,857	1,209
	45,522	47,797	2,275	46,462	49,530	3,068

(*) Includes pilots

(**) Includes senior manual labourers

30. AMORTISATION, DEPRECIATION AND FINANCIAL ASSETS VALUE ADJUSTMENTS

	<u>2018</u>	<u>2019</u>
Amortisation of intangible assets	203	155
<i>Development costs</i>	30	29
<i>Non-recurring costs</i>	26	54
<i>Acquired through business combinations</i>	98	27
<i>Concessions, licences and trademarks</i>	18	16
<i>Other intangible assets</i>	31	29
Depreciation of property, plant and equipment and investment properties	298	308
Depreciation of rights of use	-	74
Impairment of other assets	72	54
financial assets value adjustments	83	28
	<u>656</u>	<u>619</u>

The impairment of other assets mainly refers to the write-down of non-recurring costs related to the Aeronautics sector.

31. FINANCIAL INCOME AND EXPENSES

Below is a breakdown of financial income and expense:

	<u>2018</u>			<u>2019</u>		
	<u>Income</u>	<u>Expenses</u>	<u>Net</u>	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Interest	7	(188)	(181)	4	(175)	(171)
Interest on lease liabilities	-	-	-	-	(17)	(17)
Premiums received (paid) on IRS	6	(6)	-	-	(2)	(2)
Commissions on borrowings	-	(15)	(15)	-	(9)	(9)
Other commissions	1	(9)	(8)	-	(9)	(9)
Income (expenses) from equity investments and securities	21	(1)	20	15	-	15
Fair value gains (losses) through profit or loss	25	(16)	9	22	(56)	(34)
Premiums (paid) received on forwards	37	(57)	(20)	66	(93)	(27)
Exchange rate differences	19	(27)	(8)	38	(32)	6
Interest cost on defined-benefit plans (Note 23)	-	(1)	(1)	-	(1)	(1)
Financial income (expenses) - related parties (Note 36)	7	(4)	3	5	(4)	1
Other financial income and expenses	25	(72)	(47)	18	(77)	(59)
	<u>148</u>	<u>(396)</u>	<u>(248)</u>	<u>168</u>	<u>(475)</u>	<u>(307)</u>

The increase in net financial expenses was mainly due to the effect arising from the fair value performance of the instruments used to hedge exchange risks. The benefit attributable to lower interest arising from the redemption of a portion of the bond issues made in 2018 was substantially off-set by the costs of buy-back transactions carried out during the period.

More specifically:

- net interest decreased by €mil. 10. The item includes €mil. 150 (€mil. 178 in 2018) related to interest on bonds;
- the expenses arising from the application of fair value break down as follows

	2018			2019		
	Income	Expenses	Net	Income	Expenses	Net
Exchange rate swap	-	-	-	-	-	-
Interest rate swaps	-	(1)	(1)	-	-	-
Ineffective portion of hedging swap	24	(15)	9	22	(51)	(29)
Embedded derivatives	1	-	1	-	(5)	(5)
	25	(16)	9	22	(56)	(34)

- income from equity investments and securities are related to the capital gain arising from the sale of the stake in Eurotech S.p.A.. The comparative data, on the contrary, included the effect of the capital gain arising from the disposal of the stake in Aviation Training Int. Ltd;
- the interest on lease liabilities included the effects of the adoption of IFRS 16, which entailed the recognition of new financial liabilities. A non-significant component (€mil. 1) of interest on lease liabilities is also stated among “Income (expenses) from/to related parties”;
- other net financial expenses include the cost (€mil. 20) linked to the buy-back transactions carried out during the period out of a portion of the bond issues denominated in US dollars.

32. INCOME TAXES

Income taxes can be broken down as follows:

	2018	2019
IRES (corporate income tax)	(12)	(13)
IRAP (reg. tax on production)	(25)	(29)
Other income taxes (foreign)	(65)	(74)
Tax related to previous periods	6	27
Provisions for tax disputes	6	(1)
Deferred tax - net	26	(57)
	(64)	(147)

The balance of 2019 tax was significantly higher than in 2018, mainly as a result of the improved results achieved.

In 2019 the tax rate was equal to about 20%, as reported in the table below:

	2018	2019
Operating profit (loss) before income taxes and discontinued operations	485	869
Total taxes	64	147
Provisions for tax disputes	6	(1)
Tax related to previous periods	6	27
Gain of ATIL JV dismissal	6	-
	82	173
Tax rate	16.9%	19.9%

Deferred taxes and related receivables and payables at 31 December 2019 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. 113 is related to the tax consolidation mechanism (about €mil. 550 of unrecognised losses).

	<u>2018</u>	<u>2019</u>
Deferred tax assets on tax losses	(28)	15
Property, plant and equipment and intangible assets	19	(8)
Financial assets and liabilities	-	-
Severance and retirement benefits	(2)	(2)
Provision for risks and impairment	25	(58)
Effect of change in tax rate	-	-
Other	12	(4)
Deferred taxes recognised through profit or loss	<u>26</u>	<u>(57)</u>

	<u>31 December 2018</u>			<u>31 December 2019</u>		
	<u>Balance sheet</u>			<u>Balance sheet</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Deferred tax assets on tax losses	221	-	221	228	-	228
Property, plant and equipment and intangible assets	63	169	(106)	39	122	(83)
Severance and retirement benefits	8	26	(18)	6	21	(15)
Financial assets and liabilities	-	-	-	1	-	1
Provision for risks and impairment	650	-	650	604	-	604
Other	184	80	104	125	51	74
Offsetting	(4)	(4)	-	(2)	(2)	-
Deferred taxes recognised through balance sheet	1,122	271	851	1,001	192	809
Cash-flow hedge derivatives	29	2	27	25	4	21
On actuarial gains and losses	57	49	8	70	49	21
Deferred taxes recognised through equity	86	51	35	95	53	42
	1,208	322	886	1,096	245	851

33. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As detailed in Note 12, the Space Alliance agreements provided that, following the establishment of the space JVs, none of the counterparties would be able to operate independently in the space business, with the obligation to offer the Space Alliance any subsequently acquired business unit operating in said sector.

Within the scope of the acquisition of Vitrociset, its space business and that of its investees (Vitrociset Belgium S.p.r.l. and Vitrociset France S.a.r.l.) were merged by incorporation into Leonardo. Therefore, in fulfilling the aforementioned contract obligations, the space business unit has been selected to be offered to the Space Alliance. Consequently, the assets and liabilities of the business unit, whose fair value was set at a net amount of €mil. 51 at 31 December 2019, were reclassified as a group of assets held for sale.

Assets held for sale also include the value of assets owned by Leonardo Global Solutions held for sale (€mil. 18, €mil. 7 at 31 December 2018).

	<u>31 December 2018</u>	<u>31 December 2019</u>
Non-current assets	7	45
Current assets	-	47
Assets	<u>7</u>	<u>92</u>
Adjustment to selling price	-	-
Assets held for sale	<u>7</u>	<u>92</u>
Non-current liabilities	-	4
Current liabilities	-	19
Liabilities associated with assets held for sale	<u>-</u>	<u>23</u>

The space business unit of Vitrociset consists of a group of assets acquired for the purposes of a subsequent sale and, therefore, the related results through P&L have also been classified as “Discontinued Operations” (a net result of €mil. 4).

Moreover, as stated in Note 6, the proposed settlement agreement between Ansaldo S.p.A., Leonardo S.p.A., Hitachi Ltd. and Hitachi Rail was signed on 12 June 2019, with the aim of closing the main positions arising from the sale of Ansaldo's transport business that had taken place in 2015. Consistently with the recognition of the accounting effects of the sale of Ansaldo's transport business made in previous financial statements, the related effects through profit or loss have been classified under the result of Discontinued Operations. In particular, the item includes the absorption of a portion of the provision for guarantees recognised to cover obligations agreed as per contract (€mil. 92) and the tax effect of the transaction (positive for €mil. 4).

	2018	2019
Revenues	-	61
Purchase and personnel expenses	-	(56)
Amortisation, depreciation and write-offs	-	(1)
Other operating income (expenses)	89	92
Income before tax and financial expenses	89	96
Financial income (expenses)	-	-
Income taxes	-	4
Profit (loss) for the period	89	100
	-	-
Profit (loss) from discontinued operations	89	100
- <i>Measurement of defined-benefit plans</i>	-	-
- <i>Changes in cash flow hedges</i>	-	-
- <i>Translation differences</i>	-	-
other comprehensive income (expenses)	-	-
Total comprehensive income (expenses)	89	100

The value posted for 2018 included the effects of the acquittal judgment against Ansaldo Energia 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 2018 following the outcome of the judgment. In particular, this item included 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 of a minor significance.

34. 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	2019
Average shares outstanding during the reporting period (in thousands)	574,605	574,914
Earnings for the period (excluding non-controlling interests) (€ millions)	510	821
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	421	721
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	89	100
<i>Basic and Diluted EPS (€)</i>	0.888	1.428
<i>Basic and Diluted EPS from continuing operations (€)</i>	<i>0.733</i>	<i>1.254</i>
<i>Basic and Diluted EPS from discontinued operations (€)</i>	<i>0.155</i>	<i>0.174</i>

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

35. CASH FLOWS FROM OPERATING ACTIVITIES

	2018	2019
Net result	510	822
Amortisation, depreciation and financial assets value adjustments	656	619
Share of profits/(losses) of equity-accounted investees	(234)	(183)
Income taxes	64	147
Cost of Severance pay provision and other defined-benefit plans	66	37
Net financial expenses /(income)	248	307
Net allocations to the provisions for risks and inventory write-downs	400	178
Profit from Discontinued Operations	(89)	(100)
Other non-monetary items	48	20
	1,669	1,847

Costs for severance pay provision and other defined-benefit 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	2019
Inventories	(853)	(380)
Contract assets and liabilities	569	(564)
Trade receivables and payables	(37)	416
	(321)	(528)

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	2019
Payment of pension plans	(91)	(78)
Changes in provisions for risks and other operating items	(349)	(312)
	(440)	(390)

36. 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
<u>Associates</u>						
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
<u>Joint Venture</u>						
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
<u>Consortiums</u>						
Other with unit amount lower than €mil. 10			2	14		16
<u>Companies subject to the control or considerable influence of the MEF</u>						
	1		1	81		83
Total	1	-	153	504	4	662
<i>% against total for the period</i>	<i>7.7%</i>	<i>n.y.</i>	<i>82.7%</i>	<i>17.2%</i>	<i>2.2%</i>	

RECEIVABLES at 31 December 2019

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
<u>Associates</u>						
NH Industries SAS				114		114
Eurofighter Jagdflugzeug GmbH				105		105
AgustaWestland Aviation Services LLC				17		17
Macchi Hurel Dubois SAS				15		15
Iveco - Oto Melara Scarl						-
Other with unit amount lower than €mil. 10	1		1	34	2	38
<u>Joint Venture</u>						
GIE ATR				44		44
Joint Stock Company Helivert				42		42
Thales Alenia Space SAS			156	18	1	175
MBDA SAS				16		16
Other with unit amount lower than €mil. 10	7		1	13	3	24
<u>Consortiums</u>						
Other with unit amount lower than €mil. 10			3	12		15
<u>Companies subject to the control or considerable influence of the MEF</u>						
				107		107
Total	8	-	161	537	6	712
<i>% against total for the period</i>	<i>44.4%</i>	<i>n.y.</i>	<i>81.7%</i>	<i>17.9%</i>	<i>3.5%</i>	

(*) 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
<u>Associates</u>							
Eurofighter Jagdflugzeug GmbH			27			27	
Elettronica Spa				12		12	
Gulf System Logistic Services Company W.L.L.				62		62	
Other with unit amount lower than €mil. 10			2	13	7	22	
<u>Joint Venture</u>							
MBDA SAS			612	24		636	47
Telespazio S.p.A.			28			28	170
Rotorsim Srl				17		17	
GIE ATR				1	86	87	
Other with unit amount lower than €mil. 10				7	5	12	
<u>Consortiums</u>							
Other with unit amount lower than €mil. 10				2		2	
<u>Companies subject to the control or considerable influence of the MEF</u>							
				15	6	21	587
Total	-	-	669	153	104	926	804
<i>% against total for the period</i>	<i>n.y.</i>	<i>n.y.</i>	<i>56.2%</i>	<i>5.1%</i>	<i>8.2%</i>		

PAYABLES at 31 December 2019

	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
<u>Associates</u>							
Gulf System Logistic Services Company W.L.L.				133		133	
Eurofighter Jagdflugzeug GmbH			16	45		61	
Elettronica Spa				11		11	
Leonardo Helicopteres Algerie			20			20	
Other with unit amount lower than €mil. 10			3	21	6	30	
<u>Joint Venture</u>							
MBDA SAS			651	50		701	47
GIE ATR				38	48	86	
Rotorsim Srl				21		21	
Telespazio S.p.A.			36	3	3	42	182
Other with unit amount lower than €mil. 10				9		9	
<u>Consortiums</u>							
Other with unit amount lower than €mil. 10				3		3	
<u>Companies subject to the control or considerable influence of the MEF</u>							
			1	16	6	23	592
Total	-	-	727	350	63	1,140	821
<i>% against total for the period</i>	<i>n.y.</i>	<i>n.y.</i>	<i>70.5%</i>	<i>9.2%</i>	<i>5.2%</i>		

(*) *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. The increase in payables to MBDA was mainly due to the combined effect of higher final costs recorded in 2019, mainly on ongoing projects.

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Loans and borrowings from related parties include in particular the amount of €mil. 651 (€mil. 612 at 31 December 2018) due by Group companies to the joint venture MBDA and payables of €mil. 16 (€mil. 27 at 31 December 2018) 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
<u>Unconsolidated subsidiaries</u>						
Other with unit amount lower than €mil. 10			11			
<u>Associates</u>						
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 Services Company W.L.L.			224			
Elettronica Spa			21			
Other with unit amount lower than €mil. 10	17		14			1
<u>Joint Venture</u>						
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
<u>Consortiums</u>						
Consorzio G.e.i.e. Eurotorp						
Other with unit amount lower than €mil. 10	17		5			
<u>Companies subject to the control or considerable influence of the MEF</u>						
	185	1	39	1	6	
Total	1,811	6	565	1	7	4
<i>% against total for the period</i>	<i>14.8%</i>	<i>1.0%</i>	<i>5.1%</i>	<i>0.2%</i>	<i>4.7%</i>	<i>1.0%</i>

Income statement transactions at 31 December 2019

	Revenue	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
<u>Associates</u>						
Eurofighter Jagdflugzeug GmbH	493		162			
NH Industries SAS	348					
Orizzonte - Sistemi Navali S.p.A.	154		1			
Iveco-Oto Melara Scarl	77		2			
Macchi Hurel Dubois SAS	56					
Advanced Air Traffic Systems SDH BHD	17		2			
AgustaWestland Aviation Services LLC	15		4			
Gulf System Logistic Services Company W.L.L.			273			
Electronica Spa	1		17			
Other with unit amount lower than €mil. 10	19		4			1
<u>Joint Venture</u>						
GIE ATR	276		43			
Thales Alenia Space SAS	82		3		1	
MBDA SAS	59		61			3
Joint Stock Company Helivert	10	1	1			
Rotorsim Srl			20			
Other with unit amount lower than €mil. 10	5	3	8			
<u>Consortiums</u>						
Consorzio G.e.i.e. Eurotorp	14					
Other with unit amount lower than €mil. 10	11			1		
<u>Companies subject to the control or considerable influence of the MEF</u>						
	258		68		4	
Total	1,895	4	669	1	5	4
% against total for the period	13.7%	0.7%	5.5%	0.2%	3.0%	0.8%

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

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 Kuwait aeronautical programme, for which higher volumes were developed compared to 2018;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (mainly VBM Freccia for the Italian Army);
- NH Industries 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, with ENAV for the supply of systems and software components for flight assistance and the Polygraphic Institute and State Mint for the implementation of the Green Data Center in Foggia.

The decrease in Revenues from the MBDA JV was mainly due to the MARTE UAE 2 project which was concluded during 2019.

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.

37. 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.

In this regard, it should be noted that borrowings at 31 December 2019, equal to €mil. 5,006, included the value of lease liabilities equal to €mil. 451, recognised following the adoption of IFRS 16. The fixed-rate percentage of these borrowings (also through the use of hedging instruments) amounts to around 72%, and, consequently, the floating-rate percentage is around 28%. Therefore, at the date of these financial statements, the interest-rate risk exposure continued to be moderate, with a variable exposure component which allows, at the current market conditions, the debt cost to be reduced, bringing it to about 3.5% with an average life of about 4.7 years (excluding lease liabilities).

At 31 December 2019, 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 2019 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2018	Changes			Fair value 31.12.2018
	2018	2017			Income	Expenses	CFH Reserve	
IRS fixed/floating/fixed	-	200	Bond 2018	1	-	(1)	-	-
Options	200	200	Bond 2025	(3)	-	-	-	(3)
IRS fixed/floating/fixed	300	-	BEI	-	-	-	(3)	(3)
Total notional	500	400		(2)	-	(1)	(3)	(6)

	Notional		Underlying (maturity)	Fair value 01.01.2019	Changes			Fair value 31.12.2019
	2019	2018			Income	Expenses	CFH Reserve	
IRS fixed/floating/fixed	-	-	Bond 2018	-	-	-	-	-
Options	200	200	Bond 2025	(3)	-	-	-	(3)
IRS floating/fixed	300	300	BEI	(3)	-	-	(13)	(16)
Total notional	500	500		(6)	-	-	(13)	(19)

The table below shows the effects of the sensitivity analysis for 2018 and 2019 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 2019	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
	Net result	1	(1)	(1)
Equity (*)	12	(11)	8	(8)

(*) 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.

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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 2019 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 7,493 (notional amount). Overall, the average euro/US dollar exchange rate for hedging purposes is 1.13 on sales and about 1.14 on purchases.

	Notional			Fair value 01.01.2018	Changes			Fair value 31.12.2018	
	Sales	Purchases	Total		Discontinued operation	Income	Expenses		CFH Reserve
Swap and forward transactions	3,079	3,212	6,291	(48)	-	25	(15)	(48)	(86)
	Notional			Fair value 01.01.2019	Changes			Fair value 31.12.2019	
	Sales	Purchases	Total		Discontinued operation	Income	Expenses		CFH Reserve
Swap and forward transactions	4,226	3,267	7,493	(86)		22	(56)	70	(50)

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 2019			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
<i>Cash-flow and fair-value hedges</i>								
Within 1 year	865	158	624	1,303	2,293	10	1,132	929
2 to 3 years	550	-	137	578	1,358	-	276	163
4 to 9 years	382	-	73	-	17	-	4	47
Total	1,797	158	834	1,881	3,668	10	1,412	1,139
<i>Hedging transactions which cannot be classified as hedging transactions</i>	224	3	420	7	474	1	474	1
Total transactions	2,021	161	1,254	1,888	4,142	11	1,886	1,140

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 2019 (equal to 1.1234 and 0.8508, respectively) and at 31 December 2018 (1.1450 and 0.8945 respectively).

