Consolidated financial statements at 31 December 2016

CONSOLIDATED ACCOUNTING STATEMENTS

Consolidated separate income statement

€ millions	Notes	2016	*Of which with related parties*	2015	*Of which with related parties*
Revenues	25	12,002	*2,079*	12,995	*2,097*
Other operating income	26	742	*5*	823	*13*
Purchases and personnel expenses	27	(10,549)	*(171)*	(11,605)	*(190)*
Amortisation, depreciation and impairment losses	28	(778)		(784)	
Other operating expenses	26	(730)	*(1)*	(806)	*(7)*
Income before tax and financial expenses		**687**		**623**	
Financial income	29	493	*33*	356	*3*
Financial expenses	29	(815)	*(5)*	(789)	*(8)*
Share of profits/(losses) of equity-accounted investees	11	300		272	
Operating profit/(loss) before income taxes and discontinued operations		**665**		**462**	
Income taxes	30	(158)		(193)	
Profit/(Loss) from discontinued operations	31	-		258	
Net profit/(loss) for the period attributable to:		**507**		**527**	
- Owners of the Parent		*505*		*487*	
- non-controlling interests		*2*		*40*	
Earnings/(Losses) per share	**32**	*0.879*		*0.843*	
Basic and diluted from continuing operations		*0.879*		*0.458*	
Basic and diluted from discontinued operations		*n.a.*		*0.385*	

Consolidated statement of comprehensive income

€ millions	Notes	2016		2015	
Profit/(Loss) for the period			**507**		**527**
Other comprehensive income/(expenses)					
Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:					
- measurement of defined-benefit plans:	18		38		(42)
. revaluation		54		(35)	
. exchange-rate gains/(losses)		(16)		(7)	
- tax effect	18		(7)		19
			31		(23)
Comprehensive income/(expenses) which will or might be subsequently reclassified within the profit/(loss) for the period:					
- changes in cash-flow hedges:	18		(105)		14
. change generated in the period		(90)		(37)	
. transferred to the profit/(loss) for the period		(16)		51	
. exchange-rate gains/(losses)		1		-	
- translation differences	18		(300)		290
. change generated in the period		(300)		302	
. transferred to the profit/(loss) for the period		-		(12)	
- tax effect	18		23		(9)
			(382)		295
Current portion of "Other comprehensive income/(expenses)" of equity-accounted investees			(48)		17
Total other comprehensive income/(expenses), net of tax			**(399)**		**289**
Total comprehensive income/(expenses), attributable to:			**108**		**816**
- *Owners of the Parent*			106		772
- *non-controlling interests*			2		44
Total comprehensive income/(expenses), attributable to Owners of the Parent:			**106**		**772**
- *from continuing operations*			106		853
- *from discontinued operations*			-		(81)

Consolidated statement of financial position

€ millions	Notes	31 December 2016	*Of which with related parties*	31 December 2015	*Of which with related parties*
Intangible assets	9	6,719		7,010	
Property, plant and equipment	10	2,375		2,630	
Investment property		48		32	
Investments accounted for under equity method	11	1,123		1,117	
Receivables	12	586	*1*	503	*3*
Deferred tax assets	30	1,231		1,159	
Other non-current assets	12	102		238	
Non-current assets		**12,184**		**12,689**	
Inventories	13	4,014		4,337	
Contract work in progress	14	2,541		2,857	
Trade receivables	15	3,424	*667*	3,518	*660*
Income tax receivables		162		154	
Loans and receivables	15	98	*40*	167	*122*
Other assets	16	781	*4*	662	*8*
Cash and cash equivalents	17	2,167		1,771	
Current assets		**13,187**		**13,466**	
Non-current assets held for sale	31	14		81	
Total assets		**25,385**		**26,236**	
Share capital	18	2,491		2,522	
Other reserves		1,866		1,758	
Equity attributable to Owners of the Parent		**4,357**		**4,280**	
Equity attributable to non-controlling interests		16		22	
Total equity		**4,373**		**4,302**	
Loans and borrowings (non-current)	19	4,011		4,607	*2*
Employee benefits	21	702		773	
Provisions for risks and charges	20	1,125		1,463	
Deferred tax liabilities	30	391		325	
Other non-current liabilities	22	1,155		1,115	
Non-current liabilities		**7,384**		**8,283**	
Progress payments and advances from customers	14	6,457		6,626	
Trade payables	23	2,838	*76*	3,336	*116*
Loans and borrowings (current)	19	1,267	*502*	699	*399*
Income tax payables		68		25	
Provisions for short-term risks and charges	20	792		736	
Other current liabilities	22	2,206	*166*	2,152	*306*
Current liabilities		**13,628**		**13,574**	
Liabilities associated with assets held for sale	31	-		77	
Total liabilities		**21,012**		**21,934**	
Total liabilities and equity		**25,385**		**26,236**	

Consolidated statement of cash flows

€ millions	Notes	2016	*Of which with related parties*	2015	*Of which with related parties*
Gross cash flows from operating activities	33	1,691		1,680	
Change in trade receivables/(payables), work in progress/ progress payments and inventories	33	(229)	*(29)*	(637)	*72*
Change in other operating assets and liabilities and provisions for risks and charges	33	(345)	*(112)*	5	*151*
Interest paid		(222)	*53*	(264)	*23*
Income taxes paid		(70)		(158)	
Cash flows generated from/(used in) operating activities		**825**		**626**	
Sales of Transportation segment		-		790	
Investments in property, plant and equipment and intangible assets		(391)		(597)	
Sales of property, plant and equipment and intangible assets		31		54	
Other investing activities		231		210	
Cash flows generated from/(used in) investing activities		**(129)**		**457**	
Treasury shares purchase		(35)		(3)	
Bond redemption		-		(512)	
Net change in other loans and borrowings		(237)	*90*	(20)	*(61)*
Dividends paid		(4)		-	
Cash flows generated from/(used in) financing activities		**(276)**		**(535)**	
Net increase/(decrease) in cash and cash equivalents		420		548	
Exchange-rate differences and other changes		(24)		18	
Cash and cash equivalents at 1 January		1,771		1,495	
Cash and cash equivalents at 1 January of discontinued operations		-		(290)	
Cash and cash equivalents at 31 December		**2,167**		**1,771**	
Cash flows from operating activities of discontinued operations		-		(47)	
Cash flows from investing activities of discontinued operations		-		(34)	
Cash flows from financing activities of discontinued operations		-		48	

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 2015	**2,525**	**1,473**	**(57)**	**(226)**	**(204)**	**3,511**	**343**	**3,854**
Profit/(Loss) for the period	-	487	-	-	-	487	40	527
Other comprehensive income/(expenses)	-	-	4	1	280	285	4	289
Total comprehensive income/(expenses)	**-**	**487**	**4**	**1**	**280**	**772**	**44**	**816**
Dividends resolved	-	-	-	-	-	-	(21)	(21)
Sale of Ansaldo STS - minority interests	-	-	-	-	-	-	(341)	(341)
Repurchase of treasury shares less shares sold	(3)	-	-	-	-	(3)	-	(3)
Total transactions with Owners of the Parent, recognised directly in equity	**(3)**	**-**	**-**	**-**	**-**	**(3)**	**(362)**	**(365)**
Other changes	-	-		(1)	1	-	(3)	(3)
31 December 2015	**2,522**	**1,960**	**(53)**	**(226)**	**77**	**4,280**	**22**	**4,302**
Profit/(Loss) for the period	-	505	-	-	-	505	2	507
Other comprehensive income/(expenses)	-	-	(88)	(21)	(290)	(399)	-	(399)
Total comprehensive income/(expenses)	**-**	**505**	**(88)**	**(21)**	**(290)**	**106**	**2**	**108**
Dividends resolved	-	-	-	-	-	-	(3)	(3)
Repurchase of treasury shares less shares sold	(31)	-	-	-	-	(31)	-	(31)
Total transactions with Owners of the Parent, recognised directly in equity	**(31)**	**-**	**-**	**-**	**-**	**(31)**	**(3)**	**(34)**
Other changes	-	6	-	(2)	(2)	2	(5)	(3)
31 December 2016	**2,491**	**2,471**	**(141)**	**(249)**	**(215)**	**4,357**	**16**	**4,373**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

1. General information

Leonardo SpA (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 Leoanrdo Group (hereinafter “the Group”) is a major Italian high technology organisation operating in the *Helicopters, Electronics, Defence & Security Systems*, *Aeronautics* and *Space* sectors.

2. Form, content and applicable accounting standards

In application of Regulation EC 1606/2002 of 19 July 2002 and of Legislative Decree 38 of 28 February 2005, the consolidated financial statements of the Leonardo Group at 31 December 2016 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, pursuant to Regulation EC 1606/2002, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

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

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

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

The International Financial Reporting Standards (IFRS) used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2015, 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 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 2016 of the Leonardo Group were approved by the Board of Directors on 15 March 2017 that authorised their distribution. Publication is scheduled for the same day.

The consolidated financial statements are subject to a statutory audit by KPMG SpA.

3. Accounting policies adopted

3.1 Standards and scope of consolidation

The consolidated financial statements include the statements at 31 December 2016 of the companies/entities included in the scope of consolidation ("consolidated entities"), which have been prepared in accordance with the IFRS 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 United States, 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 DRS Group is managed through a Proxy Agreement which provides for the appointment by Meccanica Holdings USA (the parent company of DRS) of 7 US Proxy Holders subject to the approval of the DSS. These 7 Proxy Holders, besides acting as the directors of the company, are entitled to vote (a prior right of Meccanica Holdings USA) 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 DSS, if their conduct infringes the principle of preservation of 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. 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.

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

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

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

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

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

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

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

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

The Group consolidated financial statements have been prepared based on the ending balances at 31 December.

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 JV 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 realised 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 3.10.4.

3.2 Segment information

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

3.3 Currency translation

3.3.1 Identification of the functional currency

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

3.3.2 Translation of transactions denominated in a foreign currency

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

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

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

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

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

With reference to data comparability, the year 2016 has been marked by the following changes in the euro against the main currencies of interest for the Group.

	31 December 2016		31 December 2015		% Change	
	average	final	average	final	average	final
US dollar	1.1069	1.0541	1.1095	1.0887	(0.2%)	(3.2%)
Pound sterling	0.8195	0.8562	0.7258	0.7340	12.9%	16.6%

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 Research and development costs

This account includes costs (including higher set-up costs incurred compared to the costs of the asset once fully operating) related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, 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 4.1).

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

3.4.2 Industrial patent and intellectual property rights

Patent 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.

3.4.3 Concessions, licences and trademarks

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

3.4.4 Intangible assets acquired as a result of business combinations

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

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

3.4.5 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 4.1), 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.

3.9 Contract work in progress

Work in progress is recognised on the basis of progress (or percentage of completion), whereby 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 productions units delivered.

The valuation reflects the best estimate of the schedules prepared at the balance sheet date. 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.

In the event the completion of a contract is expected to result in a loss at the gross margin level, the loss is recognised in its entirety in the period in which it becomes reasonably foreseeable under “Other operating expenses”. Vice versa, the reversal of such allocations is recognised under “Other operating income”, if not referable to external costs, against which the provision for final losses is used.

Contract work in progress is recorded net of any write-downs of the losses to complete on orders, as well as pre-payments and advances related to the contract being performed.

This analysis is carried out contract by contract: in the event of positive differences (where the value of work in progress is greater than total pre-payments), the difference is recorded as an asset; negative differences, on the other hand, are recorded as a liability under “Progress payments and advances from customers”. If it has not been collected at the date of preparation of the annual or interim accounts, the amount recorded among advance payments will have a directly contra-item in trade receivables.

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 4.2 below are applied.

3.10 Receivables and financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale.

Management classifies assets at the time they are first recognised.

3.10.1 Financial assets at fair value through profit or loss

This category includes financial assets acquired for the purpose of short-term trading transactions, derivatives, which are discussed in the next section, as well as assets designated as such upon initial recognition. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments in this category are recognised immediately in the income statement.

The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

3.10.2 Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially measured at fair value and subsequently at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the impairment losses calculated through impairment test are recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised. Loans and receivables are posted under current assets except for the portion falling due beyond 12 months, which is carried under non-current assets.

3.10.3 Financial assets held to maturity

These are non-derivative assets, valued at amortised cost and with fixed maturities, that the Group has the intention and ability to hold to maturity. Those maturing within 12 months are carried under current assets. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the impairment losses, calculated through impairment test, are recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

3.10.4 Financial assets available for sale

This category encompasses non-derivative financial assets specifically designated as available for sale or not classified in any of the previous items. They are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ("reserve for assets available for sale"). The reserve is taken to the income statement only when the financial asset is effectively sold or, in cases of a loss of value, when it becomes evident that the significant and prolonged impairment in value already recognised in equity is unrecoverable. Classification as current or non-current depends on the intentions of management and the effective marketability of the security itself. Assets that are expected to be sold within 12 months are carried under current assets.

Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset; reductions in value previously recognised in equity are reversed to profit or loss. If the reasons for the write-down should cease to obtain, the value of the asset is restored, applicable only to debt financial instruments.

3.11 Derivatives

Derivatives are still regarded as assets held for trading and stated at fair value through profit or loss unless they are deemed effective hedge for a 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 4.2.

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 hedges

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

3.11.2 Cash-flow hedges

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 Payables and other financial liabilities

Payables and other financial liabilities are initially recognised at fair value net of transaction costs. They are subsequently valued at their amortised cost using the effective interest-rate method.

Payables and other liabilities are defined 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 expenses 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, at least on a quarterly basis, in order to adjust the provisions made.

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

3.16 Employee benefit obligations

3.16.1 Post-employment benefit plans

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

- *defined-contribution plans* in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;
- *defined-benefit plans* in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the

projected unit credit method. Accordingly, the Group recognises a liability for the same amount arising from the actuarial estimation, and recognises actuarial gains and losses in the period in which they occur in the statement of comprehensive income through a special equity reserve ("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.

This 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.

3.18 Leases

3.18.1 Group entities as lessees in a finance lease

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

3.18.2 Group entities as lessors in a finance lease

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

The unsecured residual value is reviewed periodically for possible impairment.

3.18.3 Operating leases

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

3.19 Revenues

Revenues are recognised at the fair value of the amount received and receivable, inclusive of volume discounts and reductions. Revenues also include changes in work in process, the accounting policies for which were described in Note 3.9. The change in work in progress is the portion of work performed for which there are not yet the conditions to recognise it as revenues. For a description of the estimates related to the evaluation process of the long-term contracts, reference should be made to Note 4.3. Revenues generated from the sale of goods are recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer; and when the value of the revenues can be reliably determined.

Revenues from services are recognised on a percentage-of-completion method when they can be reliably estimated.

3.20 Government grants

Once formal authorisation for their assignment has been issued, grants are recognised on an accruals basis in direct correlation with the costs incurred. Specifically, set-up grants are taken to the income statement in direct relation to the depreciation of the relevant goods or projects, and are recognised as a direct reduction in the value of the depreciation expense. In balance sheet, grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to profit or loss. For the analysis of the aspects related to grants under Law 808/1985, reference should be made to Note 4.1.

3.21 Costs

Costs are recorded in compliance with the accrual principle.

3.22 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.

3.23 Dividends

Dividends are recognised in the income statement as soon as shareholders obtain the right to receive payment, 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.

3.24 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.

3.25 New IFRS and IFRIC interpretations

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

IFRS - IFRIC interpretation		Effects for the Group
IFRS 9	Financial instruments	The standard significantly amends the accounting treatment of financial instruments and in its final version will replace IAS 39. At present, the IASB has modified the requirements for the classification and measurement of financial assets that are currently in the scope of IAS 39 and has published a document on the principles for the measurement of financial instruments at amortised cost and for recognising impairment, if any. The new overall approach to financial instruments is currently under discussion by the various competent bodies and for the time being the date of adoption is not foreseeable. The effect on the Group deriving from the application of such standard is currently under analysis. The Group will apply this standard as from 1 January 2018.
IFRS 15	Revenue from contracts with customers	The standard redefines how to account for revenue, which shall be recognised when the control of goods and services is transferred to customers, and envisages additional disclosures to be provided. The Group started a project to accurately determine the impacts deriving from the application of the new standard. From a preliminary analysis, such impacts on the companies belonging to the Aerospace and Defence sector may be as follows: • introduction of new criteria for the revenue recognition during the execution of the contract; failing those criteria revenue is recognised solely at the completion of the contract. This requires the companies of this sector to review the terms and conditions of the contracts entered into with customers which are normally medium/long term; • new criteria for the calculation of the variable consideration; • recognition of the option rights granted to the customer; • new specific requirements to establish if goods and services of a series of supplies have to be recognised as a single performance obligation or a separate performance obligation; • new criteria on contract cost recognition; • new and in-depth additional qualitative and quantitative information to disclose. The Group will apply this standard as from 1 January 2018 and the first effects will be available during the second half of 2017.

