



**Separate financial statements
at 31 December 2016**

Leonardo - Società per azioni

ACCOUNTING STATEMENTS TO THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Separate income statement					
€	Notes	2016	Of which with related parties	2015	Of which with related parties
Revenues	25	7,924,605,965	2,531,398,441	53,785,321	53,063,898
Other operating income	26	448,384,841	14,721,020	10,936,841	8,782,466
Purchases and personnel expenses	27	(6,996,992,151)	(911,875,189)	(122,024,155)	(56,393,604)
Amortisation, depreciation and impairment losses	28	(494,384,862)		(10,850,834)	
Other operating expenses	26	(418,347,207)	(2,891,679)	(26,673,782)	(926,525)
Income before tax and financial expenses		463,266,586		(94,826,609)	
Financial income	29	1,124,364,439	51,872,821	1,347,321,711	104,044,376
Financial expenses	29	(878,648,904)	(14,815,120)	(835,912,371)	(27,385,608)
Operating profit/(loss) before income taxes and discontinued operations		708,982,121		416,582,731	
Income taxes	30	(99,870,941)		27,344,666	
Net profit/(loss) for the period		609,111,180		443,927,397	

Statement of comprehensive income		
€	2016	2015
Profit/(Loss) for the period	609,111,180	443,927,397
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:	(8,766,182)	(29,934)
<i>. revaluation</i>	(8,766,182)	(29,934)
- tax effect	170,334	-
	(8,595,848)	(29,934)
Comprehensive income/(expenses) which will or might be subsequently reclassified within the profit/(loss) for the period:	-	-
- changes in cash-flow hedges:	(94,620,763)	-
<i>. change generated in the period</i>	(80,726,178)	-
<i>. transferred to the profit/(loss) for the period</i>	(13,894,585)	-
- others	4,298,116	-
- tax effect	21,301,472	-
	(69,021,175)	-
Total other comprehensive income/(expenses), net of tax	(77,617,023)	(29,934)
Total comprehensive income	531,494,157	443,897,463

€	Notes	31 December 2016	Of which with related parties	31 December 2015	Of which with related parties
Intangible assets	7	2,730,894,303		4,100,314	
Property, plant and equipment	8	1,359,942,104		47,037,371	
Investment property	8	7,309,338		102,389,161	
Equity investments	9	5,640,547,044		7,387,101,160	
Receivables	10	196,232,261	68,130,640	105,730,522	105,078,565
Deferred tax assets	30	669,583,597		39,775,699	
Other non-current assets	10	83,026,120		142,468,885	
Non-current assets		10,687,534,767		7,828,603,112	
Inventories	11	2,919,809,439		-	
Income tax receivables	12	2,067,194,010		-	
Loans and receivables	13	2,836,516,644	1,225,728,387	93,072,685	91,446,557
Other assets	14	100,472,708		97,515,687	
Loans and receivables	13	353,318,000	325,549,328	2,558,098,861	2,557,558,583
Other assets	15	636,940,939	50,685,177	573,875,055	33,210,559
Cash and cash equivalents	16	1,747,407,118		1,364,696,937	
Current assets		10,661,658,858		4,687,259,225	
Non-current assets held for sale	17	1,150,936,866		-	
Total assets		22,500,130,491		12,515,862,337	
Share capital		2,490,883,940		2,522,470,761	
Other reserves		2,834,228,314		1,657,811,863	
Equity attributable to Owners of the Parent		5,325,112,254		4,180,282,624	
Equity attributable to non-controlling interests		-		-	
Total equity	18	5,325,112,254		4,180,282,624	
Loans and borrowings (non-current)	19	2,931,102,770		3,521,242,570	
Employee benefits	21	346,476,698		3,251,897	
Provisions for risks and charges	20	809,352,442		149,187,067	
Deferred tax liabilities	30	91,846,295		-	
Other non-current liabilities	22	877,086,201	14,260	109,613,967	
Non-current liabilities		5,055,864,406		3,783,295,501	
Progress payments and advances from customers	12	4,944,188,578		-	
Trade payables	23	2,566,516,347	613,235,343	99,701,879	52,794,803
Loans and borrowings (current)	19	2,371,351,769	1,664,041,165	3,115,786,946	2,982,680,007
Income tax payables	14	33,099,052		1,419,470	
Provisions for short-term risks and charges	20	518,536,172		225,914,989	
Other current liabilities	22	1,685,165,147	390,956,455	1,109,460,928	645,976,040
Current liabilities		12,118,857,065		4,552,284,212	
Liabilities associated with assets held for sale		296,766		-	
Total liabilities		17,175,018,237		8,335,579,713	
Total liabilities and equity		22,500,130,491		12,515,862,337	

Statement of cash flows					
€	Notes	2016	Of which with related parties	2015	Of which with related parties
Gross cash flows from operating activities	31	1,115,217,667		(69,684,437)	
Change in working capital	31	(315,654,244)	(68,041,246)	(761,288)	(15,311,350)
Change in other operating assets and liabilities and provisions for risks and charges	31	(45,547,832)	(148,965,324)	166,223,936	188,750,936
Interest paid		(146,933,244)	56,711,568	(103,548,822)	71,604,701
Income taxes paid		1,406,410		(19,615,737)	
Cash flows generated from/(used in) operating activities		608,488,757		(27,386,348)	
Sale of Ansaldo STS		-		761,245,270	
Investments in property, plant and equipment and intangible assets		(263,409,034)		(5,974,475)	
Sales of property, plant and equipment and intangible assets		1,431,419		204,932	
Dividends received		665,115,421		380,721,659	
Other investing activities		(234,757,840)		(241,862,270)	
Cash flows generated from/(used in) investing activities		168,379,966		894,335,116	
Increase of share capital		(34,811,754)		(2,388,380)	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Bond buy-back		-		(451,244,536)	
Net change in other loans and borrowings		(341,113,209)	(195,252,754)	239,149,053	190,297,327
Cash flows generated from/(used in) financing activities		(422,245,309)		(260,804,209)	
Net increase/(decrease) in cash and cash equivalents		354,623,414		606,144,559	
Exchange-rate differences and other changes		(27,789,310)		13,720,076	
Cash and cash equivalents at 1 January		1,364,696,937		744,832,302	
Effect from mergers/demergers		55,876,077			
Cash and cash equivalents at 31 December		1,747,407,118		1,364,696,937	

Statement of changes in equity

€	Share capital	Retained earnings	Cash-flow hedge reserve	Revaluation reserve of defined-benefit plans	Merger surplus	Total equity
1 January 2015	2,524,859,141	1,209,343,487	-	247,366	-	3,734,449,994
Profit/(Loss) for the period	-	443,927,397	-	-	-	443,927,397
Other comprehensive income/(expenses)	-	-	-	(29,934)	-	(29,934)
Total comprehensive income/(expenses)	-	443,927,397	-	(29,934)	-	443,897,463
Dividends resolved	-	-	-	-	-	-
Repurchase of treasury shares less shares sold	(2,388,380)	-	-	-	-	(2,388,380)
Total transactions with Owners of the Parent, recognised directly in equity	(2,388,380)	-	-	-	-	(2,388,380)
Stock-option/ grant plans - performance's value	-	4,323,547	-	-	-	4,323,547
Other changes	-	-	-	-	-	-
31 December 2015	2,522,470,761	1,657,594,431	-	217,432	-	4,180,282,624
1 January 2016	2,522,470,761	1,657,594,431	-	217,432	-	4,180,282,624
Profit/(Loss) for the period	-	609,111,180	-	-	-	609,111,180
Other comprehensive income/(expenses)	-	4,298,116	(73,319,291)	(8,595,848)	-	(77,617,023)
Total comprehensive income/(expenses)	-	613,409,296	(73,319,291)	(8,595,848)	-	531,494,157
Repurchase of treasury shares less shares sold	(31,586,821)	-	-	-	-	(31,586,821)
Dividends resolved	-	-	-	-	-	-
Total transactions with Owners of the Parent, recognised directly in equity	(31,586,821)	-	-	-	-	(31,586,821)
Effect from mergers/ demergers	-	1,930,233	(30,449,797)	(50,024,743)	721,777,748	643,233,441
Stock-option/ grant plans - performance's value	-	1,688,853	-	-	-	1,688,853
Other changes	-	-	-	-	-	-
31 December 2016	2,490,883,940	2,274,622,813	(103,769,088)	(58,403,159)	721,777,748	5,325,112,254

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

1. General information

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

The Company is a major Italian high technology organisation operating in the *Helicopters, Electronics, Defence & Security Systems* and *Aeronautics* sectors.

2. Form, content and applicable accounting standards

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

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

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

In consideration of the significant values, the figures in these notes are shown in millions of euros unless otherwise indicated. Among the options permitted by IAS 1, the Company has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the costs. Instead, the statement of cash flows was prepared using the indirect method.

The International Financial Reporting Standards (IFRS) used for preparing these separate financial statements, drawn up under the going-concern assumption, are the same that were used in the preparation of the separate financial statements at 31 December 2015 except for what indicated below (Note 4). Preparation of the separate financial statements 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 to the consolidated financial statements, to which reference is made.

The Board of Directors of 15 March 2017 resolved to submit to shareholders the draft financial statements at 31 December 2016, authorising their circulation at the same date. The Board convened the Ordinary Shareholders' Meeting for the approval thereof for 2, 3 and 16 May 2017, on first, second and third call, respectively.

The separate financial statements were prepared in accordance with IFRS and are subject to a statutory audit by KPMG SpA.

3. Accounting policies adopted

The accounting policies and criteria are the same adopted for the annual consolidated financial statements, to which reference is made, except for the recognition and measurement of equity investment in subsidiaries, jointly controlled companies and associates recognised at their purchase or incorporation cost. In case of any impairment losses their recoverability is verified through the comparison between their carrying amount and the higher of their value in use that is determined by discounting prospective cash flows, where applicable, of the equity investment and the assumed sales value which is determined on the basis of recent transactions or market multiples. The portion of losses exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the Company states the existence of legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity. If the impaired investee shows a subsequent improvement in performance which leads to believe that the reasons for the impairment cease to exist, the equity investments are revalued to the extent of the impairment losses recognised in previous periods under “Value adjustments on equity investments”. Dividends from subsidiaries and associates are recognised in the income statement in the year in which they are resolved.

Finally, with reference to transactions between entities under common control, which are not governed by IFRS, either from the point of view of the purchaser/assignee or from that of the seller/assignor, Leonardo, considering this, recognises such transactions recognising directly in equity any gain on the transfer or sale of its subsidiaries.

4. Effects of changes in accounting policies adopted

Starting from 1 January 2016 the Company has adopted the amendments to IAS 16 “Property, plant and equipment” and to IAS 38 “Intangible assets” without any significant effect on this Annual Financial Report.

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. For a description of the main amendments and potential effects for the Company reference is made to Note 3.25 of the consolidated financial statements.

5. Significant non-recurring events on transactions

On 1 January 2016 the operations became effective, which had involved the merger of OTO Melara SpA and Whitehead Sistemi Subacquei SpA by incorporation into Leonardo SpA and the partial demerger of Alenia Aermacchi SpA, AgustaWestland SpA and Selex ES SpA in favour of Leonardo SpA (including in accounting and tax terms). In accordance with the new Organisational and Operational Model of Leonardo, the direction and control are centralised, while business operations have been decentralised into seven Divisions (*Helicopters, Aircraft, Aerostructures, Airborne & Space Systems, Land & Naval Defence Electronics, Defence Systems, Security & Information Systems*), which have been provided with powers and resources so as to ensure a complete end-to-end management of the related scope of business, with consequent full responsibility of the relevant income statement, and which operate, together with DRS that is subject to a Proxy regime and the entities outside the One Company perimeter (mainly the JVs), within four sectors (*Helicopters, Aeronautics, Electronics, Defence & Security Systems, Space*) which are assigned coordination tasks and functions.

In accounting terms, the mergers and demergers, as these represent business combinations under common control, were recognised in the separate financial statements of Leonardo according to the principle of “continuity of values”, making reference to the carrying amounts of merged assets and liabilities stated in the consolidated financial statements of Leonardo; therefore, no surplus values were entered upon the derecognition of equity investments against merged assets and liabilities, which had not already been entered in the consolidated financial statements. Accordingly, any possible deficit exceeding the amount stated in the Group’s financial statements was considered to be a lower surplus, as a reduction in equity.