	31 December 2018				31 December 2019			
	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	(6)	8	-	1
Equity (*)	(25)	28	54	(49)	(24)	26	81	(78)

(*) Defined as sum of earnings and cash-flow hedge reserve

Translation risk

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 20) 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 20.

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. Finally, there is the risk of not being able to repay or refinance debts at the expiry dates.

Leonardo applies the EMTN programme, under which all the outstanding bonds of Leonardo on the Euromarket have been issued, was used in a total nominal amount of €mil. 2,394 at 31 December 2019 compared to the total amount of €mil. 4,000 of the programme. To these bonds must be added those issued on the US market by the subsidiary Leonardo US Holding Inc. (guaranteed by Leonardo S.p.a.) for a remaining total amount which, after the buy-back transactions carried out in 2019 and in previous years, was equal to a nominal amount of USDmil. 306.

Furthermore, in order to finance its own operations, the Leonardo Group can use the cash and cash equivalents of €mil. 1,962 generated at 31 December 2019 related to Leonardo S.p.a. (€mil. 1,407), to Group companies that, for different reasons, do not fall within the scope of the treasury centralization (€mil. 514) 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 due 2023, as well as additional uncommitted bank credit lines totalling €mil. 686; both of said sources of financing were entirely unused at 31 December 2019.

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 2019, we note the following relations with countries exposed to credit risk according to the international institutions (SACE):

<i>€mil.</i>	Lybia	Zambia	Pakistan	Other countries	Total
Assets	51	3	52	21	127
Liabilities	(70)	(14)	(16)	(9)	(109)
Net exposure	(19)	(11)	36	12	18

Finally, the receivables related to certain existing contracts, 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 22.

The table below summarises trade receivables at 31 December 2019 and 2018, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

<i>(€ billions)</i>	<u>31 December 2018</u>	<u>31 December 2019</u>
Portion due	1.2	1.4
- of which: for more than 12 months	0.6	0.6
Portion not yet due	1.7	1.6
Total trade receivables	<u>2.9</u>	<u>3.0</u>

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. 215 (€mil. 223 at 31 December 2018) include €mil. 18 (€mil. 13 at 31 December 2018) classified as “non-current” and consequently excluded from the net financial position. It should be noted that the non-current receivable from Superjet was vice versa included within the “Group Net Debt” indicator until 31 December 2018, as reported in Note 21. This position was reclassified, as from the financial statements at 31 December 2019, to current financial receivables, due to its approaching date of collection. Loans and receivables are broken down in the table below:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Loans and receivables from related parties	1	8
Non current financial receivables from Superjet	25	-
Other loans and receivables	12	10
Non-current loans and receivables	38	18
Loans and receivables from related parties	153	161
Other loans and receivables	32	36
Current loans and receivables	185	197
Total loans and receivables	<u>223</u>	<u>215</u>

Both the main trade and financial receivables are impaired based on their probability of default or individually in case of particular situations. Vice versa, for receivables that are not impaired individually, impairment provisions are accrued, using historical series, statistical data and probability of default on an aggregate basis.

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 2019		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Other non-current assets	-	-	-	-	-	-
Other current assets	107	-	107	100	-	100
Other non-current liabilities	-	189	189	-	221	221
Other current liabilities	199	-	199	169	-	169

38. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of Leonardo S.p.a. amounted to €mil. 9 (€mil. 11 at 31 December 2018). 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. 2 in 2018). This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

39. SHARE BASE PAYMENTS

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 2019 to €mil. 9 (€mil. 9 in 2018).

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) and to €11.04 (value of Leonardo shares at the grant date of 31 July 2019) with reference to the second three-year cycle (2019-2021).

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 for the second plan it was equal to €3.51 with reference to the first three-year cycle(2018-2020) and to €6.72 with reference to the second three-year cycle (2019-2021).

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 2019 the requirements for the award of the rights relating to the first cycle (no. 162,733 shares delivered) were fulfilled in respect of the bonus shares (“matching shares”).

For the Board of Directors
The Chairman
(Giovanni De Gennaro)

Attachments

Attachment: Disclosure ex-lege 124/2017

In accordance with the provisions of Article 1, paragraphs 125-126, of Law 124 of 4 August 2017, information on grants received from public administrations or similar entities and granted by the Group is provided below.

Grants received

Worth noting are the provisions of Law no. 124/2017 imposing disclosure obligations on those entities carrying out the activity referred to in article 2195 of the Italian Civil Code in relation to sums which are not of a general nature and do not consist of fees, remuneration or compensation received from public administrations or similar entities.

Excluded from such scope are any grant consisting of a consideration for the Group's services and any grant deriving from bilateral financial relationships, which are peculiar to the Group's business, as well as any general measure that falls within the broader general structure of the reference system defined by the State (among others, Law 237/1993, Law 297/1999, Development Contracts and Regional Operational Programme, Law 808/1985, Regional Laws and National Operational Programmes), the effects of which are described in the notes to the Consolidated Financial Statements, based on the accounting standards adopted in the preparation of said accounts that can be used by all sector businesses, as well as grants received for continuing professional development from interprofessional funds.

The Group has not received grants falling within the framework of those referred to in article 1, para. 125, of Law 124/2017.

It should also be noted that the transparency of State aid and De Minimis aid for which there is a publication obligation is protected by their publication in the National Register of State Aids referred to in Article no. 52 of Law 234 of 24 December 2012, as provided for in article 125 *quinquies* of Law 124/2017.

Grants made

As a publicly traded company, Leonardo is not subject to the obligations under article 1, para. 126 pursuant to art. 2-bis, para. 2, letter *b*) of Legislative Decree 33/2013.

There are no grants disbursed by Leonardo S.p.A. and its Italian subsidiaries in the form of donations or disbursements that do not consist of a consideration for services received, not even in the form of a return in terms of image.

Attachment: Scope of consolidation

Annual financial report at 31 December 2019 – Consolidated financial statements

List of companies consolidated on a line-by-line basis (amounts in currency)

N.	Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
						Direct	Indirect	
1	3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	ENGINEERED SUPPORT SYSTEMS INC	CAD	-		100	100
2	AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	LEONARDO SPA	GBP	500,000	100		100
3	AGUSTAWESTLAND INDIA PRIVATE LTD (IN LIQ.)	New Delhi (India)	AGUSTAWESTLAND SPA AGUSTAWESTLAND LTD	INR	11,519,450		100	100
4	AGUSTAWESTLAND INTERNATIONAL LTD	Yeovil, Somerset (UK)	AGUSTAWESTLAND SPA AGUSTAWESTLAND LTD	GBP	511,000		100	100
5	AGUSTAWESTLAND LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1,520,304		100	100
6	AGUSTAWESTLAND PHILADELPHIA CO	Wilmington, Delaware (USA)	LEONARDO SPA	USD	20,000,000	100		100
7	AGUSTAWESTLAND SPA	Rome	SOGEPA SPA	EUR	120,000		100	100
8	ALENIA AERMACCHI SPA	Rome	SOGEPA SPA	EUR	120,000		100	100
9	ANSALDOBREDA SPA	Naples	LEONARDO SPA	EUR	10,000,000	100		100
10	BREDAMENARINIBUS SPA	Rome	SOGEPA SPA	EUR	1,300,000		100	100
11	DAYLIGHT DEFENCE LLC	Wilmington, Delaware (USA)	DAYLIGHT SOLUTIONS INC.	USD	1		100	100
12	DAYLIGHT SOLUTIONS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
13	DRS ADVANCED ISR LLC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	-		100	100
14	DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1		100	100
15	DRS DEFENSE SOLUTIONS LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	-		100	100
16	DRS ENVIRONMENTAL SYSTEMS INC	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	2		100	100
17	DRS GLOBAL ENTERPRISE SOLUTIONS INC.	Baltimore, Maryland (USA)	DRS D.S. LLC	USD	50		100	100
18	DRS HOMELAND SECURITY SOLUTIONS INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
19	DRS INTERNATIONAL INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
20	DRS NAVAL POWER SYSTEMS INC ex DRS POWER & CONTROL TECHN. INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
21	DRS NETWORK & IMAGING SYSTEMS LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
22	DRS POWER TECHNOLOGY INC	Wilmington, Delaware (USA)	DRS NAVAL POWER SYSTEMS INC	USD	1		100	100
23	DRS RADAR SYSTEMS LLC	Wilmington, Delaware (USA)	DRS C3 & AVIATION COMPANY	USD	-		100	100
24	DRS SIGNAL SOLUTIONS INC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	10		100	100
25	DRS SURVEILLANCE SUPPORT SYSTEMS INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
26	DRS SUSTAINMENT SYSTEMS INC	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1,000		100	100
27	DRS SYSTEMS MANAGEMENT LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
28	DRS SYSTEMS INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
29	DRS TECHNICAL SERVICES GMBH & CO KG	Stuttgart (Germany)	DRS GLOBAL ENT. SOLUTIONS INC.	EUR	-		100	100
30	DRS TECHNOLOGIES CANADA INC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	1		100	100
31	DRS TECHNOLOGIES CANADA LTD	Kanata, Ontario (Canada)	DRS TECHNOLOGIES CANADA INC	CAD	100		100	100
32	DRS TECHNOLOGIES SAUDI ARABIA LLC	Riyadh (Saudi Arabia)	LEONARDO DRS INC	SAR	2,000,000		49	100
33	DRS TECHNOLOGIES UK LIMITED	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
34	DRS TECHNOLOGIES VERWALTUNGS GMBH	Stuttgart (Germany)	DRS GLOBAL ENT. SOLUTIONS INC.	EUR	25,000		100	100
35	DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee, Florida (USA)	DRS D.S. LLC	USD	510		100	100
36	DRS TSI INTERNATIONAL LLC	Wilmington, Delaware (USA)	DRS GLOBAL ENT. SOLUTIONS INC.	USD	-		100	100
37	DRS UNMANNED TECHNOLOGIES INC	Wilmington, Delaware (USA)	DRS T. & C. SYSTEMS LLC	USD	1		100	100
38	ENGINEERED COIL COMPANY	Jefferson City, Missouri (USA)	ENGINEERED SUPPORT SYSTEMS INC	USD	1,000		100	100
39	ENGINEERED SUPPORT SYSTEMS INC	Jefferson City, Missouri (USA)	LEONARDO DRS INC	USD	1		100	100
40	ESSI RESOURCES LLC	Frankfort, Kentucky (USA)	DRS SUSTAINMENT SYSTEMS INC	USD	-		100	100
41	FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)	LEONARDO GLOBAL SOLUTIONS SPA	EUR	100,000		100	100
42	GLOBAL NETWORK SERVICES LLC	Wilmington, Delaware (USA)	DRS GLOBAL ENT. SOLUTIONS INC.	USD	1		100	100
43	LARIMART SPA	Rome	LEONARDO SPA	EUR	2,500,000	60		60
44	LASERTEL INC	Phoenix, Arizona (USA)	SELEX GALILEO INC	USD	10		100	100
45	LAUREL TECHNOLOGIES PARTNERSHIP	Wilmington, Delaware (USA)	DRS SYSTEMS MANAG. LLC DRS SIGNAL SOLUTIONS INC	USD	-		100	100
46	LEONARDO AUSTRALIA PTY LTD ex AGUSTAWESTLAND AUSTRALIA PTY LTD	Essendon, Victoria (Australia)	LEONARDO INTERNATIONAL SPA	AUD	400,000		100	100
47	LEONARDO BELGIUM S.A. ex AGUSTA AEROSPACE SERVICES AAS SA	Grace Hollogne (Belgium)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL	EUR	500,000		100	100
48	LEONARDO DO BRASIL LTDA ex AGUSTAWESTLAND DO BRASIL LTDA	Osasco (Brazil)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	BRL	11,817,172		100	100
49	LEONARDO DRS INC	Wilmington, Delaware (USA)	LEONARDO US HOLDING, INC LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	USD	1		100	100
50	LEONARDO GERMANY GMBH	Neuss (Germany)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	EUR	2,500,000.00		100	100
51	LEONARDO GLOBAL SOLUTIONS SPA	Rome	LEONARDO SPA	EUR	49,945,983	100		100
52	LEONARDO HELICOPTERES ALGERIE S.P.A.	Bir Mourad Rais (Algerie)	LEONARDO SPA LEONARDO INTERNATIONAL SPA	EUR	55,000,000	39	10	49
53	LEONARDO HISPANIA S.A.U.	Loriguilla, Valencia (Spain)	LEONARDO INTERNATIONAL SPA	EUR	5,189,019		100	100
54	LEONARDO INTERNATIONAL SPA	Rome	LEONARDO SPA	EUR	1,000,000	100		100
55	LEONARDO MALAYSIA SDN BHD ex AGUSTAWESTLAND MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	LEONARDO INTERNATIONAL SPA	MYR	2,500,000		100	100
56	LEONARDO MW LTD	Basildon, Essex (UK)	LEONARDO SPA	GBP	314,500,100	100		100
57	LEONARDO PORTUGAL S.A.	Lisbon (Portugal)	LEONARDO INTERNATIONAL SPA	EUR	100,000		100	100
58	LEONARDO ROMANIA AEROSPACE, DEFENCE & SECURITY S.A.	Ploiesti (Romania)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	RON	10,847,960		100	100
59	LEONARDO TECHNOLOGIES & SERVICES LTD	Nairobi (Kenya)	LEONARDO INTERNATIONAL SPA	KES	109,600,000		100	100
60	LEONARDO TURKEI HAVACILIK SAVUNMA VE GUVENLIK SISTEMLERI A.S. ex SELEX ES ELEKTRONIK TURKEY AS	Ankara (Turkey)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	TRY	79,557,009		100	100
61	LEONARDO US AIRCRAFT, INC.	Wilmington, Delaware (USA)	LEONARDO US HOLDING, INC	USD	44		100	100
62	LEONARDO US HOLDING, INC	Wilmington, Delaware (USA)	LEONARDO SPA	USD	10	100		100
63	OTO MELARA NORTH AMERICA LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC	USD	0		100	100
64	PARTECH SYSTEMS PTY LTD	Yerrilyong (Australia)	SELEX ES AUSTRALIA PTY LTD	AUD	330.00		60	60
65	PIVOTAL POWER INC	Halifax, Nova Scotia (Canada)	3083683 NOVA SCOTIA LIMITED	CAD	-		100	100
66	REGIONALNY PARK PRZEMYSLOWY SWIDNIK SP Z OO	Swidnik (Poland)	PZL SWIDNIK S.A.	PLN	7,072,000		74	73
67	SELEX ELSAG LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	25,800,100		100	100

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68	SELEX ES AUSTRALIA PTY LTD	Melbourne (Australia)	LEONARDO INTERNATIONAL SPA	AUD	500,000		100	100
69	SELEX ES INC	Wilmington, Delaware (USA)	LEONARDO INTERNATIONAL SPA	USD	1		100	100
70	SELEX ES INDIA PRIVATE LTD (IN LIQ.)	New Delhi (India)	LEONARDO MW LTD SELEX ES (PROJECTS) LTD	INR	30,100,000		100	100
71	SELEX ES INTERNATIONAL LTD	Basildon, Essex (UK)	LEONARDO SPA	GBP	100	100		100
72	SELEX ES LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
73	SELEX ES MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	LEONARDO INTERNATIONAL SPA	MYR	500,000		100	100
74	SELEX ES SPA (IN LIQ.)	Rome	SOGEP A SPA	EUR	120,000		100	100
75	SELEX ES SAUDI ARABIA LTD	Riyadh (Saudi Arabia)	LEONARDO MW LTD SELEX ES (PROJECTS) LTD	SAR	500,000		100	100
76	SELEX GALILEO INC	Wilmington, Delaware (USA)	LEONARDO MW LTD	USD	17,750,000		100	100
77	SELEX SERVICE MANAGEMENT SPA (IN LIQ.)	Rome	SELEX ES SPA (IN LIQ.)	EUR	3,600,000		100	100
78	SISTEMI DINAMICI SPA	Pisa	LEONARDO SPA	EUR	200,000	100		100
79	SO.GE.PA. - SOCIETA' GENERALE DI PARTECIPAZIONI SPA	Rome	LEONARDO SPA	EUR	1,000,000	100		100
80	T - S HOLDING CORPORATION	Austin, Texas (USA)	TECH-SYM LLC	USD	280,000		100	100
81	TECH-SYM LLC	Reno, Nevada (USA)	LEONARDO DRS INC	USD	10		100	100
82	TTI TACTICAL TECHNOLOGIES INC	Ottawa, Ontario (Canada)	LEONARDO MW LTD	CAD	2,500,001		100	100
83	UTM SYSTEMS & SERVICES SRL	Rome	LEONARDO SPA TELESPAZIO SPA	EUR	6,620,000	66.67	33.33	89.0011
84	VEGA CONSULTING SERVICES LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
85	VEGA DEUTSCHLAND GMBH	Cologne (Germany)	SELEX ES SPA (IN LIQ.)	EUR	25,700		100	100
86	VITROCISSET S.P.A.	Rome	LEONARDO S.P.A.	EUR	24,500,000	100		100
87	VITROCISSET BELGIUM S.P.R.L.	Transinne (Belgium)	VITROCISSET SPA VITROCISSET FRANCE S.A.R.L.	EUR	1,282,750		100	100
88	VITROCISSET FRANCE S.A.R.L.	KOUROU (Guyana of France)	VITROCISSET SPA	EUR	7,625		100	100
89	WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (UK)	AGUSTAWESTLAND LTD	GBP	5,000		100	100
90	WORLD'S WING SA	Geneva (Switzerland)	LEONARDO SPA	CHF	811,876	100		100
91	WYTWORNIA SPRZETU KOMUNIKACYJNEGO "PZL-SWIDNIK" SPOLKA AKCYJNA	Swidnik (Poland)	LEONARDO SPA	PLN	137,401,350	99.22431		99.22431

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List of companies consolidated using the equity method (amounts in currency)