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. In particular, among such standards we note IFRS 16 “Leases” which significantly modifies the methods for the accounting of operating leases in the financial statements of lessees.

4. Significant issues and critical estimates by management

4.1 Non-recurring costs

The Group discloses as "non-recurring costs" under intangible assets 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 (sale of products embedding the technology for which the Law permits aids). For the programmes other than national security programmes, 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. These costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans, which in general are made for a period greater than 5 years, in light of the particularly long life of products under development.

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.

4.2 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, the Group has 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 29. 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.

4.3 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. Margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, 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.

4.4 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: however, these valuations stem from actuarial, demographic, statistical and financial assumptions that are highly volatile and hardly foreseeable.

4.5 Impairment of assets

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

Impairment tests are generally conducted using the discounted cash-flow method: however, this method is highly sensitive to the assumptions contained in the estimate of future cash flows and interest rates applied.

For these valuations, the Group uses 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.

4.6 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

Starting from 1 January 2016 the Group has adopted the following amendments without any significant effect on this Annual Financial Report:

- amendment to IFRS 11 "Accounting for acquisitions of interests in joint operations": the amendments govern the accounting for acquisitions of interests in Joint Operations, conforming it to that applied to business combinations;
- amendment to IAS 1 "Presentation of financial statements": the amendments mainly aim at clarifying the presentation of the items referred to other comprehensive income, facilitating the separation between the items under comprehensive income and the share of other comprehensive income of equity-accounted associates and Joint Ventures;
- amendment to IAS 16 "Property, plant and equipment" and to IAS 38 "Intangible assets": the amendments clarify that the revenue-based methods are not appropriate to calculate the depreciation/amortisation of an asset.

6. Significant non-recurring events or transactions

No non-recurring events or transactions were reported during the period.

During 2015 there was the completion of the transfers in the Transportation sector business to Hitachi, which allowed to collect a total amount of about €mil. 790, showing a reduction of about €mil. 600 (considering the deconsolidation of the overall positive net financial position of the businesses sold) in the Group net debt, as well as to recognise a net capital gain of €mil. 248.

7. Significant post-balance sheet events

No significant events occurred after the year-end.

8. Segment information

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

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

The Group assesses the performance of its operating segments and the allocation of its financial resources on the basis of revenue and EBITA (see also the section "'Non-GAAP' performance indicators" in the Report on Operations).

For the purpose of a correct interpretation of the information provided, we note that the results of the strategic Joint Ventures have been included within the EBITA of the sectors to which these JVs belong; conversely, these sectors do not reflect the relevant share of revenue of the JVs.

The results for each segment at 31 December 2016, as compared with those of the same period of the previous year, are as follows:

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Eliminations	Total
31 December 2016							
Revenues	3,639	5,468	3,130	-	327	(562)	12,002
Inter-segment revenues (*)	(11)	(326)	(3)	-	(222)	562	-
Third-party revenues	**3,628**	**5,142**	**3,127**	**-**	**105**	**-**	**12,002**
EBITA	430	558	347	77	(160)	-	1,252
Investments	134	191	113	-	36	-	474
Non-current assets (**)	3,187	3,672	1,504	-	779	-	9,142

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Eliminations	Total
31 December 2015							
Revenues	4,479	5,656	3,118	-	298	(556)	12,995
Inter-segment revenues (*)	(3)	(403)	(6)	-	(144)	556	-
Third-party revenues	**4,476**	**5,253**	**3,112**	**-**	**154**	**-**	**12,995**
EBITA	558	512	312	37	(211)	-	1,208
Investments	174	200	203	-	26	-	603
Non-current assets (**)	3,287	3,964	1,735	-	686	-	9,672

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

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

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Total
2016						
EBITA	**430**	**558**	**347**	**77**	**(160)**	**1,252**
Amortisation of intangible assets acquired as part of business combinations	(9)	(88)	-	-	-	(97)
Restructuring costs	(6)	(49)	(36)	-	(11)	(102)
Non-recurring income/(costs)	(26)	(45)	-	-	-	(71)
EBIT	**389**	**376**	**311**	**77**	**(171)**	**982**
Equity-accounted strategic JVs	-	(52)	(166)	(77)	-	(295)
Income before tax and financial expenses	**389**	**324**	**145**	**-**	**(171)**	**687**

	Helicopters	Electronics, Defence & Security Systems	Aeronautics	Space	Other activities	Total
2015						
EBITA	**558**	**512**	**312**	**37**	**(211)**	**1,208**
Amortisation of intangible assets acquired as part of business combinations	(8)	(90)	-	-	-	(98)
Restructuring costs	2	(55)	(33)	-	(28)	(114)
Non-recurring income/(costs)	(25)	(60)	(16)	-	(11)	(112)
EBIT	**527**	**307**	**263**	**37**	**(250)**	**884**
Equity-accounted strategic JVs	-	(54)	(170)	(37)	-	(261)
Income before tax and financial expenses	**527**	**253**	**93**	**-**	**(250)**	**623**

Group revenues can also be broken down geographically as follows (based on the customer's home country); non-current assets, as defined above, are allocated on the basis of their location:

	Revenues		Non-current assets (*)	
	2016	**2015**	**31 December 2016**	**31 December 2015**
Italy	2,148	2,110	4,666	5,217
United Kingdom	1,541	1,844	1,441	1,256
Rest of Europe	3,251	3,488	826	958
North America	2,999	3,232	2,196	2,221
Rest of the world	2,063	2,321	13	20
	12,002	**12,995**	**9,142**	**9,672**

(*) The portion of non-current assets relates to intangible assets and property, plant and equipment as well as to investment property.

9. Intangible assets

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2015							
Cost	5,868	1,231	1,913	421	1,246	766	**11,445**
Amortisation and impairment losses	(2,068)	(717)	(567)	(119)	(604)	(589)	**(4,664)**
Carrying amount	**3,800**	**514**	**1,346**	**302**	**642**	**177**	**6,781**
Transportation assets	(38)	(4)	(1)	-	-	(15)	**(58)**
Investments	-	100	174	3	-	51	**328**
Sales	(8)	-	-	(4)	-	-	**(12)**
Amortisation	-	(72)	(80)	(8)	(98)	(57)	**(315)**
Impairment losses	-	(18)	-	-	-	(1)	**(19)**
Other changes	234	-	(2)	31	44	(2)	**305**
31 December 2015	**3,988**	**520**	**1,437**	**324**	**588**	**153**	**7,010**
Broken down as follows:							
Cost	5,868	1,231	1,913	421	1,246	766	**11,445**
Amortisation and impairment losses	(1,880)	(711)	(476)	(97)	(658)	(613)	**(4,435)**
Carrying amount	**3,988**	**520**	**1,437**	**324**	**588**	**153**	**7,010**
Investments	-	44	160	5	-	23	**232**
Sales	(8)	-	-	-	-	(1)	**(9)**
Amortisation	-	(62)	(113)	(14)	(97)	(49)	**(335)**
Impairment losses	-	(3)	(13)	-	-	-	**(16)**
Other changes	(157)	(9)	1	16	(26)	12	**(163)**
31 December 2016	**3,823**	**490**	**1,472**	**331**	**465**	**138**	**6,719**
Broken down as follows:							
Cost	6,096	1,275	2,073	559	1,326	603	**11,932**
Amortisation and impairment losses	(2,273)	(785)	(601)	(228)	(861)	(465)	**(5,213)**
Carrying amount	**3,823**	**490**	**1,472**	**331**	**465**	**138**	**6,719**
31 December 2015							
Gross value			4,719				
Grants			3,282				
31 December 2016							
Gross value			4,774				
Grants			3,302				

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 at the reporting date coinciding, as is known, with the Group's four business segments.

A summary of goodwill by segment at 31 December 2016 and 2015 is as follows:

	31 December 2016		31 December 2015	
Helicopters		1,260		1,337
DRS	*1,504*		*1,464*	
Leonardo Divisions	*999*		*1,127*	
Electronics, Defence & Security Systems		2,503		2,591
Aeronautics		60		60
		3,823		**3,988**

The net decrease compared to 31 December 2015 is mainly due to foreign currency translation differences on goodwill denominated in pound sterling, solely partially offset by the increase in the DRS goodwill denominated in US dollars. 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. 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 management of the CGU and incorporated into the plan approved by Leonardo's Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates ("g-rate") no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial expenses and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. The related underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected developments in the 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:

- as risk-free rate, the 10- and 20-year gross yield of government bonds of the geographic market of the CGU was used. The drop in these rates justifies the overall decrease of WACCs compared with 2015. In order to evaluate the potential impacts deriving from the partial compensation for the effects of the ECB monetary policy on the Euro area rates, the following sensitivity analysis was developed;
- the market premium was equal to 5.7%;
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of debt applicable to the Group, net of taxes;

- the debt/equity ratio, determined using data pertaining to our major competitors in each sector.

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 CGU operates. 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 summarised below:

	Helicopters	Electronics	Aeronautics
WACC	X	X	X
g-rate	*X*	*X*	*X*
ROS as per the plan	X	X	X
Flat trend in real terms of the Defence budgets	X	X	X
Growth in production rates of mass production of particular importance	X		X

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

The following WACCs (after taxes) and (nominal) growth rates were used at 31 December 2016 and 2015:

	31 December 2016		31 December 2015	
	WAAC	g-rate	WAAC	g-rate
Helicopters	7.6%	2.0%	8.7%	2.0%
DRS	*7.6%*	*2.0%*	*7.9%*	*2.0%*
Leonardo Divisions	*5.5%*	*2.0%*	*7.8%*	*2.0%*
Electronics, Defence & Security Systems				
Aeronautics	5.9%	2.0%	7.2%	2.0%

Testing revealed no signs of impairment. The Group recognised impairment losses in both of the CGUs in the *Electronics, Defence & Security Systems* sector in 2011 and 2012, particularly in DRS (totalling €mil. 1,639). The headroom for DRS (i.e. the positive margin calculated during impairment testing) is still lower than that for the other GCUs, even if it is progressively growing. However, it is estimated that the US defence budget, which is the main source of revenue of DRS, will expand over the next few years. Sensitivity analysis was conducted on these results, making reference to the assumptions for which it is reasonably possible 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. For information purposes, below are reported the results of all the CGUs. The table below highlights the headroom in the base scenario, compared with 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.

	Margin (base case)	Margin post sensitivity		
		WAAC	g-rate	ROS TV
Helicopters	2,544	2,019	2,110	2,529
DRS (USD millions)	*305*	*102*	*149*	*105*
Leonardo Divisions	*6,463*	*5,272*	*5,421*	*5,653*
Electronics, Defence & Security Systems				
Aeronautics	12,178	10,893	11,047	10,601

In order to evaluate the possible effects of an increase in the risk-free rates of the Euro area, a sensitivity analysis was developed, as previously said, considering an increase in rates equal to 100 basis points using the following WACCs: *Helicopters* 8.6%, Leonardo Divisions of *Electronics, Defence & Security Systems* 6.5% and *Aeronautics* 6.9%. Within this scenario, the margins of the 3 CGUs decreased by about 20% although remaining significantly positive (in detail: *Helicopters* €mil. 1,574, Leonardo Divisions of *Electronics, Defence & Security Systems* €mil. 4,347 and *Aeronautics* €mil. 9,875).

Other intangible assets

Investments in “development costs” refer in particular to the *Helicopters* (€mil. 13) and *Electronics, Defence & Security Systems* (€mil. 31) sectors. Investments attributable to “non-recurring costs” are related to the *Helicopters* (€mil. 91), *Aeronautics* (€mil. 42) and *Electronics, Defence & Security Systems* (€mil. 27) segments. As regards programmes that benefit from the provisions of Law 808/1985 and that are classified as functional to national security, the portion of capitalised non-recurring costs, pending the fulfilment of the legal requirements for the classification under receivables, is separately disclosed under other non-current assets (Note 12). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 26.

Total research and development costs, comprising also “development” and “non-recurring costs” just mentioned, as well as the amounts included in the sale contracts or covered by grants, are equal to €mil. 1,373, of which €mil. 175 expensed.

“Concessions, licences and trademarks” include 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 success of the programme (Note 22). The change during the period is mainly attributable to the decline in amortisation during the period and the increase resulting from the effect of foreign exchange transactions.

Intangible assets acquired in the course of business combinations mainly decreased as a result of the amortisation and include the following items:

	31 December 2016	31 December 2015
Know-how	63	72
Trademarks	44	45
Backlog and commercial positioning	358	471
	465	**588**

Specifically, “Backlog and commercial positioning” essentially refers to the portion of the purchase prices of DRS and the UK component related to the *Electronics, Defence & Security Systems* and *Helicopters* Divisions allocated to this item.

“Other” mainly includes software, which is amortised over a 3 to 5 year period, and intangible assets in progress and advances.

Overall investments were mainly made in the *Helicopters* (€mil. 108), *Aeronautics* (€mil. 52) and *Electronics, Defence & Security Systems* (€mil. 68) sectors.

Commitments are in place for the purchase of intangible assets for €mil. 5 (€mil. 10 at 31 December 2015).

10. Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2015					
Cost	1,788	1,586	1,923	1,370	**6,667**
Amortisation, depreciation and impairment losses	(654)	(1,086)	(1,094)	(878)	**(3,712)**
Carrying amount	**1,134**	**500**	**829**	**492**	**2,955**
Transportation assets	(96)	(26)	(8)	(17)	**(147)**
Investments	5	19	100	151	**275**
Sales	(97)	(1)	(1)	(12)	**(111)**
Depreciation	(52)	(95)	(168)	(62)	**(377)**
Impairment losses	-	-	(2)	(1)	**(3)**
Increase for business combinations	-	-	-	-	**-**
Other changes	74	95	39	(170)	**38**
31 December 2015	**968**	**492**	**789**	**381**	**2,630**
Broken down as follows:					
Cost	1,788	1,586	1,923	1,370	**6,667**
Amortisation, depreciation and impairment losses	(820)	(1,094)	(1,134)	(989)	**(4,037)**
Carrying amount	**968**	**492**	**789**	**381**	**2,630**
Investments	8	18	54	123	**203**
Sales	(15)	(1)	(1)	(5)	**(22)**
Depreciation	(49)	(88)	(170)	(58)	**(365)**
Impairment losses	-	(4)	-	(1)	**(5)**
Increase for business combinations	-	-	-		**-**
Other changes	4	52	(12)	(110)	**(66)**
31 December 2016	**916**	**469**	**660**	**330**	**2,375**
Broken down as follows:					
Cost	1,545	1,602	2,080	1,222	**6,449**
Amortisation, depreciation and impairment losses	(629)	(1,133)	(1,420)	(892)	**(4,074)**
Carrying amount	**916**	**469**	**660**	**330**	**2,375**

This item decreases as a result of depreciation for the year and negative exchange differences, which are only partially offset by investments.
The most significant investments amounted to €mil. 61 for *Aeronautics* (mainly for progress on the B787 programme), €mil. 84 for *Electronics, Defence & Security Systems*, €mil. 26 for *Helicopters* and €mil. 31 for *Other activities*.

"Other tangible assets" also include the value of assets under construction (€mil. 121 at 31 December 2016 vs €mil. 149 at 31 December 2015).

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 79 (€mil. 113 at 31 December 2015).

11. Equity investments and share of profits/(losses) of equity-accounted investees

	2016			2015		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
Material Joint Ventures	947		947	925		925
Joint Ventures not individually material:	76	(2)	74	80	(3)	77
- Aviation Training International Ltd	*18*	-	*18*	*24*	-	*24*
- Rotorsim Srl	*28*	-	*28*	*27*	-	*27*
- Advanced Acoustic Concepts LLC	*22*	-	*22*	*20*	-	*20*
- Rotorsim USA LLC	*8*	-	*8*	*8*	-	*8*
- Closed Joint Stock Company Helivert	-	*(2)*	*(2)*	-	*(3)*	*(3)*
- SuperJet International SpA	-	-	-	*1*	-	*1*
	1,023	(2)	1,021	1,005	(3)	1,002
Associates	100		100	112	(1)	111
	1,123	**(2)**	**1,121**	**1,117**	**(4)**	**1,113**

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, 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 Group 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, both entities being 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 IFRS 10 – and due to the expected unanimous consent of the shareholders on particularly significant matters for the company's management. Moreover, the substantive analysis, carried out taking into account the peculiarity of the businesses, highlighted that the methods to resolve deadlocks (i.e. when a stalemate in the decision-making process occurs and the shareholders have no possibility to jointly decide on matters about which they are required to make decisions through the unanimous consent mechanism) do not allow the majority venturer to impose its will. This is because, in case no decision can be reached, despite the complex escalation mechanism under the shareholders' agreements, the minority venturer has the right to dissolve the Joint Venture, recovering the assets originally assigned, through a call option or, solely if this option is not exercisable, to leave the Joint Venture through a put option. Finally, in the event of a decision-making deadlock, the Joint Venture might be eventually wound up or the minority venturer might sell its interest: in both of these cases, the venturers might be required to share or transfer part of the assets – with particular reference to technological expertise or know-how – originally assigned.