In the case of demergers, the value of equity investments was allocated to the demerged companies, which continue to operate, in an amount corresponding to the net value of assets and liabilities that had not been transferred, consistently with the “residual” nature of these items compared to the total value of said companies before the demerger; on the contrary, the complement was regarded as attributable to the demerged business unit and, therefore, it was included in the calculation of demerger surpluses and deficits.

As a whole, the five transactions generated a merger/demerger surplus, equal to €mil. 722, which is broken down as follows:

Demerger of Selex ES SpA	148
Demerger of AgustaWestland SpA	940
Merger of OTO Melara SpA	53
Merger of WASS SpA	(7)
Demerger of Alenia Aermacchi SpA	(412)
Net surplus	722

As a result of these transactions, Leonardo changed its structure profoundly – from being a holding company responsible for managing various operating companies that were separate legal entities to being a single company capable of combining manufacturing activities with the direction and control of its business through the abovementioned divisional organisation. This radical change also had significant and obvious effects on the financial statements: revenues passed from €mil. 54 in 2015 to €bil. 7.9 in 2016, with a consequent impact on any and all income statement, balance sheet and cash flow statement items. Where required to understand any changes in the balance sheet items, the value of assets and liabilities merged as at 1 January 2016 has been separately shown as “Effect from mergers/demergers”, it being understood that in general a large amount of changes are attributable to said transactions. Likewise, the income statement items show a limited comparability; therefore, the related comments are focused on the most significant events that occurred in 2016 after the business combinations.

With reference to 2015, as detailed in the Annual Financial Report at 31 December 2015 to which reference should be made, it should be noted that on 2 November 2015 there was the completion of the closing of the sales in the *Transportation* sector to Hitachi. The transactions provided for the transfer to Hitachi of the investments held by Leonardo in Ansaldo STS (equal to 40% of the share capital) and AnsaldoBreda’s businesses in the rolling stock segment, excluding revamping activities that are of minor importance, which remained within AnsaldoBreda.

6. Significant post-balance sheet events

On 1 January 2017 the merger of Sirio Panel SpA, which was previously wholly owned, by incorporation into Leonardo SpA became fully effective, in legal, accounting and tax terms in the full implementation of the new Organisational and Operational Model adopted by the

Group. Furthermore, at the beginning of 2017 Leonardo transferred its equity investments in AgustaWestland Ltd to Leonardo MW Ltd within the scope of the combination process of the operations conducted by Leonardo in the United Kingdom into a single legal entity; therefore, the equity investment was entered under “Non-current assets held for sale” in the financial statements at 31 December 2016.

In March 2017, at the end of the concentration process of the Group real estate holdings into Leonardo Global Solutions, the transfer of the real estate business of Leonardo to Leonardo Global Solutions was approved, mainly composed of real assets (industrial complexes, buildings, real estate portions and land), as well as payables, receivables, legal relations in which the company is the plaintiff or the defendant, personnel and whatever related to these, excluding plants, machinery and anything in relation to production.

7. Intangible assets

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2015							
Cost	-	-	-	14	-	10	24
Amortisation, depreciation and impairment losses	-	-	-	(13)	-	(6)	(19)
Carrying amount	-	-	-	1	-	4	5
Investments	-	-	-	2	-	1	3
Sales	-	-	-	(1)	-	-	(1)
Depreciation	-	-	-	(1)	-	(2)	(3)
31 December 2015	-	-	-	1	-	3	4
<i>Broken down as follows:</i>							
Cost	-	-	-	15	-	11	26
Amortisation, depreciation and impairment losses	-	-	-	(14)	-	(8)	(22)
Carrying amount	-	-	-	1	-	3	4
Effect from mergers/demergers	707	438	1,335	88	61	126	2,755
Investments	-	23	143	4	-	15	185
Depreciation	-	(50)	(111)	(26)	(4)	(29)	(220)
Impairment losses	-	(3)	(13)	-	-	-	(16)
Other changes	-	-	14	26	-	(17)	23
31 December 2016	707	408	1,368	93	57	98	2,731
<i>Broken down as follows:</i>							
Cost	875	1,093	1,958	361	96	452	4,835
Amortisation, depreciation and impairment losses	(168)	(685)	(590)	(268)	(39)	(354)	(2,104)
Carrying amount	707	408	1,368	93	57	98	2,731
<i>31 December 2016</i>							
Gross value			4,631				
Grants			3,263				

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. At the recognition of the mergers and demergers described above, goodwill was allocated, in accordance with the principle of "continuity of values", on the merged assets solely to the extent of the goodwill recognised in the consolidated financial statements, while that related to foreign equity investments was included in the value of the same equity investments.

The breakdown of goodwill recognised by segment at 31 December 2016 is as follows:

	31 December 2016	31 December 2015
Helicopters	459	-
Electronics, Defence & Security Systems	188	-
Aeronautics	60	-
	707	-

At 31 December 2015 there was no value related to goodwill. There are no changes as regards the data comprising the branches included in the 3 sectors abovementioned.

The CGUs of the separate financial statements are the same as those identified in the consolidated financial statements, to which reference is made. Goodwill is tested for impairment in order to determine any possible loss in value, making reference to the CGU as a whole, including, in accordance with the Organisational and Operational Model, the foreign equity investments falling within the scope of consolidation, which are then included and tested in the same year as the impairment. Therefore, only the equity investments that are not tested together with goodwill are subject to an impairment test separately, if required. For the sake of representation only, the financial assumptions and ratios detailed below are also provided for the equity investments subject to separate tests (the most significant of which is Meccanica Holdings USA Inc., a company that holds, among other things, the investment in DRS Technologies Inc.).

The test is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and the 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 Leonardo's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs:

- 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.

On the contrary, the growth rates used to project the CGU's cash flows beyond the explicit term of the plan were estimated by making reference to the growth assumptions of the individual sectors in which said 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 (*)	
	WACC	g-rate	WACC	g-rate
Helicopters	7.6%	2%	8.7%	2%
Electronics, Defence & Security Systems	5.5%	2%	7.8%	2%
Aeronautics	5.9%	2%	7.2%	2%

(*) Data referred to impairment tests performed in 2015 solely on the value of the equity investments.

Testing revealed no signs of impairment. We note that the performance of the *Electronics, Defence & Security Systems* sector was subject to impairment test in the 2011 and 2012

consolidated financial statements, with particular reference to DRS through the equity investments in Meccanica Holdings USA. 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. The table below highlights the headroom in the base scenario, with reference to the goodwill value, 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		
		WACC	g-rate	ROS TV
Helicopters	3,872	3,346	3,437	3,856
Electronics, Defence & Security Systems	6,926	5,736	5,884	5,759
Aeronautics	12,401	11,116	11,270	10,824

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%, *Electronics, Defence & Security Systems* 6.5% and *Aeronautics* 6.9%. Within this scenario, the margins of the 3 CGUs decreased by about 15% although remaining significantly positive (in detail: *Helicopters* €mil. 2,902, *Electronics, Defence & Security Systems* €mil. 4,810 and *Aeronautics* €mil. 10,097).

Other intangible assets

In addition to the net effect of investments, development costs rose also as a result of the concentration process, especially in the *Helicopters* (€mil. 6) and *Electronics, Defence & Security Systems* (€mil. 17) sectors, and of the amortisation for the year. Investments attributable to “Non-recurring costs” related to the *Helicopters* (€mil. 74) sector, to programmes concerning aircraft (€mil. 42) and to programmes of the *Electronics, Defence & Security Systems* sector (€mil. 27). 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 10). 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, including also development and non-recurring costs just mentioned, amount to €mil. 982, of which €mil. 123 expensed.

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

Commitments are in place for the purchase of intangible assets for €mil. 5 (€mil. 0 at 31 December 2015).

8. Property, plant and equipment and investment property

	Property, plant and equipment					Investment property
	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total	
1 January 2015						
Cost	95	7	1	17	120	201
Amortisation, depreciation and impairment losses	(53)	(6)	(1)	(13)	(73)	(95)
Carrying amount	42	1	-	4	47	106
Investments	-	-	-	3	3	-
Depreciation	(2)	-	-	(1)	(3)	(5)
Other changes	-	1	-	(1)	-	1
31 December 2015	40	2	-	5	47	102
<i>Broken down as follows:</i>						
Cost	95	7	-	17	119	201
Amortisation, depreciation and impairment losses	(55)	(5)	-	(12)	(72)	(99)
Carrying amount	40	2	-	5	47	102
Effect from mergers/demergers	133	353	660	218	1,364	-
Investments	2	8	47	54	111	-
Sales	-	-	(1)	(1)	(2)	-
Depreciation	(14)	(61)	(143)	(22)	(240)	(1)
Other changes	106	57	8	(91)	80	(94)
31 December 2016	267	359	571	163	1,360	7
<i>Broken down as follows:</i>						
Cost	478	1,204	1,656	2,289	5,627	23
Amortisation, depreciation and impairment losses	(211)	(845)	(1,085)	(2,126)	(4,267)	(16)
Carrying amount	267	359	571	163	1,360	7

Property, plant and equipment showed a decrease, excluding the effect of the abovementioned mergers and demergers at 1 January 2016, as a result of the depreciation for the period, which was only partially offset by investments, attributable in particular to the sectors of *Aeronautics* (€mil. 61), *Helicopters* (€mil. 11) and *Electronics, Defence & Security Systems* (€mil. 26).

The item “Investment property”, which includes the value of land, as well as of civil and industrial buildings, that are mainly leased to Group companies, showed a considerable decrease as a result of the mergers and demergers, which led Leonardo to act both as lessor and lessee. Therefore, said value was largely reclassified as a result of the concentration among property, plant and equipment that are owned and those that are used by Leonardo.

Moreover, purchase commitments of property, plant and equipment are recorded in the amount of €mil. 72 (€mil. 3 at 31 December 2015).

9. Equity investments

	2016			2015		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	7,387	(170)	7,217	7,494	(57)	7,437
Acquisitions/Subscriptions	43	170	213	192	57	249
Effect from mergers/demergers	(495)	(3)	(498)	-	-	-
Reclassifications in assets/liabilities held for sale	(1,151)	-	(1,151)	-	-	-
Impairment losses	(136)	(53)	(189)	(231)	(170)	(401)
Disposals	(5)	-	(5)	(71)	-	(71)
Other changes	(2)	-	(2)	3	-	3
31 December	5,641	(56)	5,585	7,387	(170)	7,217

Appendices nos. 1 and 2 to these notes provide, respectively, the changes that occurred in the year and detailed information on equity investments showing the total of assets and liabilities, as required by IFRS 12.

If the relevant conditions are fulfilled, the carrying amount of equity investments is tested for impairment in order to determine any possible loss in value. As mentioned, the carrying amount of equity investments is mainly tested by making reference to the relevant Divisions as a whole; for any information on the procedures for the performance of tests and any related information, reference should then be made to Note 7.

Among the changes that occurred during the period were the following movements:

- the derecognition of equity investments falling within the scope of the mergers or attributable to the demerged business units within the demergers, for a total amount of €mil. 4,426;
- the recognition of new equity investments of the companies and merged business units for €mil. 3,931 and of provisions for risks on equity investments for €mil. 3;
- the reclassification, under “Non-current assets held for sale”, involving the equity investment in AgustaWestland Ltd, which was transferred to Leonardo MW within the One Company process in the United Kingdom (€mil. 1,109) at the beginning of 2017, as well as other international investments of minor importance (equity investments of €mil. 42 and provisions for risks on equity investments of €mil. 6), which were transferred to AgustaWestland Holdings Ltd (Note 6) at the beginning of 2017;
- actions regarding the equity investments, equal to €mil. 213, mainly relating to AnsaldoBreda SpA, which were taken partly in consideration of the use of the provision for risks set aside at 31 December 2015 and partly against the adjustment to the carrying amount of the equity investments;
- the write-downs for the period, mainly relating to AnsaldoBreda SpA (€mil. 22), Selex ES SpA (€mil. 54), AgustaWestland SpA (€mil. 57), SOGEP SpA (€mil. 12) and Avio SpA (€mil. 31). The latter write-down was required in order to adjust the carrying amount at the value attributed to Avio within the scope of the transaction with Space 2, which is described in the section “Industrial and financial transactions”. The write-downs were required against the losses recognised by the investees during the reporting period considering that the residual assets are still managed by the investees. These write-downs led to an overall reduction in the carrying amount of the equity investments for €mil. 136 and €mil. 53, against the negative equity of AgustaWestland SpA, and were offset by accruals to the provision for risks.