N.	Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
						Direct	Indirect	
1	ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	-		51	51
2	ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Shah Alam (Malaysia)	SELEX ES INTERNATIONAL LTD	MYR	10,000,000		30	30
3	AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	LEONARDO SPA	AED	58,010,000	30		30
4	AIRBUS TELESPIAZIO CAPACITY OPERATOR SAS	Versailles (France)	TELESPIAZIO FRANCE	EUR	1,500,000		49	32.83
5	AMSH BV	Rotterdam (the Netherlands)	LEONARDO SPA	EUR	36,296,316	50		50
6	AVIO SPA	Rome	LEONARDO SPA	EUR	90,964,213	25.88		25.88
7	C-27J AVIATION SERVICES INC.	Ottawa, Ontario (Canada)	LEONARDO CANADA CO	CAD	10,000		30	30
8	CARDPRIZE TWO LIMITED	Basilidon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
9	CONSORZIO ATR GIE	Toulouse (France)	LEONARDO SPA	USD	-	50		50
10	D-FLIGHT S.P.A.	Rome	UTM SYSTEMS & SERVICES S.R.L.	EUR	83,333		40	35.60044
11	DISTRETTO TECNOLOGICO AEROSPAZIALE SC A RL	Brindisi	LEONARDO SPA	EUR	150,000	24.24		24.24
12	E - GEOS SPA	Matera	TELESPIAZIO SPA	EUR	5,000,000		80	53.6
13	ELETTRONICA SPA	Rome	LEONARDO SPA	EUR	9,000,000	31.333		31.333
14	EUROFIGHTER AIRCRAFT MANAGEMENT GMBH (IN LIQ.)	Hallbergmoos (Germany)	LEONARDO SPA	EUR	127,823	21		21
15	EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	LEONARDO SPA	EUR	2,556,459	21		21
16	EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	LEONARDO SPA	EUR	260,000	24		24
17	EUROMIDS SAS	Paris (France)	LEONARDO SPA	EUR	40,500	25		25
18	GAF AG	Munich (Germany)	E - GEOS SPA	EUR	256,000		100	53.6
19	GULF SYSTEMS LOGISTICS SERVICES COMPANY WLL	Kuwait City (Kuwait)	ALENIA AERMACCHI SPA	KWD	75,000		40	40
20	IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Venice	LEONARDO SPA	EUR	208,000		25	25
21	ICARUS SCPA (IN LIQ.)	Turin	LEONARDO GLOBAL SOLUTIONS SPA	EUR	3,192,724		53.06	53.06
22	INDUSTRIA ITALIANA AUTOBUS S.P.A	Rome	LEONARDO SPA	EUR	21,050,000	28.65		28.65
23	INMOVE ITALIA SRL	Naples	ANSALDOBREDA SPA	EUR	120,000		100	100
24	IVECO - OTO MELARA SC A RL	Rome	LEONARDO SPA	EUR	40,000	50		50
25	JIANGXI CHANGHE AGUSTA HELICOPTER CO LTD	Zone Jiangxi Province (China)	LEONARDO SPA	USD	6,000,000	40		40
26	JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	LEONARDO SPA	RUB	325,010,000	50		50
27	LEONARDO AEROSPACE DEFENSE & SECURITY INDIA PRIVATE LTD	New Delhi (India)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	INR	30,000,000		100	100
28	LEONARDO CANADA CO.	Halifax, Nova Scotia (Canada)	LEONARDO INTERNATIONAL SPA	CAD	1		100	100
29	LEONARDO (CHINA) CO. LTD ex SAPHIRE INTERNATIONAL AVIATION & ATC ENGINEERING CO. LTD	Beijing (China)	LEONARDO INTERNATIONAL SPA	USD	800,000		100	100
30	LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE) LTD	Basilidon, Essex (UK)	LEONARDO MW LTD	GBP	100		100	100
31	LEONARDO FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES WLL	Kuwait City (Kuwait)	LEONARDO INTERNATIONAL S.P.A	KWD	303,000		93	93
32	LEONARDO FUTUREPLANNER (TRUSTEE) LIMITED	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
33	LEONARDO HELICOPTERES ALGERIE S.P.A.	Bir Mourad Rais (Algerie)	LEONARDO SPA LEONARDO INTERNATIONAL SPA	EUR	55,000,000	39	10	49
34	LEONARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
35	LEONARDO LIMITED ex FINMECCANICA UK LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
36	LEONARDO POLAND SP. Z O.O.	Varsavia (Poland)	LEONARDO INTERNATIONAL SPA	PLN	850,000		100	100
37	LEONARDO SINGAPORE PTE. LTD.	Singapore (Singapore)	LEONARDO INTERNATIONAL SPA	USD	1		100	100
38	LEONARDO TECHNOLOGY PAKISTAN (SMC-PRIVATE) LIMITED	Islamabad (Pakistan)	LEONARDO INTERNATIONAL SPA	PKR	30,000,000		100	100
39	LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Libya)	AGUSTAWESTLAND SPA LEONARDO SPA	EUR	8,000,000	25	25	50
40	MACCHI HUREL DUBOIS SAS	Versailles (France)	LEONARDO SPA	EUR	100,000	50		50
41	MBDA SAS	Paris (France)	AMSH BV	EUR	53,824,000		50	25
42	NHINDUSTRIES (SAS)	Aix en Provence (France)	LEONARDO SPA	EUR	306,000	32		32
43	ORIZZONTE - SISTEMI NAVALI SPA	Genoa	LEONARDO SPA	EUR	20,000,000	49		49
44	RARTEL SA	Bucharest (Romania)	TELESPIAZIO SPA	RON	468,500		61.061	40.911
45	ROTORSIM SRL	Sesto Calende (Varese)	LEONARDO SPA	EUR	9,800,000	50		50
46	ROTORSIM USA LLC	Wilmington, Delaware (USA)	AGUSTAWESTLAND PHILADELPHIA CO	USD	12,607,452		50	50
47	SELEX ES (PROJECTS) LTD	Basilidon, Essex (UK)	LEONARDO MW LTD	GBP	100		100	100
48	SPACEOPAL GMBH	Munich (Germany)	TELESPIAZIO SPA	EUR	500,000		50	33.5
49	TELESPIAZIO ARGENTINA SA	Buenos Aires (Argentina)	TELESPIAZIO SPA TELESPIAZIO BRASIL SA	ARS	9,900,000		100	66.958
50	TELESPIAZIO BRASIL SA	Rio de Janeiro (Brazil)	TELESPIAZIO LATIN AMERICA LTDA	BRL	58,724,000		98.774	66.1786
51	TELESPIAZIO FRANCE SAS	Toulouse (France)	TELESPIAZIO SPA	EUR	33,670,000		100	67
52	TELESPIAZIO IBERICA SL	Madrid (Spain)	TELESPIAZIO SPA	EUR	2,230,262		100	67
53	TELESPIAZIO LATIN AMERICA LTDA	Rio de Janeiro (Brazil)	TELESPIAZIO SPA TELESPIAZIO VEGA UK LTD	BRL	56,444,390		100	67
54	TELESPIAZIO SPA	Rome	LEONARDO SPA	EUR	50,000,000	67		67
55	TELESPIAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	TELESPIAZIO SPA TELESPIAZIO FRANCE SAS	EUR	44,150		100	67
56	TELESPIAZIO VEGA UK LTD	Luton (UK)	TELESPIAZIO SPA	GBP	30,000,100		100	67
57	TELESPIAZIO VEGA UK SL	Madrid (Spain)	TELESPIAZIO VEGA UK LTD	EUR	14,400,048		100	67
58	THALES ALENIA SPACE SAS	Cannes (France)	LEONARDO SPA	EUR	918,037,500	33		33
59	TORPEDO SOUTH AFRICA (PTY) LTD	Gauteng (South Africa)	LEONARDO SPA	ZAR	0	49		49
60	VITROCISSET JADWALEAN LTD	Riyadh (Saudi Arabia)	VITROCISSET S.P.A.	SAR	2,000,000		45	45
61	WIN BLUEWATER SERVICES PRIVATE LIMITED (IN LIQ.)	New Delhi (India)	LEONARDO SPA SELEX ES INTERNATIONAL LTD	INR	12,000,000	99.9999	0.0001	100

List of subsidiaries and associates valued at cost (amounts in currency)

N.	Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
						Direct	Indirect	
1	ADVANCED MALE AIRCRAFT LLC	Al Ain, Muwajji (United Arab Emirates)	LEONARDO SPA	AED	200,000	49		49
2	CCRT SISTEMI SPA (IN FALL)	Milan	SOGEPA SPA	EUR	697,217		30.34	30.34
3	CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP.CO.LTD	Chongqing (China)	ANSALDOBREDA SPA	CNY	50,000,000		50	50
4	EARTHLAB LUXEMBOURG S.A.	Luxembourg (Luxembourg)	TELESPIAZIO FRANCE SAS E - GEOS SPA	EUR	5,375,000		54.4	34.2
5	ELSACOM - UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	SOGEPA SPA	UAH	7,945,000		49	49
6	INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (AMM.STR.)	Genoa	LEONARDO SPA	EUR	103,567	30.982		30.982
7	LEONARDO INTERNATIONAL LTD	Grantham, Lincolnshire (UK)	LEONARDO MW LTD	GBP	1		100	100

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Below are the main changes in the scope of consolidation at 31 December 2019 in comparison with 31 December 2018:

COMPANY	EVENT	MONTH
<u>Companies which entered the scope of consolidation:</u>		
Gruppo Vitrociset	acquired	January 2019
D-Flight S.P.A.	acquired	February 2019
UTM Systems & Services S.r.l.	became operating	February 2019
LEONARDO Poland SP. Z O.O.	newly established	March 2019
LEONARDO Technology Pakistan (SMC-Private) Ltd	newly established	March 2019
LEONARDO Helicopteres Algerie S.P.A.	newly established	March 2019
LEONARDO Singapore PTE. Ltd	newly established	May 2019
Airbus Telespazio Capacity Operator S.A.A.	newly established	July 2019

Companies which left the scope of consolidation:

AgustaWestland North America Inc.	deconsolidated	May 2019
Consorzio Telaer	deconsolidated	May 2019
Eurotech SpA	sold	August 2019
Ansaldobreda France S.A.S. (in liq.)	deconsolidated	November 2019
A4ESSOR S.A.S.	dilution of capital	December 2019
Eurosystnav S.A.S. (in liq.)	deconsolidated	December 2019

Companies involved in merger transactions:

Merged company	Merging company	Month
LEONARDO Do Brasil LTDA	AgustaWestland Do Brasil LTDA	June 2019
OtoMelara Do Brasil LTDA	AgustaWestland Do Brasil LTDA	June 2019
Selex ES Do Brasil LTDA	AgustaWestland Do Brasil LTDA	June 2019

Companies which changed their corporate name:

Old name	New name	Month
Agusta Aerospace Services A.A.S. S.A.	LEONARDO Belgium S.A.	January 2019
SELEX ES Elektronk Turkey A.S.	LEONARDO Turkey Havacilik Savunma Ve Guvenlik Sistemleri A.S.	April 2019
AgustaWestland Do Brasil LTDA	LEONARDO Do Brasil LTDA	June 2019
AugustaWestland Australia PTY LTD	LEONARDO Australia PTY LTD	July 2019
Saphire International Aviation ATC Engineering Co Ltd	LEONARDO (China) Co. Ltd	August 2019
AgustaWestland Malaysia SDN BHD	LEONARDO Malaysia SDN BHD	October 2019
Finmeccanica UK Ltd	LEONARDO Ltd	November 2019

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 2019.
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, 12 March 2020

Chief Executive Officer
(Alessandro Profumo)

Officer in charge of financial reporting
(Alessandra Genco)

Independent Auditors' Report on the consolidated financial statements as at 31 December 2019



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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 2019, 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 2019 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.

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", 16 "Contract assets and liabilities", 22 "Provisions for risks and charges and contingent liabilities" and 27 "Revenue"

Key audit matter	Audit procedures addressing the key audit matter
<p>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.</p> <p>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.</p> <p>Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses.</p> <p>Accordingly, we believe that the recognition of long-term contract revenue and losses is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — updating our understanding of the process for the recognition of contract revenue and losses; — 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: <ul style="list-style-type: none"> – 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; – inquiring at the entities legal department on long-term contracts disputes; – requesting external confirmations from legal advisors, if involved in the above disputes;

-
- 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
<p>The consolidated financial statements at 31 December 2019 include goodwill of €3,825 million.</p> <p>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).</p> <p>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:</p> <ul style="list-style-type: none"> — 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. <p>The 2020-2024 business plan (the “business plan”) that the parent’s directors approved on 12 March 2020 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.</p> <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — updating our understanding of the impairment testing procedure approved by the parent’s board of directors on 25 February 2020; — updating our understanding of the process used to draft the group’s business 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 business plan; — analysing the main assumptions used by the directors in drafting the business 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
<p>In its consolidated financial statements at 31 December 2019, 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 €2,308 million under intangible assets.</p> <p>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.</p> <p>For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — 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: <ul style="list-style-type: none"> — examining the main internal and external cost items recognised during the year on the basis, <i>inter alia</i>, 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 2019 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 2019 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 2019 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.



Leonardo Group
Independent auditors' report
31 December 2019

**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, 13 March 2020

KPMG S.p.A.

(signed on the original)

Marcella Balistreri
Director

**Separate financial statements at 31 December
2019 Leonardo - Società per Azioni**

Accounting statements to the separate financial statements as at 31 December 2019

Separate income statement

<i>Euro</i>	<i>Note</i>	2018	<i>of which with related parties</i>	2019	<i>of which with related parties</i>
Revenue	27	8,079,344,137	2,210,589,533	9,009,514,782	2,367,868,350
Other operating income	28	448,709,332	14,237,199	394,053,724	8,856,207
Purchase and personnel expense	29	(7,579,100,125)	(1,374,290,213)	(8,025,905,631)	(1,440,000,436)
Amortisation, depreciation and financial assets value adjustments	30	(432,916,242)		(480,589,162)	
Other operating expenses	28	(389,133,882)	(915,365)	(358,651,892)	(1,149,117)
Income before tax and financial expenses		126,903,220		538,421,822	
Financial income	31	508,762,440	27,006,042	335,066,858	22,884,962
Financial expense	31	(394,081,922)	(9,008,138)	(387,982,318)	(23,935,570)
Operating profit/loss before income taxes and discontinued operations		241,583,738		485,506,362	
Income taxes	32	(47,049,564)		(95,728,776)	
Profit/loss from discontinued operations		89,266,457		-	
Net profit/(loss) for the period		283,800,631		389,777,586	

Statement of comprehensive income

<i>Euro</i>		2018	2019
Profit /(Loss) for the period		283,800,631	389,777,586
Other comprehensive income (expense):			
<u>Comprehensive income/expense which will not be subsequently reclassified within the profit /(loss) for the period:</u>			
- Measurement of defined-benefit plans:		1,269,444	(1,033,534)
- revaluation	1,269,444		(1,033,534)
- exchange rate gains (losses)	-		-
- Tax effect		(161,040)	8,078
		<u>1,108,404</u>	<u>(1,025,456)</u>
<u>Comprehensive income/expense which will not be subsequently reclassified within the profit /(loss) for the period:</u>			
- Changes in cash flow hedges:		(34,988,291)	16,848,832
- change generated in the period	(46,812,189)		8,138,891
- transferred to the profit (loss) for the period	11,823,898		8,709,941
- Others		-	-
- Tax effect		7,076,617	(3,260,635)
		<u>(27,911,674)</u>	<u>13,588,197</u>
Total other comprehensive income (expense), net of tax:		(26,803,270)	12,562,741
Total comprehensive income		256,997,361	402,340,327

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 4.

Statement of financial position

<i>Euro</i>	Note	31 December 2018	<i>of which with related parties</i>	31 December 2019	<i>of which with related parties</i>
Intangible assets	8	2,922,375,563		2,965,761,115	
Property, plant and equipment	9	946,355,297		965,868,110	
Right of use	10	-		627,226,590	
Equity investments	11	7,381,249,609		7,697,088,895	
Receivables	12	400,004,675	329,371,694	480,773,493	409,709,531
Deferred tax assets	32	769,754,249		731,828,221	
Other non current assets	12	220,693,903		154,331,909	-
<i>Non-current assets</i>		12,640,433,296		13,622,878,333	
Inventories	13	4,524,960,363		4,617,885,581	
Assets from contracts	14	1,744,027,341	-	1,913,464,046	-
Trade receivables	15	2,404,583,037	827,526,794	2,698,189,320	954,037,383
Income tax receivables	16	41,638,207		61,987,483	
Loans and receivables	15	220,827,508	192,578,559	288,924,980	262,593,699
Other assets	17	375,374,479	57,125,834	343,586,975	26,321,844
Cash and cash equivalents	18	1,621,151,631		1,407,215,252	
<i>Current assets</i>		10,932,562,566		11,331,253,637	
Non-current assets held for sale	19	291,064,323	2,046,539	-	-
Total assets		23,864,060,185		24,954,131,970	
Share capital		2,494,859,259		2,496,351,674	
Other reserves		3,196,307,845		3,523,992,642	
Total equity	20	5,691,167,104		6,020,344,316	
Loans and borrowings (non current)	21	3,056,183,685	-	3,826,101,303	476,020,598
Employee benefits	23	314,994,006		298,186,511	
Provisions for risks and charges	22	620,867,095		478,346,768	
Deferred tax liabilities	32	90,251,951		82,227,927	
Other non-current liabilities	24	693,434,959	14,260	590,502,374	13,740
<i>Non-current liabilities</i>		4,775,731,696		5,275,364,883	
Liabilities from contracts	14	6,790,668,516	-	6,490,362,697	-
Trade payables	25	2,541,509,506	629,036,748	3,056,746,711	776,501,561
Loans and borrowings (current)	21	1,909,167,319	1,425,127,688	2,146,411,929	1,939,192,870
Income tax payables	16	12,091,375		19,790,650	
Provisions for short-term risks and charges	22	809,839,637		803,633,974	
Other current liabilities	24	1,328,167,938	270,329,634	1,141,476,810	130,974,145
<i>Current liabilities</i>		13,391,444,291		13,658,422,771	
<i>Liabilities associated with assets held for sale</i>	19	5,717,094		-	
Total liabilities		18,172,893,081		18,933,787,654	
Total liabilities and equity		23,864,060,185		24,954,131,970	

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 4.

Statement of cash flows

Euro	<i>Note</i>	2018	<i>of which with related parties</i>	2019	<i>of which with related parties</i>
Gross cash flows from operating activities	33	986,820,332		1,112,742,707	
Change in working capital	33	(64,245,031)	208,584,163	(593,969,445)	20,371,965
Change in other operating assets and liabilities and provisions for risks and charges	33	(326,374,955)	(58,839,865)	(374,606,982)	(140,564,144)
Interest paid		(189,323,077)	17,997,904	(161,075,578)	14,975,124
Income taxes (paid)/received		57,428,901		(23,207,790)	
Cash flows generated (used) in operating activities		464,306,170		(40,117,088)	
Investments in property, plant and equipment and intangible assets		(466,559,592)		(397,853,115)	
Sales of property, plant and equipment and intangible assets		14,684,337		2,874,044	
Dividends received		386,579,803		184,657,377	
Other investing activities		(190,518,527)		(38,938,978)	
Cash flows generated (used) in investing activities		(255,813,979)		(249,260,672)	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Term loan and EIB subscription		498,297,500		300,000,000	
Bond buy repayments		(512,613,892)		(310,342,861)	
Net change in other loans and borrowings		(9,224,154)	(31,818,346)	209,210,761	380,862,321
Dividends paid		(80,548,863)		(80,500,435)	
Cash flows generated (used) from financing activities		(150,409,755)		72,047,119	
Net increase (decrease) in cash and cash equivalents		58,082,436		(217,330,641)	
Exchange rate differences and other changes		(1,973,023)		3,394,262	
Cash and cash equivalents at 1 January		1,565,042,218		1,621,151,631	
Cash and cash equivalents at 31 December		1,621,151,631		1,407,215,252	

The data at 31 December 2019 have been determined by applying IFRS 16. On the contrary, the data for the comparative period have not been restated in accordance with the transition rules set forth and described in Note 4.