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

	2016	2015
Revenues	+569	+610
EBITA	+34	+14
EBIT	+32	+5
Net result (non-controlling interests)	+8	-
FOCF	+12	+16
Group net debt	+19	+8

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

	31 December 2016					
	Telespazio	Thales Alenia Space	MBDA	GIE ATR	Other JVs not individually material	**Total**
Non-current assets	297	1,875	2,336	168		
Current assets	359	1,497	4,372	1,091		
- of which cash and cash equivalent	*16*	*11*	*130*	*7*		
Non-current liabilities	45	281	1,281	112		
- of which non-current financial liabilities	*2*	*-*	*117*	*5*		
Current liabilities	335	1,395	5,131	691		
- of which current financial liabilities	*9*	*38*	*14*	*-*		
NCI net equity (100%)	15	-	1	-		
Group net equity (100%)	261	1,696	295	456		
Revenues (100%)	577	2,493	3,140	1,787		
Amortisation, depreciation and impairment losses (100%)	32	52	90	28		
Financial income/(expenses) (100%)	(4)	(13)	(21)	(3)		
Income taxes (100%)	(17)	(39)	(71)	(3)		
Profit/(Loss) from continuing operations (100%)	28	171	209	331		
Profit/(Loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income/(expenses) (100%)	-	(2)	(203)			
Total comprehensive income/(expenses) (100%)	**28**	**169**	**6**	**331**		
% Group's interest in equity at 1 January	**161**	**540**	**83**	**232**	**78**	**1,094**
% Group's interest in profit/(loss) from continuing operations	19	56	52	166	(1)	292
% Group's interest in profit/(loss) from discontinued operations, net of taxes	-	-	-	-		-
% Group's interest in other comprehensive income/(expenses)	-	(1)	(51)	-		(52)
% Group's interest in total comprehensive income/(expenses)	**19**	**55**	**1**	**166**	**(1)**	**240**
Dividends received	(4)	(35)	(11)	(177)	(5)	(232)
Disposals					(1)	(1)
Exchange differences				8	(4)	4
Other changes	(1)	(1)	1	-	7	4
% Group's interest in equity at 31 December	**175**	**559**	**74**	**229**	**74**	**1,109**
Consolidation adjustments	10	(216)	116		2	(86)
Equity investments at 31 December	**185**	**343**	**190**	**229**	**76**	**1,023**
% Group's interest in profit/(loss)	19	56	52	166	(1)	292
Consolidation adjustments	-	2	-	-		2
Share of profits/(losses) of equity-accounted investees	**19**	**58**	**52**	**166**	**(1)**	**294**
		295				

	31 December 2015					
	Telespazio	Thales Alenia Space	MBDA	GIE ATR	Other JVs not individually material	**Total**
Non-current assets	319	1,865	2,009	98		
Current assets	335	1,445	3,340	1,194		
- of which cash and cash equivalent	*16*	*105*	*91*	*5*		
Non-current liabilities	45	270	1,059	127		
- of which non-current financial liabilities	*5*	*-*	*9*	*6*		
Current liabilities	355	1,408	3,954	702		
- of which current financial liabilities	*6*	*25*	*29*	*-*		
NCI net equity (100%)	14	-	2	-		
Group net equity (100%)	240	1,632	334	463		
Revenues (100%)	633	2,085	3,065	1,756		
Amortisation, depreciation and impairment losses (100%)	35	48	84	26		
Financial income/(expenses) (100%)	(3)	(9)	2	-		
Income taxes (100%)	(1)	(27)	(74)	-		
Profit/(Loss) from continuing operations (100%)	1	106	215	340		
Profit/(Loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income/(expenses) (100%)	(2)	(2)	73			
Total comprehensive income/(expenses) (100%)	**(1)**	**104**	**288**	**340**		
% Group's interest in equity at 1 January	**173**	**543**	**26**	**118**	**80**	**940**
% Group's interest in profit/(loss) from continuing operations	1	35	54	170	3	263
% Group's interest in profit/(loss) from discontinued operations, net of taxes	-	-	-	-	-	-
% Group's interest in other comprehensive income/(expenses)	(1)	(1)	18	-		16
% Group's interest in total comprehensive income/(expenses)	**-**	**34**	**72**	**170**	**3**	**279**
Dividends received	(11)	(38)	(16)	(65)	(9)	(139)
Equity investments of discontinued operations	-	-	-	-	-	-
Acquisitions	2	-	2	-	-	4
Disposals	-	-	-	-	-	-
Exchange differences	(2)	-	(3)	9	(1)	3
Other changes	(1)	1	2	-	5	7
% Group's interest in equity at 31 December	**161**	**540**	**83**	**232**	**78**	**1,094**
Consolidation adjustments	12	(219)	116	-	2	(89)
Equity investments at 31 December	**173**	**321**	**199**	**232**	**80**	**1,005**
% Group's interest in profit/(loss)	1	35	54	170	3	263
Consolidation adjustments		1	-	-	-	1
Share of profits/(losses) of equity-accounted investees	**1**	**36**	**54**	**170**	**3**	**264**
		261				

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 Decemebr 2016	31 December 2015
% Group's interest in equity at 1 January	**112**	**173**
% Group's interest in profit/(loss) from continuing operations	4	11
% Group's interest in profit/(loss) from discontinued operations, net of taxes		
% Group's interest in other comprehensive income/(expenses)		-
% Group's interest in total comprehensive income/(expenses)	**4**	**11**
Dividends received	(6)	(44)
Equity investments of discontinued operations		(32)
Subscriptions and capital increases		3
Acquisitions		8
Disposals	(9)	(2)
Exchange differences	(4)	3
Other changes	(1)	(12)
% Group's interest in equity at 31 December	**96**	**108**
Consolidation adjustments	4	4
Equity investments at 31 December	**100**	**112**
% Group's interest in profit/(loss)	4	11
Consolidation adjustments		
Share of profits/(losses) of equity-accounted investees	**4**	**11**

12. Receivables and other non-current assets

	31 December 2016	31 December 2015
Financing to third parties	27	35
Non-current financial receivables from SuperJet	65	-
Guarantee deposits	9	9
Deferred grants under Law 808/1985	58	44
Defined-benefit plan assets, net (Note 21)	367	351
Related-party receivables (Note 34)	1	3
Other non-current receivables	59	61
Non-current receivables	**586**	**503**
Prepayments - non-current portion	9	13
Equity investments at cost	18	17
Non-recurring costs pending under Law 808/1985	75	77
Fair value of the residual portion in portfolio of Ansaldo Energia	-	131
Non-current assets	**102**	**238**

Non-current receivables mainly increased as a result of the reclassification from current loans and receivables of the financial receivable from SuperJet, which can be collected after 12 months as a consequence of the definition of a 4-year repayment plan arranged with the acquirer within the rescheduling of Leonardo's participation in this programme (a transaction described in the section "Industrial and financial transactions" of the Report on Operations). Such amount was taken into account in calculating the KPI "Group net debt", as highlighted in Note 19.

Other non-current assets decreased as a result of the reclassification within current assets of the fair value of 15% of the share capital of Ansaldo Energia (classified as fair value through profit and loss), considering that the expiry date of Leonardo's put option and FSI's call option is nearing (i.e. between 30 June and 31 December 2017).

13. Inventories

	31 December 2016	31 December 2015
Raw materials, supplies and consumables	1,675	1,939
Work in progress and semi-finished goods	1,562	1,765
Finished goods and merchandise	72	91
Advances to suppliers	705	542
	4,014	4,337

Inventories are shown net of impairment charges of €mil. 750 (€mil. 772 at 31 December 2015).

14. Contract work in progress and progress payments and advances from customers

	31 December 2016	31 December 2015
Contract work in progress (gross)	3,923	4,273
Final losses (positive wip)	(51)	(50)
Progress payments and advances from customers	(1,331)	(1,366)
Contract work in progress (net)	**2,541**	**2,857**
Progress payments and advances from customers (gross)	6,406	6,379
Contract work in progress	(517)	(331)
Final losses (negative wip)	568	578
Progress payments and advances from customers (net)	**6,457**	**6,626**
Net value	(3,916)	(3,769)

"Contract work in progress" is recognised as an asset net of the relative advances if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work in progress exceeds advances from customers. It is recognised as a liability if advances from customers exceed the relevant work in progress. This offsetting is performed only with regard to work in progress and not to inventories or other assets. 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 the net balance of contract work in progress and progress payments and advances from customers:

	31 December 2016	31 December 2015
Cost incurred and margins recognised, net of losses	3,821	3,976
Advances	(7,737)	(7,745)
Net value	**(3,916)**	**(3,769)**

15. Trade and financial receivables

	31 December 2016		31 December 2015	
	Trade	Financial	Trade	Financial
Receivables	3,240	76	3,301	67
Cumulative impairments	(483)	(18)	(443)	(22)
Related-party current receivables (Note 34)	667	40	660	122
	3,424	**98**	**3,518**	**167**

Financial receivables from related parties decreased mainly as a result of the abovementioned reclassification within non-current receivables of the portion that will be collected beyond 12 months from SuperJet.

Trade receivables include €mil. 38 for receivables from Sukhoi and SuperJet which will be collected beyond 12 months, in accordance with the repayment and rescheduling plan defined during the abovementioned transaction on the SuperJet programme.

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 35.

16. Other current assets

	31 December 2016	31 December 2015
Derivatives	165	134
Prepaid expenses - current portion	89	76
Receivables for grants	98	95
Receivables from employees and social security institutions	56	55
Indirect tax receivables	79	164
Deferred receivables under Law 808/1985	4	3
Other related-party receivables (Note 34)	4	8
Fair value of the residual portion in portfolio of Ansaldo Energia	138	-
Other assets	148	127
	781	**662**

The increase relates to the reclassification from non-current assets of the fair value of the residual equity investment in Ansaldo Energia. This item refers to 15% of the company’s share capital (classified as fair value through profit or loss), which will be sold upon the exercise of the put & call options, defined below, by the parties, at a pre-arranged price of

€mil. 117 in respect of which capitalised interest accrues at a yearly 6% rate. In particular, Leonardo can exercise its put option between 30 June and 31 December 2017, while the call option of FSI is exercisable in the same period or before if some conditions occur. Considering that the expiry date of the options is nearing, the item was reclassified under current assets. This amount was taken into account during the calculation of the KPI "Group net debt", as highlighted in Note 19.

The table below provides detail of the asset and liability positions related to derivative instruments.

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	153	297	129	238
Derivatives covering debt items	1	36	1	42
Embedded derivatives	9	-	2	2
Interest-rate swaps	2	4	2	3
	165	**337**	**134**	**285**

The table below provides the fair values of the various derivatives in the portfolio:

	Fair value at					
	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest-rate swaps						
Trading	2	(3)	(1)	2	(3)	(1)
Fair-value hedges	-	-	-	-	-	-
Cash-flow hedges	-	(1)	(1)	-	-	-
Currency forwards/swaps/ options						
Trading	-	-	-	-	-	-
Fair-value hedges	1	(36)	(35)	1	(42)	(41)
Cash-flow hedges	153	(297)	(144)	129	(238)	(109)
Embedded derivatives (trading)	9	-	9	2	(2)	-

17. Cash and cash equivalents

The change in the year is shown in the statement of cash flows. Cash and cash equivalents at 31 December 2016 include €mil. 6 of term deposits (€mil. 5 at 31 December 2015).

18. 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
Treasury shares	(232,450)	-	(3)	-	(3)
31 December 2015	**577,917,945**	**2,544**	**(3)**	**(19)**	**2,522**
Repurchase of treasury shares less shares sold	(3,506,246)	-	(31)	-	(31)
31 December 2016	**574,411,699**	**2,544**	**(34)**	**(19)**	**2,491**
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,738,696)	-	(34)	-	(34)

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 3,738,696 treasury shares.

At 31 December 2016 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 decreased as a consequence of the following changes:

	2016	2015
US dollar	63	160
Pound sterling	(360)	147
Other currencies	7	(27)
	(290)	**280**

Overall, the reserve is negative for €mil. 215, mainly for the translation differences on the components denominated in pound sterling partially offset by the components denominated in US dollars, in particular DRS.

Tax effects on the gain and loss items recognised in equity

	Group - consolidated entities			Group - equity-accounted investments		
	Amount before taxes	Tax effect	Net amount	Amount before taxes	Tax effect	Net amount
2016						
Revaluation of defined-benefit plans	38	(7)	31	(56)	4	(52)
Changes in cash-flow hedges	(105)	23	(82)	(6)	-	(6)
Foreign currency translation difference	(300)	-	(300)	10	-	10
Total	**(367)**	**16**	**(351)**	**(52)**	**4**	**(48)**
2015						
Revaluation of defined-benefit plans	(42)	19	(23)	32	(8)	24
Changes in cash-flow hedges	14	(8)	6	(3)	1	(2)
Foreign currency translation difference	285	-	285	(5)	-	(5)
Total	**257**	**11**	**268**	**24**	**(7)**	**17**

Below is a breakdown of the tax effects on the gain and loss items recognised in equity of non-controlling interests:

	Non-controlling interest		
	Amount before taxes	Tax effect	Net amount
2016			
Revaluation of defined-benefit plans	-	-	-
Changes in cash-flow hedges	-	-	-
Foreign currency translation difference	-	-	-
Total	**-**	**-**	**-**
2015			
Revaluation of defined-benefit plans	-	-	-
Changes in cash-flow hedges	-	(1)	(1)
Foreign currency translation difference	5	-	5
Total	**5**	**(1)**	**4**

19. Loans and borrowings

	31 December 2016			31 December 2015		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	3,737	638	4,375	4,276	121	4,397
Bank loans and borrowings	238	59	297	293	96	389
Related-party loans and borrowings (Note 34)	-	502	502	2	399	401
Other loans and borrowings	36	68	104	36	83	119
	4,011	**1,267**	**5,278**	**4,607**	**699**	**5,306**

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

	1 January 2016	Issues	Repayments/ Payment of coupons	Other net increase/ (decrease)	Exchange differences and other movements	31 December 2016
Bonds	4,397	-	(243)	246	(25)	**4,375**
Bank loans and borrowings	389	-	(59)	(33)	-	**297**
Related-party loans and borrowings	401	-	-	101	-	**502**
Other loans and borrowings	119	-	(14)	1	(2)	**104**
	5,306	**-**	**(316)**	**315**	**(27)**	**5,278**

	1 January 2015	Issues	Repayments/ Payment of coupons	Other net increase/ (decrease)	Exchange differences and other movements	31 December 2015
Bonds	4,761	-	(793)	271	158	**4,397**
Bank loans and borrowings	472	-	(79)	3	(7)	**389**
Related-party loans and borrowings	431	-	-	(30)	-	**401**
Other loans and borrowings	106	-	(5)	27	(9)	**119**
	5,770	**-**	**(877)**	**271**	**142**	**5,306**

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.

Bank loans and borrowings mainly included the loan executed with the European Investment Bank (EIB) (€mil. 280 compared to €mil. 327 at 31 December 2015), aimed at implementing development activities in the aeronautic segment.

Bonds

Below is the detail of the bonds at 31 December 2016 which shows the bonds issued by Leonardo ("LDO") and Meccanica Holdings USA ("MH"):

Issuer		Year of issue	Maturity	Currency	Outstanding nominal amount (mil.) (*)	Annual coupon		Type of offer
LDO (originally Fin Fin)	(**)	2003	2018	€	500	5.750%	(1)	European institutional
LDO	(**)	2005	2025	€	500	4.875%		European institutional
LDO (originally Fin Fin)	(**)	2009	2019	GBP	319	8.000%	(2)	European institutional
LDO (originally Fin Fin)	(**)	2009	2022	€	555	5.250%		European institutional
MH	(***)	2009	2019	USD	434	6.250%		American institutional Rule 144A/ Reg. S
MH	(***)	2009	2039	USD	275	7.375%		American institutional Rule 144A/ Reg. S
MH	(***)	2009	2040	USD	457	6.250%		American institutional Rule 144A/ Reg. S
LDO (originally Fin Fin)	(**)	2012	2017	€	521	4.375%		European institutional
LDO (originally Fin Fin)	(**)	2013	2021	€	739	4.500%		European institutional

(*) Nominal amounts decreased compared to the value of the original issues following 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 Meccanica Holdings USA to finance the purchase of the subsidiary DRS replacing the dollar-issue bonds originally issued by the company. These bonds were redeemed early following Leonardo's purchase of DRS. As a result, these issues were not hedged against exchange-rate risk.