Finally, below is presented a comparison of the book value and the average market price of the listed shares of Eurotech SpA in December 2016:

Listed company	Number of shares held	Stock Exchange value		Book value		Difference Unit in €	Difference Total in €mil.
		Unit €	Total €mil.	Unit €	Total €mil.		
Eurotech SpA	3,936,461	1.400	6	1.469	6	0.07	-

10. Receivables and other non-current assets

	31 December 2016	31 December 2015
Financing to third parties	1	1
Non-current financial receivables from SuperJet	65	-
Deferred grants under Law 808/1985	52	-
Related-party receivables (Note 32)	68	105
Other non-current receivables	10	-
Non-current receivables	196	106
Prepayments - non-current portion	8	-
Non-recurring costs pending under Law 808/1985	75	-
Other non-current assets	-	11
Fair value of the residual portion in portfolio of Ansaldo Energia	-	131
Non-current assets	83	142

Non-current receivables showed an increase of €mil. 90, mainly as a result of the business combinations (€mil. 72). The item at 31 December 2016 also included the non-current portion (€mil. 65) of the receivable claimed from SuperJet SpA, arising from the 4-year repayment plan agreed with the acquirer within the reorganisation of Leonardo's participation in this programme.

Non-current assets showed a decrease of €mil. 59, mainly as a result of the reclassification of the fair value of the remaining equity investment in Ansaldo Energia (€mil. 131 at 31 December 2015) to current assets, net of any increase attributable to business combinations (€mil. 88 at 1 January 2016).

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these notes.

11. Inventories

	31 December 2016	31 December 2015
Raw materials, supplies and consumables	1,254	-
Work in progress and semi-finished goods	990	-
Finished goods and merchandise	25	-
Advances to suppliers	651	-
	2,920	-

Advances to suppliers mainly related to programmes concerning aircraft (mainly C-27J, B787, EFA and ATR) and, to a lesser extent, helicopters and *Electronics*.

Provisions for write-down are entered against the various categories of inventories to cover any obsolescence, slow-moving items or if the entry value is higher than net realisable value, for a total amount of €mil. 471.

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

	31 December 2016	31 December 2015
Contract work in progress (gross)	3,191	-
Final losses (positive wip)	(40)	-
Progress payments and advances from customers	(1,084)	-
Contract work in progress (net)	2,067	-
Progress payments and advances from customers (gross)	4,614	-
Contract work in progress	(141)	-
Final losses (negative wip)	471	-
Progress payments and advances from customers (net)	4,944	-
Net value	(2,877)	-

“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	3,109	-
Advances	(5,986)	-
Net value	(2,877)	-

13. Trade and financial receivables

	31 December 2016		31 December 2015	
	Trade	Financial	Trade	Financial
Receivables	1,775	29	16	-
Cumulative impairments	(164)	(2)	(14)	-
Related-party current receivables (Note 32)	1,226	326	91	2,558
	2,837	353	93	2,558

Trade receivables increased as a result of the centralisation process and of the usual business trend of the period. On the contrary, loans and receivables decreased as a result of the write-off of the Parent Company's receivables from the business units and companies merged.

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 sale of the SuperJet Russian business.

The composition of assets by currency and geographical area is shown in Appendices nos. 5 and 6 to these notes. The ageing of receivables together with an analysis of how the Company manages credit risk is reported under Note 33.

14. Income tax receivables and payables

Receivables (€mil. 100) mainly relate to IRES receivables for which a request for refund has been claimed (€mil. 98 at 31 December 2015), while payables are mainly related to IRES and IRAP taxes to be paid. The changes during the year and the composition of assets and liabilities by maturity, currency and geographical area are shown in Appendices nos. 5, 6, 9 and 10 to these notes.

15. Other current assets

	31 December 2016	31 December 2015
Derivatives	152	415
Prepaid expenses - current portion	32	5
Receivables for grants	98	-
Receivables from employees and social security institutions	50	1
Indirect tax receivables	32	116
Deferred receivables under Law 808/1985	2	-
Other related-party receivables (Note 32)	51	33
Fair value of the residual portion in portfolio of Ansaldo Energia	138	-
Other assets	82	4
	637	574

This item includes the fair value of 15% of the share capital of Ansaldo Energia and of the related put & call options, which will be sold upon the exercise of these options, by the parties, at a pre-arranged price of €mil. 117, in respect of which capitalised interest accrues at a yearly 6% rate (total €mil. 138 at 31 December 2016). 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.

“Indirect tax receivables”, equal to €mil. 32 (€mil. 116 at 31 December 2015), mainly represent VAT receivables transferred from companies participating in the Group VAT mechanism. The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 5 and 6 to these notes.

The table below provides the breakdown of derivatives.

	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	150	274	412	411
Derivatives covering debt items	1	35	1	14
Interest-rate swaps	2	4	2	3
	153	313	415	428

	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	41	(41)	-	411	(411)	-
Fair-value hedges	1	(37)	(36)	1	(14)	(13)
Cash-flow hedges	109	(231)	(122)	1	-	1

The cash-flow hedge is the forward instrument hedging trade items denominated in foreign currency. Such item was not present last year since Leonardo, before the merger and acquisition transactions, did not carry out any trading activity.

Vice versa, the fair-value hedge is the forward instrument hedging deposits and loans made in pound sterling and US dollars that fall under the Group’s financial centralisation, with reference to financial activities for the companies not falling under the One Company scope: the changes in fair value directly offset the realignment of the exchange rates applicable to loans and deposits.

Finally, trading forward instruments refer to transactions that the Leonardo Group finance department carries out with banks acting in the interest of the fully owned subsidiaries; these transactions are transferred to the Group companies that incur the related costs on a mirror-like basis.

The interest-rate swaps with a total notional value of €mil. 400, classified as trading instruments, were placed into effect to pursue the management objectives of hedging part of the bonds issued by Leonardo and the Group companies. The impact on the income statement is described in Note 33.

The portion of the changes that had an impact on the income statement is described in Note 29.

16. Cash and cash equivalents

The balance of “Cash and cash equivalents” at the end of the year, equal to €mil. 1,747 (€mil. 1,365 at 31 December 2015), was mainly the result of net cash flows realised by the Company’s Divisions during the year. Cash and cash equivalents at 31 December 2016 include €mil. 6 of term deposits (0 at 31 December 2015).

17. Non-current assets held for sale

This item includes at 31 December 2016 the following equity investments: AgustaWestland Ltd (€mil. 1,109), Agusta Aerospace Services SA (€mil. 21), AgustaWestland do Brasil (€mil. 8) and AgustaWestland Malaysia (€mil. 13).

In particular, AgustaWestland Ltd was sold at the beginning of 2017 to Leonardo MW within the One Company process in United Kingdom, while the other equity investments (together with AgustaWestland Australia, with a carrying amount equal to zero) were jointly sold at the beginning of 2017 to AgustaWestland Holdings Ltd. The sales were carried out, in both cases, at a value higher than the carrying amount.

18. Equity

The equity broken down by available and distributable reserves is shown in Appendix no. 7 to these notes.

The composition of the share capital is as follows:

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(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
<i>Broken down as follows:</i>					
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 cash-flow hedge 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.

The revaluation reserve includes the effects of the valuation of actuarial gains and losses with reference to severance pay.

19. Loans and borrowings

	31 December 2016			31 December 2015		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,660	603	3,263	3,243	82	3,325
Bank loans and borrowings	238	58	296	278	51	329
Related-party loans and borrowings (Note 32)	-	1,664	1,664	-	2,983	2,983
Other loans and borrowings	33	46	79	-	-	-
	2,931	2,371	5,302	3,521	3,116	6,637

Bonds

Below are the bonded loans in place and listed on the Luxembourg Stock Exchange:

Year of issue	Maturity	Currency	Outstanding nominal amount (mil.)	Annual coupon		Type of offer
2003	2018	€	500	5.750%	(1)	European institutional
2005	2025	€	500	4.875%		European institutional
2009	2019	GBP	319	8.000%	(2) (3)	European institutional
2009	2022	€	555	5.250%	(3)	European institutional
2012	2017	€	521	4.375%	(3)	European institutional
2013	2021	€	739	4.500%	(3)	European institutional

(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.

(3) Nominal amounts decreased compared to the value of the original issues following the buy-back transactions.

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	Effect from mergers/ demergers	Other net increase/ (decrease)	Exchange differences and other movements	31 December 2016
Bonds	3,325	-	(173)	-	173	(62)	3,263
Bank loans and borrowings	329	-	(48)	59	(44)	-	296
Related-party loans and borrowings	2,983	-	-	(1,048)	(271)	-	1,664
Other loans and borrowings	-	-	-	93	(14)	-	79
	6,637	-	(221)	(896)	(156)	(62)	5,302

	1 January 2015	Issues	Repayments/ Payment of coupons	Effect from mergers/ demergers	Other net increase/ (decrease)	Exchange differences and other movements	31 December 2015
Bonds	2,130	-	(655)	-	1,813	37	3,325
Bank loans and borrowings	374	-	(45)	-	-	-	329
Related-party loans and borrowings	4,523	-	-	-	(1,540)	-	2,983
Other loans and borrowings	-	-	-	-	-	-	-
	7,027	-	(700)	-	273	37	6,637

Bank loans and borrowings

The item mainly includes the 12-year loan signed with the European Investment Bank (EIB) in 2009 (€mil. 280 at 31 December 2016 compared to €mil. 327 at 31 December 2015) to finance development in the aeronautics segment. As provided in the loan agreement, €mil. 300 of the loan was originally used at a fixed rate of 3.45% and €mil. 200 at a floating rate equal to the 6-month Euribor plus a margin of 79.4 basis points. The fixed-rate tranche is repaid in 11 annual instalments with a fixed principal repayment component, while the floating-rate tranche is repaid in 21 6-month instalments, also with a fixed principal repayment component. During the year €mil. 47 was repaid, as in 2015.

Related-party loans and borrowings

Loans and borrowings decrease as a result of the write-off of the Parent Company's payables to the companies and business units merged.

Other borrowings

The item includes the residual balance of subsidised loans, related to programmes and projects of the companies and business units merged.

Exposure to changes in interest rates of the financial liabilities is as follows:

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	-	603	28	30	1,664	-	46	-	1,738	633
2 to 5 years	-	1,608	82	109	-	-	28	1	110	1,718
Beyond 5 years	-	1,052	20	27	-	-	4	-	24	1,079
Total	-	3,263	130	166	1,664	-	78	1	1,872	3,430

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	-	82	21	30	2,983	-	-	-	3,004	112
2 to 5 years	-	1,453	76	109	-	-	-	-	76	1,562
Beyond 5 years	-	1,790	38	55	-	-	-	-	38	1,845
Total	-	3,325	135	194	2,983	-	-	-	3,118	3,519

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
Liquidity	(1,747)		(1,365)	
Current loans and receivables	(353)	(326)	(2,558)	(2,558)
Current bank loans and borrowings	58		51	
Current portion of non-current loans and borrowings	603		82	
Other current loans and borrowings	1,710	1,664	2,983	2,983
Current financial debt	2,371		3,116	
Net current financial debt (funds)	271		(807)	
Non-current bank loans and borrowings	238		278	
Bonds issued	2,660		3,243	
Other non-current loans and borrowings	33	-	-	-
Non-current financial debt	2,931		3,521	
Net financial debt	3,202		2,714	

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

	Note	31 December 2016	31 December 2015
Net financial debt CONSOB com. DEM/6064293		3,202	2,714
Fair value of the residual portion in portfolio of Ansaldo Energia	15	(138)	(131)
Hedging derivatives in respect of debt items	15	35	13
Non-current financial receivables from Leonardo's consolidated entities	32	(15)	
Non-current financial receivables from SuperJet	10	(65)	
Net debt (KPI)		3,019	2,596

The main clauses that regulate the Leonardo's payables are reported in the section "Industrial and financial transactions" of the Report on Operations.

20. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2015						
Current	-	-	-	-	97	97
Non-current	123	8	-	-	15	146
	123	8	-	-	112	243
Allocations	-	-	-	-	205	205
Uses	(1)	(1)	-	-	(68)	(70)
Reversals	-	(5)	-	-	-	(5)
Other changes	1	-	-	-	1	2
31 December 2015	123	2	-	-	250	375
<i>Broken down as follows:</i>						
Current	-	-	-	-	226	226
Non-current	123	2	-	-	24	149
	123	2	-	-	250	375
Effect from mergers/ demergers	19	151	380	113	543	1,206
Allocations	1	21	27	39	211	299
Uses	(2)	(33)	(64)	(10)	(189)	(298)
Reversals	-	-	(19)	(22)	(102)	(143)
Other changes	(1)	(9)	(179)	-	78	(111)
31 December 2016	140	132	145	120	791	1,328
<i>Broken down as follows:</i>						
Current	99	47	19	57	297	519
Non-current	41	85	126	63	494	809
	140	132	145	120	791	1,328

The other provisions for risks and charges mainly include:

- the provision for contractual risks and charges of €mil. 475, mainly related to the Aeronautics sector;
- the provision for risks on equity investments of €mil. 56 (€mil. 170 at 31 December 2015), which mainly includes the accruals for losses exceeding the carrying amounts of the AgustaWestland SpA equity investment (for the changes in the provision for risks on equity investments reference is made to Note 9);
- the provision for tax risks of €mil. 40 (€mil. 22 at 31 December 2015);
- the provision for litigation with employees and former employees of €mil. 34 (€mil. 17 at 31 December 2015);
- the provision for litigation underway of €mil. 6 (€mil. 4 at 31 December 2015).

With regard to risks, below is a summary of the criminal proceedings that are currently underway against Leonardo, as well as certain former directors and executives, concerning acts committed during the performance of their duties, 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 SpA 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 proceeding;
- 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 subsequently dismissed;
- 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 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 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 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's operations regard industries and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity. Pursuant to the IFRSs, provisions have only been set aside for risks that are probable and for which the amount can be determined. No specific provisions have been set aside for certain disputes in which the Company is defendant as these disputes are reasonably expected to be settled, based on current knowledge, satisfactorily and without significantly impacting the Company. Of particular note are the following disputes:

- 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;
- 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 opposite party's claims concerning the facts and

requests argued by Mr Dennis Reid before the Court of Delaware, is still pending before the Rome Court of Appeal and is in their initial phase;

- 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.

21. Employee benefit obligations

	31 December 2016	31 December 2015
Severance pay provision	326	3
Defined-contribution plans	20	-
	346	3

The entire amount of the costs related to employee benefit obligations, equal to €mil.3 (0 in 2015), was recognised under financial expenses.

	31 December 2016	31 December 2015
Opening balance	3	4
Costs of benefits paid	-	-
Net interest costs	4	-
Remeasurement	8	-
- Actuarial losses/(gains) through equity - financial assumptions	8	-
Effect from mergers/demergers	358	-
Benefits paid	(27)	(1)
Closing balance	346	3

The severance pay provision, amounting to €mil. 346, increased as a result of the new Company's structure. It should be noted that the portion of cost for the year relating to amounts transferred to pension funds or to a treasury fund managed by INPS is recognised according to the rules for defined-contribution plans, without any actuarial assessment.

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

	31 December 2016	31 December 2015
Discount rate (annual)	0.9%	1.4%
Inflation rate	1.5%	1.8%

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

€ thousands	31 December 2016		31 December 2015	
	-0.25%	+0.25%	-0.25%	+0.25%
Discount rate (annual)	6	(6)	-	-
Inflation rate	(3)	3	-	-

The average duration of the severance pay is 9 years.

22. Other current and non-current liabilities

	31 December 2016		31 December 2015	
	Non-current	Current	Non-current	Current
Employee obligations	45	228	2	9
Deferred income	129	33	99	7
Amounts due to social security institutions	-	144	-	11
Payables to MED (Law 808/1985)	307	106	-	-
Payables to MED for monopoly costs (Law 808/1985)	193	31	-	-
Other liabilities (Law 808/1985)	187	-	-	-
Indirect tax liabilities	5	58	-	5
Derivatives	-	313	-	429
Other payables	11	381	9	2
Other payables to related parties (Note 32)	-	391	-	646
	877	1,685	110	1,109

Other liabilities increased mainly as a result of the recognition of the payables of the merged companies. In particular, 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.

Payables to subsidiaries mainly arise from the Group VAT mechanism.

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

“Other payables” include, in particular, down payments received from customers for €mil. 87, penalties on programmes for €mil. 79 and payables for royalties amounting to €mil. 33.

23. Trade payables

	31 December 2016	31 December 2015
Suppliers	1,954	47
Trade payables to related parties (Note 32)	613	53
	2,567	100

24. Guarantees and other commitments

Leases

The Company 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. The non-cancellable minimum future payments relating to operating lease contracts and commitments taken (as lessor) with respect to financial leases are as follows:

	31 December 2016				31 December 2015			
	Operating lease		Financial lease		Operating lease		Financial lease	
	as lessee	as lessor	as lessee	as lessor	as lessee	as lessor	as lessee	as lessor
Within 1 year	43	7	8	-	5	9	-	4
2 to 5 years	126	7	5	-	6	23	-	16
Beyond 5 years	28	-	-	-	-	19	-	43
	197	14	13	-	11	51	-	63

With regard to operating leases in which the Company is a lessee, commitments amounted to €mil. 152 with respect to subsidiaries and to €mil. 45 in respect of other parties, mainly for the lease of office space. For those leases in which the Company acts as lessor, commitments amounted to €mil. 14 (€mil. 50 at 31 December 2015) in respect to subsidiaries.

Guarantees

	31 December 2016	31 December 2015
Guarantees in favour of related parties (Note 32)	5,266	13,030
Guarantees in favour of third parties	7,440	1,467
Guarantees given to third parties	2,906	2,274
Other guarantees for Leonardo commitments	250	170
Unsecured guarantees given	15,862	16,941

Specifically, these consist of:

- counter-guarantees, totalling €mil. 8,589 (€mil. 8,233 at 31 December 2015), granted by Leonardo to third parties, banks in its own interest for €mil. 52 (€mil. 21 at 31 December 2015), in the interest of related parties for €mil. 1,097 (€mil. 6,745 at 31 December 2015) and in the interest of other companies for €mil. 7,440 (€mil. 1,467 at 31 December 2015);
- direct commitments issued by Leonardo, amounting to €mil. 7,273 (€mil. 8,708 at 31 December 2015), in favour of lenders, the tax authorities and to customers (Parent Company Guarantee), in its own interest for €mil. 199 (€mil. 149 at 31 December 2015), in favour of related parties for €mil. 4,168 (€mil. 6,285 at 31 December 2015) and in favour of other companies for €mil. 2,906 (€mil. 2,274 at 31 December 2015).

In addition to the above commitments, the Company issued non-binding letters of patronage on behalf of subsidiaries and certain associates in support for their commercial activities.

25. Revenues

	2016	2015
Revenues from sales	3,520	-
Revenues from services	1,936	1
Change in work in progress	(62)	-
Revenues from related parties (Note 32)	2,531	53
	7,925	54

The trends in revenues by business segment at Group level are described in the Report on Operations. In comparison with the 2015 revenues, equal to about €bil. 8.1, that would have been recognised on a like-for-like basis, the 2016 revenues decreased by about 6%, in line with the trends described in the Report on Operations.

Revenues were realised in the following geographical areas:

	2016	2015
Italy	2,044	54
United Kingdom	504	-
Rest of Europe	2,762	-
North America	1,288	-
Rest of the world	1,327	-
	7,925	54

26. Other operating income/(expenses)

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	21	-	21	-	-	-
Other operating grants	2	-	2	-	-	-
Reversals/(Accruals) to provisions for risks and final losses on orders and reversal of impairment of receivables	224	(223)	1	-	(12)	(12)
Exchange-rate difference on operating items	150	(137)	13	-	-	-
Insurance reimbursements	3	-	3	-	-	-
Restructuring costs	10	(15)	(5)	-	-	-
Indirect taxes	-	(13)	(13)	-	(6)	(6)
Other operating income/(expenses)	23	(27)	(4)	2	(8)	(6)
Other operating income/(expenses) from related parties (Note 32)	15	(3)	12	9	(1)	8
	448	(418)	30	11	(27)	(16)

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil 63 (0 at 31 December 2015) are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 10) equal to €mil. 58 (0 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	2,185	-
Change in inventories of raw materials	177	-
Costs for purchases from related parties (Note 32)	470	-
Purchases	2,832	-
Services rendered by third parties	1,913	9
Costs of rents and operating leases	120	5
Royalties	4	-
Software fees	21	-
Rental fees	9	-
Services rendered by related parties (Note 32)	442	56
Services	2,509	70
Wages and salaries	1,315	43
Social security contributions	382	10
Costs related to defined-contribution plans	87	2
Employee disputes	3	5
Restructuring costs - net	14	3
Other personnel expenses net of cost recovery	10	(11)
Personnel expenses	1,811	52
<i>Change in finished goods, work in progress and semi-finished goods</i>	143	-
<i>Internal work capitalised</i>	(298)	-
Total purchases and personnel expenses	6,997	122

Restructuring costs (€mil. 14 in 2016) mainly refer to the *Electronics, Defence & Security Systems* (€mil. 5) and *Aeronautics* (€mil. 8) sectors, as a result of the reorganisation underway.

The average workforce, as a result of the abovementioned mergers and acquisitions, amounts to 27,124 units; the average workforce compared with the pro-forma data at 31 December 2015 significantly decreased (650 units) mainly attributable to the *Electronics, Defence & Security Systems* (273 units), *Aeronautics* (290 units) and *Helicopters* (106 units) sectors.

The figure of total workforce at 31 December 2016, compared to the pro-forma data at 31 December 2015 decreased by 586 units as a result of the streamlining and efficiency improvement processes mainly in the *Electronics, Defence & Security Systems* (311 units) and *Helicopters* (178 units) sectors. The figure related to the average workforce, unlike that of the total workforce, is affected by the presence of part-time employees, personnel that took extended leave, redundant staff and employees with solidarity contracts.

The workforce breakdown is as follows:

	Average workforce			Total workforce		
	31 December 2016	31 December 2015	Change	31 December 2016	31 December 2015	Change
Senior managers (*)	706	83	623	707	78	629
Middle managers	3,178	85	3,093	3,153	89	3,064
Clerical employees	16,368	106	16,262	16,799	112	16,687
Manual labourers (**)	6,872	-	6,872	6,924	-	6,924
Total	27,124	274	26,850	27,583	279	27,304

(*) Includes pilots.

(**) Includes senior manual labourers.

28. Amortisation, depreciation and impairment losses

	2016	2015
Amortisation of intangible assets	220	3
<i>Development costs</i>	68	-
<i>Non-recurring costs</i>	93	-
<i>Acquired through business combinations</i>	4	-
<i>Concessions, licences and trademarks</i>	26	1
<i>Other intangible assets</i>	29	2
Depreciation of property, plant and equipment and investment properties (Note 8)	240	8
Impairment of operating receivables	18	-
Impairment of other assets	16	-
	494	11

29. Financial income and expenses

	2016			2015		
	Income	Expenses	Net	Income	Expenses	Net
Interest to/from banks	1	(11)	(10)	1	(13)	(12)
Interest and other charges on bonds	-	(173)	(173)	-	(184)	(184)
Commissions	2	(22)	(20)	2	(18)	(16)
Dividends	663	-	663	381	-	381
Premiums (paid)/received on IRS	6	(6)	-	6	(6)	-
Premiums (paid)/received on forwards	31	(44)	(13)	6	-	6
Income/(Expenses) from equity investments and securities	2	(33)	(31)	703	-	703
Value adjustments on equity investments	-	(189)	(189)	-	(401)	(401)
Fair value gains/(losses) through profit or loss	38	(11)	27	1	(1)	-
Exchange-rate differences	314	(308)	6	135	(135)	-
Financial income/(expenses) - related parties (Note 32)	52	(15)	37	104	(27)	77
Other financial income and expenses	15	(66)	(51)	9	(51)	(42)
	1,124	(878)	246	1,348	(836)	512

Net financial income showed a decrease of €mil. 266 compared to 2015. However, in 2015 this item included the net effect of the sales in the Transportation sector (i.e. a capital gain of €mil. 702 from the disposal of Ansaldo STS and a write-down of €mil. 353 of the equity investment in AnsaldoBreda, also as a result of said transactions, with a net positive effect of €mil. 349). As a whole, financial income and expenses recognised in 2016 showed the following changes compared to 2015:

- dividends, net of write-downs, increased by about €mil. 140 (excluding the write-down of AnsaldoBreda carried out during 2015, as noted above) in 2016;
- lower interest, mainly as a result of the buy-back carried out during 2015;
- foreign exchange gains and gains from fair value of derivatives for a total amount of €mil. 33 in 2016 against zero in 2015, when Leonardo only operated in the market to repay its own debt or on behalf of its subsidiaries, passing on any effect.

Finally, we note that in 2015 financial expenses included costs for €mil. 48 deriving from the buy-back plan.

Value adjustments to equity investments are described in Note 9.