Statement of changes in equity

	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Merger surplus	Total equity
Euro						
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	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
Dividends resolved	-	(80,549,138)	-	-	-	(80,549,138)
Repurchase of treasury shares less sold shares	3,704,195	-	-	-	-	3,704,195
Total transactions with owners of the parent, recognised directly in equity	3,704,195	(80,549,138)	-	-	-	(76,844,943)
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
1 January 2019	2,494,859,259	2,622,258,980	(89,175,759)	(59,456,645)	722,681,269	5,691,167,104
Profit (loss) for the period	-	389,777,586	-	-	-	389,777,586
Other comprehensive income (expense)	-	-	13,588,197	(1,025,456)	-	12,562,741
Total comprehensive income (expense)	-	389,777,586	13,588,197	(1,025,456)	-	402,340,327
Repurchase of treasury shares less sold shares	1,492,415	-	-	-	-	1,492,415
Dividends resolved	-	(80,508,421)	-	-	-	(80,508,421)
Total transactions with owners of the parent, recognised directly in equity	1,492,415	(80,508,421)	-	-	-	(79,016,006)
Stock option/grant plans - performance's value	-	5,852,891	-	-	-	5,852,891
31 December 2019	2,496,351,674	2,937,381,036	(75,587,562)	(60,482,101)	722,681,269	6,020,344,316

Notes to the separate financial statements at 31 December 2019

1. GENERAL INFORMATION

Leonardo S.p.A. 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, Defence Electronics & Security* 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 2019 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 2018 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 12 March 2020 resolved to submit to shareholders the draft financial statements at 31 December 2019, authorizing their circulation on the same date and convened the Ordinary Shareholders' Meeting for the approval thereof for 8 and 15 May 2020, 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, where applicable, 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 of the equity investment, where applicable, 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 through profit or loss 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 joint 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 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 2019 (First Time Adoption) the Company adopted IFRS 16 “Leases”, which redefines the methods of recognition of agreements in the financial statements of lessee companies, thus providing for a single method of accounting for any and all types of agreements. The distinction between operating and finance leases is maintained for lessor companies.

IFRS 16 replaces IAS 17 and related Interpretations (IFRIC 4) and, in particular, provides that all agreements that grant the right to use an identified or identifiable asset for a given period of time in exchange for a consideration are recognised by recording, in the statement of financial position, non-current assets and financial liabilities equal to the present value of future lease payments using the implicit interest rate of the lease (or the lessee's incremental lending rate if the implicit interest rate cannot be identified).

After the first entry, the lessee recognises the amortisation of the rights of use and the interest accrued on the liability.

According to the approach previously adopted by the Company, in the cash flow statement the repayment of the capital quota of the financial liability is stated under "cash flow from financing activities", while the amount of interest is recognised under "cash flow from operating activities".

Upon first-time adoption, the Company adopted the "modified" retrospective approach, which provides for the recognition of the impact arising from first-time adoption as at 1 January 2019, without restating any comparative value and determining the value of the right of use relating to each lease agreement as equal to the financial liability for leases, as adjusted by any advance or accrued payment at 1 January 2019.

The Company has made use of the following practical expedients provided by the standard:

- the possibility of not reviewing agreements existing at 1 January 2019, applying IFRS 16 only to agreements previously identified as leases (formerly IAS 17 and IFRIC 4);
- excluding, from the scope of application, leases with a term of less than 12 months from the date of first-time adoption and of leases involving assets of modest value (less than € 5,000);
- excluding, from the scope of application, leases with a residual term of less than 12 months at 1 January 2019;
- applying a single discount rate for leases with similar characteristics taking account of the time period and geographical area.

The effects arising from the adoption of the new standard on the position at 1 January 2019 were as follows:

Rights of use	528
Financial liabilities for leases	(558)
Other net (liabilities)/assets	30

The table below shows the reconciliation between the amount of future minimum lease payments due for non-cancellable operating lease agreements, reported in the financial statements at 31 December 2018, and the balance of financial liabilities for leases at 1 January 2019:

Payments for non-cancellable Leases at 31 December 2018	524
Effect of discounting-back at 1 January 2019	(57)
Exclusion of "exempt" lease agreements	(19)
Recognition of instalments of leases signed but not yet started	(4)
Other changes	84
Financial liability for leases at 1 January 2019	528

Other changes mainly encompass payments related to the renewal periods not included among the commitments for operating lease liabilities at 31 December 2018.

The lessee's weighted average rate of indebtedness applied to lease liabilities was 2.25% as at 1 January 2019.

Any leases that are previously classified as finance leases under IAS 17 have been reclassified to rights of use. The definition of lease provided in IFRS 16 has been applied only to agreements signed or amended as from 1 January 2019.

Other changes are mainly attributable to bring commitments into line with the assets possible use over time. The other new standards and interpretations that came into force on 1 January 2019 had no significant impact on the Company's financial statements.

5. SIGNIFICANT NON-RECURRING EVENTS ON TRANSACTIONS

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 disclosure relating to the financial effects was provided in the Annual Report at 31 December 2018 in the section “Assets and Liabilities held for sale”.

On 31 January 2019 Leonardo signed the closing of the acquisition of 98.54% of Vitrociset, since all the planned conditions had been fulfilled, including the Golden Power and Antitrust authorisations (€mil. 27).

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.

On 27 June 2019 the Board of Directors of Leonardo S.p.A. approved the plan for the merger of Sistemi Dinamici S.p.A. - an engineering company, which is a direct wholly-owned subsidiary operating in the development, production and sale of remotely-controlled aircraft – by incorporation into Leonardo S.p.A. with effect from 1 January 2020. The transaction falls within the scope of the overall One Company project for the rationalisation of some assets, in terms of strategy and corporate structure, used in the core business of the Aerospace, Defence and Security, in order to make Leonardo's industrial operations more efficient and effective, with a view to completing the process of combination and interaction between the two companies, which had been started in 2016 with the acquisition of total control over Sistemi Dinamici.

6. SIGNIFICANT POST-BALANCE SHEET EVENTS

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

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

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

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

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

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

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

On 28 January 2020 Leonardo signed a contract with Lynwood (Schweiz) AG to acquire 100% of the Swiss helicopter company Kopter Group AG (Kopter).

The acquisition price of the company includes a fixed amount of €mil. 185, in addition to an earn-out mechanism linked to specific milestones in the life of the programme, starting from 2022.

The company's preliminary financial statements at 31 December 2019 showed assets of about CHFmil. 230 (equivalent to about €mil. 215), mainly relating to the capitalisation of development costs incurred, and a negative equity of about CHFmil. 185 (equivalent to about €mil. 170). Given the full development phase which Kopter is going through, the preliminary result for 2019 is negative by approximately CHFmil. 40 (equivalent to approximately €mil. 35), as the marketing phase has not yet started.

The contract is subject to specific conditions and the transaction is expected to be completed by the first half of 2020.

Furthermore, on 31 January 2020 the United Kingdom left the European Union, with a so-called transition phase being expected to last until December 2020. The Company is monitoring the negotiations between the United Kingdom and the European Union, as well as supporting the competent institutional bodies and

associations (defence sector) for the relevant actions. On the basis of internal analyses recently conducted, Leonardo has identified a first set of operational actions to deal with the "no deal" scenario, if required, with particular reference to the management of customs operations.

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*, *Defence Electronics & Security* 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

	Intangible assets						Total
	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	
<i>1 January 2018</i>							
Cost	917	831	1,876	492	96	310	4,522
Amortisation, depreciation and write-offs	(210)	(455)	(347)	(409)	(43)	(233)	(1,697)
Carrying amount	707	376	1,529	83	53	77	2,825
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	917	859	2,054	496	96	327	4,749
Depreciation	-	(481)	(370)	(427)	(47)	(235)	(1,560)
Impairment losses	(210)	(1)	(33)	-	-	(23)	(267)
Carrying amount	707	377	1,651	69	49	69	2,922
Investments	-	48	194	5	-	34	281
Sales	-	(1)	-	-	-	-	(1)
Depreciation	-	(23)	(53)	(19)	(4)	(22)	(121)
Impairment losses	-	(6)	(48)	-	-	-	(54)
Other changes	-	(5)	(58)	5	-	(3)	(61)
31 December 2019	707	390	1,686	60	45	78	2,966
broken down as follows:							
Cost	917	901	2,216	513	96	346	4,989
Depreciation	-	(504)	(423)	(453)	(51)	(245)	(1,676)
Impairment losses	(210)	(7)	(107)	-	-	(23)	(347)
Carrying amount	707	390	1,686	60	45	78	2,966
<i>31 December 2018</i>							
Gross value			4,888				
Grants			3,128				
<i>31 December 2019</i>							
Gross value			4,506				
Grants			2,820				

Commitments were in place for the purchase of intangible assets for €mil. 8 at 31 December 2019 (€mil. 5 at 31 December 2018).

The impairment of non-recurring costs mainly refers to the write-down of the non-recurring costs related to the *Aeronautics* sector. As set out in Note 4.1 of the consolidated financial statements, to which reference is made, development costs and non-recurring charges are tested for impairment, if the conditions obtain, using the discounted cash flow method based on the cash flows included in each product business plan discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method.

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 2016 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 2019 is as follows:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Helicopters	459	459
Electronics for the Defence and Security	188	188
Aeronautics	60	60
	<u>707</u>	<u>707</u>

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.

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's Management 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 basic 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 prospective 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
- 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 and (nominal) growth rates were used at 31 December 2019 and 2018:

	31 December 2018		31 December 2019	
	Wacc	g-rate	Wacc	g-rate
Helicopters	8.5%	2.0%	7.7%	2.0%
Electronics for the Defence and Security	6.4%	2.0%	6.1%	2.0%
Aeronautics	7.2%	2.0%	6.8%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (Headroom). The 2019 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 for all CGUs are reported below for information purposes. The table below shows, for the 2019 and 2028 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	699	447	501	531
Electronics for the Defence and Security	5,601	4,640	4,789	5,306
Aeronautics	9,826	9,106	9,234	9,580

31 December 2019	Margin (base case)	Margin post sensitivity		
		Wacc	g-rate	ROS TV
Helicopters	1,004	630	701	800
Electronics for the Defence and Security	7,847	6,645	6,821	7,461
Aeronautics	8,352	7,689	7,798	8,095

Other intangible assets

The item “development costs” mainly related to *Helicopters* (€mil. 164), *Aeronautics* (€mil. 59) and *Defence Electronics & Security* (€mil. 164) divisions. Investments for the year related in particular to *Defence Electronics & Security* (€mil. 26) and *Helicopters* (€mil. 22).

The investments for the year relating to “Non-recurring costs” refer to programmes concerning *Aeronautics* (about €mil. 70) and *Helicopters* (about €mil. 124). 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 classified among “other non-current assets” (Note 12). The related amount is calculated on the basis of the Management’s estimate that takes account of both reasonable certainty of obtaining grants and the effects

arising from time value in the event that, once they have been obtained, they are deferred over more than one financial period. Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 28.

Total research and development costs, including also “development” and “non-recurring costs” just mentioned, amount to €mil. 1,074 at 31 December 2019 (€mil. 1,058 at 31 December 2018), of which €mil. 131 expensed (€mil.126 at 31 December 2018).

“Other assets” mainly include software, intangible assets in progress and advances.

9. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Property, plant and equipment				Total	Investment property
	Land and buildings	Plant and machinery	Equipment	Other tangible assets		
<i>1 January 2018</i>						
Cost	463	1,187	1,694	655	3,999	23
Amortisation, depreciation and write-offs	(207)	(853)	(1,175)	(481)	(2,716)	(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	1,183	1,753	684	3,646	-
Amortisation, depreciation and write-offs	(19)	(896)	(1,288)	(497)	(2,700)	-
Carrying amount	7	287	465	187	946	-
Investments	-	7	36	110	153	-
Sales	-	-	-	(1)	(1)	-
Depreciation	(1)	(53)	(105)	(21)	(180)	-
Impairment losses	-	-	(1)	-	(1)	-
Other changes	(1)	23	19	8	49	-
31 December 2019	5	264	414	283	966	-
broken down as follows:						
Cost	25	1,210	1,803	792	3,830	-
Amortisation, depreciation and write-offs	(20)	(946)	(1,389)	(509)	(2,864)	-
Carrying amount	5	264	414	283	966	-

This item showed an increase as a result of the new investments, net of depreciation for the period.

The value of other tangible assets showed an increase as a result of investments in tangible assets under construction.

Commitments for the acquisition of tangible assets were in place for €mil. 73 at 31 December 2019 (€mil. 37 at 31 December 2018).

10. RIGHT OF USE

	Right of use			Total
	Right of use of land and buildings	Right of use of plant and machinery	Right of use of equipment	
<i>31 December 2018</i>	-	-	-	-
broken down as follows:				
Cost	-	-	-	-
Amortisation, depreciation and write-offs	-	-	-	-
Carrying amount	-	-	-	-
Application of IFRS 16	494	1	33	528
Subscriptions new contrats	218	1	1	220
Disposals	-	-	(1)	(1)
Depreciation	(100)	(1)	(10)	(111)
Other changes	(10)	-	1	(9)
31 December 2019	602	1	24	627
broken down as follows:				
Cost	702	2	38	742
Amortisation, depreciation and write-offs	(100)	(1)	(14)	(115)
Carrying amount	602	1	24	627

Rights of use were recognised in the application of the new IFRS 16 for €mil. 528 at 1 January 2019.

During 2019 this item showed an increase by €mil. 99 as a result of the contribution of the property business unit to Leonardo Global Solutions S.p.A. and of the execution of new agreements, which were partly offset by the related amortisation for the period.

The Company has opted to exclude from the scope of application, the leases with a term of less than 12 months and those concerning assets of modest value, the effects of which were therefore recognised among “costs for purchases” (Note 4).

At 31 December 2019 commitments were in place for acquisition on rights of use for €mil. 3.

11. EQUITY INVESTMENTS

	2018			2019		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	7,345	(100)	7,245	7,381	(6)	7,375
Acquisitions/subscriptions	181	96	277	63	2	65
Increase for transfer of fixed assets	-	-	-	281	-	281
Impairment losses	(58)	(2)	(60)	(23)	-	(23)
Disposals	(9)	-	(9)	(6)	-	(6)
Other changes	(78)	-	(78)	1	-	1
31 December	7,381	(6)	7,375	7,697	(4)	7,693

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.

The carrying amount of equity investments, unless conditions obtain, 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:

- contribution of the property business unit to subsidiary Leonardo Global Solution S.p.A., which took place with effect from 1 January 2019, equal to €mil. 281;
- incorporation of Leonardo Helicopters Algerie S.p.A., equal to €mil. 21;
- acquisition of the total stake of Vitrociset S.p.A., equal to €mil. 27;
- acquisition of capital quotas in the following investments:
 - Utm System & Services S.r.l., equal to €mil. 4;
 - Leonardo International S.p.A., equal to €mil. 2;
 - Wytworknia Sprzetu Komunikacyjnego, equal to €mil. 1
- recapitalisation of Industria Italiana Autobus S.p.A., equal to € mil. 7, of which €mil. 2 through the use of the provision for risks on equity investments;
- subscribing to new shares of the start-up Skyweller Aero Inc., (€mil. 3), a company specialising in the development of a new generation of unmanned aircraft. Leonardo's stake is 8.02% of the share capital and 27.96% of the "Series A Preferred Stock" issued at the date of subscription;
- transfer to Emera S.r.l. of the entire stake in the listed company Eurotech S.p.A., equal to 11.08% of the share capital (3,936,461 shares), at a price of € 4.58 per share for a total consideration equal to about €mil.18, generating a financial income of about €mil. 12 (Note 31);
- write-downs equal to €mil. 23, relating to the losses for the period recorded by So.Ge.Pa. S.p.A. (€mil. 21) and Industria Italiana Autobus S.p.A (€mil. 2).

Finally, below is presented a comparison of the carrying amounts and the average market price of the listed shares of Avio S.p.A. in December 2019:

Listed company	Number of shares held	Stock exchange value		Book value		Difference unit in €	Difference total in €mil.
		Unit €	Total €mil.	Unit €	Total €mil.		
Avio Spa	6.820.832	13,993	95	10,339	71	3,654	24

12. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	<u>31 December 2018</u>	<u>31 December 2019</u>
Non current financial receivables from Superjet	25	-
Deferred grants under Law no. 808/85	36	61
Related parties receivables (Note 34)	329	410
Other non-current receivables	10	10
Non-current receivables	400	481
Prepayments - non-current portion	5	3
Non-recurring costs pending under Law no. 808/1985	216	151
Non-current assets	221	154

Non-current receivables showed an increase of €mil. 81, mainly attributable to related parties, the details of which are reported in Note 34.

Furthermore, the residual amount due from Superjet S.p.A., agreed with the acquirer within the context of the exit of Leonardo from this programme (€mil. 25 at 31 December 2018), has been reclassified to current receivables for the amount of repayment expected by 2020.

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.

13. INVENTORIES

	<u>31 December 2018</u>	<u>31 December 2019</u>
Raw materials, supplies and consumables	1,339	1,440
Work in progress and semi-finished goods	1,044	973
Finished goods and merchandise	20	32
Assets from contracts point in time	329	367
Advances to suppliers	1,793	1,806
	4,525	4,618

The increase in the period, equal to €mil. 93, was mainly attributable to the inventories of raw materials, supplies and consumables.

Provisions for write-down are entered against the 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. 619 (€mil. 613 at 31 December 2018).

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.

14. CONTRACT ASSETS AND LIABILITIES

	<u>31 December 2018</u>	<u>31 December 2019</u>
Contract assets (gross)	2,734	3,490
Liabilities from contracts	(990)	(1,577)
Contract assets (net)	1,744	1,913
Contract liabilities (gross)	6,946	6,598
Assets from contracts	(155)	(108)
Contract liabilities (net)	6,791	6,490
Net value	(5,047)	(4,577)

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:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Cost incurred and margins recognised	2,895	3,598
Advanced received	(7,942)	(8,175)
Net value	(5,047)	(4,577)

15. TRADE AND FINANCIAL RECEIVABLES

	<u>31 December 2018</u>		<u>31 December 2019</u>	
	Trade	Financial	Trade	Financial
Receivables	1,935	30	2,115	28
<i>Cumulative impairments</i>	(358)	(2)	(371)	(2)
Related parties current receivables (Note 34)	828	193	954	263
	2,405	221	2,698	289

The item of accumulated impairment mainly includes the effects of the application of IFRS 9.

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 35.

16. RECEIVABLE AND LIABILITIES FOR INCOME TAXES

Net income tax receivables and payables amounted to €mil. 42 (€mil. 30 at 31 December 2018) at 31 December 2019.

Receivables mainly relate to IRES receivables for which a request for refund has been claimed, as well as to direct tax advances paid.

The changes during the year and the composition of assets and liabilities by currency and geographical area are shown in Appendices nos. 5, 6, 9 and 10 to these Notes.