(1) Rate derivative transactions were made on these bonds and led the effective cost of the loan to a fixed rate better than the coupon and corresponding to an average of some 5.6%.
(2) The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged.

Movements in bonds are as follows:

	1 January 2016	New borrowings	Interest	Repayments/ Repurchases	Payments of coupons	Effect of exchange rate	31 December 2016	Fair value
€mil. 500 LDO 2018 (*)	500		30		(29)		**501**	500
€mil. 500 LDO 2025 (*)	516		25		(25)		**516**	500
GBPmil. 400 LDO 2019 (*)	434		34	(2)	(35)	(62)	**369**	372
€mil. 600 Fin Fin 2022 (*)	579		29		(27)		**581**	556
USDmil. 500 MH 2019 (*)	408		26		(25)	13	**422**	412
USDmil. 300 MH 2039 (*)	255		18		(18)	9	**264**	261
USDmil. 500 MH 2040 (*)	426		25		(27)	15	**439**	433
€mil. 600 LDO 2017 (*)	519		24		(22)		**521**	521
€mil. 950 Fin Fin 2021 (*)	760		35		(33)	-	**762**	739
	4,397	-	246	(2)	(241)	(25)	4,375	4,294

	1 January 2015	New borrowings	Interest	Repayments/ Repurchases	Payments of coupons	Effect of exchange rate	31 December 2015	Fair value
€mil. 500 LDO 2018 (*)	500		29		(29)		**500**	561
€mil. 500 LDO 2025 (*)	515		25		(24)		**516**	557
GBPmil. 400 LDO 2019 (*)	511		44	(117)	(41)	37	**434**	509
€mil. 600 Fin Fin 2022 (*)	624		32	(45)	(32)		**579**	631
USDmil. 500 MH 2019 (*)	365		24		(24)	43	**408**	383
USDmil. 300 MH 2039 (*)	250		20	(24)	(20)	29	**255**	269
USDmil. 500 MH 2040 (*)	419		27	(41)	(28)	49	**426**	457
€mil. 600 LDO 2017 (*)	596		27	(79)	(25)		**519**	553
€mil. 950 Fin Fin 2021 (*)	981		43	(211)	(53)	-	**760**	806
	4,761	-	271	(517)	(276)	158	4,397	4,726

(*) 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:

31 December 2016

	Bonds		Bank loans and borrowings		Related-party loans and borrowings		Other loans and borrowings		Total	
	floating	fixed	floating	fixed	floating	fixed	floating	fixed	**floating**	**fixed**
Within 1 year	-	638	29	30	502	-	68	-	**599**	**668**
2 to 5 years		2,023	82	109		-	31	1	**113**	**2,133**
Beyond 5 years	-	1,714	20	27	-	-	4	-	**24**	**1,741**
Total	**-**	**4,375**	**131**	**166**	**502**	**-**	**103**	**1**	**736**	**4,542**

31 December 2015

	Bonds		Bank loans and borrowings		Related-party loans and borrowings		Other loans and borrowings		Total	
	floating	fixed	floating	fixed	floating	fixed	floating	fixed	**floating**	**fixed**
Within 1 year	-	121	66	30	399	-	83		**548**	**151**
2 to 5 years		1,845	105	109	2	-	29	1	**136**	**1,955**
Beyond 5 years	-	2,431	24	55	-	-	6	-	**30**	**2,486**
Total	**-**	**4,397**	**195**	**194**	**401**	**-**	**118**	**1**	**714**	**4,592**

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

	31 December 2016	*Of which with related parties*	31 December 2015	*Of which with related parties*
Cash and cash equivalents	(2,167)		(1,771)	
Securities held for trading	-		-	*425*
Liquidity	(2,167)		(1,771)	
Current loans and receivables	(98)	*(40)*	(167)	*(122)*
Current bank loans and borrowings	59		96	
Current portion of non-current loans and borrowings	638		121	
Other current loans and borrowings	570	*502*	482	*399*
Current financial debt	1,267		699	
Net current financial debt (funds)	(998)		(1,239)	
Non-current bank loans and borrowings	238		293	
Bonds issued	3,737		4,276	
Other non-current loans and borrowings	36	*-*	38	*2*
Non-current financial debt	4,011		4,607	
Net financial debt	**3,013**		**3,368**	

The reconciliation between net financial debt and Group net debt, used as KPI, is as follows:

	Notes	31 December 2016	31 December 2015
Net financial debt CONSOB com. DEM/6064293		**3,013**	**3,368**
Fair value of the residual portion in portfolio of Ansaldo Energia	16	(138)	(131)
Hedging derivatives in respect of debt items	16	35	41
Non-current financial receivables from SuperJet	12	(65)	-
Group net debt (KPI)		**2,845**	**3,278**

20. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2015						
Current	16	128	48	82	475	**749**
Non-current	140	113	318	103	607	**1,281**
	156	**241**	**366**	**185**	**1,082**	**2,030**
Transportation liabilities	(8)	-	-	-	(3)	**(11)**
Allocations	138	61	7	76	311	**593**
Uses	(1)	(57)	(16)	(9)	(49)	**(132)**
Reversals	-	(14)	(9)	(63)	(197)	**(283)**
Other changes	(4)	(24)	33	26	(29)	**2**
31 December 2015	**281**	**207**	**381**	**215**	**1,115**	**2,199**
Broken down as follows:						
Current	3	83	84	96	470	**736**
Non-current	278	124	297	119	645	**1,463**
	281	**207**	**381**	**215**	**1,115**	**2,199**
Allocations	3	59	27	69	227	**385**
Uses	(5)	(58)	(64)	(19)	(84)	**(230)**
Reversals	-	-	(19)	(45)	(155)	**(219)**
Other changes	7	(27)	(180)	(12)	(6)	**(218)**
31 December 2016	**286**	**181**	**145**	**208**	**1,097**	**1,917**
Broken down as follows:						
Current	111	74	19	94	494	**792**
Non-current	175	107	126	114	603	**1,125**
	286	**181**	**145**	**208**	**1,097**	**1,917**

"Other provisions" for risks and charges mainly include:

- the provision for contractual risks and charges of €mil. 533 (€mil. 443 at 31 December 2015), mainly related to the Aeronautics sector;
- the provision for risks on equity investments of €mil. 3 (€mil. 6 at 31 December 2015), which includes the accruals for losses exceeding the carrying amounts of unconsolidated equity-accounted investments;
- the provision for tax risks of €mil. 133 (€mil. 190 at 31 December 2015);
- the provision for litigation with employees and former employees of €mil. 37 (€mil. 39 at 31 December 2015);
- the provision for litigation underway of €mil. 55 (€mil. 70 at 31 December 2015).

With regard to risks, below is a summary of the criminal proceedings that are currently underway against a number of Group companies or Leonardo itself, as well as certain former directors and executives, concerning acts committed during the performance of their duties at Group companies or at Leonardo itself, with specific reference to the events that occurred in 2016 and in early 2017:

- criminal proceedings are pending before the Court of Rome against 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. The proceedings are now in the trial phase. In relation to this case, criminal proceedings are also pending before the Public Prosecutor's Office of Rome against Leonardo for administrative violations pursuant to Article 25 of Legislative Decree 231/2001, for crimes under Articles 321 and 322-*bis* of the Italian Criminal Code attributed to the then Commercial Director of the Company, in the context of the abovementioned criminal proceedings;
- criminal proceedings are pending before the Public Prosecutor's Office of Rome against one former executive, three former directors and an executive of Leonardo, for crimes under Article 110 of the Italian Criminal Code and Article 5 of Legislative Decree 74/2000 in relation to the position as director held in the then Finmeccanica Finance SA, as well as against various employees and executives of the company, for the crime under Articles 110, 646 and 61, paragraph 11 of the Italian Criminal Code in relation, *inter alia*, to personal loans requested to the company in the period 2008-2014;
- with reference to the immediate trial before the Court of Busto Arsizio in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian Government, it should be noted that on 9 October 2014 the Court sentenced the former Chairman and Chief Executive Officer of Leonardo SpA (in relation to the position held in AgustaWestland) and the former Chief Executive Officer of AgustaWestland SpA to a prison term of two years for having committed crimes under Article 2 of Legislative Decree 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009 - June 2010 tax period, and ordering that the amount equivalent to such non-payment of taxes (on a taxable income of €mil. 3.4) be confiscated from AgustaWestland SpA, considered in determining the provisions for risks. In the same decision, the Court found the defendants not guilty of having committed the crimes under Articles 110, 112, paragraph 1, 319, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code (corruption of foreign public officials), due to lack of evidence. The decision is being appealed against.
  On 7 April 2016, the Milan Court of Appeal sentenced the former Chairman and Chief Executive Officer of Leonardo to four years and six months of imprisonment, and the former Chief Executive Officer of AgustaWestland SpA to four years of imprisonment, for crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-*bis*, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000. On 16 December 2016 the Supreme Court repealed the judgment appealed against and referred it to another division of the Milan Court of Appeal for consideration of new proceedings.
  In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding groundless, following the conclusion of investigations, the Company's involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio – in granting the motions put forth by the companies – imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and

Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland SpA and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5.
The Indian authorities also started their own criminal investigations in late February 2013 into this matter, which are still underway;

- preliminary investigations are being conducted in relation to the criminal proceedings pending with the Public Prosecutor's Office of Busto Arsizio, against two former chief executive officers of AgustaWestland SpA, for crimes under Article 2 of Legislative Decree 74/2000, Articles 81 and 110 of the Italian Criminal Code and Articles 322-*bis*, 81 and 110 of the Italian Criminal Code, as well as against a former executive of the company, for crimes under Article 2 of Legislative Decree 74/2000 and Articles 81 and 110 of the Italian Criminal Code. In relation to this investigation, on 23 April 2015 some search warrants were executed at the Cascina Costa office of AgustaWestland SpA in order to collect contract, accounting and non-accounting documents relating to the relationships maintained by AgustaWestland SpA with some companies incorporated under Italian and foreign law. Within these proceedings, the notice of conclusion of the preliminary investigations was served in April 2016, limited to the offence under Article 2 of Legislative Decree 74/2000, against two former chief executive officers and a former executive of AgustaWestland SpA, regarding relationship with a foreign company. In the context of these proceedings, an executive of the company was also under investigation, but the proceedings against him have been dismissed;
- criminal proceedings are pending before the Court of Rome against the former Vice-Chairman of BredaMenarinibus, for crimes under Articles 110 and 646 of the Italian Criminal Code and Article 8 of Legislative Decree 74/2000, as well as against the former Chief Financial Officer of the company, for crimes under Article 110 of the Italian Criminal Code and Article 8 of Legislative Decree 74/2000, in relation to the supply of 45 trolley buses made by BredaMenarinibus in the competitive tender launched by Roma Metropolitane SpA. The company, as a party injured by the crimes under Article 646 of the Italian Criminal Code, brought a civil action in the criminal proceedings. At the hearing held on 7 April 2016, the Court, after having combined these proceedings with those brought against the former Chief Executive Officer of BredaMenarinibus, handed down a dismissal of charge against the former Vice-Chairman of BredaMenarinibus as a result of the extinguishment of the offence. At the same hearing the Court also accepted the civil action brought by the company in the criminal proceedings against the former Chief Executive Officer. The case has now entered the trial phase;
- criminal proceedings are pending before the Court of Naples concerning contracts awarded to the then-Elsag Datamat (now Selex ES SpA) and Electron Italia 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 the proceedings, the former Chief Executive Officer of Electron Italia, 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, and an employee of the then-Elsag Datamat and an employee of Electron Italia with crimes under Articles 353 and 326 of the Italian Criminal Code, as well as Selex ES and Electron Italia for having committed administrative offences under Article 24-*ter*, paragraph 2, of Legislative Decree 231/2001. Selex ES SpA and Electron Italia, following service of civil summons issued by the Court at the request of the civil-action party, also entered appearance in the civil action. The proceedings are now in the trial phase;
- in relation to the proceedings pending before the Court of Trani against a former employee of the then-Elsag Datamat for crimes under Articles 353 and 356 of the Italian Criminal Code, concerning a tender launched by the Municipality of Barletta for the construction of access control systems for the limited traffic area, on 5 February 2016 the Court declared the decision not to prosecute against a former employee of the then-Elsag Datamat, for crimes charged to him, as they have become statute barred;

- criminal proceedings are pending before the Court of Genoa, concerning the overflow of the Chiaravagna River which took place in Genoa on 5 October 2010, involving a former employee of the then-Elsag Datamat (now Selex ES SpA), for crimes under Articles 426 and 449 of the Italian Criminal Code. Selex ES SpA, following service of civil summons issued by the Court at the request of the civil-action party, entered appearance in the civil action. At the end of the trial phase, on 7 March 2017 the Court of Genoa found not guilty the former employee of the then-Elsag Datamat (now Selex ES SpA) and the person civilly liable for Selex ES SpA;
- two criminal proceedings are pending in relation to the awarding of the contract for the construction and operation of the Control System for Waste Tracking (SISTRI).

  Immediate trial - Bringing of civil action (Selex Service Management)
  In the immediate trial before the Court of Naples against certain suppliers and sub-suppliers of Selex Service Management, at the hearing held on 7 November 2013 the company brought a civil action against the defendants. The proceedings are now in the trial phase.

  Abbreviated trial - Bringing of civil action (Selex Service Management)
  In the summary trial before the Court of Naples against the former Chief Executive Officer of Selex Service Management, for crimes under Article 416, paragraphs 1, 2 and 5, of the Italian Criminal Code and Articles 81-paragraph 2, 110, 319, 320 and 321 of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/2000, and a supplier of Selex Service Management, the company brought a civil action against the defendants at the hearing held on 21 November 2013.
  On 18 July 2014, the Court sentenced the former Chief Executive Officer of Selex Service Management to a prison term of 2 years and 6 months and ordered him to pay damages to Selex Service Management. The aforesaid judgment is being appealed against. The proceedings are currently pending before the Naples Court of Appeal;
- with reference to the proceedings pending before the Court of Rome against the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati (now in liquidation), concerning the awarding of work contracts on the part of ENAV SpA, on 16 October 2015 the Court of Rome sentenced the defendants for the crime under Article 8 of Legislative Decree 74/2000, while acquitting them of the crime under Article 646 of the Italian Criminal Code. With the same decision the Court also ordered the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati to repay damages in favour of the company (the aggrieved party acting in criminal proceedings). The aforesaid judgment is being appealed against. The hearing before the Rome Court of Appeal is scheduled to be held on 24 May 2017;
- criminal proceedings are pending before the Court of Rome concerning the informal tender for awarding a contract in the ICT area for operational, contract management and procurement services launched by the Prime Minister's Office in 2010 and awarded to a temporary business combine (RTI, *Raggruppamento Temporaneo di Imprese*) established by Selex Service Management and a company outside the Leonardo Group.
  On 1 July 2015 the Judge for Preliminary Hearings (GUP, *Giudice dell'Udienza Preliminare*) ordered the committal for trial of the former Chairman and Chief Executive Officer of Leonardo, for crimes under Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code, and of the former Chief Executive Officer of Selex Service Management for crimes under Articles 110, 319 and 321 of the Italian Criminal Code and Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code, as well as of Selex Service Management itself for violations under Article 25 of Legislative Decree 231/2001. Leonardo brought a civil action as an aggrieved party. The proceedings are now in the trial phase.
  In relation to these proceedings, the former Chief Operations Officer of Selex Service Management and the former External Relations Officer of Leonardo were also charged with crimes under Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian

Criminal Code. The former COO was acquitted and the former External Relations Officer of Leonardo was found guilty pursuant to Article 444 and ff. of the Italian Code of Criminal Procedure;

- criminal proceedings are pending before the Court of Rome involving the Chief Executive Officer of the then-Selex Systems Integration GmbH (now Selex ES GmbH), with respect to crimes under Articles 110 and 223, paragraph 2(2), of the Italian Criminal Code, with regard to Articles 216 and 219, paragraphs 1 and 2(1), of Royal Decree no. 267/1942, in connection with the bankruptcy of a supplier. The proceedings are now in the trial phase;
- criminal proceedings are pending with 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, involving certain directors of Leonardo (serving from 1994 to 1998) and certain directors 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;
- criminal proceedings are pending before the Court of Milan involving certain directors of the then-Breda Termomeccanica SpA, subsequently Ansaldo SpA, 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.
  Leonardo, following service of civil summons issued by the Court at the request of the civil-action parties, entered appearance in the civil action. The proceedings are now in the trial phase.