Fair value results through profit or loss are 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	37	(10)	27	-	-	-
	38	(11)	27	1	(1)	-

30. Income taxes

Income taxes can be broken down as follows:

	2016	2015
IRES	(35)	-
IRAP	(19)	-
Benefit under consolidated tax mechanism	-	39
Tax related to previous periods	38	2
Provisions for tax disputes	(26)	(18)
Deferred tax - net	(58)	4
	(100)	27

In consideration of the changes in the company's structure of Leonardo, which from an holding company became an operating company, in 2016 the Company showed tax profits with related recognition of income taxes (profit from national consolidated tax mechanism in 2015).

The accrual to provisions for tax disputes of €mil. 26 stems from the valuation of risks deriving from pending situations related to previous years.

Following is an analysis of the composition of the theoretical and effective tax rates for 2016 and 2015:

	2016	2015
Profit/(Loss) before income taxes	709	417
Tax rate	14.1%	6.5%
Theoretical tax	(195)	(115)
Permanent differences	(10)	179
Timing differences	(12)	(7)
Dividends	127	100
Revaluations of equity investments		(4)
Impairment of equity investments	(52)	(110)
IRAP tax	(28)	
Net deferred tax assets	58	
Tax provision	(26)	(18)
Previous years' tax	38	2
Total tax through profit or loss	(100)	27
Theoretical tax	(27.5%)	(27.5%)
Permanent differences not to reverse in subsequent years	(1.4%)	42.9%
Timing differences to reverse in subsequent years	(1.7%)	(1.6%)
Total dividends from profit or loss	17.9%	23.8%
Revaluations of equity investments		(0.9%)
IRAP tax	(4.0%)	(26.3%)
Gains on equity investments	(7.3%)	
Net deferred tax assets	8.2%	
Tax provision	(3.7%)	(4.3%)
Current taxes of previous years	5.4%	0.4%
Total tax	(14.1%)	6.5%

The effective tax rate went from 6.5% in 2015 to 14.1% in 2016.

Deferred taxes and related receivables and payables at 31 December 2016 were the result of the following temporary differences:

	2016			2015		
	Income statement			Income statement		
	Financial income	Financial expenses	Net	Financial income	Financial expenses	Net
Deferred tax assets on tax losses	50	(63)	(13)	-	-	-
Property, plant and equipment and intangible assets	3	-	3	-	-	-
Financial assets and liabilities	2	(4)	(2)	-	-	-
Severance pay and retirement benefits		(1)	(1)	-	-	-
Provision for risks and impairment	94	(128)	(34)	-	-	-
Effect of change in tax rate	1	(8)	(7)	-	-	-
Other	19	(23)	(4)	4	-	-
Deferred taxes recognised through profit or loss	169	(227)	(58)	4	-	-

	31 December 2016			31 December 2015		
	Balance sheet			Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	58	-	58	33	-	-
Property, plant and equipment and intangible assets	39	(53)	(14)	-	-	-
Severance pay and retirement benefits	9	(4)	5	-	-	-
Financial assets and liabilities	-	-	-	-	-	-
Provision for risks and impairment	490	-	490	7	-	-
Other	40	(32)	8	-	-	-
Offsetting	-	-	-	-	-	-
Deferred taxes recognised through balance sheet	636	(89)	547	40	-	-
Cash-flow hedge derivatives	28	(1)	27	-	-	-
On actuarial gains and losses	5	(2)	3	-	-	-
Deferred taxes recognised through equity	33	(3)	30	-	-	-
	669	(92)	577	40	-	-

31. Cash flows from operating activities

	2016	2015
Net result	609	444
Amortisation, depreciation and impairment losses	494	11
Income taxes	100	(27)
Net allocations to the provisions for risks and inventory write-downs	126	12
Net financial expenses/(income)	(246)	(512)
Other non-monetary items	32	2
	1,115	(70)

The changes in other operating assets and liabilities are as follows:

	2016	2015
Inventories	130	-
Contract work in progress and progress payments and advances from customers	350	-
Trade receivables and payables	(796)	(1)
Change in trade receivables/payables, work in progress/progress payments and inventories	(316)	(1)

	2016	2015
Payment of pension plans	(28)	-
Changes in provisions for risks and other operating items	(18)	166
Change in other operating assets and liabilities and provisions for risks and charges	(46)	166

32. Related-party transactions

Commercial and financial relations with related parties are carried out at arm's length, as is settlement of interest-bearing receivables and payables. Below are the balance sheet amounts of 2016 and 2015.

Receivables at 31 December 2016

	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
AgustaWestland Philadelphia Co			209			209
AgustaWestland SpA		92	9	32	2	135
AgustaWestland Ltd			163			163
PZL-Świdnik	14	1	21			36
AgustaWestland Australia Pty Ltd			19			19
AgustaWestland Malaysia SDN BHD			17			17
Selex ES SpA		75	62			137
Selex ES Inc.		12	3			15
Selex ES International SpA		37	2			39
Leonardo MW Ltd			38			38
BredaMenarinibus SpA		50				50
Leonardo Global Solutions SpA	53		5	3	8	69
SOGEPA Società Generale di Partecipazioni SpA		13				13
Other with unit amount lower than €mil. 10		8	41	2	1	52
Associates						
NHIndustries SAS			197			197
Eurofighter Jagdflugzeug GmbH			73			73
Iveco - OTO Melara Scarl			35			35
Orizzonte - Sistemi Navali SpA			23			23
Macchi Hurel Dubois SAS			20			20
Other with unit amount lower than €mil. 10			33			33
Joint Ventures						
GIE ATR			61			61
MBDA SAS			18			18
Thales Alenia Space SAS		34	20		1	55
Joint Stock Company Helivert			53			53
Telespazio SpA	1	2	11		1	15
Other with unit amount lower than €mil. 10			3			3
Consortia						
Other with unit amount lower than €mil. 10		2	8			10
Companies subject to the control or considerable influence of the MEF						
ENAV SpA			29			29
Fintecna SpA			12			12
Poste Italiane SpA			16			16
Other with unit amount lower than €mil. 10			16		1	17
Other related parties						
Other			9			9
Total	68	326	1,226	37	14	1,671
% against total for the period	34.7%	92.4%	43.2%	100.0%	14.6%	

Receivables at 31 December 2015						
	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
AgustaWestland SpA	59	295	19	14	-	387
Alenia Aermacchi North America Inc.	-	-	-	-	-	-
Alenia Aermacchi SpA	-	324	27	-	-	351
AnsaldoBreda SpA	-	181	3	-	-	184
BredaMenarinibus SpA	-	64	-	-	-	64
Leonardo Global Solutions SpA	26	7	1	1	-	35
Selex ES SpA	-	1,639	21	3	5	1,668
SOGEPA Società Generale di Partecipazioni SpA	17	-	-	-	2	19
Whitehead Sistemi Subacquei SpA	-	26	2	-	-	28
Other with unit amount lower than €mil. 10	-	6	11	6	1	24
Joint Ventures						
Thales Alenia Space Italia SAS	-	11	-	-	-	11
Other with unit amount lower than €mil. 10	3	3	6	1	-	13
Consortia						
Other with unit amount lower than €mil. 10		2				2
Companies subject to the control or considerable influence of the MEF						
Other with unit amount lower than €mil. 10			1			1
Total	105	2,558	91	25	8	2,787
% against total for the period	99.1%	100.0%	97.8%	100.0%	6.4%	

Payables at 31 December 2016							
	Non-current loans and borrowings	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiarie							
AgustaWestland Ltd		968	70			1,038	1,388
AgustaWestland Philadelphia Co			220			220	110
AgustaWestland SpA		-	16		12	28	204
Leonardo MW Ltd		66	27		5	98	56
Alenia Aermacchi SpA							59
AnsaldoBreda SpA		53		18	118	189	749
BredaMenarinibus SpA							12
Larimart SpA			18	2		20	
DRS Group			10			10	175
FATA Logistic Systems SpA		7	26		4	37	4
Leonardo Global Solutions SpA		23	49		3	75	3
Meccanica Holdings USA Inc.							1,289
PZL-Świdnik			18			18	12
Selex ES SpA		11	35	15	5	66	
Selex ES Saudi Arabia Ltd							13
Selex ES Malaysia SDN BHD							35
Selex ES Elektronik Turkey AS							23
Selex ES GmbH							119
Sirio Panel SpA		31	17		5	53	
SOGEPA Società Generale di Partecipazioni SpA		6		2	19	27	7
Other with unit amount lower than €mil. 10		4	51	-	21	76	15
Associates							
Eurofighter Jagdflugzeug GmbH		39	-			39	
Other with unit amount lower than €mil. 10			24		7	31	
Joint Ventures							
GIE ATR			2		148	150	
MBDA SAS		440	7		1	448	47
Telespazio SpA		14		1	4	19	228
Other with unit amount lower than €mil. 10			11			11	
Consortia							
Other with unit amount lower than €mil. 10			1		1	2	
Companies subject to the control or considerable influence of the MEF							
Ansaldo Energia SpA						-	718
Other with unit amount lower than €mil. 10		2	10			12	
Other related parties							
Other			1			1	
Total	-	1,664	613	38	353	2,668	5,266
% against total for the period	n.a.	70.2%	23.9%	100.0%	30.3%		100.0%

Payables at 31 December 2015

	Non-current loans and borrowings	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries							
AgustaWestland Ltd						-	1,693
AgustaWestland Philadelphia Co						-	107
AgustaWestland SpA		418	1	-	132	551	2,573
Alenia Aermacchi North America Inc.						-	-
Alenia Aermacchi SpA		1,797	4	5	144	1,950	3,554
Ansaldo STS SpA						-	-
AnsaldoBreda SpA				55	127	182	799
BredaMenarinibus SpA				13	3	16	
Cyberlabs Srl						-	
DRS Group			7			7	126
FATA SpA					8	8	341
Leonardo Global Solutions SpA		11	11		5	27	1
Meccanica Holdings USA Inc.						-	1,194
OTO Melara SpA		46			26	72	156
PZL-Świdnik						-	6
Selex ES GmbH						-	35
Selex ES Ltd		278	3		4	285	71
Selex ES SpA		35	15		47	97	1,212
Selex Service Management SpA				4	7	11	30
Selex Sistemi Integrati SpA					17	17	
Selex ES Inc.						-	5
Sirio Panel SpA					3	3	1
SOGEPA Società Generale di Partecipazioni SpA		2		1	2	5	8
Whitehead Sistemi Subacquei SpA				1	3	4	125
Other with unit amount lower than €mil. 10		6	11	3	11	31	-
Associates							
Eurofighter Jagdflugzeug GmbH		56				56	-
Joint Ventures							
MBDA Italia SpA							47
MBDA Treasury Company Ltd		332				332	
SuperJet International SpA				2	12	14	8
E-Geos SpA				2	-	2	
Telespazio SpA		2	1	-	4	7	211
Companies subject to the control or considerable influence of the MEF							
Ansaldo Energia SpA					5	5	727
Other with unit amount lower than €mil. 10						-	
Total	-	2,983	53	86	560	3,682	13,030
% against total for the period	n.a.	95.7%	53.0%	100.0%	95.4%		100.0%

As regards the most important transactions we note:

- loans and borrowings from related parties include, in particular, the payable of €mil. 440 (€mil. 332 at 31 December 2015) of the Group companies to the Joint Venture MBDA;
- current loans and borrowings, for a total of €mil. 1,664 (€mil. 2,983 at 31 December 2015), reflect the method adopted by Leonardo for centralising the Group Treasury resources and show, by their high amount, the net cash inflows realised by the Group companies during the year, particularly during the final quarter. These loans and borrowings also include the balancing entry for cash surpluses that a number of Group companies pay to Leonardo outside the cash pooling system as their share, under treasury agreements signed with the latter, the corresponding balancing entry of which is found under cash and cash equivalents. Similarly, current loans and receivables of €mil. 326 (€mil. 2,558 at 31 December 2015) arise from financing activities conducted by Leonardo in favour of the Group companies, again as a result of this centralisation of Treasury resources;
- other receivables and payables, which include amounts deriving from the Group tax consolidation mechanism (€mil. 38 and €mil. 41 respectively) and from the Group VAT mechanism (€mil. 169 of payables), are recognised by the Parent Company, the sole party having a legal relationship with the Tax Authority, against payables and receivables recognised by the companies that adopt the national tax consolidation and the Group VAT. Receivables and payables recognised by the Company did not have any impact on the income statement since these items were offset with balancing tax items in the balance sheet. Moreover, payables include debts to the subsidiaries in relation to the refund they are entitled to following the allowed deductibility of IRAP for IRES purposes (€mil. 16).