17. OTHER ASSETS

	<u>31 December 2018</u>	<u>31 December 2019</u>
Derivatives	90	78
Prepaid expenses - current portion	32	39
Receivables for grants	69	73
Receivables from employees and social security	46	45
Indirect tax receivables	7	15
Other related parties receivables (Note 34)	57	26
Other assets	74	68
	<u>375</u>	<u>344</u>

This item showed a decrease of €mil. 31 compared to 2018, mainly as a result of a reduction in receivables from related parties (Note 34).

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.

The table below provides the breakdown of derivative assets and liabilities.

	Fair value at					
	<u>31 December 2018</u>			<u>31 December 2019</u>		
	Assets	Liabilities	Net	Assets	Liabilities	Net
<i>Interest rate swaps</i>						
<i>Trading</i>	-	(3)	(3)	-	(2)	(2)
<i>Cash flow hedge</i>	-	(3)	(3)	-	(17)	(17)
<i>Currency forward/swap/option</i>						
<i>Trading</i>	-	-	-	2	(2)	-
<i>Fair value hedge</i>	26	(27)	(1)	-	-	-
<i>Cash flow hedge</i>	64	(153)	(89)	76	(136)	(60)

The cash flow hedge is the forward instrument hedging trade items denominated in foreign currency.

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.

Trading forward instruments refer to transactions carried out with banks acting in the interest of the fully owned subsidiaries, which reflect the relevant impacts in their balance sheet and income statement.

The “interest rate swaps” with a total notional value of €mil. 500, classified as trading and hedging 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 and balance sheet is described in the section on Financial Risk Management (Note 35).

The portion of the changes that had an impact on the income statement is described in Note 31.

18. CASH AND CASH EQUIVALENTS

The balance of “Cash and cash equivalents” at 31 December 2019, equal to €mil. 1,407 (€mil. 1,621 at 31 December 2018), was mainly the result of net cash flows realised by the Company’s divisions during the year. Cash and cash equivalents at 31 December 2019 include €mil. 1 of term deposits (€mil. 2 at 31 December 2018).

19. ASSETS AND LIABILITIES HELD FOR SALE

At 31 December 2018 this item reported the reclassification of the transfer value of the property business unit of Leonardo S.p.A. to subsidiary Leonardo Global Solutions S.p.A. for €mil. 285, which became effective on 1 January 2019.

20. 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	(3,305,230)	-	(30)	-	(30)
31 December 2018	<u>574,845,165</u>	<u>2,544</u>	<u>(30)</u>	<u>(19)</u>	<u>2,495</u>
Repurchase of treasury shares net of the portion sold	162,733	-	1	-	1
31 December 2019	<u>575,007,898</u>	<u>2,544</u>	<u>(29)</u>	<u>(19)</u>	<u>2,496</u>
<i>Broken down as follows:</i>					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,142,497)	-	(29)	-	(29)

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. 3,142,497 treasury shares.

At 31 December 2019 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 section “Proposal to the Shareholders’ Meeting”.

21. LOANS AND BORROWINGS

	31 December 2018			31 December 2019		
	Non current	Current	Total	Non current	Current	Total
Bonds	2,384	394	2,778	2,386	83	2,469
Bank loans and borrowings	640	51	691	894	48	942
Related parties loans and borrowings (Note 34)	-	1,425	1,425	476	1,939	2,415
Lease liabilities	-	-	-	38	15	53
Other loans and borrowings	32	39	71	32	61	93
	3,056	1,909	4,965	3,826	2,146	5,972

This item showed an increase of €mil. 1,007, mainly as a result of payables to related parties, which include lease liabilities of €mil. 573.

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	2022	€	556	5,250%	European istitutional
2013	2021	€	739	4,500%	European istitutional
2017	2024	€	600	1,500%	European istitutional

(*) Residual nominal amounts in case of issues subject to the buy-back transactions.

The item decreased as a result of the repayment of the 2009 bond issue (issued for a nominal amount of GBP mil. 400) for a nominal amount of GBP mil. 278 (€mil.310 - 8% coupon), which has now reached its natural expiry.

Changes in loans and borrowings are as follows:

	1 January 2018	IFRS 16 adoption	Issues	Repayments/ Payment of coupons	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
Lease liabilities	-	-	-	-	-	-	-
Other loans and borrowings	77	-	-	-	(6)	-	71
	5,276	-	498	(707)	(94)	(8)	4,965

	1 January 2019	IFRS 16 adoption	Issues	Repayments/ Payment of coupons	Other net increase (decrease)	Exchange differences	31 December 2019
Bonds	2,778	-	-	(310)	1	-	2,469
Bank loans and borrowings	691	-	300	(46)	(19)	16	942
Related-parties loans and borrowings	1,425	470	-	-	520	-	2,415
Lease liabilities	-	58	-	-	(5)	-	53
Other loans and borrowings	71	-	-	-	22	-	93
	4,965	528	300	(356)	519	16	5,972

Below is the reconciliation of the movements in loans and borrowings with the cash flows from financing activities in FY 2019:

	31 December 2018	31 December 2019
Balance at 1° january	5.276	4.965
Changes included in cash flows from financing activities	(305)	366
- <i>Repayment of Bond</i>	(513)	(309)
- <i>Term loan and BEI Subscription</i>	498	300
- <i>Net change in other borrowings</i>	(290)	375
Movimenti non monetari	(6)	641
- <i>Non monetary items of lease liabilities</i>		626
- <i>Exchange rate effects</i>	(8)	16
- <i>Accrued interest</i>	2	(1)
Balance at 31 december	4.965	5.972

Bank loans and borrowings

The item includes the use of the 12-year loan of €mil. 300, due 2031, raised with the European Investment Bank (EIB) in 2018 to support the investment projects set out in the Group's Business Plan, which must be added to the loan raised in 2009 aimed at development activities in the Aeronautics segment. The loan raised in 2009 has been used for €mil. 300 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.

The residual value of total EIB loans amounted to €mil. 439 (€mil. 185 at 31 December 2018) at 31 December 2019.

Related parties loans and borrowings

Related parties loans and borrowings increased substantially as a result of the adoption of the new IFRS 16 (€mil. 573 at 31 December 2019). For their breakdown reference is made to Note 34.

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:

	<i>Bonds</i>		<i>Bank loans and borrowings</i>		<i>Related parties loans and borrowings (Note 34)</i>		<i>Lease liabilities</i>		<i>Other loans and borrowings</i>		<i>Total</i>	
	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
31 December 2018												
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

	<i>Bonds</i>		<i>Bank loans and borrowings</i>		<i>Related parties loans and borrowings (Note 34)</i>		<i>Lease liabilities</i>		<i>Other loans and borrowings</i>		<i>Total</i>	
	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
31 December 2019												
Within 1 year	-	83	24	24	1,826	113	-	15	7	54	1,857	289
2 to 5 years	-	1,888	589	55	-	217	-	25	-	32	589	2,217
Beyond 5 years	-	498	250	-	-	259	-	13	-	-	250	770
Total	-	2,469	863	79	1,826	589	-	53	7	86	2,696	3,276

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

	<u>31 December 2018</u>	<i>of which with related parties</i>	<u>31 December 2019</u>	<i>of which with related parties</i>
Cash and cash equivalents	(1,621)		(1,407)	
Securities held for trading	-		-	
Liquidity	(1,621)		(1,407)	
Current loans and receivables	(221)	<i>(193)</i>	(289)	<i>(263)</i>
Current bank loans and borrowings	51		48	
Current portion of non-current loans and borrowings	394		83	
Other current loans and borrowings	1,464	<i>1,425</i>	2,015	<i>1,939</i>
Current financial debt	1,909		2,146	
Net current financial debt (funds)	67		450	
Non-current bank loans and borrowings	640		894	
Bonds issued	2,384		2,386	
Other non-current loans and borrowings	32	-	546	476
Non-current financial debt	3,056		3,826	
Net financial debt	3,123		4,276	

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

	<u>31 December 2018</u>	<u>31 December 2019</u>
Net financial debt com. CONSOB no. DEM/6064293	3,123	4,276
Non current financial receivables from Group's consolidated entities	(283)	(402)
Non current financial receivables from Superjet	(25)	-
Net debt (KPI)	2,815	3,874

Lease liabilities

The increase in financial debts for the period was affected by the adoption of the new IFRS 16 which regulates the treatment of leases as reported in Note 4. It amounted to €mil. 626, of which €mil. 573 to related parties, at 31 December 2019 (Note 34).

22. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

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	Guarantees given	Restructuring	Penalties	Product guarantees	Contracts (final losses)	Other provisions	Total
1 January 2018							
Current	98	34	13	65	370	369	949
Non current	22	50	19	41	-	460	592
	120	84	32	106	370	829	1,541
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
<i>Broken down as follows:</i>							
Current	27	73	11	94	312	293	810
Non current	-	138	7	53	-	423	621
	27	211	18	147	312	716	1,431
Allocations	8	-	2	63	10	168	251
Uses	(5)	(69)	(3)	(8)	-	(16)	(101)
Reversals	-	-	(5)	(29)	(82)	(121)	(237)
Other changes	-	(5)	2	(1)	7	(65)	(62)
31 December 2019	30	137	14	172	247	682	1,282
<i>Broken down as follows:</i>							
Current	30	70	11	103	247	343	804
Non current	-	67	3	69	-	339	478
	30	137	14	172	247	682	1,282

The amount of the provision for risks showed a decrease of €mil. 149 compared to the previous year.

The provision for “restructuring” showed a decrease as a result of early retirement schemes under Article 4 of Law 92/2012 (Fornero Act), provided for in the agreement signed with the national trade unions in 2018.

“Other provisions for risks and charges” mainly include:

- the provision for tax disputes of €mil. 50 (€mil. 50 at 31 December 2018);
- the provision for litigation with employees and former employees of €mil. 25 (€mil. 19 at 31 December 2018);
- the provision for litigation in progress of € mil. 1 (€mil. 3 at 31 December 2018);
- provisions for critical issues on contracts equal to €mil.310 (€mil. 385 at 31 December 2018), attributable in particular to 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 2019 and in early 2020:

- On 27 November 2019 the Rome Court of Appeal confirmed the judgment for acquittal, which was handed down 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 22 May 2019 the Supreme Court rejected the appeals submitted against the judgment whereby on 8 January 2018 the Milan Court of Appeal had acquitted the former Chairman and Chief Executive Officer of Leonardo and the former Chief Executive Officer of AgustaWestland S.p.A. of the charges for the 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, within the proceedings brought in relation to the supply of twelve AW 101 VIP/VVIP helicopters to the Indian Government.

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, 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 at the hearing on 30 May 2018 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. By a judgment dated 3 July 2019, the latter rejected the appeals submitted by Leonardo S.p.A.. The time limits for the appeal before the Council of State are still pending.

Leonardo S.p.A. 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 finally set on 18 December 2019.

On the contrary AgustaWestland International Ltd appeared at the hearings set within the proceedings brought by the Central Bureau of Investigation; the proceedings are continuing before the Patiala House Court of New Delhi.

On 28 August 2019 the Public Prosecutor's Office of Milan served on Leonardo S.p.A. a notice of invitation to appear at the hearing of 18 September 2019 within further proceedings brought by the Indian Judicial Authority (Directorate of Enforcement) in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian Government. The Company submitted an application for enforcement review before the Judge for Preliminary Investigations of the Court of Milan, as well as an appeal with the Lazio Regional Administrative Court, even in relation to this notice and to that for the hearing scheduled on 18 December 2019.

Finally, it should be noted that on 11 February 2020 a notice was served on AgustaWestland International Ltd whereby it was invited to appear at the hearing of 25 March 2020 within the proceedings brought by the Indian Judicial Authority (Directorate of Enforcement);

- 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 in relation to these cases. 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 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 probable risks 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 Company. Of particular note are the following disputes:

- Within the proceedings brought by Firema under extraordinary management before the Court of Naples against the directors and statutory and independent auditors of Firema Trasporti in order to have them declared responsible for the financial collapse caused to the company – within which Giorgio and Gianfranco Fiore, in turn, summoned Leonardo and AnsaldoBreda in court – the Supreme Court handed down a judgment on 11 December 2019, whereby it rejected the appeal submitted by Leonardo and by AnsaldoBreda for being dropped from action. 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 submitted an appeal against this order, which was rejected by the Supreme Court with the aforesaid judgment. The proceedings brought by Firema under extraordinary management had been suspended pending the ruling of the Supreme Court.

As to the action brought by GMR against Leonardo and AnsaldoBreda before the Court of Naples, these proceedings had been also suspended by an order issued on 14 June 2019 pending the judgment of the Supreme Court referred to above. Following the ruling of the Supreme Court, the Court of Naples has ordered the reinstatement of the proceedings, although it has not yet set a date for the hearing to continue the proceedings.

With reference to the aforesaid proceedings, 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.

- The proceedings brought by Mr Pio Deiana before the Rome Court of Appeal – which were discontinued due to his subsequent death – have been resumed by one of the heirs within the prescribed time limits. The next hearing to be held for specifying the conclusions has been scheduled on 12 October 2021. 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.

* * * * *

Moreover, given their complexity, their cutting-edge technological content and the nature of the customers, the Company'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 Company 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.

In particular, it should be noted that, under the contract for the design and construction of Al Bayt Stadium in Al Khor City (Qatar), on 22 September 2016 the GSIC JV (set up by Galfar Misnad Engineering & Contracting W.L.L., Salini - Impregilo S.p.A. and Cimolai S.p.A.), as Prime Contractor, awarded the work to the unincorporated Joint Venture set up by Leonardo S.p.A. and PSC S.p.A. (L&P JV) for the procurement, delivery, installation and testing & commissioning of the entire package of electronic and mechanical components of the stadium infrastructure. It should be noted that, from the beginning, the regular progress of the work was strongly conditioned by a number of delays not attributable to the L&P JV, as well as by the introduction of numerous additions and changes to the initial project, which was found to be incomplete during the execution of the order. The above circumstances led to considerable extra costs for the L&P JV, which the Prime Contractor did not intend to pay. For this reason, on 25 October 2019 the L&P JP brought arbitration proceedings within which it requested, in addition to the payment of some activities envisaged as per contract and regularly performed, compensation for damage suffered as a result of the abovementioned circumstances, which allegedly amounted to a total of € 258 million. The GSIC JV appeared in court according to formal procedures and, in addition to asking the Court to reject the plaintiff's claims, also submitted a counterclaim seeking for compensation for damage it had allegedly suffered as a result of an alleged instance of non-

compliance on the part of the L&P JV, which amounted to approximately €mil. 176. The arbitration proceedings are still in progress.

23. EMPLOYEE BENEFIT OBLIGATIONS

	<u>31 December 2018</u>	<u>31 December 2019</u>
Severance pay provision	289	272
Defined contribution plans	26	26
	<u>315</u>	<u>298</u>

The severance pay provision showed a reduction essentially due to early retirements under art. 4 of Law 92/2012 (Fornero Act).

The amount of the costs related to employee benefit obligations, which was recognised during the year under financial expense, is equal to €mil. 3 (€mil. 3 compared to 31 December 2018).

Below are the changes in the severance pay provision:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Opening balance	317	289
Net interest expense	3	3
Remeasurement	(3)	1
Actuarial losses (gains) through equity - financial assumptions	(3)	1
Benefits paid	(27)	(20)
Other changes	(1)	(1)
Closing balance	<u>289</u>	<u>272</u>

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:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Discount rate (annual)	1.2%	0.7%
Inflation rate	1.5%	0.7%

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

	<u>31 December 2018</u>		<u>31 December 2019</u>	
	<u>-0.25%</u>	<u>+0.25%</u>	<u>-0.25%</u>	<u>+0.25%</u>
Discount rate (annual)	5	(5)	4	(4)
Inflation rate	(4)	4	(3)	3

The average duration of the severance pay is 6.5 years.

24. OTHER NON CURRENT AND CURRENT LIABILITIES

	31 December 2018		31 December 2019	
	Non current	Current	Non current	Current
Employee obligations	47	252	49	281
Deferred income	102	36	205	52
Amounts due to social security institutions	-	155	-	167
Payables to MED (Law no. 808/85)	204	52	155	-
Payables to MED for monopoly costs (Law no. 808/85)	179	19	180	12
Indirect tax liabilities	-	70	-	60
Derivatives	-	185	-	157
Other liabilities	161	289	2	282
Other payables to related parties (Note 34)	-	270	-	131
	693	1,328	591	1,142

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.

Payables to related parties showed a reduction of €mil. 139 compared to the previous year and mainly related to the Group’s tax consolidation procedure.

“Deferred income” specifically includes subsequent years rentals already collected in past years in relation to the agreements for the sale of “Ansaldo” trademark and royalties.

“Other payables” mainly related to down payments received from customers (€mil. 59) and to penalties on programmes (€mil. 94).

The changes recorded during the year and the composition of liabilities by maturity, currency and geographical area are shown in Appendices nos. 8, 9 and 10 to these Notes.

25. TRADE PAYABLES

	31 December 2018	31 December 2019
Suppliers	1,913	2,280
Trade payables to related parties (Note 34)	629	777
	2,542	3,057

26. GUARANTEES

At 31 December 2019 the Company had in place the following guarantees:

	<u>31 December 2018</u>	<u>31 December 2019</u>
Guarantees in favour of related parties (Note 34)	4,380	4,432
Guarantees in favour of third parties	8,527	8,266
Guarantees given to third parties	2,503	2,257
Unsecured guarantees given	<u>15,410</u>	<u>14,955</u>

Specifically, the main guarantees issued consist of:

- bank and insurance sureties in favour of third-party companies for an amount of €mil. 8,263 (€mil. 8,524 at 31 December 2018);
- bank and insurance counter-guarantees issued in the interest of related parties for €mil. 1,024 (€mil. 981 at 31 December 2018) and in the interest of third-party Companies for €mil. 3 (€mil. 3 at 31 December 2018);
- direct commitments issued by the Company in favour of tax authorities, customers and co-suppliers (Parent Company Guarantee) for €mil. 2,253 (€mil. 2,314 at 31 December 2018), in favour of related parties for €mil. 3,408 (€mil. 3,399 at 31 December 2018) and in favour of other companies for €mil. 4 (€mil. 189 at 31 December 2018).

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.

27. REVENUES

	<u>2018</u>	<u>2019</u>
Revenue from contracts with customers	5,820	5,958
Change in contract assets	48	684
Revenue from related parties (Note 34)	2,211	2,368
	<u>8,079</u>	<u>9,010</u>

Below is the breakdown of revenue by timing of reporting:

	<u>2018</u>	<u>2019</u>
Revenue recognized at point in time	1,942	1,977
Revenue recognized over time	6,137	7,033
	<u>8,079</u>	<u>9,010</u>

Revenue was realised in the following geographical areas:

	<u>2018</u>	<u>2019</u>
Italy	1,729	2,038
United Kingdom	396	397
Rest of Europe	2,652	2,749
United States of America	1,103	1,326
Rest of the world	2,199	2,500
	<u>8,079</u>	<u>9,010</u>

28. OTHER OPERATING INCOME (EXPENSES)

	2018			2019		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	25	-	25	26	-	26
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	173	(200)	(27)	226	(238)	(12)
Exchange rate difference on operating items	123	(129)	(6)	64	(68)	(4)
Insurance reimbursements	5	-	5	4	-	4
Restructuring costs	-	(17)	(17)	-	-	-
Indirect taxes	-	(13)	(13)	-	(10)	(10)
Other operating income (expenses)	96	(29)	67	64	(42)	22
Other operating income (expenses) from related parties (Note 34)	14	(1)	13	9	(1)	8
	449	(389)	60	394	(359)	35

(*) To which the assessments of “Non-recurring costs pending under Law 808/1985” (Note 13) equal to €mil. 60 (€mil. 78 at 31 December 2018).