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 beyond those indicated in the rest of the paragraph. Any negative developments – which cannot be foreseen, nor determined to date – arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

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

- the dispute in which Leonardo is defendant in relation to contractual commitments undertaken at the time of the transfer of the former subsidiary Finmilano SpA to Banca di Roma (now UniCredit Group), arising from an assessment report issued to Finmilano SpA by the Rome Direct Taxation Office, which disallowed the tax deductibility of the capital loss arising from the factoring without recourse of a receivable subject to deferred collection for an amount lower than its nominal amount. At present, after alternating outcomes in the various degrees of adjudication, which were mainly unfavourable for the Company and after numerous adjournments, we are waiting for the appeal to be discussed before the Supreme Court. Leonardo does not currently expect it will incur significant losses in this respect;
- in January 2017 some notices of assessment were served on Alenia Aermacchi SpA, as a result of the examination of the documents submitted for a request for refund of the Group VAT of Leonardo SpA for the 2011 financial year. Specifically, the notices report estimated

higher taxable income for VAT and IRES (Corporate Income Tax), a higher value of net production and IRAP (Regional Production Activity Tax) withholdings, as well as penalties and interest (for a total amount of €mil. 17 on account of tax and €mil. 20 on account of penalties). In this regard the company has decided to consent to the assessment procedure subject to agreement in order to provide evidence of the groundlessness of the acts established in the conciliation phase;

- the litigation brought by Reid against Leonardo and Alenia Space (then ALS SpA, now SOGEPA SpA) before the Court of Texas in 2001, whereby Reid claimed that the former Finmeccanica-Space division failed to meet its obligations under the contract for the implementation of the Gorizont satellite programme. The dispute was settled in favour of the Group due to the lack of jurisdiction of the Court appealed to. On 11 May 2007, Reid served a complaint on Leonardo and SOGEPA, whereby it brought new proceedings before the Court of Chancery in Delaware. In the new proceedings Reid once again submitted the same claims for damages as those included in the papers of the previous case developed before the Court of Texas, without, however, quantifying the amount of the alleged damage.
  In appearing before the Court, Leonardo filed a Motion to Dismiss, asserting that the case was time-barred, the statute of limitation had run out and the Court of Delaware did not have jurisdiction. On 27 March 2008, the Court issued an order which rejected the plaintiff's claim as the case was time-barred. The opposite party challenged this decision before the Supreme Court of Delaware, which issued a decision on 9 April 2009, granting the motion and referring the case to the Court of Chancery for a decision on the other objection raised by Leonardo and SOGEPA concerning the lack of jurisdiction of the Court of Delaware. Therefore, the discovery phase commenced, during which the witnesses requested by Reid were deposed. The preliminary investigations were completed in December 2013 and on 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Leonardo and SOGEPA. Therefore, the case is proceeding on the merits and the discovery phase is currently underway. However, it should be recalled that the lawsuit filed by Leonardo and SOGEPA in Italy – aimed at establishing the inexistence of the claims concerning the facts and requests argued by Mr Dennis Reid before the Court of Delaware – is still pending before the Court of Appeal of Rome and said lawsuit is still at a preliminary stage;

- the litigation brought before the Santa Maria Capua Vetere Court in February 2011 by GMR SpA, as the sole shareholder of Firema Trasporti against Leonardo and AnsaldoBreda, was settled with a ruling stating the 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. The proceedings described above are still underway and are still in a phase of preliminary discussion.
  It is also recalled that Giorgio and Gianfranco Fiore also brought a third-party action

against Leonardo and AnsaldoBreda within the proceedings brought by Firema Trasporti under Extraordinary Administration before the Court of Naples, against the engineers themselves and a number of other defendants. 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 GMR (the third-party that voluntarily intervened in the proceedings in question) were inadmissible; accordingly, the Court ordered that Leonardo, AnsaldoBreda and GMR be dropped from action. On 2 March 2015 GMR filed an appeal before the Naples Court of Appeal against this order. Leonardo and AnsaldoBreda formally entered appearance; at present the appellate proceedings are under the decision phase. While pending the aforesaid appellate proceedings, the judge responsible for preliminary investigations was replaced in the action brought by Firema before the Court of Naples; on 17 June 2015 the new judge reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and ordered the resumption of the discussion of the case, which is still underway;

- the proceedings brought before the Court of Rome on 4 March 2013 by Mr Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei Italia Srl and of Progetto Cina Srl 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 plaintiffs in the writ of summons, the abovementioned 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 submitted against Leonardo, invoking the latter's general liability arising from the control exercised by it on 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 Progetto Cina Srl and a minority shareholder of Janua Dei Italia Srl intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. The parties will be called upon to specify the conclusions that they intend to submit to the Court during the next hearing to be held on 22 November 2017;
- the dispute between Ansaldo STS and Selex ES (SES) against the Russian company ZST relating to a contract signed in August 2010 between ZST, which had been awarded the contract to build the Sirth-Benghazi railway line in Libya, and the Joint Venture comprised of Ansaldo STS and SES, which was the sub-contractor for the signalling, automation, security and telecommunications works.
  On 12 August 2013, Ansaldo STS and SES filed a motion before the Court of Milan seeking a provisional remedy against the Russian company ZST, prohibiting it from enforcing the advance payment bond guarantees, issued by Crédit Agricole to guarantee the contract advances paid to the companies in the amount of around €mil. 70 for Ansaldo STS and €mil. 15.7 for Selex ES. The performance of the contract had been in fact suspended following the well-known events that occurred in Libya in early 2011. The preventive proceedings concluded with the Court granting the injunction only as to the amounts corresponding to the value of the activities performed up until the works were interrupted (equal to €mil. 29 for Ansaldo STS and to €mil. 3 for Selex ES). The bank therefore proceeded to make payment of the remaining amount.
  Therefore, ZST started arbitration proceedings before the Vienna International Arbitral Centre against Ansaldo STS and Selex ES seeking repayment of the full amount paid

on account of fees. On 6 May 2016 an award was issued, which ordered Ansaldo STS, jointly with SES, to pay an amount of €mil. 30, plus interest. Ansaldo STS and Selex ES, based on their respective shares of supply (€mil. 3.3 for Selex ES), have paid the amount required by the award and, therefore, the dispute can be considered to have been settled. It is also recalled that Leonardo has not provided any guarantee in relation to the aforesaid litigation within the transfer of Ansaldo STS to Hitachi.

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 SISTRI five-year contract, 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, subject to the criminal proceedings described above.
  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 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 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.

Finally, said Law also 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 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". 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 - Division specialising in business law. This action aims at seeking a declaration that the contract had expired on 30 November 2014.
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. The proceedings in question are still underway and the parties will be called upon to specify their conclusions before the judge responsible for preliminary investigations on 22 November 2017;

- the supply contract for 12 helicopters signed between AgustaWestland International Ltd and the Indian Ministry of Defence in 2010, worth around €mil. 560 in total, which is the object of the above described criminal proceedings. On 15 February 2013 the Indian Ministry of Defence sent a Show Cause Notice asking the company to provide information on the bribery alleged to have occurred in violation of the contract and the Pre-Contract Integrity Pact. In the letter, in addition to notifying the company that it was suspending payments, the Indian Government suggested that it could possibly cancel the contract if the company was unable to provide proof that is was not involved in the alleged corrupt conduct. The company promptly provided the information and documentation requested to the Indian authorities and also invited the Ministry to initiate bilateral discussions to settle the matter.
  Not having received any indication of interest on the part of the Indian Ministry in beginning a dialogue, on 4 October 2013 AgustaWestland International Ltd started arbitration proceedings provided for by the contract in New Delhi. On 21 October 2013, the Indian Ministry served the second Show Cause Notice requesting further documents and once again claiming violation of the Pre-Contract Integrity Pact. In a letter sent on that date, the Ministry also challenged the applicability of the arbitration clause contained in the contract. On 25 November 2013, the company appointed its own arbitrator, the Hon. Justice B.N. Srikrishna, a former justice of the Indian Supreme Court, inviting the Ministry to designate its own arbitrator within the next 60 days.
  On 1 January 2014, the Indian Ministry of Defence formally communicated its decision to cancel/terminate/rescind the contract, reserving the right to seek damages, provisionally estimated at an amount equal to about €mil. 648, and simultaneously notified the company that it had taken steps to execute the guarantees and counter-guarantees given in relation to the aforesaid contract in the total amount of €mil. 306. On the same date, the Indian Ministry, altering its stance as expressed on 21 October 2013, appointed its own arbitrator, the Hon. Justice B.P. Jeevan Reddy, a former judge of the Indian Supreme Court.
  On 7 August 2014 the International Chamber of Commerce of Paris appointed William W. Park, Professor of Law at the Boston University, to act as the third arbitrator.
  On 28 October 2014, the Indian Ministry of Defence filed a defence brief raising a number of preliminary objections challenging, among other things, whether the case could be referred to arbitration. The company, in addition to challenging such objections, will, once the decision on the preliminary questions is issued, restate the reasonableness of its claims, also in light of the ruling handed down by the Court of Busto Arsizio on 9 October 2014 in the context of the immediate trial against the former Chairman and Chief Executive Officer of Leonardo SpA and against the former Chief Executive Officer of AgustaWestland SpA. The arbitration proceedings are still underway.

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 SpA 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 net assets recognised in the Group's financial statements (€mil. 110), as well as the recognition of any compensation to be paid or received, are dependent upon the outcome of the proceedings underway.

21. Employee benefit obligations

	31 December 2016			31 December 2015		
	Liabilities	Assets	Net	Liabilities	Assets	Net
Severance pay provision	340	-	340	360	-	360
Defined-benefit plans	338	367	(29)	388	351	37
Defined-contribution plans	24	-	24	25	-	25
	702	367	335	773	351	422

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

	31 December 2016	31 December 2015
GBP area	(168)	(114)
Euro area	6	5
USD area	114	124
Other	19	22
	(29)	37

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

	31 December 2016	31 December 2015
Present value of obligations	(2,802)	(2,613)
Fair value of plan assets	2,831	2,576
Plan deficit	**29**	**(37)**
of which, related to:		
- net liabilities	(338)	(388)
- net assets	367	351

Changes in the defined-benefit plans are shown below:

31 December 2016

	Present value of obligations	Fair value of plan assets	Net liability defined-benefit plans
Opening balance	**2,613**	**2,576**	**37**
Transportation liabilities			-
Costs of benefits paid	57	-	57
Net interest expense	86	85	1
Remeasurement	561	623	(62)
- Actuarial losses/(gains) through equity - demographic assumption	*(15)*	-	*(15)*
- Actuarial losses/(gains) through equity - financial assumptions	*600*	-	*600*
- Actuarial losses/(gains) through equity resulting from adjustments based on the experience	*(23)*	*10*	*(33)*
- Expected return on plan assets (no interest)	*(1)*	*613*	*(614)*
Curtailments	(122)	(106)	(16)
Contributions paid		68	(68)
Contributions from other plan participants	13	13	-
Exchange-rate differences	(344)	(367)	23
Benefits paid	(62)	(61)	(1)
Other changes			-
Closing balance	**2,802**	**2,831**	**(29)**
of which, related to:			
- net liabilities	2,104	1,766	338
- net assets	698	1,065	(367)

31 December 2015

	Present value of obligations	Fair value of plan assets	Net liability defined-benefit plans
Opening balance	**2,492**	**2,431**	**61**
Transportation liabilities	(15)		(15)
Costs of benefits paid	30	-	30
Net interest expense	95	94	1
Remeasurement	(31)	(78)	47
- Actuarial losses/(gains) through equity - demographic assumption	*(2)*	*-*	*(2)*
- Actuarial losses/(gains) through equity - financial assumptions	*(34)*	*-*	*(34)*
- Actuarial losses/(gains) through equity resulting from adjustments based on the experience	*5*		*5*
- Expected return on plan assets (no interest)	*-*	*(78)*	*78*
Curtailments	(68)	(57)	(11)
Increase for business combinations	-	-	-
Contributions paid		78	(78)
Contributions from other plan participants	16	16	-
Exchange-rate differences	164	160	4
Benefits paid	(70)	(68)	(2)
Other changes			-
Closing balance	**2,613**	**2,576**	**37**
of which, related to:			
- net liabilities	2,045	1,657	388
- net assets	568	919	(351)

The amount recognised in the income statement for defined-benefit plans (including severance pay) was calculated as follows:

	2016	2015
Current service costs	58	78
Past service costs	-	(47)
Curtailments and settlements	(16)	(11)
Costs booked as “personnel expenses”	**42**	**20**
Net interest costs	5	6
Costs booked as “financial expenses”	**5**	**6**
	47	**26**

Changes in severance pay provision are shown below:

	31 December 2016	31 December 2015
Opening balance	**360**	**437**
Transportation liabilities		(35)
Costs of benefits paid	1	1
Net interest costs	4	5
Remeasurement	8	(12)
- Actuarial losses/(gains) through equity - financial assumptions	*8*	*(12)*
Benefits paid	(32)	(39)
Other changes	(1)	3
Closing balance	**340**	**360**

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

	Severance pay provision		Defined-benefit plans	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Discount rate (annual)	1.1%	1.5%	2.7%-3.2%	3.4%-4.1%
Rate of salary increase	n.a.	n.a.	3.55%-4.3%	3.5%-4.1%
Inflation rate	1.5%	1.6%	2.2%-5%	2.1%-4.9%

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

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

	Severance pay provision				Defined-benefit plans			
	31 December 2016		31 December 2015		31 December 2016		31 December 2015	
	-0.25%	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	6	(6)	7	(7)	109	(109)	125	(122)
Inflation rate	(3)	3	(5)	5	(79)	79	(76)	77

The average duration of the severance pay is 10 years while that of the other defined-benefit plans is 19 years.

The estimate of the contributions to be paid in 2017 related to defined-benefit plans is about €mil. 75.

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. In particular, there is the tendency to invest in bonds and investment funds.

Assets of defined-benefit plans include:

	31 December 2016	31 December 2015
Cash and cash equivalents	118	67
Shares	483	570
Debt instruments	1,115	923
Real properties	30	34
Derivatives	67	118
Investment funds	1,018	864
	2,831	2,576

22. Other current and non-current liabilities

	31 December 2016		31 December 2015	
	Non-current	Current	Non-current	Current
Employee obligations	47	322	47	327
Deferred income	114	93	97	66
Amounts due to social security institutions	-	164	5	170
Payables to MED (Law 808/1985)	307	106	324	66
Payables to MED for royalties (Law 808/1985)	196	31	181	27
Other liabilities (Law 808/1985)	190	-	193	-
Indirect tax liabilities	-	119	-	139
Derivatives	-	337	-	285
Other payables	301	868	268	766
Other payables to related parties (Note 34)	-	166	-	306
	1,155	2,206	1,115	2,152

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

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

"Other payables" include, in particular, the non-current payable due to Bell Helicopter amounting to €mil. 275 (€mil. 248 at 31 December 2015), 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 success of the programme.

23. Trade payables

	31 December 2016	31 December 2015
Suppliers	2,762	3,220
Trade payables to related parties (Note 34)	76	116
	2,838	3,336

24. Guarantees and other commitments

Leases

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

	31 December 2016		31 December 2015	
	Operat. lease as lessee	Operat. lease as lessor	Operat. lease as lessee	Operat. lease as lessor
Within 1 year	68	9	88	8
2 to 5 years	191	10	187	15
Beyond 5 years	141	4	168	-
	400	23	443	23

Guarantees

The Group had the following outstanding guarantees:

	31 December 2016	31 December 2015
Guarantees in favour of third parties	17,371	18,936
Other unsecured guarantees given to third parties	844	2,806
Unsecured guarantees given	18,215	21,742

The item mainly includes guarantees given to third parties while performing the contracts and to banks, as well as commitments in favour of the tax authorities.

25. Revenues

	2016	2015
Revenues from sales	6,752	7,785
Revenues from services	3,232	3,308
Change in work in progress	(61)	(195)
Revenues from related parties (Note 34)	2,079	2,097
	12,002	12,995

The trends in revenues by business segment are described in the section related to sectors' performance in the Report on Operations.