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these notes.

Below are all income statement transactions with the Leonardo's related parties for the years 2016 and 2015.

Income statement transactions at 31 December 2016							
	Revenues	Other operating income	Other operating expenses	Services expenses	Purchase expenses	Financial income	Financial expenses
Subsidiaries							
AgustaWestland Ltd	166			28	97	2	9
AgustaWestland Philadelphia Co	133	4		19	117		
AgustaWestland SpA	7				16	1	-
Agusta Aerospace Services SA	12				-	-	-
AgustaWestland Malaysia SDN BHD	11				11	-	-
FATA Logistic Systems SpA				65	-	-	-
Selex Galileo Inc.					11	-	-
Leonardo Global Solutions SpA	1			167	-	1	-
Leonardo MW Ltd	87	6	1	38	13	1	1
Larimart SpA		-			12		-
PZL-Świdnik	22	-			84	1	-
Sirio Panel SpA					29	-	-
Other with unit amount lower than €mil. 10	35		1	49	19	13	
Associates							
Eurofighter Jagdflugzeug GmbH	703						
NHIndustries SAS	342						
Orizzonte - Sistemi Navali SpA	206						
Iveco - OTO Melara Scarl	123						3
Macchi Hurel Dubois SAS	73						
AgustaWestland Aviation Services LLC	12						
Atitech Manufacturing Srl				16			
Other with unit amount lower than €mil. 10	36	1		14	3		
Joint Ventures							
GIE ATR	331				57	-	-
MBDA SAS	38					-	2
SuperJet International SpA	20					2	-
Thales Alenia Space France Sas	68					-	-
Rotorsim Srl	1	3		16		-	-
Other with unit amount lower than €mil. 10	2		1	5		1	-
Consortia							
Other with unit amount lower than €mil. 10	4			1			-
Companies subject to the control or considerable influence of the MEF							
Eni SpA				16			
ENAV SpA	37			-		-	-
Poste Italiane SpA	29			-		-	-
Cassa Depositi e Prestiti Equity						30	
Other with unit amount lower than €mil. 10	23	1		5			
	-	-		-		-	-
Other related parties							
Other	9			3	1		
Total	2,531	15	3	442	470	52	15
% against total for the period	31.9%	3.3%	0.7%	6.3%	6.7%	4.6%	1.7%

Income statement transactions at 31 December 2015						
	Revenues	Other operating income	Other operating expenses	Services expenses	Financial income	Financial expenses
Subsidiaries						
AgustaWestland Ltd					3	-
AgustaWestland SpA	14	2		1	13	3
Alenia Aermacchi North America Inc.	-			-	-	-
Alenia Aermacchi SpA	10			2	12	13
Leonardo Global Solutions SpA			1	17	3	-
Selex ES Ltd				3	-	1
Selex ES SpA	11	6		20	52	1
Other with unit amount lower than €mil. 10	7			12	20	5
Joint Ventures						
Other with unit amount lower than €mil. 10	10			1	1	4
Companies subject to the control or considerable influence of the MEF						
Other with unit amount lower than €mil. 10	1	1				
Total	53	9	1	56	104	27
% against total for the period	98.1%	81.8%	3.7%	45.9%	7.7%	3.2%

“Financial income/(expenses)” relate to interest on financial receivables and payables and commissions, mainly connected with the centralisation of the management of Group Treasury resources within Leonardo. In carrying out its Treasury management functions, the Company acts as the main counterparty, always at arm’s length, for the financial assets and liabilities of the subsidiaries within the scope of such centralisation.

33. Financial risk management

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

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

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

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

Below are the main information related to the abovementioned risks. However, for further details reference is made to Note 35 of the consolidated financial statements.

Interest-rate risk

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

To that regard and with reference to borrowings equal to €mil. 5,302 at 31 December 2016 the fixed-rate percentage amounted to around 65%, while the floating-rate percentage is around 35%.

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

- *interest-rate swaps fixed/floating/fixed rate* for €mil. 200, related to the Finmeccanica Finance issue due 2018, totalling €mil. 500 (subsequently transferred to Leonardo), 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 derivative instruments in interest-rate swaps (IRS) 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	2	-	-	-	2
Options	200	200	Bond 2025	(3)	-	(1)	-	(4)
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	3	-	(1)	-	2
Options	200	200	Bond 2025	(4)	-	1	-	(3)
Total notional	400	400		(1)	-	-	-	(1)

The table below shows the effects of the sensitivity analysis for 2016 and 2015 on IRS at 31 December 2016 deriving from the 50-basis-point shift in the interest-rate curve:

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	4	(4)	1	(1)
Equity (*)	4	(4)	1	(1)

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

Exchange-rate risk

Exchange-rate risk management for the Group is governed by the directive issued by Leonardo SpA. The purpose of the directive is to standardise for all the Group companies the management criteria based on industrial-not-speculative strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions.

The Company hedges its own risks related to short-term financial payables and receivables denominated in currencies other than the euro and enters into foreign exchange transactions in the interest of other Group companies totalling €mil. 6,425 (notional amount) (substantially in line with the previous year), as detailed in the following table:

	Notional 2016			Notional 2015		
	Sales	Purchases	Total	Sales	Purchases	Total
Swap and forward transactions	2,512	3,913	6,425	3,282	3,180	6,462

As a result of the financial centralisation, the cash flows of the Group's foreign companies were recharged in several ways to Leonardo through intercompany transactions mainly denominated in pound sterling and US dollars. For this type of risks, the income statement is hedged using mirror transactions of payables/receivables to/from third parties in the currency of intercompany items or through specific exchange-rate derivatives, classified as fair-value hedges. The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 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	1,140	62	518	1,357	-	-	-	-
Within 1 year	593	9	310	323	-	141	9	769
2 to 3 years	52	-	125	382	-	-	-	434
4 to 9 years	-	-	-	-	-	-	-	-
Total	1,785	71	953	2,062	-	141	9	1,203
Hedging transactions which cannot be classified as hedging transactions	567	3	567	3	-	-	-	-
Total transactions	2,352	74	1,520	2,065	-	141	9	1,203

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the pound sterling and the US dollar, assuming a +/- 5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2016 (1.0541 and 0.8562, respectively) and at 31 December 2015 (1.0887 and 0.7339, 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)	(1)	(2)	(2)	2
Equity (*)	(31)	37	25	(28)	(1)	(2)	(2)	2

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

Liquidity risk

Leonardo is exposed to liquidity risk, i.e. the risk of not being able to efficiently finance its usual business and investment operations, as well as the requirements 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. Furthermore, there is the risk of not being able to repay debts at the expiry dates.

In order to face the abovementioned risks, Leonardo has adopted a series of instruments aimed at optimising the management of financial resources.

During 2016, €mil. 47 was repaid of the principal portion of the EIB loan, which was signed by the Company in 2010. Furthermore, in order to finance its own ordinary and extraordinary operations, Leonardo can use the €bil. 2.0 Revolving Credit Facility, whose maturity date has been extended to 2020.

Credit risk

Following the mergers and demergers commented on in the Report on Operations, Leonardo SpA was transformed from an industrial holding company responsible for direction and control into a trading company, exposed to the exchange risk with reference to its portfolio, orders, revenues and costs denominated in currencies other than Euro (in particular USD). The Company operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2016, we note the following relations with countries exposed to credit risk according to the international institutions:

	Libya	Egypt	Other countries	Total
Assets	10	24	5	39
Liabilities	8	10	2	20
Net exposure	2	14	3	19

Finally the receivables related to these agreements, as reported in the section “Leonardo and risk management” of the Report on Operations, might not be paid, renegotiated or written off. Among receivables, we note in particular those 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.

The table below summarises trade receivables at 31 December 2016 and 2015:

€ billions	31 December 2016	31 December 2015
Portion due	1.3	-
- of which: for more than 12 months	0.4	-
Portion not yet due	1.5	-
Total trade receivables	2.8	-

Both trade and financial receivables are impaired individually if they are significant.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy of financial assets and liabilities measured at fair value. The fair value is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called “Level 2”). In particular, the inputs used for the fair value measurement are the foreign exchange rate and interest rate observable on the market (spot exchange rates and forwards), exclusively in relation to options, and the volatility of these inputs. Vice versa, the fair value of the remaining 15% interest in Ansaldo Energia, subject to put & call options (classified starting from 2016 under other current assets), 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 and increased by capitalised interest at a yearly 6% rate.

	31 December 2016			31 December 2015		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Other non-current assets	-	-	-	-	131	131
Other assets	113	138	251	4	-	4
Other non-current liabilities	-	275	275	-	-	-
Other current liabilities	273	-	273	17	-	17

34. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA are reported in Note 36 to the consolidated financial statements.

35. 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. 5 (€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, during 2016, in respect of the bonus shares (“matching shares”) the requirements for the award of the rights have not yet been fulfilled.

APPENDICES

Appendix no. 1 (€mil.) - EQUITY INVESTMENTS

	31 December 2015		
	Cost	Impairment	Carrying amount
% Equity investments in subsidiaries			
100 AGUSTAWESTLAND SPA	2,172	-	2,172
100 AGUSTAWESTLAND HOLDING LTD	-	-	-
100 AGUSTAWESTLAND PHILADELPHIA CO.	-	-	-
100 ALENIA AERMACCHI NORTH AMERICA INC.	-	-	-
100 ALENIA AERMACCHI SPA	542	-	542
100 ANSALDOBREDA SPA	509	(509)	-
100 BREDAMENARINIBUS SPA	48	(44)	4
100 FATA SPA	22	-	22
100 FINMECCANICA NORTH AMERICA INC.	3	-	3
60 LARIMART SPA	-	-	-
100 LEONARDO GLOBAL SOLUTIONS SPA	497	-	497
100 LEONARDO MW LTD	-	-	-
100 MECCANICA HOLDINGS USA INC.	2,389	(1,290)	1,099
100 OTO MELARA IBERICA SAU			
100 OTO MELARA SPA	103	-	103
100 SELEX ES INTERNATIONAL LTD	-	-	-
100 SELEX ES SPA	2,001	(214)	1,787
100 SIRIO PANEL SPA	-	-	-
100 SOGEP - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	14	(9)	5
67 TELESPAZIO SPA (*)	171	-	171
100 W.S.K. PZL-ŚWIDNIK SA	-	-	-
100 WHITEHEAD SISTEMI SUBACQUEI SPA	25	-	25
Conferring other investments (**)			
	8,496	(2,066)	6,430

(*) Joint control.

(**) Investments adjusted in investments held for sale.

Transfers/ Acquisition of business unit (a)	Acquis./ Subscriptions/ Payments of capital	Disposal	Reclass.	Stock grant	Financial revalut./ Impair- ment	Capital replenishment	Other changes (d)	31 December 2016		
								Cost	Impair- ment	Carrying amount
(2,169)	-	-	-	-	(3)	-	-	3	(3)	-
58	-	-	-	-	-	-	-	58	-	58
217	-	-	-	-	-	-	-	217	-	217
22	-	-	(22)	-	-	-	-	-	-	-
(530)	-	-	-	-	(9)	-	-	12	(9)	3
-	40	-	-	-	(23)	-	-	509	(492)	17
-	-	-	-	-	(2)	-	1	48	(45)	3
-	-	(2)	(20)	-	-	-	-	-	-	-
-	-	(3)	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	14	-	14
67	-	-	6	-	-	-	-	570	-	570
1,760	-	-	-	-	-	-	-	1,760	-	1,760
1	-	-	22	-	-	-	-	2,412	(1,290)	1,122
4	1	-	-	-	-	-	-	5	-	5
(103)	-	-	-	-	-	-	-	-	-	-
131	-	-	-	-	-	-	-	131	-	131
(1,666)	-	-	-	-	(54)	-	(1)	120	(54)	66
122	-	-	-	-	-	-	-	122	-	122
-	-	-	14	-	(12)	-	1	28	(20)	8
-	-	-	-	-	-	-	-	171	-	171
141	1	-	-	-	-	-	-	142	-	142
(25)	-	-	-	-	-	-	-	-	-	-
1,151	-	-	(1,151)	-	-	-	-	-	-	-
(805)	42	(5)	(1,151)	-	(103)	-	1	6,322	(1,913)	4,409