29. PURCHASE AND PERSONNEL EXPENSE

	2018	2019
Purchase of materials from third parties	2,385	2,829
Change in inventories of raw materials	(56)	(101)
Costs for purchases from related parties (Note 34)	564	718
Purchases	2,893	3,446
Services rendered by third parties	1,944	2,068
Costs of leases	136	70
Royalties	2	3
Services rendered by related parties (Note 34)	810	722
Services	2,892	2,863
Wages and salaries	1,370	1,455
Social security contributions	400	422
Costs related to defined-contribution plans	92	95
Employee disputes	(3)	6
Restructuring costs - net	180	8
Other personnel expenses net of cost recovery	23	16
Personnel expenses	2,062	2,002
Change in finished goods, work in progress and semi-finished products	10	(36)
Internal work capitalised	(278)	(249)
Total purchases and personnel expenses	7,579	8,026

The average workforce at 31 December 2019 was equal to 28,292 units, showing an increase of 593 units compared to 2018.

The figure of total workforce at 31 December 2019, equal to 29,348 units, showed, compared to 2018, an increase of 1,208 units.

The figure related to the average workforce is affected by the presence of part-time employees and personnel that took extended leave.

Below is the breakdown of workforce by category:

	Average Workforce			Total Workforce		
	31 December 2018	31 December 2019	Change	31 December 2018	31 December 2019	Change
Senior managers (*)	752	784	32	769	829	60
Middle managers	3,275	3,308	33	3,312	3,388	76
Clerical employees	16,499	16,728	229	16,836	17,416	580
Manual labourers (**)	7,173	7,472	299	7,223	7,715	492
Total	27,699	28,292	593	28,140	29,348	1,208

(*) Includes pilots

(**) Includes senior manual labours

30. AMORTISATION, DEPRECIATION AND FINANCIAL ASSETS VALUE ADJUSTMENTS

	2018	2019
Amortisation of intangible assets	100	121
<i>Development costs</i>	25	23
<i>Non-recurring costs</i>	24	53
<i>Acquired through business combinations</i>	4	4
<i>Concessions, licences and trademarks</i>	22	19
<i>Other intangible assets</i>	25	22
Depreciation of property, plant and equipment and investment properties	187	179
Depreciation of right of use	-	111
Impairment of other assets	64	55
Financial assets value adjustments	82	14
	433	480

The impairment of other assets mainly refers to the write-down of non-recurring costs related to the *Aeronautics* sector.

31. FINANCIAL INCOME AND EXPENSE

	2018			2019		
	Income	Expenses	Net	Income	Expenses	Net
Interest to/from banks	1	(5)	(4)	1	(12)	(11)
Interest on lease liabilities	-	-	-	-	(1)	(1)
Interest and other charges on bonds	-	(152)	(152)	-	(122)	(122)
Commissions	1	(22)	(21)	-	(14)	(14)
Dividends	386	-	386	185	-	185
Premiums (paid) received on IRS	6	(6)	-	-	(2)	(2)
Premiums (paid) received on forwards	37	(57)	(20)	53	(69)	(16)
Income and charges from equity investments and securities	-	(1)	(1)	12	-	12
Value adjustments on equity investments	-	(60)	(60)	-	(23)	(23)
Fair value gains (losses) through profit or loss	21	(15)	6	19	(47)	(28)
Exchange rate differences	12	(11)	1	28	(27)	1
Financial income (expense) - related parties (Note 34)	27	(9)	18	23	(24)	(1)
Other financial income and expense	18	(56)	(38)	14	(47)	(33)
	509	(394)	115	335	(388)	(53)

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Net financial income and costs at 31 December 2019 showed a decrease compared to the previous year, mainly as a result of lower dividends collected.

Income from equity investments, equal to €mil. 12, related to the transfer of the entire interest held in Eurotech S.p.A., as described in Note 11.

Fair value results through profit or loss are as follows:

	2018			2019		
	Income	Expenses	Net	Income	Expenses	Net
Exchange rate swap	1	(1)	-	-	-	-
Interest rate swaps	-	(1)	(1)	-	-	-
Ineffective portion of hedging swap	19	(13)	6	19	(47)	(28)
Gains (charges) on FVTPL	1	-	1	-	-	-
	21	(15)	6	19	(47)	(28)

32. INCOME TAXES

Income taxes can be broken down as follows:

	2018	2019
IRES (corporate income tax)	(32)	(54)
IRAP (reg. tax on production)	(23)	(26)
Tax related to previous periods	-	21
Provisions for tax disputes	(20)	(5)
Deferred tax - net	28	(27)
Other taxes	-	(5)
	(47)	(96)

Below is an analysis of the composition of the theoretical and effective tax rates for 2019 and 2018:

	2018	2019
Profit (loss) before income taxes	331	486
Tax rate	(14.2%)	(19.8%)
Theoretical tax	(79)	(117)
Permanent differences	1	6
Timing differences	23	(1)
Dividends	78	22
Impairment of equity investments	(33)	(5)
IRAP tax	(23)	(26)
Net deferred tax assets	6	28
Tax provision	(20)	(5)
Other taxes	-	2
Total tax through profit or loss	(47)	(96)
Theoretical tax	(24.0%)	(24.0%)
Permanent differences	0.3%	1.2%
Timing differences	6.9%	(0.2%)
Dividends	23.6%	4.5%
Impairment of equity investments	(10.0%)	(1.0%)
IRAP tax	(6.9%)	(5.3%)
Net deferred tax assets	1.8%	5.8%
Tax provision	(6.0%)	(1.0%)
Other taxes	n.a.	0.4%
Total tax	(14.2%)	(19.8%)

The effective tax rate went from 14.2% in 2018 to 19.8% in 2019.

It should be noted that a portion of deferred tax assets relates to tax losses measured on the basis of taxable income forecast in the Company's plans, with reference to which a remaining amount of about €mil. 43 is reported for the Company in relation to losses that have not been measured.

Deferred taxes and related receivables and payables at 31 December 2019 were the result of the following differences:

	<u>2018</u>			<u>2019</u>		
Deferred tax assets on tax losses			(18)			44
Property, plant and equipment and intangible assets			11			(9)
Provision for risks and impairment			48			(32)
Other			(13)			(30)
Deferred taxes recognised through profit or loss			28			(27)

	<u>31 December 2018</u>			<u>31 December 2019</u>		
	<u>Financial statement</u>			<u>Financial statement</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Deferred tax assets on tax losses	30	-	30	74		74
Property, plant and equipment and intangible assets	29	(62)	(33)	19	(61)	(42)
Severance and retirement benefits	4	(4)	-			-
Provision for risks and impairment	537	-	537	505		505
Other	135	(22)	113	98	(16)	82
Deferred taxes recognised through balance sheet	735	(88)	647	696	(77)	619
Cash-flow hedge derivatives	29	(2)	27	25	(1)	24
On actuarial gains and losses	6	-	6	11	(4)	7
Deferred taxes recognised through equity	35	(2)	33	36	(5)	31
	770	(90)	680	732	(82)	650

33. CASH FLOW FROM OPERATING ACTIVITIES

	<u>2018</u>		<u>2019</u>	
Net result		284		390
Amortisation, depreciation and financial assets value adjustments		369		481
Income taxes		47		96
Net allocations to the provisions for risks and inventory write-downs		380		58
Net financial expense /(income)		(115)		53
Other non-monetary items		22		35
		987		1,113

The changes in working capital are as follows:

	<u>2018</u>		<u>2019</u>	
Inventories		(774)		(180)
Contract assets and liabilities		867		(520)
Trade receivables and payables		(158)		106
		(65)		(594)

The changes in other operating assets and liabilities are as follows:

	2018	2019
Payment of pension plans	(28)	(22)
Changes in provisions for risks and other operating items	(298)	(353)
	(326)	(375)

34. FINANCIAL TRANSACTIONS WITH RELATED PARTIES

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 31 December 2018

	Non-current receivables	Current loans	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 SpA			22			22
So.Ge.Pa.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 with unit amount lower than €mil. 10						-
Total	329	193	828	42	15	1,407
% against total for the period	82.3%	87.3%	34.4%	11.2%	4.0%	

RECEIVABLES 31 December 2019

	Non-current receivables	Current loans	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
<u>Subsidiaries</u>						
Agustawestland Philadelphia Co			138		1	139
W.S.K. PZL-Swidnik S.A.			12			12
Sistemi Dinamici SpA		28	3			31
Selex ES International Ltd						0
Leonardo MW Ltd	71		228			299
Leonardo Global Solutions SpA	51		5	5	12	73
Leonardo International SpA		20	1			21
Leonardo Australia PTY Ltd			18			18
Leonardo Malaysia SDN BHD			16			16
So.Ge.Pa.SpA	142					142
Leonardo US Holding Inc	138	1				139
Vitrociset SpA		54	7			61
Other with unit amount lower than €mil. 10		1	46		4	51
<u>Associates</u>						
NHIndustries SAS			113			113
Eurofighter Jagdflugzeug Gmbh			103			103
Agustawestland Aviation Services LLC			17			17
Macchi Hurel Dubois SAS			15			15
Other with unit amount lower than €mil. 10	1		27			28
<u>Joint Venture</u>						
CONS. ATR GIE			44			44
MBDA SAS			10			10
Thales Alenia Space SAS		156	18		1	175
Joint Stock Company Helivert			39			39
Telespazio SpA	7	1	7	3		18
Other with unit amount lower than €mil. 10			1			1
<u>Consortiums</u>						
Other with unit amount lower than €mil. 10		1	5			6
<u>Companies subject to the control or considerable influence of the MEF</u>						
Fintecna SpA			63			63
Other with unit amount lower than €mil. 10		1	18			19
<u>Altre parti correlate</u>						
Other						
Total	410	263	954	8	18	1,653
% against total for the period	85.2%	91.0%	35.4%	2.3%	5.2%	

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PAYABLES at 31 December 2018

	Current and non-current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
<u>Subsidiaries</u>						
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		3	49
Ansaldobreda SpA			24	87	111	515
BredaMenarinibus SpA			1		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.SpA			6	5	11	1
Other with unit amount lower than €mil. 10	17	45		2	64	
<u>Associates</u>						
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	
<u>Joint Venture</u>						
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	
<u>Consortiums</u>						
Other		2			2	
<u>Companies subject to the control or considerable influence of the MEF</u>						
		13		5	18	587
Total	1,425	629	39	231	2,324	4,380
% against total for the period	74.6%	24.7%	2.9%	17.4%		28.4%

PAYABLES at 31 December 2019

	Current and non-current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
<u>Subsidiaries</u>						
Agustawestland Philadelphia Co		111			111	415
Agustawestland SpA		17		9	26	
Leonardo MW Ltd	840	143			983	1,670
Alenia Aermacchi SpA			1		1	
AnsaldoBreda SpA	87		22	1	110	271
BredaMenarinibus SpA			13		13	
Larimart SpA	10	6			16	1
Gruppo DRS						
Fata Logistic Systems SpA	16	35			51	
Leonardo Global Solutions SpA	670	24			694	6
Leonardo US Aircraft, Inc		15			15	
Selex Service Management SpA (in liq.)			2		2	
W.S.K. PZL-Swidnik S.A.		38			38	122
Selex ES International Ltd						22
Selex ES Inc.		2			2	
Selex ES Saudi Arabia Ltd						13
Leonardo US Holding Inc						440
Leonardo Belgium SA		3			3	
Leonardo Australia PTY Ltd		4			4	
Leonardo Malaysia SDN BHD		7			7	
Leonardo DRS Inc		11			11	224
Sistemi Dinamici SpA		1	1		2	
Selex ES International Ltd	51				51	
Leonardo International SpA	2		1		3	192
So.Ge.Pa.SpA	20		17	2	39	190
Vitrociset SpA		6			6	26
Other with unit amount lower than €mil. 10		17		1	18	
<u>Associates</u>						
Eurofighter Jagdflugzeug GmbH	16	45			61	
Elettronica SpA		11			11	
Gulf System Logistic Services Company WLL		133			133	
Iveco Oto Melara Scarl		2		6	8	
NH Industries SAS		5			5	
Industria Italiana Autobus SpA						19
Agusta Westland Aviation Services LLC		3			3	
Orizzonte Sistemi Navali SpA		2			2	
Leonardo Helicopters Algeria SpA	16				16	
Other with unit amount lower than €mil. 10		4			4	
<u>Joint Venture</u>						
CONS. ATR GIE		38		48	86	
MBDA SAS	651	50			701	47
Telespazio SpA	36	2		2	40	182
Thales Alenia Space SAS		2			2	
Rotorsim Srl		21			21	
Joint Stock Company Helivert		1			1	
<u>Consortiums</u>						
Cons. G.e.i.e. Eurotorp		2			2	
Other with unit amount lower than €mil. 10						
<u>Companies subject to the control or considerable influence of the MEF</u>						
Ansaldo Energia						592
Enel SpA		14			14	
Fintecna SpA		1			1	
Other with unit amount lower than €mil. 10		1		5	6	
<u>Other related parties</u>						
Altre						
Total	2,415	777	57	74	3,323	4,432

<u>% against total for the period</u>	40.4%	25.4%	5.0%	6.5%	29.6%
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As regards the most important transactions we note that:

- The increase in loans and borrowings from related parties was affected by the adoption of the new IFRS 16 (€mil. 573 at 31 December 2019), governing the treatment of leases. Furthermore, this item includes the payable of €mil. 651 (€mil. 612 at 31 December 2018) to the MBDA Joint Ventures and other current loans and borrowings arising from 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. 263 (€mil. 193 at 31 December 2018) arise from financing activities conducted by Leonardo in favour of the Group companies, as a result of the abovementioned centralisation of Treasury resources;
- Other receivables and payables (equal to €mil. 26 and €mil. 131, respectively) including amounts deriving from the Group tax consolidation mechanism, 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.
- Trade receivables equal to €mil. 954 (€mil. 828 at 31 December 2018), include receivables related to services rendered in the interests and in favour of the Group's companies.

The changes during the year and the composition of assets and liabilities by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5, 6, 8, 9 and 10 to these Notes.

Below are all income statement transactions with the Leonardo's related parties for the years 2019 and 2018:

Annual financial report at 31 December 2019 – Separate financial statements

Income statement transactions at 31 December 2018

	Revenue	Other operating revenues and expenses	Purchase and Service expenses	Financial income	Financial expenses
<u>Subsidiaries</u>					
Agustawestland SpA			21		
Agustawestland Philadelphia Co	110		117		
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
<u>Associates</u>					
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
<u>Joint Venture</u>					
CONS. ATR GIE	320		44		
MBDA SAS	44		42		
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
<u>Consortiums</u>					
Other with unit amount lower than €mil. 10	10		4		
<u>Companies subject to the control or considerable influence of the MEF</u>					
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	
<u>Other related parties</u>					
Other					
Total	2,211	13	1,374	27	9
% against total for the period	27.4%	n.a.	18.2%	5.3%	2.3%

Annual financial report at 31 December 2019 – Separate financial statements

Income statement transactions at 31 December 2019

	Revenue	Other operating revenues and expenses	Purchase and Service expenses	Financial income	Financial expenses
<u>Subsidiaries</u>					
Agustawestland Philadelphia Co	188	3	138	1	
Fata Logistic Systems SpA			83		
Leonardo Global Solutions SpA	1		100		16
Leonardo MW Ltd	262	2	202	7	4
Larimart SpA			11		
Leonardo Belgium SA	21		7		
Leonardo Australia PTY Ltd	10		3		
Leonardo Malaysia SDN BHD	38		18		
Leonardo DRS Inc			5		
W.S.K. PZL-Swidnik S.A.	31		171		
Other with unit amount lower than €mil. 10	27	(1)	47	11	1
<u>Associates</u>					
Eurofighter Jagdflugzeug GmbH	493		162		
Elettronica SpA	1		17		
Gulf System Logistic Services Company WLL			273		
NH Industries SAS	348		(4)		
Orizzonte Sistemi Navali S.p.A.	154		1		
Iveco-Oto Melara Scarl	77		2		
Macchi Hurel Dubois SAS	56				
Agustawestland Aviation Services LLC	15		4		
Advanced Air Traffic Syst. SHD BHD	17		2		
Other with unit amount lower than €mil. 10	13		3		
<u>Joint Venture</u>					
CONS. ATR GIE	276		43		
MBDA SAS	34		60		3
Thales Alenia Space SAS	81		3	1	
Rotorsim Srl	1	3	20		
Joint Stock Company Helivert	10	1	1		
Other with unit amount lower than €mil. 10	3		1		
<u>Consortiums</u>					
Cons. G.e.i.e. Eurotorp	14				
Other with unit amount lower than €mil. 10	2				
<u>Companies subject to the control or considerable influence of the MEF</u>					
Enel SpA	7		69		
Fintecna SpA	118		(2)		
Enav SpA	23				
Poste Italiane SpA	26				
Other with unit amount lower than €mil. 10	5			3	
<u>Other related parties</u>					
Other	16				
Total	2,368	8	1,440	23	24
% against total for the period	26.3%	n.a.	17.9%	6.9%	51.1%

“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.

35. 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 risks*, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from normal commercial transactions or financing activities.

The Company 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. 5,972 at 31 December 2019 the fixed-rate percentage amounted to around 63%, while the floating-rate percentage is around 37%.