26. Other operating income/(expenses)

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	25	-	25	53	-	53
Other operating grants	17	-	17	5	-	5
Gains/(Losses) on sales of intangible asset, property, plant and equipment	10	(2)	8	18	(4)	14
Reversals/(Accruals) to provisions for risks, final losses on orders and impairment of receivables	440	(396)	44	468	(453)	15
Exchange-rate difference on operating items	190	(178)	12	189	(211)	(22)
Insurance reimbursements	4	-	4	30	-	30
Restructuring costs	-	(37)	(37)	3	(23)	(20)
Indirect taxes	-	(34)	(34)	-	(40)	(40)
Other operating income/(expenses)	51	(82)	(31)	44	(68)	(24)
Other operating income/(expenses) from/to related parties (Note 34)	5	(1)	4	13	(7)	6
	742	**(730)**	**12**	**823**	**(806)**	**17**

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil. 65 (€mil. 83 at 31 December 2015) are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 12) equal to €mil. 58 (€mil. 79 at 31 December 2015).

Restructuring costs include both costs incurred and accruals to the "restructuring provision". Costs and accruals relating to personnel are found under personnel expenses (Note 27).

27. Purchases and personnel expenses

	2016	2015
Purchase of materials from third parties	3,869	4,505
Change in inventories of raw materials	228	115
Costs for purchases from related parties (Note 34)	63	52
Purchases	**4,160**	**4,672**
Services rendered by third parties	3,150	3,868
Costs of rents and operating leases	105	104
Royalties	8	5
Software fees	19	12
Rental fees	20	28
Services rendered by related parties (Note 34)	108	138
Services	**3,410**	**4,155**
Wages and salaries	2,391	2,505
Social security contributions	493	511
Costs related to defined-contribution plans	108	110
Costs related to severance pay provision and other defined-benefit plans (Note 21)	42	20
Employee disputes	2	7
Restructuring costs - net	43	81
Other personnel expenses	79	66
Personnel expenses	**3,158**	**3,300**
Change in finished goods, work in progress and semi-finished goods	***170***	***(87)***
Internal work capitalised	***(349)***	***(435)***
Total purchases and personnel expenses	**10,549**	**11,605**

In terms of personnel expenses, this item decreased by €mil. 142 due to the impact related to the change in the average workforce and to the decrease in restructuring costs.

Restructuring costs equal to €mil. 43 (€mil. 81 in 2015) mainly related to: *Electronics, Defence & Security Systems* (€mil. 31), *Aeronautics* (€mil. 8) and *Helicopters* (€mil. 4) for costs incurred and provisions allocated against on-going reorganisation activities.

The average workforce at 31 December 2016 significantly decreased (1,288 units) in comparison with 31 December 2015 mainly due to the *Electronics, Defence & Security Systems* (492 units of which 270 units in Italy), *Helicopters* (352 units, of which 106 units in Italy) and *Aeronautics* (328 units) sectors, in addition to the change deriving from the sale of FATA (210 units).

The decrease, in addition to the component related to the sale of the FATA Group (207 units), was also due to the streamlining and efficiency improvement processes, mainly attributable to the *Helicopters* (638 units, of which 178 units in Italy) and *Electronics, Defence & Security Systems* (615 units, of which 320 units in Italy).

In particular, the reduction on the foreign component is about 51% of the total decrease.

	Average workforce			Total workforce		
	31 December 2016	31 December 2015	Change	31 December 2016	31 December 2015	Change
Senior managers (*)	1,143	1,276	(133)	1,134	1,231	(97)
Middle managers	5,372	5,359	13	5,301	5,471	(170)
Clerical employees	26,680	27,331	(651)	26,915	27,587	(672)
Manual labourers (**)	12,614	13,131	(517)	12,281	12,867	(586)
	45,809	**47,097**	**(1,288)**	**45,631**	**47,156**	**(1,525)**

(*) Includes pilots.
(**) Includes senior manual labourers.

28. Amortisation, depreciation and impairment losses

	2016		2015	
Amortisation of intangible assets		335		315
Development costs	*62*		*72*	
Non-recurring costs	*113*		*80*	
Acquired through business combinations	*97*		*98*	
Concessions, licences and trademarks	*14*		*8*	
Other intangible assets	*49*		*57*	
Depreciation of property, plant and equipment		365		377
Impairment of operating receivables		57		70
Impairment of other assets		21		22
		778		**784**

The impairment of receivables mainly refers to impairments carried out for receivables from countries considered at risk. The impairment of other assets refers to the write-down of development costs (€mil. 13) mainly related to the *Aeonautics* sector.

29. Financial income and expenses

Below is a breakdown of financial income and expenses:

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Interest	5	(259)	(254)	10	(288)	(278)
Premiums received/(paid) on IRS	6	(6)	-	6	(6)	-
Commissions on borrowings	-	(14)	(14)	-	(18)	(18)
Other commissions	2	(9)	(7)	4	(13)	(9)
Income/(Expenses) from equity investments and securities	14	(52)	(38)	25	(7)	18
Fair value gains/(losses) through profit or loss	48	(11)	37	13	(20)	(7)
Premiums (paid)/received on forwards	32	(44)	(12)	12	(13)	(1)
Exchange-rate differences	336	(318)	18	270	(291)	(21)
Interest cost on defined-benefit plans (Note 21)	-	(5)	(5)	-	(6)	(6)
Financial income/(expenses) - related parties (Note 34)	33	(5)	28	3	(8)	(5)
Other financial income and expenses	17	(92)	(75)	13	(119)	(106)
	493	**(815)**	**(322)**	**356**	**(789)**	**(433)**

Overall the item improved by €mil. 111, mainly as a result of the reduction in other financial charges (which in 2015 included €mil. 48 related to the buy-back of bonds) and of the consequent interest reduction, in addition to exchange gains, which had a positive effect also on the fair value of derivatives in portfolio. This improvement is partially offset by the effects of the extraordinary transactions. In detail:

- net interest expenses decreased by €mil. 24. The item includes €mil. 246 (€mil. 271 in 2015) related to interest on bonds and €mil. 7 (€mil. 8 in 2015) related to the interest on the EIB loan. The figure of interest on bonds benefitted, as mentioned above, from the effects of the buy-back transactions carried out in the second half of 2015;
- the expenses arising from the application of fair value break down as follows:

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Exchange-rate swaps	1	-	1	1	-	1
Interest-rate swaps	-	(1)	(1)	1	(1)	-
Ineffective portion of hedging swaps	38	(10)	28	11	(18)	(7)
Embedded derivatives	9	-	9	-	(1)	(1)
	48	**(11)**	**37**	**13**	**(20)**	**(7)**

- costs from equity investments and securities include the results of the sales concluded during the year, while in 2015 these included net income linked to the sale of some activities of DRS;
- other net financial expenses mainly refer to the discounting effects on non-current liabilities. The figure of the prior year was affected, as previously said, by the recognition of charges related to the buy-back transactions carried out in 2015.

30. Income taxes

Income taxes can be broken down as follows:

	2016	2015
IRES	(14)	-
IRAP	(23)	(26)
Other income taxes (foreign)	(65)	(88)
Tax related to previous periods	4	7
Provisions for tax disputes	(36)	(79)
Deferred tax - net	(24)	(7)
	(158)	**(193)**

Following is an analysis of the difference between the theoretical and effective tax rate for 2016 and 2015:

	2016	2015
Profit/(Loss) before income taxes	**665**	**720**
Percentage impact of Italian and foreign taxes		
IRES (net of tax receipts)	2.1%	n.a.
IRAP	3.5%	3.6%
Other income taxes (foreign)	9.8%	12.2%
Substitute taxes		
Tax related to previous periods	(0.6%)	(1.0%)
Provisions for tax disputes	5.4%	11.0%
Deferred tax - net	3.6%	1.0%
Effective rate	**23.8%**	**26.8%**

Deferred taxes and related receivables and payables at 31 December 2016 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. 164 is related to the tax consolidation mechanism (about €bil. 0.8 of unrecognised losses).

	2016			2015		
	Income statement			Income statement		
	Income	Expenses	Net	Income	Expenses	Net
Deferred tax assets on tax losses	78	66	12	32	5	27
Property, plant and equipment and intangible assets	50	19	31	55	20	35
Financial assets and liabilities	1	4	(3)	-	13	(13)
Severance pay and retirement benefits	-	8	(8)	2	16	(14)
Provision for risks and impairment	116	163	(47)	182	189	(7)
Effect of change in tax rate	(9)	(2)	(7)	(66)	(20)	(46)
Other	78	80	(2)	99	88	11
Deferred taxes recognised through profit or loss	**314**	**338**	**(24)**	**304**	**311**	**(7)**

	31 December 2016			31 December 2015		
	Balance sheet			Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	311	-	311	299	-	299
Property, plant and equipment and intangible assets	77	239	(162)	59	290	(231)
Severance pay and retirement benefits	8	27	(19)	4	1	3
Financial assets and liabilities	-	-	-	5	21	(16)
Provision for risks and impairment	646	-	646	665	-	665
Other	97	105	(8)	128	71	57
Offsetting	(38)	(38)	-	(116)	(116)	-
Deferred taxes recognised through balance sheet	**1,101**	**333**	**768**	**1,044**	**267**	**777**
Cash-flow hedge derivatives	31	1	30	8	1	7
On actuarial gains and losses	99	57	42	107	57	50
Deferred taxes recognised through equity	**130**	**58**	**72**	**115**	**58**	**57**
	1,231	**391**	**840**	**1,159**	**325**	**834**

31. Assets held for sale and discontinued operations

In 2016 there are no discontinued operations. This item, in 2015, included the result of the businesses of the Transportation sector sold to the Hitachi Group:

	2016	2015
Revenues	-	1,838
Purchases and personnel expenses	-	(1,746)
Amortisation, depreciation and impairment losses	-	(20)
Other operating income/(expenses)	-	(22)
Income before tax and financial expenses	**-**	**50**
Financial income/(expenses)	-	(8)
Income taxes	-	(32)
Profit/(Loss) for the period	**-**	**10**
Capital gain on disposal of Transportation segment	-	248
Profit/(Loss) from discontinued operations	**-**	**258**
- *Measurement of defined-benefit plans*	-	-
- *Changes in cash-flow hedges*	-	(42)
- *Translation differences*	-	(7)
Other comprehensive income/(expenses)	**-**	**(49)**
Total comprehensive income/(expenses)	**-**	**209**

The figure related to assets held for sale includes the value of an asset owned by Leonardo Global Solutions, under disposal. The prior year balance-sheet figure mainly included assets and liabilities related to the companies of the FATA Group included in the scope of the sale to the Danieli Group (the transaction completed in March 2016 is described in the section “Industrial and financial transactions” of the Report on Operations). This item breaks down as follows:

	31 December 2016	31 December 2015
Non-current assets	14	21
Current assets	-	60
Assets	**14**	**81**
Adjustment to selling price	-	
Assets held for sale	**14**	**81**
Non-current liabilities	-	3
Current liabilities	-	74
Liabilities associated with assets held for sale	**-**	**77**

32. 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.

	2016	2015
Average shares outstanding during the reporting period (in thousands)	574,543	578,034
Earnings for the period (excluding non-controlling interests) (€ millions)	505	487
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	505	265
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	-	222
Basic and diluted EPS (€)	**0.879**	**0.843**
Basic and diluted EPS from continuing operations (€)	*0.879*	*0.458*
Basic and diluted EPS from discontinued operations (€)	*n.a.*	*0.385*

33. Cash flows from operating activities

	2016	2015
Net result	507	527
Amortisation, depreciation and impairment losses	778	784
Share of profits/(losses) of equity-accounted investees	(300)	(272)
Income taxes	158	193
Cost of severance pay provision and other defined-benefit plans	42	20
Net financial expenses/(income)	322	433
Net allocations to the provisions for risks and inventory write-downs	191	219
Profit from discontinued operations	-	(258)
Other non-monetary items	(7)	34
	1,691	**1,680**

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

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:

	2016	2015
Inventories	185	38
Contract work in progress and progress payments and advances from customers	191	(423)
Trade receivables and payables	(605)	(252)
Change in trade receivables/payables, work in progress/ progress payments and inventories	**(229)**	**(637)**

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:

	2016	2015
Payment of pension plans	(102)	(117)
Changes in provisions for risks and other operating items	(243)	122
Change in other operating assets and liabilities and provisions for risks and charges	**(345)**	**5**

34. 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 2016

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10				10		**10**
Associates						
NHIndustries SAS				198		**198**
Eurofighter Jagdflugzeug GmbH				76		**76**
Iveco - OTO Melara Scarl				36		**36**
Macchi Hurel Dubois SAS				20		**20**
Orizzonte - Sistemi Navali SpA				23		**23**
AgustaWestland Aviation Services LLC						**-**
Other with unit amount lower than €mil. 10			1	33	1	**35**
Joint Ventures						
GIE ATR				61		**61**
Joint Stock Company Helivert				53		**53**
MBDA SAS				22	1	**23**
Thales Alenia Space SAS			34	21	1	**56**
Telespazio SpA	1		2	12		**15**
Rotorsim USA LLC				10		**10**
Other with unit amount lower than €mil. 10				2	1	**3**
Consortia (*)						
Other with unit amount lower than €mil. 10			3	15		**18**
Companies subject to the control or considerable influence of the MEF						
ENAV SpA				29		**29**
Poste Italiane SpA				16		**16**
Fintecna SpA				12		**12**
Other				18		**18**
Total	**1**	**-**	**40**	**667**	**4**	**712**
% against total for the period	***3.6%***	***n.a.***	***40.8%***	***19.5%***	***1.7%***	

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

Receivables at 31 December 2015

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10			-	8	1	**9**
Associates						
NHIndustries SAS				174		**174**
Eurofighter Jagdflugzeug GmbH				62		**62**
Iveco - OTO Melara Scarl				20		**20**
Macchi Hurel Dubois SAS				20		**20**
Orizzonte - Sistemi Navali SpA				10		**10**
Euromids SAS				10		**10**
AgustaWestland Aviation Services LLC				10		**10**
Other with unit amount lower than €mil. 10			5	22		**27**
Joint Ventures						
GIE ATR				69		**69**
Closed Joint Stock Company Helivert				51		**51**
MBDA SAS				23		**23**
SuperJet International SpA			100	60	5	**165**
Thales Alenia Space SAS			12	24	1	**37**
Other with unit amount lower than €mil. 10	3		2	18	1	**24**
Consortia (*)						
Other with unit amount lower than €mil. 10			3	16		**19**
Companies subject to the control or considerable influence of the MEF						
ENAV SpA				30		**30**
Fintecna SpA				10		**10**
Other				23		**23**
Total	3	-	122	660	8	793
% against total for the period	*10%*	*n.a.*	*125%*	*19%*	*3%*	

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

Payables at 31 December 2016

	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10			4	5		**9**	
Associates							
Eurofighter Jagdflugzeug GmbH			38			**38**	
Other with unit amount lower than €mil. 10			4	25	5	**34**	
Joint Ventures							
MBDA SAS			440	7	1	**448**	47
GIE ATR				2	148	**150**	
Rotorsim USA LLC				14		**14**	
Telespazio SpA			14	1	5	**20**	228
Other with unit amount lower than €mil. 10				11		**11**	
Consortia (*)							
Other with unit amount lower than €mil. 10				2	1	**3**	
Companies subject to the control or considerable influence of the MEF							
Other			2	9	6	**17**	
Total	-	-	502	76	166	744	275
% against total for the period	*n.a.*	*n.a.*	*39.6%*	*2.7%*	*9.3%*		

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

Payables at 31 December 2015

	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10				16	9	**25**	
Associates							
Eurofighter Jagdflugzeug GmbH			56			**56**	
Other with unit amount lower than €mil. 10			4	26	5	**35**	
Joint Ventures							
MBDA SAS			332	9	1	**342**	47
GIE ATR				25	259	**284**	
Rotorsim USA LLC				13		**13**	
Telespazio SpA			2	5	4	**11**	211
SuperJet International SpA				2	19	**21**	8
Other with unit amount lower than €mil. 10			1	11	2	**14**	
Consortia (*)							
Other with unit amount lower than €mil. 10				1	1	**2**	
Companies subject to the control or considerable influence of the MEF							
Other	2		4	8	6	**20**	
Total	**2**	**-**	**399**	**116**	**306**	**823**	**266**
% against total for the period	***n.a.***	***n.a.***	***31.5%***	***4.1%***	***17.2%***		

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

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

Current loans and receivables, trade payables and other current payables to related parties mainly refer to receivables and payables from/to Joint Ventures.