Appendix no. 1 (€mil.) - EQUITY INVESTMENTS

	31 December 2015		
	Cost	Impairment	Carrying amount
% Equity investments in associates			
50 ABU DHABI SYSTEMS INTEGRATION LLC	-	-	-
14 AMSH BV (*)	873	(392)	481
31 ATITECH SPA	7	(1)	6
50 AVIO SPA	54	-	54
11 AW AVIATION SERVICES LLC	-	-	-
31 GIE ATR	-	-	-
25 ELETTRONICA SPA	54	(47)	7
21 EUROFIGHTER INTERNATIONAL LTD (IN LIQ.)	-	-	-
50 EUROFIGHTER JAGDFLUGZEUG GMBH	-	-	-
15 EUROFIGHTER SIMULATION SYSTEMS GMBH	-	-	-
21 EUROTTECH SPA	18	(12)	6
49 IND. A. E. M. R. PIAGGIO SPA (EXT. ADM.)	31	(31)	-
50 INDIAN ROTORCRAFT LTD	-	-	-
49 JIANGXI CHANGHE AGUSTA HELICOPTERS CO.	-	-	-
24 LIBYAN ITALIAN ADVANCED TECH. CO.	2	(2)	-
26 NHINDUSTRIES SAS	-	-	-
30 ORIZZONTE - SISTEMI NAVALI SPA	-	-	-
40 PANAVIA AIRCRAFT GMBH	-	-	-
50 ROTORSIM SRL	-	-	-
50 THALES ALENIA SPACE SAS (*)	546	(145)	401
	1,585	(630)	955
Other companies			
99 CONS. CREO	1	(1)	-
12 INDUSTRIA ITALIANA AUTOBUS SPA	1	-	1
1 VITROCISSET SPA	-	-	-
Other companies with unit amount lower than €mil. 1	1	-	-
	3	(1)	1
TOTAL EQUITY INVESTMENTS	10,084	(2,697)	7,386
Investments held for sale			
99 AGUSTA AEROSPACE SERVICES SA			
100 AGUSTAWESTLAND AUSTRALIA			
100 AGUSTAWESTLAND DO BRASIL LTDA			
100 AGUSTAWESTLAND LTD			
100 AGUSTAWESTLAND MALAYSIA			
100 AGUSTAWESTLAND PORTUGAL			
Total investments held for sale	-	-	-

(*) Joint control.

	Transfers/ Acquisition of business unit	Acquis./ Subscriptions/ Payments of capital	Disposal	Reclass.	Stock grant	Financial revalut./ Impair- ment	Capital replenishment	Other changes	31 December 2016		
									Cost	Impair- ment	Carrying amount
	(a)		(b)	(c)				(d)			
	3	-	-	-	-	-	-	-	3	-	3
	-	-	-	-	-	-	-	-	873	(392)	481
	-	-	-	-	-	-	-	-	7	(1)	6
	-	-	-	-	-	(31)	-	-	54	(31)	23
	4	-	-	-	-	-	-	-	4	-	4
	234	-	-	-	-	-	-	(2)	232	-	232
	-	-	-	-	-	-	-	-	54	(47)	7
	1	-	-	-	-	-	-	-	1	-	1
	9	-	-	-	-	-	-	-	9	-	9
	2	-	-	-	-	-	-	-	2	-	2
	-	-	-	-	-	-	-	-	18	(12)	6
	-	-	-	-	-	-	-	-	31	(31)	-
	2	-	-	-	-	(2)	-	-	2	(2)	-
	2	-	-	-	-	-	-	-	2	-	2
	-	-	-	-	-	-	-	-	2	(2)	-
	1	-	-	-	-	-	-	-	1	-	1
	16	-	-	-	-	-	-	-	16	-	16
	4	-	-	-	-	-	-	-	4	-	4
	28	-	-	-	-	-	-	-	28	-	28
	-	-	-	-	-	-	-	-	546	(145)	401
	306	-	-	-	-	(33)	-	(2)	1,889	(663)	1,226
		1	-	-	-	-	-	-	1	-	1
	-	-	-	-	-	-	-	-	1	-	1
	1	-	-	-	-	-	-	-	1	-	1
	3	-	-	-	-	-	-	(1)	3	-	3
	4	1	-	-	-	-	-	(1)	6	-	6
	(495)	43	(5)	(1,151)	-	(136)	-	(2)	8,217	(2,576)	5,641
				20					20	-	20
				-					-	-	-
				9					9	-	9
				1,109					1,109	-	1,109
				13					13	-	13
	-	-	-	1,151	-	-	-	-	1,151	-	1,151

Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date
Equity investments in subsidiaries		
AGUSTA WESTLAND SPA	Rome	31.12.2016
AGUSTAWESTLAND HOLDING LTD	Yeovil (UK)	31.12.2016
AGUSTAWESTLAND PHILADELPHIA CORP.	Philadelphia (USA)	31.12.2016
ALENIA AERMACCHI SPA	Rome	31.12.2016
ALENIA NORTH AMERICA CANADA CO.	Canada	31.12.2015
ANSALDOBREDA SPA	Naples	31.12.2016
BREDAMENARINIBUS SPA	Bologna	31.12.2016
FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	31.12.2016
FINMECCANICA DO BRASIL LTDA (EURO at 31.12.2016 = BRL 3.4305)		
LARIMART SPA	Rome	31.12.2016
LEONARDO GLOBAL SOLUTIONS SPA	Rome	31.12.2016
LEONARDO MW LTD	Basilidon, Essex (UK)	31.12.2016
MECCANICA HOLDINGS USA INC.	Wilmington (USA)	31.12.2016
MECCANICA HOLDINGS USA INC. (EURO at 31.12.2016 = USD 1.0541)		
OTO MELARA IBERICA SAU	Valencia (Spain)	31.12.2015
SELEX ES SPA	Rome	31.12.2016
SELEX INTERNATIONAL LTD	Basilidon, Essex (UK)	31.12.2016
SIRIO PANEL SPA	Montevarchi (Arezzo)	31.12.2016
SISTEMI DINAMICI SPA	Pisa	31.12.2016
SOGEP - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	Genoa	31.12.2016
TELESPAZIO SPA (*)	Rome	31.12.2016
W.S.K. PZL-ŚWIDNIK SA	Świdnik (Poland)	31.12.2016
WIN BLUE WATER SERVICES PVT LTD	New Delhi (India)	31.12.2016
WING NED BV	Rotterdam (The Netherlands)	31.12.2015
WORLD'S WING SA	Geneva (Switzerland)	31.12.2015

(*) Joint control.

Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/ (Loss)	Ownership	Net equity in financial statements	Carrying amount
120,000		(52.0)	283.0	335.0	(56.0)	100.0	(52.0)	-
500,000	GBP	35.0	35.0	0.0	0.0	100.0	35.0	58
121,200,000	USD	240.0	962.0	722.0	(11.0)	100.0	240.0	217
120,000		3.0	29.0	26.0	(10.0)	100.0	3.0	3
1	USD	-	-	-	-	100.0	-	-
10,000,000		17.0	433.0	416.0	(22.0)	100.0	17.0	17
1,300,000		3.0	68.0	65.0	(4.0)	100.0	3.0	3
350,736	BRL	0.6	0.6	-	-	100.0	0.6	-
1,203,200	BRL	2.0	2.0	-	-			
2,500,000		19.9	33.8	13.9	3.1	60.00	11.9	14
49,945,983		603.0	777.0	174.0	11.0	100.0	603.0	569
270,000,000	GBP	679.9	1,271.5	591.6	81.0	100.00	679.9	1,760
9	USD	1,467.6	2,662.0	1,195.3	(1,971.3)	100.0	1,467.6	1,122
10	USD	1,547.0	2,806.0	1,260.0	(2,078.0)			
2		6.0	n.a.	n.a.	n.a.	100.0	6.0	5
120,000		267.0	371.0	104.0	(17.0)	100.0	267.0	66
59,500,000	GBP	46.8	83.2	36.4	-1.5	100.00	46.8	131
400,000		123.0	179.7	56.7	20.9	100.00	123.0	122
200,000		-	12.0	12.0	-	100.0	-	-
1,000,000		8.0	105.0	98.0	(12.0)	100.0	8.0	8
50,000,000		229.0	583.0	354.0	23.0	67.0	153.4	171
307,642,000	PLN	79.0	191.0	112.0	21.0	98.5	77.8	142
8,534,800	INR	393.6	494.5	471.4	23.1	100.0	393.6	-
18,000		112.0	112.0	-	-	100.0	112.0	-
120	CHF	795.0	136.0	(659.0)	(119.0)	94.9	754.8	-
								4,409

Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date
Equity investments in associates		
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)	31.12.2014
ADVANCED MALE AIRCRAFT LLC	Al Ain (United Arab Emirates)	n.a.
AMSH BV (*)	Amsterdam (The Netherlands)	31.12.2016
ATITECH MANUFACTURING SRL	Naples	31.12.2015
ATITECH SPA	Capodichino (Naples)	31.12.2015
AVIO SPA	Turin	31.12.2015
AW AVIATION SERVICES LLC	United Arab Emirates	31.12.2016
ELETTRONICA SPA	Rome	31.12.2016
EUROFIGHTER AIRCRAFT MAN. GMBH	Hallbergmoos (Germany)	31.12.2015
EUROFIGHTER INTERNATIONAL LTD	Hallbergmoos (Germany)	31.12.2013
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	31.12.2015
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	31.12.2014
EUROSYSNAV SAS (IN LIQ.)	Paris (France)	31.12.2015
EUROTECH SPA	Udine	31.12.2015
HELIVERT CLOSED JOINT STOCK COMPANY	Moscow (Russia)	31.12.2016
IND. A. E. M. R. PIAGGIO SPA (EXT. ADM.)	Genoa	31.12.2013
JIANGXI CHANGHE AGUSTA HELICOPTERS CO	Jingdezhen (China)	31.12.2016
LIBYAN ITALIAN ADVANCED TECH. CO.	Tripoli (Lybia)	31.12.2011
LIBYAN ITALIAN ADVANCED TECH. CO. (EURO at 31.12.2016 = LYD 1.51553)		
MACCHI HUREL DUBOIS SAS	Plaisir (France)	31.12.2015
NHINDUSTRIES SAS	Aix-en-Provence (France)	31.12.2016
ORIZZONE - SISTEMI NAVALI	Genoa	31.12.2015
ROTORSIM SRL	Sesto Calende (Varese)	31.12.2016
THALES ALENIA SPACE SAS (*)	Paris (France)	31.12.2015

(*) Joint control.

Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/(Loss)	Ownership	Net equity in financial statements	Carrying amount
258,000	AED	5.2			2.8	43.4	2.3	3
n.a.	SED	n.a.	n.a.	n.a.	n.a.	49.0	n.a.	0
36,296,316		836.0	836.0	0.0	104.0	50.0	418.0	481
10,000		0.0	8.0	8.0	0.0	25.0	0.0	0
6,500,000		13.0	48.6	35.5	2.2	25.0	3.3	6
40,000,000		286.5	713.2	426.7	5.4	14.3	41.0	23
58,010,000	AED	15.0	25.0	10.0	-	30.0	4.5	4
9,000,000		88.0	n.a.	n.a.	17.0	31.3	27.6	7
127,823		-	-	-	-	21.0	-	0
2,000,000	GBP	2.0	2.0	-	-	100.0	2.0	1
639,114		50.0	2,126.6	2,076.6	27.0	21.0	10.5	9
260,000		13.9			1.0	24.0	3.3	2
40,000		4.0	7.0	3.0	0.0	50.0	2.0	0
8,878,946		114.3	128.1	13.8	3.7	11.1	12.7	6
325,010,000	RUB	(6.0)	57.0	63.0	5.0	50.0	(3.0)	0
103,567		n.a.	n.a.	n.a.	n.a.	31.0	n.a.	0
48,403,000	CNY	5.0	7.0	1.0	0.0	40.0	2.0	2
8,952,644	LYD	3.1	18.6	15.5	(2.5)	25.0	0.8	0
13,568,000	LYD	4.7	28.2	23.5	(3.8)		-	
100,000		0.4	40.0	40.0	-	50.0	0.2	0
306,000		5.0	5,819.0	5,814.0	1.0	32.0	1.6	1
20,000,000		34.7	2,546.0	2,511.3	1.4	49.0	17.0	16
9,800,000		61.0	105.0	44.0	2.0	50.0	30.5	28
918,038,000		1,095.0	1,414.8	319.8	112.4	33.0	361.4	401

990

Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date
Consortia		
CONS. CREO	L'Aquila	31.12.2016
CONS. PISA RICERCHE SCRL (IN BANKRUPTCY)	Pisa	31.12.2011
CONSORZIO CALS ITALIA	Rome	31.12.2015
CONSORZIO CONSAER	Naples	31.12.2015
CONSORZIO DHITECH SCARL	Lecce	31.12.2015
GIE ATR	Toulouse (France)	n.a.
CONSORZIO IMAST SCARL	Naples	31.12.2015
CONSORZIO PER L'ENERGIA VARESE	Varese	31.12.2015
CONSORZIO TECHNOVA SCARL	Naples	n.a.
CONSORZIO TESSERA	Venice	31.12.2015
CONSORZIO TOP IN SCARL	Naples	n.a.
EUROSLAT G.E.I.E.	Sophia Antipolis (France)	31.12.2015
EUROTORP G.E.I.E	Sophia Antipolis (France)	31.12.2015
IAMCO-INT. AEROSPACE MANAG. COMPANY SCRL	Venice	31.12.2015
Other companies		
BCV MANAGEMENT SA	Luxembourg	31.12.2015
CIRA SCPA	Capua	31.12.2015
DISTRETTO AEROSPAZIALE DELLA CAMPANIA SCARL	Capua	31.12.2015
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCARL	La Spezia	31.12.2015
DISTRETTO TECNOLOGICO AEROSPAZIALE SCARL	Brindisi	31.12.2015
EMITTENTI TITOLI SPA	Milan	31.12.2015
EUROPEAN SATELLITE NAVIGATION IND. GMBH (IN LIQ.)	Ottobrunn (Germany)	12.11.2014
INDUSTRIA ITALIANA AUTOBUS SPA	Roma	31.12.2015
PANAVIA AIRCRAFT GMBH	Hallbergmoos (Germany)	31.12.2015
SECBAT SARL	Saint-Cloud (France)	31.12.2015
SOC.INFORM ESPERIENZE TERMOID. SPA	Piacenza	31.12.2015
VITROCISSET SPA	Rome	31.12.2015
OTHER COMPANIES WITHOUT CODIFICATION		

TOTAL EQUITY INVESTMENTS

(*) Joint control.

Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/(Loss)	Ownership	Net equity in financial statements	Carrying amount
774,685		0.4	2.6	2.2	(0.4)	99.0	0.4	1
1,061,613		1.1	9.6	8.5	(0.1)	7.7	0.1	0
100,709		0.1	0.1	0.0	0.0	16.7		0
275,600		0.0	2.0	2.0	0.0	23.0	0.0	0
231,800		1.0	34.0	33.0	0.0	2.8	0.0	0
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	50.0		232
689,000		1.0	13.0	12.0	0.0	3.2	0.0	0
88,154		0.0	0.0	0.0	0.0	0.6	0.0	0
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.8		0
40,000		0.0	0.0	0.0	0.0	47.0	0.0	0
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.4		0
0		0.0	0.0	0.0	(4.0)	50.0	0.0	0
0		0.0	0.0	0.0	626.0	50.0	0.0	0
208,000		1.0	8.0	7.0	0.0	25.0	0.3	0
								233
36,470		0.0	0.1	0.0	0.0	15.0	0.0	0
985,224		116.0	170.0	54.0	1.0	11.7	13.5	0
492,500		0.0	1.0	1.0	0.0	6.1	0.0	0
1,140,000		1.1	5.0	4.0	0.0	11.1	0.1	0
150,000		1.0	3.0	2.0	0.0	17.0	0.2	0
4,264,000		71.7	71.8	0.1	62.7	3.7	2.6	0
264,000		0.0	3.5	3.5	0.0	18.9	0.0	0
4,250,000		4.3	100.7	96.5	0.0	11.7	0.5	1
6,437,165		52.0	246.0	194.0	7.0	15.0	7.8	4
32,000		1.0	22.0	21.0	0.0	13.6	0.1	0
697,820		0.8	3.5	26.7	0.1	2.2	0.0	0
82,000,000		99.7	282.1	182.4	3.1	1.5	1.5	1
								2
								9
								5,641

Appendix no. 3 (€mil.) - NON-CURRENT RECEIVABLES

	31 December 2015		
	Residual nominal amount	Impairment	Carrying amount
Receivables	1		1
Receivables from subsidiaries	105		105
			-
Total receivables	106	-	106

Appendix no. 4 (€mil.) - ASSETS BROKEN DOWN BY MATURITY

	31 December 2016			31 December 2015		
	Amounts due			Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Receivables	61	-	61			
Other non-current receivables from related parties	24	28	52			
Loans and receivables	67	-	67	1		1
Non-current loans and receivables from related parties	16	-	16	62	43	105
Other non-current assets	60	23	83	142		142
Total receivables and non-current assets	228	51	279	205	43	248

Mergers/ Demergers	Disbursement	Reclassifications	Reimbursements	Other changes	31 December 2016		
					Residual nominal amount	Impairment	Carrying amount
46	16	65			128		128
26		(17)	45	(1)	68		68
72	16	48	45	(1)	196	-	196

Appendix no. 5 (€mil.) - FOREIGN CURRENCY ASSETS

	31 December 2016			31 December 2015		
	In foreign currency	In euro	Total	In foreign currency	In euro	Total
Receivables	-	61	61			
Other non-current receivables from related parties		52	52			
Loans and receivables	-	67	67		1	1
Non-current loans and receivables from related parties	15	1	16		105	105
Other non-current assets		83	83		142	142
Total receivables and other non-current assets	15	264	279	-	248	248
Deferred tax assets	-	669	669		40	40
Total non-current assets	15	933	948	-	288	288
Loans and receivables	-	28	28		-	-
Loans and receivables from related parties	58	268	325		2,558	2,558
	58	296	353	-	2,558	2,558
Trade receivables	501	1,111	1,612		2	2
Trade receivables from related parties	438	787	1,225		91	91
	939	1,898	2,837	-	93	93
Other assets	26	560	586	3	538	541
Other receivables from related parties	1	50	51		33	33
	27	610	637	3	571	574
Income tax receivables	-	100	100		97	97
Cash and cash equivalents	76	1,671	1,747	191	1,174	1,365
Total current assets	1,100	4,575	5,674	194	4,493	4,687

Appendix no. 6 (€thous.) - ASSETS BY GEOGRAPHICAL AREA

	31 December 2016					31 December 2015				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Receivables	61				61					
Other non-current receivables from related parties	52				52	105				105
Loans and receivables	67				67	1				1
Non-current loans and receivables from related parties	1	15			16	105				105
Other non-current assets	83				83	142				142
Total receivables and other non-current assets	264	15	-	-	279	248	-	-	-	248
Deferred tax assets	669				669	40				40
Total non-current assets	933	15	-	-	948	288	-	-	-	288
Loans and receivables	28				28					
Loans and receivables from related parties	236	71	12	6	325	2,547	11	-	-	2,558
	264	71	12	6	353	2,547	11	-	-	2,558
Trade receivables	628	346	198	440	1,612	2				2
Trade receivables from related parties	254	693	219	59	1,225	85	3	3		91
	882	1,039	417	499	2,837	87	3	3	-	93
Other assets	574	2		10	586	540	1			541
Other receivables from related parties	51			-	51	33				33
	625	2	-	10	637	573	1	-	-	574
Income tax receivables	100				100	97				97
Cash and cash equivalents	1,742		5		1,747	1,318	47			1,365
Total current assets	3,613	1,112	434	515	5,674	4,622	62	3	-	4,687

Appendix no. 7 (€mil.) - AVAILABLE AND DISTRIBUTABLE RESERVES

Nature/description	Amount	Possible use	Available portion
Share capital (*)	2,491		
Revenue reserves			
Legal reserve	236	B	
Extraordinary reserve	391	A,B,C	391
Reserve for actuarial gains/(losses) in equity	(58)	B	
Cash-flow hedge reserve	(103)	B	
Stock-grant reserve	8	B	
Reserve for merger and demerger surplus	722	A,B,C	722
Retained earnings and other reserves	1,029	A,B,C	1,014
Total	4,716		2,127
Net profit/(loss) for the period	609	A,B,C	579
Constraint ex Article 2426, paragraph 1 no. 5 Civil Code			(1,776)
Total equity	5,325		930

Keys:

(*) less treasury shares for €mil. 34 and costs for capital increase for €mil. 19.

A: for capital increase.

B: for loss coverage.

C: for distribution to shareholders.

Appendix no. 8 (€mil.) - LIABILITIES BROKEN DOWN BY MATURITY

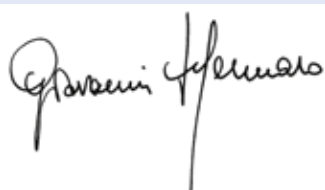
	31 December 2016			31 December 2015		
	Amounts due			Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Other non-current liabilities	417	460	877	110	-	110
	417	460	877	110	-	110
Loans and borrowings (non-current)	1,827	1,104	2,931	1,638	1,883	3,521
Non-current loans and borrowings to related parties	-	-	-	-	-	-
	1,827	1,104	2,931	1,638	1,883	3,521
Total non-current liabilities	2,244	1,564	3,808	1,748	1,883	3,631

Appendix no. 9 (€mil.) - FOREIGN CURRENCY LIABILITIES

	31 December 2016			31 December 2015		
	In foreign currency	In euro	Total	In foreign currency	In euro	Total
Loans and borrowings (non-current)	371	2,560	2,931	434	3,087	3,521
Non-current loans and borrowings to related parties	-	-	-	-	-	-
	371	2,560	2,931	434	3,087	3,521
Deferred tax assets	-	92	92	-	-	-
Other non-current liabilities	-	877	877	-	110	110
Total non-current liabilities	371	3,529	3,900	434	3,197	3,631
Loans and borrowings	1	706	707	1	132	133
Related-party loans and borrowings	1,057	607	1,664	762	2,221	2,983
	1,058	1,313	2,371	763	2,353	3,116
Trade payables	480	1,473	1,953	1	46	47
Trade payables to related parties	225	388	613	16	37	53
	705	1,861	2,566	17	83	100
Other liabilities	44	1,250	1,294	-	464	464
Other payables to related parties	148	243	391	-	646	646
	192	1,493	1,685	-	1,110	1,110
Income tax payables	-	33	33	-	1	1
Total current liabilities	1,955	4,700	6,655	780	3,547	4,327

Appendix no. 10 (€mil.) - LIABILITIES BY GEOGRAPHICAL AREA

	31 December 2016					31 December 2015				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Loans and borrowings (non-current)	2,699	232	-	-	2,931	3,243	-	-	-	3,243
Non-current loans and borrowings to related parties	-	-	-	-	-	-	-	-	-	-
	2,699	232	-	-	2,931	3,243	-	-	-	3,243
Deferred tax assets	92	-	-	-	92	-	-	-	-	-
Other non-current liabilities	869	8	-	-	877	110	-	-	-	110
Total non-current liabilities	3,660	240	-	-	3,900	3,353	-	-	-	3,353
Loans and borrowings	658	49	-	-	707	133	-	-	-	133
Related-party loans and borrowings	148	1,516	-	-	1,664	2,312	671	-	-	2,983
	806	1,565	-	-	2,371	2,445	671	-	-	3,116
Trade payables	1,350	263	266	74	1,953	37	8	1	1	47
Trade payables to related parties	209	135	251	18	613	35	7	11	-	53
	1,559	398	517	92	2,566	72	15	12	1	100
Other liabilities	1,153	77	15	49	1,294	464	-	-	-	464
Other payables to related parties	243	148	-	-	391	645	1	-	-	646
	1,396	225	15	49	1,685	1,109	1	-	-	1,110
Income tax payables	33	-	-	-	33	1	-	-	-	1
Total current liabilities	3,794	2,188	532	141	6,655	3,627	687	12	1	4,327



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

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

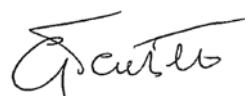
1. The undersigned Mauro Moretti, Chief Executive Officer and General Manager, and Gian Piero Cutillo, as the Officer in charge of financial reporting for Leonardo SpA, certify, in accordance with Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
 - the appropriateness of the financial statements with regard to the nature of the business and
 - the effective application of administrative and accounting procedures in preparing the separate 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 separate 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;
 - 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, together with a description of the main risks and uncertainties it is 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



Chief Executive Officer
and General Manager
(Mauro Moretti)



Officer in charge of financial reporting
(Gian Piero Cutillo)



KPMG S.p.A.
Revisione e organizzazione contabile
Via Ettore Petrolini, 2
00197 ROMA RM
Telefono +39 06 80961.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(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 separate financial statements

We have audited the accompanying separate financial statements of Leonardo S.p.a. (the "company"), 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 separate financial statements

The company's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate 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 separate financial statements are free from material misstatement.

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