At 31 December 2019 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 2019 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2018	Changes			Fair value 31.12.2018
	2017	2018			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	200		Bond 2018	1	-	(1)	-	-
Options	200	200	Bond 2025	(3)	-	-	-	(3)
IRS fixed/floating	-	300	BEI 2025		-		(3)	(3)
Total notional	400	500		(2)	-	(1)	(3)	(6)

	Notional		Underlying (maturity)	Fair value 01.01.2019	Changes			Fair value 31.12.2019
	2018	2019			Income	Expense	CFH Reserve	
Options	200	200	Bond 2025	(3)	1	-	-	(2)
IRS variabile/fisso	300	300	BEI 2025	(3)	-	-	(14)	(17)
Total notional	500	500		(6)	1	-	(14)	(19)

The table below shows the effects of the sensitivity analysis for 2019 and 2018 on IRS at 31 December 2019 deriving from the 50-basis-point shift in the interest rate curve:

Effect of shift of interest rate curve	31 December 2018		31 December 2019	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	-	-	(5)	5
Equity (*)	10	(9)	4	(4)

(*): 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 the 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. 6,573 (notional amount), as detailed in the following table:

	Notional 2018			Notional 2019		
	Sales	Purchases	Total	Sales	Purchases	Total
Swap and forward transactions	2,373	2,803	5,176	3,601	2,972	6,573

As a result of the financial centralisation, the cash flows of the Group's foreign companies were recharged to Leonardo through intercompany transactions mainly denominated in GBP and USD. This risks 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 2019			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
<i>Cash-flow and fair-value hedges</i>								
Within 1 year	606	158	783	1,067	2,258	145	1,159	1,278
2 to 3 years	418	-	139	311	814	8	302	209
4 to 9 years	377	-	23	98	-	-	-	-
Total	1,401	158	945	1,476	3,072	153	1,461	1,487
<i>Hedging transactions which cannot be classified as hedging transactions</i>								
	224	3	224	3	23	38	23	38
Total transactions	1,625	161	1,169	1,479	3,095	191	1,484	1,525

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/pound sterling exchange rate and in the euro/US dollar exchange rate compared with the reference rates at 31 December 2019 (0.8508 and 1.1234, respectively) and at 31 December 2018 (0.89453 and 1.1450, respectively).

	31 December 2018				31 December 2019			
	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	(7)	8	-	1
Equity (*)	(29)	32	49	(49)	(26)	27	74	(70)

(*): 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 in relation to 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, for a total amount of €bil. 4. This programme was renewed in May for an additional period of 12 months, leaving the available maximum amount unchanged.

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.

Furthermore, an additional agreement was signed in 2019 for a loan of €mil. 300 granted by the European Investment Bank (EIB), which had been executed in November 2018 in order to support the investment projects envisaged in the Group's Business Plan.

Finally, it should be noted that on 29 January 2020, after the end of the year, Leonardo signed a loan agreement with Cassa Depositi e Prestiti (CDP) amounting up to €mil. 100 to support investments in R&D and innovation, which was used in February 2020. The loan is aimed at financing some investment projects envisaged in the Industrial Plan.

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 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 (e.g. 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. These cases inherently extend 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 2019, we note the following relations with countries exposed to credit risk according to the international institutions (SACE):

<i>€mil.</i>	<u>Libya</u>	<u>Zambia</u>	<u>Pakistan</u>	<u>Other</u>	<u>Total</u>
Assets	1	3	51	21	76
Liabilities	(20)	(14)	(16)	(9)	(59)
Net exposure	(19)	(11)	35	12	17

Finally the receivables related to these agreements might not be paid, renegotiated or written off.

The table below summarises trade receivables at 31 December 2019 and 2018 (values in €bil.):

	<u>31 December 2018</u>	<u>31 December 2019</u>
Portion due	1.0	1.3
- of which: for more than 12 months	0.4	0.5
Portion not yet due	1.4	1.4
Total trade receivables	2.4	2.7

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.

	<u>31 December 2018</u>			<u>31 December 2019</u>		
	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Other assets	185	-	185	157	-	157
Other current liabilities	90	-	90	78	-	78

36. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of Leonardo S.p.a. amounted to €mil. 9 (€mil. 11 at 31 December 2018). 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. 2 in 2018). This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

37. SHARE-BASED PAYMENTS

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 2019 to €mil. 8 (€mil. 9 in 2018).

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) and to € 11.04 (the value of Leonardo shares at the grant date of 31 July 2019) with reference to the second three-year cycle (2019-2021).

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, for the second plan it was equal to € 3.51 with reference to the first three-year cycle (2018-2020) and to € 6.72 with reference to the second three-year cycle (2019-2021).

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 2019, 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 (162,733 shares delivered).

Proposal of Shareholder's meeting

Dear Shareholders,

The 2019 financial statements, which we submit for your approval, close with a net profit of € 389,777,585.94.

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 2019;
- 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 2019;
- to approve the proposal posed by the Board of Directors of allocating the 2019 net profit of Euro 389,777,585.94 as follows:
 - Euro 19,488,879.30 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 24 June 2020, with the ex-dividend date of coupon no. 11 falling on 22 June 2020 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 23 June 2020; 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.”

Attachment: Disclosure ex-lege 124/2017

In accordance with the provisions of Article 1, paragraphs 125-126, of Law 124 of 4 August 2017, information on grants received from public administrations or similar entities and granted by Leonardo S.p.a. is provided below.

Grants received

Worth noting are the provisions of Law no. 124/2017 imposing disclosure obligations on those entities carrying out the activity referred to in article 2195 of the Italian Civil Code in relation to sums which are not of a general nature and do not consist of fees, remuneration or compensation received from public administrations or similar entities.

Excluded from such scope are any grant consisting of a consideration for Leonardo S.p.a.'s services and any grant deriving from bilateral financial relationships, which are peculiar to the Group's business, as well as any general measure that falls within the broader general structure of the reference system defined by the State (among others, Law 237/1993, Law 297/1999, Development Contracts and Regional Operational Programme, Law 808/1985, Regional Laws and National Operational Programmes), the effects of which are described in the notes to the Consolidated Financial Statements, based on the accounting standards adopted in the preparation of said accounts that can be used by all sector businesses, as well as grants received for continuing professional development from interprofessional funds.

Leonardo S.p.a. has not received grants falling within the framework of those referred to in article 1, para. 125, of Law 124/2017.

It should also be noted that the transparency of State aid and De Minimis aid for which there is a publication obligation is protected by their publication in the National Register of State Aids referred to in Article no. 52 of Law 234 of 24 December 2012, as provided for in article 125 *quinquies* of Law 124/2017.

Grants made

As a publicly traded company, Leonardo S.p.a. is not subject to the obligations under article 1, para. 126 pursuant to art. 2-*bis*, para. 2, letter *b*) of Legislative Decree 33/2013.

There are no grants disbursed by Leonardo S.p.A. in the form of donations or disbursements that do not consist of a consideration for services received, not even in the form of a return in terms of image.

Appendice

Annual financial report at 31 December 2019 – Separate financial statements

	31 December 2018								31 December 2019				
	Cost	Impairment	Carrying amount	Transfers/ acquisition of business unit	Acquis./ Subscriptions/ payments of capital	Disposal	Reclass.	Financial Revalut./ Impairment	Capital replenishment	Other changes	Cost	Impairment	Carrying amount
				(a)									
% Equity investments in subsidiaries													
100 AGUSTAWESTLAND HOLDING LTD	58	(55)	3								58	(55)	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	281						(1)	850	-	850
100 LEONARDO INTERNATIONAL SpA	142	-	142		2						144	-	144
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	109	(55)	54								109	(55)	54
100 SO.GE.PA. SpA	50	(16)	34					(21)			50	(37)	13
67 TELESPAZIO SpA (*)	171	-	171								171	-	171
100 VITROCISSET S.P.A.	-	-	-		27					1	28	-	28
67 UTM SYSTEMS & SERVICES SRL	-	-	-		4						4	-	4
99 W.S.K. PZL-SWIDNIK S.A.	142	-	142		1						143	-	143
Other with unit amount lower than €mil 1	-	-	-								-	-	-
	8,020	(1,908)	6,112	281	34	-	-	(21)	-	-	8,335	(1,929)	6,406
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 ATR GIE	232	-	232								232	-	232
31 ELETTRONICA SpA	54	(47)	7								54	(47)	7
21 EUROFIGHTER JAGDFLUGZEUG GmbH	9	-	9								9	-	9
EUROFIGHTER SIMULATION SYSTEMS GmbH	2	-	2								2	-	2
11 EUROTECH SPA	18	(12)	6			(6)					-	-	-
30 INDUSTRIA ITALIANA AUTOBUS SpA	2	(2)	-		5			(2)			7	(4)	3
JIANGXI CHANGHE AGUSTA HELICOPTERS CO	2	-	2								2	-	2
39 LEONARDO HELICOPTERES ALGERIE					21						21	-	21
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
Other with unit amount lower than €mil 1	1	-	1							1	2	-	2
	1,892	(631)	1,261	-	26	(6)	-	(2)	-	1	1,901	(621)	1,280
Other companies													
99 CONS. CREO	1	(1)	0								1	(1)	0
3 ISTITUTO TRECCAN I SPA	2	-	2								2	-	2
15 PANAVIA AIRCRAFT GMBH	3	-	3								3	-	3
8 SKYDWELLER AERO INC.	-	-	-		3						3	-	3
1 Ciset Holding SRL	-	-	-							1	1	-	1
100 VITROCISSET S.p.A.	2	(1)	1							(1)	-	-	-
Other with unit amount lower than €mil 1	2	-	2								2	-	2
	10	(2)	8	-	3	-	-	-	-	-	12	(1)	11
TOTAL EQUITY INVESTMENTS	9,922	(2,541)	7,381	281	63	(6)	-	(23)	-	1	10,248	(2,551)	7,697

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	Subsidiaries	Associates	Other companies
(a) of which			
Cost	281		
Impairment losses			
	281	-	-
(b) of which			
Cost		18	
Impairment losses		(12)	
	-	6	-
(c) of which			
Cost			
Impairment losses			
	-	-	-
(d) of which			
Cost		1	
Impairment losses			
	-	1	-

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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)	31/12/2019	500,000	GBP	4	4	-	3	100	4	3
AGUSTAWESTLAND PHILADELPHIA CORP	Philadelphia (USA)	31/12/2019	121,200,000	USD	188	838	650	(7)	100	188	217
ANSALDOBREDA SpA	Napoli (Italia)	31/12/2019	10,000,000		131	244	113	87	100	131	17
LARIMART SpA	Roma (Italia)	31/12/2019	2,500,000		40	17	24	3	60	14	14
LEONARDO GLOBAL SOLUTIONS SpA	Roma (Italia)	31/12/2019	51,000,000		883	1,116	233	9	100	883	850
LEONARDO INTERNATIONAL SpA	Roma (Italia)	31/12/2019	1,000,000		144	173	29	-	100	144	144
LEONARDO MW Ltd	Basildon (UK)	31/12/2019	314,500,100	GBP	2,145	6,394	4,249	247	100	2,145	2,804
LEONARDO US HOLDING Inc	Wilmington (USA)	31/12/2019	10	USD	2,199	2,798	599	2	100	2,199	1,944
SELEX ES INTERNATIONAL Ltd	Basildon (UK)	31/12/2019	100	GBP	59	2	57	-	100	57	54
SISTEMI DINAMICI SpA	Pisa (Italia)	31/12/2019	200,000		(2)	38	40	(2)	100	(2)	-
SO.GE.PA.- Società Generale di Partecipazioni SpA	Roma (Italia)	31/12/2019	1,000,000		13	211	197	(26)	100	13	13
TELESPAZIO SpA	Roma (Italia)	31/12/2019	50,000,000		228	533	305	23	67	153	171
UTM SYSTEMS & SERVICES Srl	Roma (Italia)	31/12/2019	6,620		7	-	7	-	67	5	4
VITROCISET SpA	Roma (Italia)	31/12/2019	24,500,000		1	184	183	(42)	100	1	28
W.S.K. PZL-SWIDNIK SA	Swidnik (Polonia)	31/12/2019	307,642,000	PLN	168	283	115	28	99	167	143
WIN BLUE WATER SERVICES PVT LTD (in Liq.)	Nuova Delhi (IN)	31/12/2019	8,534,800	INR	-	9	9	(5)	100	-	-
WORLD'S WING SA	Ginevra (SVIZZERA)	31/12/2019	811,876	CHF	(135)	-	(135)	-	100	(135)	-
											6,406
Equity investments in associates											
A4ESSOR SAS	Cedex (Francia)	31/12/2018	100,000		24	24	-	-	23	-	-
ADVANCED MALE AIRCRAFT LLC	Al Ain (Emirati Arabi)	n.d.	200,000	AED	n.d.	n.d.	n.d.	n.d.	49	nd	-
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi City (Emirati Arabi)	31/12/2019	58,010,000	AED	19	32	13	2	30	6	4
AMSH BV	Amsterdam (Olanda)	31/12/2018	36,296,316		948	983	35	121	50	474	481
AVIO SpA	Roma (Italia)	30/06/2019	90,964,212		287	799	512	7	26	74	71
CONSORZIO GIE ATR	Tolosa (Francia)	31/12/2018	n.d.	USD	182	1,138	956	183	50	91	232
ELETTRONICA SpA	Roma (Italia)	31/12/2019	9,000,000		102	649	547	18	31	32	7
EUROFIGHTER AIRCRAFT MAN.GMBH	Hallbergmoos (Germania)	31/12/2017	127,823		161	161	-	-	21	34	-
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germania)	31/12/2018	639,114		35	999	964	11	21	7	9
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germania)	31/12/2018	260,000		21	17	3	-	24	1	2
EUROMIDS SAS	Parigi (Francia)	31/12/2018	40,500		32	29	3	-	25	1	1
EUROSYSNAV SAS (in Liq.)	Parigi (Francia)	30/11/2019	40,000		3	3	-	-	50	2	-
HELIVERT CLOSED JOINT STOCK COMPANY	Mosca (Russia)	31/12/2019	325,010,000	RUB	(14)	45	59	(2)	50	(7)	-
IND. A. E M. R. PIAGGIO SpA (in Amm.strd)	Genova (Italia)	31/12/2013	103,567		n.d.	n.d.	n.d.	n.d.	31	n.d.	-
INDUSTRIA ITALIANA AUTOBUS SpA	Roma (Italia)	31/12/2018	21,050,000		(10)	101	111	(21)	29	(3)	3
IVECO OTO MELARA SCRL	Roma (Italia)	31/12/2018	40,000		-	141	141	-	50	-	-
JIANGXI CHANGHE AGUSTA HELICOPTERS CO	Jingdezhen (Cina)	31/12/2019	48,403,000	CNY	5	7	2	-	40	2	2
LEONARDO HELICOPTERES ALGERIE SpA	Ain Arnat (Algeria)	31/12/2019	7,420,170,000	DZD	55	-	(55)	-	39	21	21
LIBYAN ITALIAN ADVANCED TECH. Co.	Tripoli (Libia)	31/12/2011	8,000,000		5	28	24	(4)	25	1	-
MACCHI HUREL DUBOIS SAS	Plaisir (FRA)	31/12/2019	100,000		1	31	31	-	50	-	-
NH INDUSTRIES SAS	Aix en Provence (Francia)	31/12/2019	306,000		7	8,727	8,720	-	32	2	1
ORIZZONTE SISTEMI NAVALI SpA	Genova (Italia)	31/12/2018	20,000,000		2,167	2,131	35	-	49	17	16
ROTORSIM Srl	Sesto Calende (Italia)	31/12/2019	9,800,000		78	98	20	7	50	39	28
THALES ALENIA SPACE SAS	Parigi (Francia)	31/12/2017	918,037,500		1,111	1,608	496	94	33	367	401
											1,280

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Consortiums											
CDAC CENTRAL DESIGN AUTHORITY CONSORTIUM	Hallbergmoos (Germania)	n.d.	n.d.	-	-	-	-	33	-	-	-
CIRA CENTRO ITALIANO RICERCHE AEROSPAZIALI S.C.P.A.	Capua (Italia)	31/12/2018	985,224	106	137	31	(3)	12	13	1	-
CONAI CONSORZIO NAZIONALE IMBALLAGGI	Roma (Italia)	31/12/2017	14,786,382	59	35	24	2	-	-	-	-
CONS RE.MEDIA	Milano (Italia)	31/12/2017	1,554,976	18	14	5	2	-	-	-	-
CONS. CREO	L'Aquila (Italia)	31/12/2019	774,685	-	2	2	-	99	-	-	-
CONSORZIO CALS ITALIA	Roma (Italia)	31/12/2019	67,139	-	-	-	-	17	-	-	-
CONSORZIO DHITECH SCARL	Lecce (Italia)	31/12/2017	231,800	1	8	7	-	3	-	-	-
CONSORZIO E-SPAT	Roma (Italia)	31/12/2019	10,000	3	3	-	-	92	-	-	-
CONSORZIO IMAST SCARL	Napoli (Italia)	31/12/2018	689,000	1	9	7	-	6	-	-	-
CONSORZIO IMPRENDITORI GIUGLIANO ASI	Giuliano (Italia)	31/12/2017	50,000	1	1	-	-	16	-	-	-
CONSORZIO ISICT	Genova (Italia)	31/12/2018	42,614	-	-	-	-	14	-	-	-
CONSORZIO KIDS	Roma (Italia)	31/12/2019	100,000	-	-	-	-	100	-	-	-
CONSORZIO PER IL CONTRATTO DI PROGRAMMA PER L' AREA AQUILANA	L'Aquila (Italia)	31/12/2014	n.d.	-	-	-	-	7	-	-	-
CONSORZIO PER L'ENERGIA VARESE	Varese (Italia)	31/12/2018	82,025	-	-	-	-	1	-	-	-
CONSORZIO S3LOG	Roma (Italia)	31/12/2018	600,000	7	6	1	-	60	1	1	-
CONSORZIO SISTEMA SOLDATO SICURO -SISS	Roma (Italia)	31/12/2019	40,000	-	-	-	-	65	-	-	-
CONSORZIO TESSERA	Venezia (Italia)	31/12/2018	40,000	-	-	-	-	90	-	-	-
CONSORZIO TICOM	Campi Bisenzio (Italia)	31/12/2019	10,000	-	-	-	-	100	-	-	-
CONSORZIO TOP IN SCARL	Napoli (Italia)	31/12/2018	86,963	-	-	-	-	11	-	-	-
EUROTORP G.E.I.E	Sophia Antipolis (FR)	31/12/2016	n.d.	-	-	-	1	50	-	-	-
IAMCO-INT. AEROSPACE MANAG. COMPANY SCRL	Venezia (Italia)	31/12/2018	208,000	1	8	7	-	25	-	-	-
LEONARDO TECHNICAL TRAINING EX CONSAER	Napoli (Italia)	31/12/2018	211,123	-	2	2	-	69	-	-	-
TECNESUD CONSORZIO TECNOLOGICO DEL SUD (in Liq.)	Lamezia Terme (Italia)	31/12/2018	70,400	-	-	-	-	50	-	-	-
											<u>2</u>
Other companies											
CETENA SpA	Genova (Italia)	31/12/2017	1,000,000	16	13	4	1	3	-	-	-
CISSET HOLDING S.P.A.	Roma (Italia)	31/12/2017	1,000,000	58	-	57	-	1	1	1	-
CONSORZIO TECHNOVA SCARL	Napoli (Italia)	31/12/2018	332,000	-	4	4	-	14	-	-	-
DISTRETTO AEROSPAZIALE DELLA CAMPANIA SCARL	Capua (Italia)	31/12/2018	737,500	1	13	12	-	4	-	-	-
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCRL	La Spezia (Italia)	31/12/2018	1,140,000	1	15	14	-	10	-	-	-
DISTRETTO TECNOLOGICO AEROSPAZIALE SCARL	Brindisi (Italia)	31/12/2018	150,000	2	6	4	-	24	-	-	-
E.O.S. S.C.R.L.	Bruxelles (Belgio)	31/12/2017	86,000	1	1	-	-	2	-	-	-
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH (in Liq.)	Ottobrunn (Germania)	12/11/2017	264,000	-	3	3	-	19	-	-	-
ISTITUTO DELLA ENCICL. ITALIANA TRECCANI SpA	Roma (Italia)	31/12/2018	62,724,105	67	150	82	-	3	2	2	-
PANAVIA AIRCRAFT GMBH	Hallbergmoos (Germania)	31/12/2018	6,437,165	50	162	112	7	15	8	3	-
SECBAT SARL	Saint - Cloud (Francia)	31/12/2018	32,000	1	25	24	-	14	-	-	-
SISTEMI INTELLIGENTI INTEGRATI TECNOLOGIE LIGURIA SCPA	Genova (Italia)	31/12/2018	600,000	1	3	3	-	7	-	-	-
SKYDWELLER AERO INC	Delaware (USA)	n.d.	n.d.	USD	-	-	-	8	-	-	3
											<u>9</u>
											<u>7,697</u>

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Appendix no.3 (€ mil.)- NON-CURRENT RECEIVABLES

	31 December 2018			31 December 2019					
	Residual nominal amount	Impairment	Carrying amount	Disbursement	Reclassifications	Reimbursements	Residual nominal amount	Impairment	Carrying amount
Receivables	71		71	26	54	80	71		71
- Receivables from subsidiaries	329		329	145	(43)	21	410		410
Total receivables	400	-	400	171	11	101	481	-	481

Appendix no. 4 (€ mil.) - ASSETS BROKEN DOWN BY MATURITY

	31 December 2018			31 December 2019		
	Amounts due			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	44	27	71
Other non current receivables from related parties	24	23	47	-	-	-
Loans and receivables	25	-	25	-	-	-
Non-current loans and receivables from related parties	282	-	282	410	-	410
Other non current assets	142	79	221	100	54	154
Total receivables and non-current assets	510	111	621	554	81	635

Appendix no.5 (€ mil.) - FOREIGN CURRENCY ASSETS

	31 December 2018			31 December 2019		
	In foreign currency	In Euro	Total	In foreign currency	In Euro	Total
Receivables	-	46	46	-	71	71
Other non current receivables from related parties	-	47	47	-	-	-
Loans and receivables	-	25	25	-	-	-
Non-current loans and receivables from related parties	117	165	282	208	202	410
Other non current assets	-	221	221	-	154	154
Total receivables and other non-current assets	117	504	621	208	427	635
Deferred tax assets	-	769	769	-	732	732
Total non-current assets	117	1,273	1,390	208	1,159	1,367
Loans and receivables	-	28	28	-	26	26
Loans and receivables from related parties	12	181	193	5	258	263
	12	209	221	5	284	289
Trade receivables	481	1,096	1,577	546	1,198	1,744
Trade receivables from related parties	283	545	828	268	686	954
	764	1,643	2,405	814	1,884	2,698
Other assets	22	296	318	3	315	318
Other receivables from related parties	1	56	57	-	26	26
	23	352	375	3	341	344
Income tax receivables	-	42	42	-	62	62
Cash and cash equivalents	132	1,489	1,621	221	1,186	1,407
Total current assets	931	3,733	4,664	1,043	3,757	4,800

Appendix no.6 (€ mil.) - ASSETS BY GEOGRAPHICAL AREA

	31 December 2018					31 December 2019				
	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	71	-	-	-	71
Other non current receivables from related parties	47	-	-	-	47	-	-	-	-	-
Loans and receivables	25	-	-	-	25	-	-	-	-	-
Non-current loans and receivables from relates parties	165	117	-	-	282	202	70	138	-	410
Other non current assets	221	-	-	-	221	154	-	-	-	154
Total receivables and other non-current assets	504	117	-	-	621	427	70	138	-	635
Deferred tax assets	769	-	-	-	769	732	-	-	-	732
Total non-current assets	1,273	117	-	-	1,390	1,159	70	138	-	1,367
Loans and receivables	25	-	-	3	28	26	-	-	-	26
Loans and receivables form related parties	40	145	2	6	193	106	155	2	-	263
	65	145	2	9	221	132	155	2	-	289
Trade receivables	296	426	213	643	1,577	383	284	193	884	1,744
Trade receivables from related parties	125	553	100	50	828	141	589	151	73	954
	421	979	312	693	2,405	524	873	344	957	2,698
Other assets	269	24	-	25	318	276	29	7	6	318
Other receivables from related parties	56	-	1	-	57	25	-	1	-	26
	325	24	1	25	375	301	29	8	6	344
Income tax receivables	42	-	-	-	42	52	-	2	8	62
Cash and cash equivalents	1,576	1	-	44	1,621	1,284	20	86	17	1,407
Total current assets	2,428	1,149	315	771	4,663	2,293	1,077	442	988	4,800

Appendix no.7 (€ mil.) - AVAILABLE AND DISTRIBUTABLE RESERVES

Nature/description	Amount	Possible use	Distributable portion
Share capital (*)	2,496		
Revenue reserves			
Legal reserve	299	B	
Extraordinary reserve	392	A,B,C	392
Reserve for actuarial gains (losses) in equity	(60)	B	
Cash flow hedge reserve	(76)	B	
Stock grant Reserve	25	B	
Reserve for merger and demerger surplus	723	A,B,C	723
Retained earnings and other reserve	1,831	A,B,C	1,686
Total	5,630		2,801
Net profit/(loss) for the period	390	A,B,C	370
Constraint ex art. 2426 paragraph 1 no. 5 Civil Code			(2,076)
Total equity	6,020		1,095

(*) less treasury shares for €mil. 29 and cost 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 December 2018			31 December 2019		
	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	400	191	591
Loans and borrowings (non current)	1,963	1,093	3,056	2,589	761	3,350
Non-current loans and borrowings to related parties	-	-	-	217	259	476
Total non-current liabilities	2,438	1,325	3,763	3,206	1,211	4,417

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Appendix no.9 (€ mil.) - FOREIGN CURRENCY LIABILITIES

	31 December 2018			31 December 2019		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Loans and borrowings (non current)	-	3,056	3,056	1	3,349	3,350
Non-current loans and borrowings to related parties	-	-	-	-	476	476
	-	3,056	3,056	1	3,825	3,826
Deferred tax assets	-	91	91	-	82	82
Other non-current liabilities	-	707	707	63	528	591
Total non-current liabilities	-	3,854	3,854	64	4,435	4,499
Loans and Borrowings	311	173	484	55	152	207
Related-parties loans and borrowings	695	730	1,425	888	1,051	1,939
	1,006	903	1,909	943	1,203	2,146
Trade payables	328	1,585	1,913	567	1,713	2,280
Trade payables to related parties	357	272	629	341	436	777
	685	1,857	2,542	908	2,149	3,057
Other liabilities	38	1,007	1,045	152	858	1,010
Other payables to related parties	86	184	270	48	83	131
	124	1,191	1,315	200	941	1,141
Income tax payables	-	12	12	-	20	20
Total current liabilities	1,815	3,963	5,778	2,051	4,313	6,364

Appendix no. 10 (€ mil.) - LIABILITIES BY GEOGRAPHICAL AREA

	31 December 2018					31 December 2019				
	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	2,957	392	-	1	3,350
Non-current loans and borrowings to related parties	-	-	-	-	-	476	-	-	-	476
	2,917	139	-	-	3,056	3,433	392	-	1	3,826
Deferred tax assets	91	-	-	-	91	82	-	-	-	82
Other non-current liabilities	700	7	-	-	707	591	-	-	-	591
Total non-current liabilities	3,708	146	-	-	3,854	4,106	392	-	1	4,499
Loans and Borrowings	436	48	-	-	484	158	48	-	1	207
Related-parties loans and borrowings	150	1,275	-	-	1,425	364	1,559	-	16	1,939
	586	1,323	-	-	1,909	522	1,607	-	17	2,146
Trade payables	897	659	179	178	1,913	1,367	354	276	283	2,280
Trade payables to related parties	149	233	131	116	629	199	280	141	157	777
	1,046	892	310	294	2,542	1,566	634	417	440	3,057
Other liabilities	937	38	8	62	1,045	891	15	9	95	1,010
Other payables to related parties	170	93	-	7	270	83	48	-	-	131
	1,107	131	8	69	1,315	974	63	9	95	1,141
Income tax payables	12	-	-	-	12	20	-	-	-	20
Total current liabilities	2,751	2,346	318	363	5,778	3,082	2,304	426	552	6,364

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 2019.
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, 12 March 2020

Chief Executive Officer
(Alessandro Profumo)

Officer in charge of financial reporting
(Alessandra Genco)

Independent Auditors' Report on the separate financial statements as at 31 December 2019



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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 2019, 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 2019 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.

Recognition of long-term contract revenue and losses

Notes to the separate financial statements: notes 3 "Accounting principles", 14 "Contract assets and liabilities", 22 "Provisions for risks and charges and contingent liabilities" and 27 "Revenue"

Key audit matter	Audit procedures addressing the key audit matter
<p>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.</p> <p>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.</p> <p>Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses.</p> <p>Accordingly, we believe that the recognition of long-term contract revenue and losses is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> – updating our understanding of the process for the recognition of contract revenue and losses; – 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; – inquiring at the company's legal department on long-term contracts disputes; – requesting external confirmations from legal advisors, if involved in the above disputes;



-
- 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 11 “Equity investments”

Key audit matter	Audit procedures addressing the key audit matter
<p>The separate financial statements at 31 December 2019 include equity investments of €7,697 million and goodwill of €707 million.</p> <p>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).</p> <p>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:</p> <ul style="list-style-type: none">— 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. <p>The 2020-2024 business plan (the “business plan”) that the company’s directors approved on 12 March 2020 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.</p> <p>For the above reasons, we believe that the recoverability of equity investments and goodwill is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">— updating our understanding of the impairment testing procedure approved by the company’s board of directors on 25 February 2020;— updating our understanding of the process used to draft the company’s business 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 business plan;— analysing the main assumptions used by the directors in drafting the business 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 in 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
<p>In its separate financial statements at 31 December 2019, 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 €2,076 million under intangible assets.</p> <p>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.</p> <p>For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none">— 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:<ul style="list-style-type: none">– examining the main internal and external cost items recognised during the year on the basis, <i>inter alia</i>, 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 2019 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 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.



Leonardo S.p.a.
Independent auditors' report
31 December 2019

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 2019 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, 13 March 2020

KPMG S.p.A.

(signed on the original)

Marcella Balistreri
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 (hereinafter also referred to as "the Board") 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 called to approve the Financial Statements as at 31 December 2020.

The independent audit activity was entrusted, pursuant to Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010, to the independent auditing company KPMG S.p.A. (hereinafter referred to as the "Independent 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 2019, the Board of Statutory Auditors carried out checks and other supervisory activities in compliance with the provisions of 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 behaviour 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 has been drafted in accordance with the indications provided by CONSOB with Notice DEM/1025564 of 6 April 2001 as amended and supplemented.

The Board met regularly in 2019, 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 required by law and by the above-mentioned Corporate Governance Code. It is hereby acknowledged that no Statutory Auditor has had any interests, on his/her own 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. for the non-executive Directors qualified as independent.

The Board also carried out a self-assessment process in 2019, 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), also with reference to the activities carried out for the selection of the statutory auditor for the 2021-2029 financial years, which will be specified in greater detail below. This process is aimed at gathering the opinions of the members of the Board of Statutory Auditors 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.

For the first time, Leonardo's Board of Statutory Auditors approved, during the meeting held on 10 March 2020, their own Rules, which were made known to the Company's Nomination, Governance and Sustainability Committee and Board of Directors. The Rules govern the role, organisation and methods of functioning of the Board of Statutory Auditors in line with the main organisational aspects of Leonardo's corporate governance model, in the light of the principles and rules laid down by the Corporate Governance Code and by the Rules of behaviour of the Board of Statutory Auditors of the listed companies issued.

* * *

As part of the activities and tasks assigned to the Board of Statutory Auditors while implementing the relevant regulation, the Board during 2019:

a) held eighteen meetings, carried out audits and gathered information from the heads of the different corporate functions, periodically meeting the top management 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, also with reference to art. 2086 of the Italian Civil Code, as well as the implementation of the corporate governance rules provided by 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 General Shareholder' meetings held on 16 May 2019 in its Ordinary and Extraordinary sessions;

c) attended all the ten meetings held by the Board of Directors, during which it was informed on the activities done and on the main economic, patrimonial and financial transactions carried out by the Company and its subsidiaries, thus obtaining adequate and timely information on their performance;

d) attended all the nine meetings held by the Control and Risks Committee, the seven meetings held by the Remuneration Committee and the four 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 four 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 *Chief Audit Executive* ("CAE") and the Risk Manager of the Company, as well as with the other parties involved in various capacities in the internal control and risk management system including the Group General Counsel.

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 Audit Committee. 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 11 March 2020 on the annual assessment of the adequacy of the Internal Control and Risk Management System.

e) as part of the periodic meetings with the CAE, it noted that, for the 2019 year, the Chief People Organization and Transformation Office organizational unit has completed, both in Italy and abroad, the "recruiting" plan for the progressive strengthening of the staff of the *Group Internal Audit* ("GIA") organizational unit, aimed at maintaining a qualitative level of human resources adequate to the size of the Group and 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 2019; the results showed, for 9 out of the 10 sampled audits, a "general compliance" with international standards and best practices or "maximum positive evaluation" envisaged by the *Institute of Internal Auditors*. For the remaining audit, which ended with a partial compliance assessment, a follow-up was planned in 2020. These results were analysed by the Control and Risk Committee at the meeting of 24 February 2020 and were explained on the same date to the Board of Directors;

f) periodically met with the Manager charged with preparing a company's financial reports;

g) periodically met the Supervisory Body pursuant to Legislative Decree No. 231/2001;

h) was informed, during meetings of the Board of Directors, on the updating of the Organizational, 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, through the Chairman, to 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 of the activities carried out by the "Anticorruption" organizational unit, thus acknowledging the achievement of the ISO 37001 certification (*Anticorruption 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 independent Auditing Firm 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) received from the Company, through the Legal, Corporate Affairs, Compliance, Criminal Law and Anticorruption organizational unit, a six-monthly information policy on the Transactions with Related Parties initiated or concluded during the period, including those transactions falling within the exemption cases provided for by the Consob Regulation No. 17221/2010 and the Leonardo S.p.a. procedure, as well as the half-yearly information policy on the exercise of the proxies;

- o) verified the timeliness of the information flows between the Parent Company and the other companies of the Group and the adequacy of the instructions given to the subsidiaries, pursuant to Art. 114, paragraph 2, of the T.U.F.;
- p) 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 CAE on 11 March 2010, brought to the attention also of the Risk Control 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;
- q) verified, as responsible of the selection procedure of the independent auditing firm pursuant to paragraph 1, subpara. f), of Art. 19 of Legislative Decree No. 39/2010, the correctness of the selection process of the proposals for the assignment of the independent audit of Leonardo S.p.a. for the 2021-2029 period;
- r) with reference to the merger by incorporation of Sistemi Dinamici S.p.A. into Leonardo S.p.A., effective since 1 January 2020, supervised the compliance by the Board of Directors with the applicable laws and Articles of Association;
- s) 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;
- t) verified that the Report on the policy regarding remuneration and the fees paid contains all the information required by art. 123 ter of T.U.F. as well as other information provided in compliance with the standards governing issuers listed on regulated markets;
- u) was informed of changes in the organizational structure, thus monitoring the existence, the updating and the actual dissemination of the company directives and procedures;
- v) verified the adequacy of the administrative accounting system and its suitability to correctly represent the management facts;
- w) took note of the corporate plans for the succession of the Top Management and the performance management and development projects of the company resources;
- x) 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 significant or significant emerged, nor any gaps or inadequacies in the internal control systems; 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;

y) received periodic reports prepared by the Reports Committee, on the basis of the provisions of the " Whistleblowing Management Guidelines" by virtue of which the Board of Statutory Auditors is informed by the Supervisory Board together with the members of the Reports Committee about the reports received by the Company that the Body itself considers true;

z) 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;

aa) 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 Risk Committee), a series of organizational changes issued the Company during the year necessary for the implementation and monitoring of the initiatives envisaged in the Business Plan.

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 by the Corporate Governance Code for Listed Companies and, in particular, with regard to the correct application of the criteria for assessing the independence of directors, the remuneration of the CEO and CAE, the adequacy of the resources of the GIA o.u. for fulfilling its responsibilities;
- d) verified the methods of concrete implementation of the corporate governance rules provided for in the Corporate Governance Code of listed companies on the Italian stock exchange, to which the Company adhered;
- e) also supervised the corporate documents and information on the market, in particular:
- noted that the Report on Operations for the financial year 2019 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 adequacy of the related procedures;
- f) acknowledges that, in compliance with the joint recommendations of the 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 24 February 2020 and was approved by the Board of Directors on 25 February 2020; in this regard, the Board monitored the substantive and formal legitimacy of the impairment process;
- g) 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 Declaration 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 Independent Auditors 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 2019 Sustainability and Innovation Report, by virtue of a task specifically assigned; the Independent Auditing Firm released, on 17 March 2020, 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.

* * *

The Independent Auditing Firm released the reports pursuant to Art. 14 of Legislative Decree No. 39 of 27 January 27, 2010 and of the EU Regulation no. 537/2014, paragraph 10 and 11; 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 39/2010.

More specifically, the Board examined the Independent Auditors' Report on the financial statements for the year ended on 31 December 2019 issued, pursuant to art. 14 of Legislative Decree No. 39/2010 and Art. 10 of the EU Reg. No. 537/2014 of 17 March 2020 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 2019 provide a true and fair view of the financial and economic situation as at 31 December 2019, 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 in implementation of Art. 9 of 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 with the separate financial statements of the Company and with the consolidated financial statements of the Group and drafted in compliance with the law;
- pursuant to Art. 123-ter, paragraph 8-bis, of the T.U.F., the preparation by the directors of the second section of the Report on the Remuneration Policy and the Fees Paid;
- 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 Independent 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 646,000 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 Independent Auditors 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 Independent 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.

* * *

With regard to the result for the 2019 financial year, which recorded an operating profit of € 389.8 million, 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 2019, nor the proposal for the allocation of the relevant operating profit as requested by the Board of Directors.

13 March 2020

ON BEHALF OF THE BOARD OF STATUTORY AUDITORS

The Chairman Mr. Luca Rossi

Information pursuant to article 149. duodecies of the issuer regulation

The following statement reports the fees for the year 2019 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 services	To	Fees for the year 2019 (€ thousands)
Auditing services	KPMG SpA	Parent Company	1,834
	KPMG SpA	Subsidiaries	882
	KPMG network	Subsidiaries	3,338
Assurance services	KPMG SpA	Parent Company	338
	KPMG SpA	Subsidiaries	62
	KPMG network	Subsidiaries	28
Other services	KPMG SpA	Parent Company	193
	KPMG SpA	Subsidiaries	25
	KPMG network	Subsidiaries	-
Total			6,700