Loans and borrowings from related parties include in particular the amount of €mil. 440 (€mil. 332 at 31 December 2015) due by Group companies to the Joint Venture MBDA and payables of €mil. 38 (€mil. 56 at 31 December 2015) to Eurofighter, of which Alenia Aeronautica owns 21%. 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 2016

	Revenues	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Cardprize TWO Ltd			11			
Other with unit amount lower than €mil. 10	1		6			
Associates						
Eurofighter Jagdflugzeug GmbH	703					
NHIndustries SAS	343					
Orizzonte - Sistemi Navali SpA	206					
Iveco - OTO Melara Scarl	123					3
Macchi Hurel Dubois SAS	73					
AgustaWestland Aviation Services LLC	12					
Atitech Manufactoring Srl			16			
Other with unit amount lower than €mil. 10	31		17	1		
Joint Ventures						
GIE ATR	331		62			
MBDA SAS	51					2
Thales Alenia Space SAS	69					
SuperJet International SpA	21				2	
Telespazio SpA					1	
Rotorsim Srl		3	16			
Other with unit amount lower than €mil. 10	11	1	16			
Consortia (*)						
Other with unit amount lower than €mil. 10	4		2			
Companies subject to the control or considerable influence of the MEF						
ENAV SpA	37					
Poste Italiane SpA	29					
Cassa Depositi e prestiti Equity					30	
Eni SpA			16			
Other	34	1	9			
Total	**2,079**	**5**	**171**	**1**	**33**	**5**
% against total for the period	***17.3%***	***0.7%***	***1.6%***	***0.1%***	***6.7%***	***0.6%***

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

Income statement transactions at 31 December 2015

	Revenues	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Finmeccanica UK Ltd			11			
Cardprize TWO Ltd			13			
Other with unit amount lower than €mil. 10			6			
Associates						
Eurofighter Jagdflugzeug GmbH	857					1
NHIndustries SAS	331	9				
Orizzonte - Sistemi Navali SpA	194					
Iveco - OTO Melara Scarl	62					3
Macchi Hurel Dubois SAS	66					
AgustaWestland Aviation Services LLC	12					
Other with unit amount lower than €mil. 10	21		27	7		
Joint Ventures						
GIE ATR	284		47			
MBDA SAS	89					4
Thales Alenia Space SAS	46					
SuperJet International SpA	18				2	
Telespazio SpA	3		19		1	
Rotorsim Srl	2	3	20			
Other with unit amount lower than €mil. 10	5	1	16			
Consortia (*)						
Other with unit amount lower than €mil. 10	3		2			
Companies subject to the control or considerable influence of the MEF						
ENAV SpA	20					
Expo 2015 SpA	20					
Poste Italiane SpA	29					
Eni SpA			16			
Fintecna SpA	10					
Other	25		13			
Total	**2,097**	**13**	**190**	**7**	**3**	**8**
% against total for the period	***17.5%***	***1.8%***	***1.8%***	***(0.9%)***	***0.6%***	***1.0%***

(*) Consortia over which the Group exercises considerable influence.

The most significant trade receivables and revenues, in addition to those from Joint Ventures, are related to:

- Eurofighter in the scope of the EFA aeronautical programme;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (VBM Freccia and PZH2000 self-propelled vehicle for the Italian Army);
- NHIndustries in the scope of the NH90 helicopter programme;
- Orizzonte - Sistemi Navali for the FREMM programme;
- Macchi Hurel Dubois for the commercialisation of nacelles.

35. Financial risk management

The Leonardo Group is exposed to financial risks associated with its operations, specifically related to these types of risks:

- interest-rate risks, related to the Group's financial exposure;
- exchange-rate risks, related to operations in currencies other than the reporting currency;
- liquidity risks, relating to the availability of financial resources and access to the credit market;
- credit risks, resulting from normal commercial transactions or financing activities.

Leonardo carefully and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Interest-rate risk

The Leonardo Group is exposed to interest-rate risk on borrowings. The management of interest-rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related borrowing costs.

To that regard and with reference to borrowings equal to €mil. 5,278 at 31 December 2016 the fixed-rate percentage amounted to around 86%, while the floating-rate percentage is around 14%.

Therefore, at the date of these financial statements, the interest-rate risk exposure is moderate since the derivatives to hedge floating interest rates terminated or have been completed earlier.

At 31 December 2016, the outstanding transactions were the following:

- *interest-rate swaps fixed/floating/fixed rate* for €mil. 200 related to the issue due 2018 (totalling €mil. 500), which guarantees a fixed rate of 5.30% compared to the bond issue rate of 5.75%. Therefore, the average interest rate related to this issue is 5.57%;
- *options* for €mil. 200 (CAP and Knock out at 4.20% 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 of the transaction, 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, or against an unfavourable floating-rate indebtedness.

The detail of the main interest-rate swaps at 31 December 2016 is as follows:

	Notional		Underlying (maturity)	Fair value 1 January 2016	Changes			Fair value 31 December 2016
	2016	2015			Income	Expenses	CFH reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	3	-	-	-	3
Options	200	200	Bond 2025	(4)		(1)	-	(5)
Total notional	**400**	**400**		**(1)**	**-**	**(1)**	**-**	**(2)**

	Notional		Underlying (maturity)	Fair value 1 January 2015	Changes			Fair value 31 December 2015
	2015	2014			Income	Expenses	CFH reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	4	-	(1)	-	3
Options	200	200	Bond 2025	(5)	1		-	(4)
Total notional	**400**	**400**		**(1)**	**1**	**(1)**	**-**	**(1)**

The table below shows the effects of the sensitivity analysis for 2016 and 2015 deriving from the 50-basis-point shift in the interest rate at the reporting date:

Effect of shift of interest-rate curve

	31 December 2016		31 December 2015	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	3	(3)	(1)	1
Equity (*)	3	(3)	(1)	1

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

Exchange-rate disk

Transaction risk

Due to its commercial operations, the Group's companies are exposed to the risk of fluctuations in the currencies related to those cases in which orders, revenue and costs are expressed in currencies other than the functional one used in the financial statements (specifically, US dollars and, to a lesser extent, the pound sterling).

Exchange-rate risk management is governed by the directive in force within the Group. The purpose of the directive is to standardise management criteria based on industrial-not-speculative strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency transaction positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralising the effects of exchange-rate fluctuations. As a result, contracts for purchases or sales denominated in a currency different from the functional currency are hedged using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position.

The effectiveness of the hedge is tested at least 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 or 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 4.2).

These transactions are mainly carried out with banks by Leonardo in the interest of the fully owned entities and then matched with the companies of the Group, which reflect the relevant impacts in their balance sheet and income statement.

At 31 December 2016 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 6,766 (notional amount) (a decrease of around 1% over the year-earlier period), as reported in the table below. Overall, the average euro/US dollar exchange rate for hedging purposes is 1.1770 on sales and about 1.251 on purchases relating in particular to the portfolio of the Aeronautics Division, whose exposure represents about 75% of the Group's portfolio hedging transaction risk.

	Notional			Fair value 1 January 2016	Changes				Fair value 31 December 2016
	Sales	Purchases	Total		Discontinued operations	Income	Expenses	CFH reserve	
Swap and forward transactions	2,757	4,009	6,766	(150)		48	(10)	(58)	(170)

	Notional			Fair value 1 January 2015	Changes				Fair value 31 December 2015
	Sales	Purchases	Total		Discontinued operations	Income	Expenses	CFH reserve	
Swap and forward transactions	3,559	3,254	6,813	(55)	(30)	12	(19)	(58)	(150)

The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2016				31 December 2015			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges								
Within 1 year	1,370	62	547	1,365	1,722	28	1,017	1,319
2 to 3 years	732	9	317	323	1,333	20	313	14
4 to 9 years	65	-	136	382	117	2	-	-
Total	**2,167**	**71**	**1,000**	**2,070**	**3,172**	**50**	**1,330**	**1,333**
Hedging transactions which cannot be classified as hedging transactions	**567**	**3**	**567**	**3**	**424**	**3**	**424**	**3**
Total transactions	2,734	74	1,567	2,073	3,596	53	1,754	1,336

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 2016 (1.0541 and 0.8562 respectively), and 31 December 2015 (1.0887 and 0.7340 respectively).

	31 December 2016				31 December 2015			
	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 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%
Net result	4	(1)	1	(5)	10	(3)	10	(12)
Equity (*)	(32)	39	30	(33)	(6)	(10)	41	(46)

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

Translation risk

The Group is also significantly exposed to "translation risk", i.e. the risk that assets and liabilities in consolidated companies whose reporting currency is not the euro (mainly US dollars and pound sterling) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named "Translation reserve" (Note 18). 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 United States and in the United Kingdom.

The main equity holdings in the United Kingdom had an overall 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 18.

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 commercial markets and with the effects of the current reorganisation of the Group, specifically with regard to the financial outlays relating to efficiency-improvement processes and to activities linked to business contracts at risk of renegotiation or termination. Furthermore, there is the risk of not being able to repay or refinance debts at the expiry dates.

In order to face the abovementioned risks, the Group has adopted a series of instruments aimed at optimising the management of financial resources through banking transactions and bonds. The average maturity of the bonded debt is about 6.8 years.

Leonardo is the issuer of all the bonds in euro and pound sterling placed on the market related to the EMTN programme.
The EMTN programme, under which all the outstanding bonds of Leonardo have been issued, was used in the amount of about €mil. 3,187 at 31 December 2016 compared to the total amount of €mil. 4,000. To such amount the bonds issued on the US market by the subsidiary Meccanica Holding USA Inc. must be added for a total gross value of USDmil. 1,300.

Furthermore, Leonardo in order to finance its own ordinary and extraordinary operations, can use the cash and cash equivalents of €mil. 2,167 reported at 31 December 2016 related to Leonardo SpA (€mil. 1,747), to Group companies that, for different reasons, do not fall within the scope of the treasury centralisation (€mil. 420) and for the remaining part, to cash amounts of the companies falling, directly or indirectly, within the scope of the treasury centralisation (also as a result of collections made in the very last days of the period), and to deposits made for different reasons.

To meet the financing needs for ordinary Group activities, Leonardo obtained a Revolving Credit Facility that, in order to take advantage of favourable market conditions and considering the industrial efficiency-enhancement actions undertaken, as well as the Group's improved business and financial outlook, on 6 July 2015, it renegotiated with the providers reducing the margin from 180 bps to 100 bps. In line with the Group's financial needs, Leonardo has simultaneously reduced the total amount of the credit line from €mil. 2,200 to €mil. 2,000 and has extended the duration by one year, to July 2020.

At 31 December 2016 the credit line, including the financial covenants described in the "Industrial and financial transactions" section, was entirely unused.

Leonardo had additional unconfirmed short-term lines of credit of €mil. 725, which also were entirely unused at 31 December 2016.

Furthermore, it should be noted that the entry into force of the new business contracts is subject to the Group's ability to issue, in favour of the customers, the necessary bank and insurance guarantees. To this end, at 31 December 2016 Leonardo had unconfirmed credit lines for an amount of about €mil. 3,799 at banks. Finally, owing to the nature of the Group's customers, which involves longer collection times than in other sectors, the Group enters into factoring transactions typically under terms which enable the derecognition of the receivables sold.

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 United Kingdom and the United States. 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).

Moreover, 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 2016, we note the following relations with countries exposed to credit risk according to the international institutions:

	Lybia	Egypt	Other countries	Total
Assets	70	24	5	99
Liabilities	52	10	2	64
Net exposure	**18**	**14**	**3**	**35**

Finally the receivables related to these agreements, as reported in “Leonardo and risk management” in the Report on Operations, might not be paid, renegotiated or written off. In particular, among receivables there are receivables linked to the SISTRI programme and to the supply to the Indian Government – already described in Note 20 – as well as amounts receivable from Piaggio Aero Industries (gross amount of €mil. 118) which is currently defining a restructuring plan that envisages also the rescheduling of the company’s borrowings, and from Roma TPL SpA (€mil. 40) for the supply of buses made by BredaMenarinibus.

The table below summarises trade receivables at 31 December 2016 and 2015, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

€ billions	31 December 2016	31 December 2015
Portion due	1.7	1.9
- of which: from more than 12 months	*0.8*	*0.9*
Portion not yet due	1.7	1.6
Total trade receivables	**3.4**	**3.5**

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.

Receivables from financing activities, amounting to €mil. 126 (€mil. 205 at 31 December 2015) include €mil. 28 (€mil. 38 at 31 December 2015) classified as "non-current" and consequently excluded from the net financial position (vice versa, the non-current receivable from SuperJet is included within the "Group net debt" indicator, as indicated in Note 19). Loans and receivables are broken down in the table below:

Loans and receivables

	31 December 2016	31 December 2015
Loans and receivables from related parties	1	3
Non-current financial receivables from SuperJet	65	-
Other loans and receivables	27	35
Non-current loans and receivables	**93**	**38**
Loans and receivables from related parties	40	122
Other loans and receivables	58	45
Current loans and receivables	**98**	**167**
Total loans and receivables	**191**	**205**

Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued on an aggregate basis, using historical series and statistical data.

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"), in particular the foreign exchange rate and the interest rate (spot exchange rates and forwards). Vice versa, the fair value of the remaining 15% in Ansaldo Energia, subject to put & call options (classified under other current assets), as well as of 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"). In particular, the fair value of the stake in Ansaldo Energia was calculated on the basis of the price of the sale, as established in the related agreements. 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 success of the programme.

	31 December 2016			31 December 2015		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	-	-	-	131	131
Other current assets	165	138	303	134	-	134
Other non-current liabilities	-	275	275		248	248
Other current liabilities	337	-	337	285		285

36. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA is €mil. 8 (€mil. 3 at 31 December 2015).

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 1 for 2016 and 2015. This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

37. Share-based payments

As largely reported in the section "Leonardo and sustainability" of the Report on Operations, in order to implement an incentive and retention system for the Group's employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2016 to €mil. 6 (€mil.1 in 2015).

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 (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017) and 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).

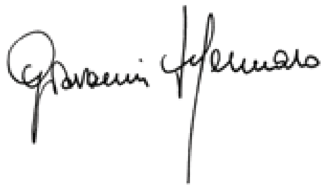
Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value ("adjusted fair value"). The adjusted fair value, calculated using the "Monte Carlo" method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90 with reference to the first three-year cycle (2015-2017) and to €3.88 with reference to the second three-year cycle (2016-2018).

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 respect of the bonus shares (“matching shares”) the requirements for the award of the rights have not yet been fulfilled.

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



ATTACHMENT: SCOPE OF CONSOLIDATION

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	CAD	-		100	100
AGUSTA AEROSPACE SERVICES AAS SA	Grace Hollogne (Belgium)	EUR	500,000	99.00	1.00	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Sydney (Australia)	AUD	400,000	100		100
AGUSTAWESTLAND DO BRASIL LTDA	São Paulo (Brazil)	BRL	11,817,172	99.00	1.00	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	GBP	40,000	100		100
AGUSTAWESTLAND INDIA PRIVATE LTD	New Delhi (India)	INR	11,519,450		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Yeovil, Somerset (UK)	GBP	511,000		100	100
AGUSTAWESTLAND LTD	Yeovil, Somerset (UK)	GBP	1,520,304	100		100
AGUSTAWESTLAND MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	2,500,000	100		100
AGUSTAWESTLAND NORTH AMERICA INC.	Wilmington, Delaware (USA)	USD	1		100	100
AGUSTAWESTLAND PHILADELPHIA CO.	Wilmington, Delaware (USA)	USD	20,000,000	100		100
AGUSTAWESTLAND POLITECNICO ADVANCED ROTORCRAFT CENTER SC A RL (IN LIQ.)	Milan	EUR	400,000		80.00	80.00
AGUSTAWESTLAND PORTUGAL SA	Lisbon (Portugal)	EUR	100,000	100		100
AGUSTAWESTLAND SPA	Rome	EUR	702,537,000	100		100
ALENIA AERMACCHI NORTH AMERICA INC.	Wilmington, Delaware (USA)	USD	44		100	100
ALENIA AERMACCHI SPA	Rome	EUR	250,000,000	100		100
ANSALDOBREDA SPA	Naples	EUR	55,839,139	100		100
BREDAMENARINIBUS SPA	Bologna	EUR	1,300,000	100		100
DRS ADVANCE ISR LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	USD	1		100	100
DRS CONSOLIDATED CONTROLS INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS DEFENSE SOLUTIONS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS ENVIRONMENTAL SYSTEMS INC.	Wilmington, Delaware (USA)	USD	2		100	100
DRS GLOBAL ENTERPRISE SOLUTIONS INC.	Baltimore, Maryland (USA)	USD	50		100	100
DRS HOMELAND SECURITY SOLUTIONS INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS INTERNATIONAL INC.	Wilmington, Delaware (USA)	USD	1		100	100

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
DRS NETWORK & IMAGING SYSTEMS LLC	Wilmington, Delaware (USA)	USD	1		100	100
DRS POWER & CONTROL TECHNOLOGIES INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS POWER TECHNOLOGY INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS RADAR SYSTEMS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS SIGNAL SOLUTIONS INC.	Wilmington, Delaware (USA)	USD	10		100	100
DRS SURVEILLANCE SUPPORT SYSTEMS INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS SUSTAINMENT SYSTEMS INC.	Wilmington, Delaware (USA)	USD	1,000		100	100
DRS SYSTEMS MANAGEMENT LLC	Wilmington, Delaware (USA)	USD	1		100	100
DRS SYSTEMS INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS TACTICAL SYSTEMS LTD	Farnham, Surrey (UK)	GBP	1,000		100	100
DRS TECHNICAL SERVICES GMBH & CO. KG	Stuttgart (Germany)	EUR	-		100	100
DRS TECHNOLOGIES CANADA INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS TECHNOLOGIES CANADA LTD	Kanata, Ontario (Canada)	CAD	100		100	100
DRS TECHNOLOGIES SAUDI ARABIA LLC	Riyadh (Saudi Arabia)	SAR	2,000,000		49.00	100
DRS TECHNOLOGIES UK LTD	Farnham, Surrey (UK)	GBP	14,676,000		100	100
DRS TECHNOLOGIES VERWALTUNGS GMBH	Baden-Wurttemberg (Germany)	EUR	25,000		100	100
DRS TECHNOLOGIES INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee, Florida (USA)	USD	510		100	100
DRS TSI INTERNATIONAL LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS UNMANNED TECHNOLOGIES INC.	Wilmington, Delaware (USA)	USD	1		100	100
ED CONTACT SRL	Rome	EUR	600,000		100	100
ELECTRON ITALIA SRL	Rome	EUR	206,582		100	100
ENGINEERED COIL COMPANY	Jefferson City, Missouri (USA)	USD	1,000		100	100
ENGINEERED SUPPORT SYSTEMS INC.	Jefferson City, Missouri (USA)	USD	1		100	100
ESSI RESOURCES LLC	Frankfort, Kentucky (USA)	USD	-		100	100

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)	EUR	100,000		100	100
GLOBAL NETWORK SERVICES LLC	Wilmington, Delaware (USA)	USD	1		100	100
LARIMART SPA	Rome	EUR	2,500,000	60.00		60.00
LASERTEL INC.	Tucson, Arizona (USA)	USD	10		100	100
LAUREL TECHNOLOGIES PARTNERSHIP	Wilmington, Delaware (USA)	USD	-		100	100
LEONARDO GLOBAL SOLUTIONS SPA	Rome	EUR	49,945,983	100		100
LEONARDO MW LTD	Basildon, Essex (UK)	GBP	270,000,100	100		100
MECCANICA HOLDINGS USA INC.	Wilmington, Delaware (USA)	USD	10	100		100
OTO MELARA IBERICA SAU	Loriguilla, Valencia (Spain)	EUR	120,000	100		100
OTO MELARA NORTH AMERICA LLC	Wilmington, Delaware (USA)	USD	10,000		100	100
PCA ELECTRONIC TEST LTD	Grantham, Lincolnshire (UK)	GBP	1		100	100
PIVOTAL POWER INC.	Halifax, Nova Scotia (Canada)	CAD	-		100	100
REGIONALNY PARK PRZEMYSLOWY ŚWIDNIK SP Z OO	Mechaniczna 13 - U1, Świdnik (Poland)	PLN	7,072,000		74.00	73.00
S.C. ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)	RON	10,847,960		100	100
SELEX ELSAG LTD	Basildon, Essex (UK)	GBP	25,800,100		100	100
SELEX ES AUSTRALIA PTY LTD	Canberra (Australia)	AUD	2		100	100
SELEX ES DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	5,686,457		100	100
SELEX ES ELEKTRONIK TURKEY AS	Ankara (Turkey)	TRY	79,557,009		100	100
SELEX ES GMBH	Neuss (Germany)	EUR	2,500,000		100	100
SELEX ES INC.	Wilmington, Delaware (USA)	USD	1		100	100
SELEX ES INDIA PRIVATE LTD	New Delhi (India)	INR	30,100,000		100	100
SELEX ES INTERNATIONAL LTD	Basildon, Essex (UK)	GBP	60,000,000	100		100
SELEX ES LTD	Basildon, Essex (UK)	GBP	71,500,001		100	100
SELEX ES MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	500,000		100	100
SELEX ES SPA	Rome	EUR	1,000,000	100		100
SELEX ES SAUDI ARABIA LTD	Riyadh (Saudi Arabia)	SAR	500,000		100	100

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
SELEX ES TECHNOLOGIES LTD	Nairobi (Kenya)	KES	109,600,000	4.00	96.00	100
SELEX GALILEO INC.	Wilmington, Delaware (USA)	USD	17,750,000		100	100
SELEX SERVICE MANAGEMENT SPA (IN LIQ.)	Rome	EUR	3,600,000		100	100
SIRIO PANEL SPA	Montevarchi (Arezzo)	EUR	447,228	100		100
SISTEMI DINAMICI SPA	Pisa	EUR	200,000	100		100
SOGEPA - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	Rome	EUR	1,000,000	100		100
T - S HOLDING CORPORATION	Austin, Texas (USA)	USD	280,000		100	100
TECH-SYM LLC	Reno, Nevada (USA)	USD	10		100	100
TTI TACTICAL TECHNOLOGIES INC.	Ottawa (Canada)	CAD	2,500,001		100	100
VEGA CONSULTING SERVICES LTD	Welwyn Garden City, Herts (UK)	GBP	1,098,839		100	100
VEGA DEUTSCHLAND GMBH	Cologne (Germany)	EUR	25,700		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (UK)	GBP	5,000		100	100
WING NED BV	Rotterdam (the Netherlands)	EUR	18,000	100		100
WORLD'S WING SA	Geneva (Switzerland)	CHF	120,100,000	100		100
WYTWORNIA SPRZETU KOMUNIKACYJNEGO "PZL-ŚWIDNIK" SPOLKA AKCYJNA	Aleja Lotnikow, Świdnik (Poland)	PLN	86,006,050	99.00		99.00
ZAKLAD OBROBKI PLASTYCZNEJ SP Z OO	Kuznicza 13 - U1, Świdnik (Poland)	PLN	3,800,000		100	99.00

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

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
A4ESSOR SAS	Neuilly Sur Seine (France)	EUR	100,000	21.00		21.00
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)	AED	1,150,000	43.04		43.04
ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	USD	-		51.00	51.00
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Kuala Lumpur (Malaysia)	MYR	5,000,000		30.00	30.00
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	AED	10,000	30.00		30.00
ALENIA NORTH AMERICA-CANADA CO.	Halifax, Nova Scotia (Canada)	CAD	1	100		100
AMSH BV	Rotterdam (The Netherlands)	EUR	36,296,316	50.00		50.00
ANSALDO-EMIT SCRL (IN LIQ.)	Genoa	EUR	10,200		50.00	50.00
ATITECH MANUFACTURING SRL	Naples	EUR	10,000	25.00		25.00
ATITECH SPA	Naples	EUR	6,500,000	25.00		25.00
AVIATION TRAINING INTERNATIONAL LTD	Sherborne (UK)	GBP	550,000		50.00	50.00
AVIO SPA	Turin	EUR	40,000,000	14.32		14.32
C-27J AVIATION SERVICES INC.	Ottawa (Canada)	CAD	10,000		30.00	30.00
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	GBP	1		100	100
CONSORZIO ATR GIE	Toulouse (France)	USD	-		50.00	50.00
CONSORZIO TELAER (IN LIQ.)	Rome	EUR	103,291		100	67.52
CONSORZIO TELAER - SISTEMI DI TELERILEVAMENTO AEREO	Rome	EUR	120,000		62.00	47.00
DISTRETTO TECNOLOGICO AEROSPAZIALE SC A RL	Brindisi	EUR	150,000	24.00		24.00
E-GEOS SPA	Matera	EUR	5,000,000		80.00	53.60
ELETTRONICA SPA	Rome	EUR	9,000,000	31.33		31.33
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH (IN LIQ.)	Hallbergmoos (Germany)	EUR	127,823	21.00		21.00
EUROFIGHTER INTERNATIONAL LTD (IN LIQ.)	Farnborough (UK)	GBP	2,000,000	21.00		21.00
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	EUR	2,556,459	21.00		21.00
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	EUR	260,000	24.00		24.00
EUROMIDS SAS	Paris (France)	EUR	40,500	25.00		25.00
EUROSYSNAV SAS (IN LIQ.)	Paris (France)	EUR	40,000	50.00		50.00
EUROTECH SPA	Amaro (Udine)	EUR	8,878,946	11.08		11.08
FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	BRL	1,203,200	100		100
FINMECCANICA UK LTD	Yeovil, Somerset (UK)	GBP	1,000		100	100
GAF AG	Munich (Germany)	EUR	256,000		100	53.60

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
GULF SYSTEMS LOGISTICS SERVICES COMPANY WLL	Kuwait City (Kuwait)	KWD	75,000		40.00	40.00
IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Mestre (Venice)	EUR	208,000	25.00		25.00
ICARUS SCPA (IN LIQ.)	Turin	EUR	10,268,400		53.06	53.06
INDIAN ROTORCRAFT LTD	Hyderabad (India)	INR	429,337,830	26.00		26.00
IVECO - OTO MELARA SC A RL	Rome	EUR	40,000	50.00		50.00
JIANGXI CHANGHE AGUSTA HELICOPTER CO. LTD	Zone Jiangxi Province (China)	USD	6,000,000	40.00		40.00
JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	RUR	10,000	50.00		50.00
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO.	Tripoli (Libya)	EUR	8,000,000	25.00	25.00	50.00
MACCHI HUREL DUBOIS SAS	Versailles (France)	EUR	100,000	50.00		50.00
MBDA SAS	Paris (France)	EUR	53,824,000		50.00	25.00
NHINDUSTRIES (SAS)	Aix-en-Provence (France)	EUR	306,000	32.00		32.00
ORIZZONTE - SISTEMI NAVALI SPA	Genoa	EUR	20,000,000	49.00		49.00
OTO MELARA DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	1,500,000	100		100
RARTEL SA	Bucharest (Romania)	RON	468,500		61.00	40.91
ROTORSIM SRL	Sesto Calende (Varese)	EUR	9,800,000	50.00		50.00
ROTORSIM USA LLC	Wilmington, Delaware (USA)	USD	12.607.452		50.00	50.00
SAPHIRE INTERNATIONAL AVIATION & ATC ENGINEERING CO. LTD	Beijing (China)	USD	800,000		65.00	65.00
SELEX ES FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES LTD	Kuwait City (Kuwait)	KWD	807,000		93.00	93.00
SELEX ES (PROJECTS) LTD	Basildon, Essex (UK)	GBP	100		100	100
LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE)	Basildon, Essex (UK)	GBP	100		100	100
SPACEOPAL GMBH	Munich (Germany)	EUR	500,000		50.00	33.50
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	ARS	9,900,000		100	66.96
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	BRL	58,724,000		98.77	66.18
TELESPAZIO FRANCE SAS	Toulouse (France)	EUR	33,670,000		100	67.00
TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS LTD (IN LIQ.)	Budapest (Hungary)	EUR	100,000		100	67.00
TELESPAZIO IBERICA SL	Barcelona (Spain)	EUR	2,230,262		100	67.00

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
TELESPAZIO LATIN AMERICA LTDA	Rio de Janeiro (Brazil)	BRL	56,444,390		100	67.00
TELESPAZIO NORTH AMERICA INC. (IN LIQ.)	Dover, Delaware (USA)	USD	10		100	67.00
TELESPAZIO SPA	Rome	EUR	50,000,000	67.00		67.00
TELESPAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	EUR	44,150		100	67.00
TELESPAZIO VEGA UK LTD	Luton (UK)	GBP	30,000,100		100	67.00
TELESPAZIO VEGA UK SL	Madrid (Spain)	EUR	3,100		100	67.00
THALES ALENIA SPACE SAS	Cannes-la-Bocca (France)	EUR	979,240,000	33.00		33.00
WIN BLUEWATER SERVICES PRIVATE LTD	New Delhi (India)	INR	12,000,000	100		100
ZAO ARTETRA	Moscow (Russia)	RUB	353,000		51.00	51.00

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

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
ADVANCED MALE AIRCRAFT LLC	Al Ain, Muwaiji (United Arab Emirates)	AED	200,000	49.00		49.00
LEONARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	GBP	1		100	100
ANSALDOBREDA FRANCE SAS (IN LIQ.)	Marseille (France)	EUR	200,000		100	100
CCRT SISTEMI SPA (IN BANKRUPTCY)	Milan	EUR	697,217		30.34	30.34
CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP. CO. LTD	Chongqing (China)	CNY	50,000,000		50.00	50.00
EARTHLAB LUXEMBOURG SA	Luxembourg (Luxembourg)	EUR	5.375.000		54.40	34.17
ELSACOM - UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	UAH	7,945,000		49.00	49.00
INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (EXT. ADM.)	Genoa	EUR	103,567	30.98		30.98
INMOVE ITALIA SRL	Naples	EUR	120,000		100	100

Below are the main changes in the scope of consolidation at 31 December 2016 in comparison with 31 December 2015:

COMPANY	EVENT	MONTH
Companies which entered the scope of consolidation		
C-27J Aviation Services Inc.	newly established	January 2016
Selex ES Australia Pty Ltd	change of consolidation method	January 2016
Selex ES Malaysia Sdn Bhd	change of consolidation method	January 2016
Selex ES Technologies Ltd	change of consolidation method	January 2016
Gulf Systems Logistics Services Company WLL	purchase	May 2016
Sistemi Dinamici SpA	change of consolidation method	December 2016
Companies which left the scope of consolidation		
NGL Prime SpA (in liq.)	deconsolidated	January 2016
Selex ES Infrared Ltd	deconsolidated	January 2016
Finmeccanica Finance SA (in liq.)	deconsolidated	February 2016
FATA SpA	sold	March 2016
Automation Integrated Solutions SpA	sold	March 2016
FATA (Shanghai) Engineering Equipment Co. Ltd	sold	March 2016
FATA Gulf Co. WLL	sold	March 2016
FATA Hunter Inc.	sold	March 2016
FATA Hunter India PVT Ltd	sold	March 2016
Musinet Engineering SpA	sold	March 2016
Comlenia Sendirian Berhad	sold	March 2016
Finmeccanica North America Inc.	deconsolidated	June 2016
Severnyj Avtobus Z.A.O.	deconsolidated	March 2016
Selex ES Romania	deconsolidated	September 2016
LMATTS LLC	deconsolidated	September 2016
Selex ES Electro Optics (Overseas) Ltd	deconsolidated	October 2016
Sirio Panel Inc.	deconsolidated	October 2016
AgustaWestland Properties Ltd	deconsolidated	November 2016
AgustaWestland España SL (in liq.)	deconsolidated	October 2016
SuperJet International SpA	amendment to shareholders' agreement	December 2016
Joint Stock Company Sukhoi Civil Aircraft	sold	December 2016

Merged companies

Merged company	Merging company	Month
OTO Melara SpA	Leonardo SpA	January 2016
Whitehead Sistemi Subacquei SpA	Leonardo SpA	January 2016
FATA Engineering SpA	SOGEPA SpA	July 2016
Selex Sistemi Integrati SpA	SOGEPA SpA	July 2016

Companies which changed name

Old name	New name	Month
Finmeccanica Global Services SpA	Leonardo Global Solutions SpA	June 2016
Selex ES Ltd	Leonardo MW Ltd	September 2016
Closed Joint Stock Company Helivert	Joint Stock Company Helivert	September 2016
Selex Systems Integration Ltd	Selex ES Ltd	October 2016
Selex Pension Scheme (Trustee) Ltd	Leonardo Electronics Pension Scheme (Trustee)	December 2016
AgustaWestland UK Pension Scheme (Trustee) Ltd	Leonardo Helicopters Pension Scheme (Trustee) Ltd	January 2017
Meccanica Holdings Usa Inc.	Leonardo US Holding Inc.	March 2017
Alenia Aermacchi North America Inc.	Leonardo US Aircraft Inc.	March 2017

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS*, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/1998 AS AMENDED

1. The undersigned Mauro Moretti, Chief Executive Officer and General Manager, and Gian Piero Cutillo, as the Officer in charge of financial reporting for Leonardo SpA, 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 2016.

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 Regulation EC 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, 15 March 2017

The Chief Executive Officer and General Manager **(Mauro Moretti)**	The officer in charge of financial reporting **(Gian Piero Cutillo)**

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

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Leonardo S.p.a.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Leonardo Group (the "group"), which comprise the statement of financial position as at 31 December 2016, the separate income statement and statements of comprehensive income, changes in cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The parent's 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.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2016 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 31 of Legislative decree no. 38/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Leonardo Group as at and for the year ended 31 December 2016.

Rome, 21 March 2017

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit