# RESULTS FOR THE FIRST QUARTER OF 2017

*Disclaimer*

*This Interim Reporting at 31 March 2017 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document.*

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# Group results and financial position

*Key performance indicators ("KPI")*

| | March 2017 | March 2016 | Change | 2016 |
|---|---|---|---|---|
| New orders | 2,647 | 2,564 | 3.2% | 19,951 |
| Order backlog | 34,832 | 27,863 | 25.0% | 34,798 |
| Revenue | 2,476 | 2,536 | (2.4%) | 12,002 |
| EBITDA | 330 | 326 | 1.2% | 1,907 |
| EBITDA Margin | 13.3% | 12.9% | 0.4 p.p. | 15.9% |
| EBITA | 187 | 164 | 14.0% | 1,252 |
| ROS | 7.6% | 6.5% | 1.1 p.p. | 10.4% |
| EBIT | 155 | 134 | 15.7% | 982 |
| EBIT Margin | 6.3% | 5.3% | 1.0 p.p. | 8.2% |
| Net Result before extraordinary transactions | 78 | 56 | 39.3% | 545 |
| Net result | 78 | 64 | 21.9% | 507 |
| Group Net Debt | 3,254 | 4,212 | (22.7%) | 2,845 |
| FOCF | (427) | (876) | 51.3% | 706 |
| ROI | 10.0% | 8.2% | 1.8 p.p. | 16.9% |
| ROE | 7.1% | 5.3% | 1.8 p.p. | 12.6% |
| Workforce | 45,407 | 46,756 | (2.9%) | 45,631 |

*Please refer to Annex 2 "Non-GAAP performance indicators" for definitions.*

The first three months of 2017 confirm the steady progress achieved by Leonardo over the recent years from the point of view of both commercial and business and financial performance. In particular, the analysis of the first three months of 2017 highlights the following:

- new orders were up compared to the first quarter of 2016 (+3%), amounting to about €bil. 2.6, and an improvement of the book-to-bill ratio which went from 1 to 1.1;
- a significant increase in the operating profitability with ROS increasing from 6.5% to 7.6% and EBIT margin rising from 5.3% to 6.3% especially thanks to the Electronics, Defence & Security Systems sector;
- a sharp increase in the net profit from 31 March 2016, up by 39% at the level of the net result before extraordinary transactions and by 22% at an overall level;
- the net improvement of the cash-flow for the period, albeit negative in line with the seasonality of the period, entailed a reduced absorption of cash of above 50% in comparison with the first quarter of 2016, thanks to the collection of the second advance payment on the EFA Kuwait contract;
- the improvement of the Group Net Debt (-23%) compared to 31 March 2016 thanks to a positive cash performance in 2016.

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

| | 31 March 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | New orders | Order backlog | Revenues | EBITA | ROS | EBITDA | EBITDA Margin |
| Helicopters | 459 | 10,247 | 711 | 73 | 10.3% | 90 | 12.7% |
| Electronics, Defence & Security Systems | 1,039 | 11,690 | 1,146 | 84 | 7.3% | 115 | 10.0% |
| Aeronautics | 1,237 | 13,711 | 656 | 46 | 7.0% | 130 | 19.8% |
| Space | - | - | - | 8 | n.a. | 8 | n.a. |
| Other activities | 25 | 167 | 79 | (24) | (30.4%) | (13) | (16.5%) |
| *Eliminations* | *(113)* | *(983)* | *(116)* | - | *n.a.* | - | *n.a.* |
| **Total** | **2,647** | **34,832** | **2,476** | **187** | **7.6%** | **330** | **13.3%** |

| | 31 March 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | New orders | Order backlog at 31 Dec. 2016 | Revenues | EBITA | ROS | EBITDA | EBITDA Margin |
| Helicopters | 384 | 10,622 | 810 | 83 | 10.2% | 103 | 12.7% |
| Electronics, Defence & Security Systems | 1,217 | 11,840 | 1,134 | 56 | 4.9% | 117 | 10.3% |
| Aeronautics | 993 | 13,107 | 638 | 41 | 6.4% | 108 | 16.9% |
| Space | - | - | - | 4 | n.a. | 4 | n.a. |
| Other activities | 6 | 174 | 67 | (20) | (29.9%) | (6) | (9.0%) |
| *Eliminations* | *(36)* | *(945)* | *(113)* | - | *n.a.* | - | *n.a.* |
| **Total** | **2,564** | **34,798** | **2,536** | **164** | **6.5%** | **326** | **12.9%** |

| | Change % | | | | | | |
|---|---|---|---|---|---|---|---|
| | New orders | Order backlog | Revenues | EBITA | ROS | EBITDA | EBITDA Margin |
| Helicopters | 19.5% | (3.5%) | (12.2%) | (12.0%) | 0.1 p.p. | (12.6%) | 0.0 p.p. |
| Electronics, Defence & Security Systems | (14.6%) | (1.3%) | 1.1% | 50.0% | 2.4 p.p. | (1.7%) | (0.3) p.p. |
| Aeronautics | 24.6% | 4.6% | 2.8% | 12.2% | 0.6 p.p. | 20.4% | 2.9 p.p. |
| Space | n.a. | n.a. | n.a. | 100.0% | n.a. | 100.0% | n.a. |
| Other activities | 316.7% | (4.0%) | 17.9% | (20.0%) | (0.5) p.p. | (116.7%) | (7.5) p.p. |
| *Eliminations* | *n.a.* | *n.a.* | *n.a.* | *n.a.* | *n.a.* | *n.a.* | *n.a.* |
| **Total** | **3.2%** | **0.1%** | **(2.4%)** | **14.0%** | **1.1 p.p.** | **1.2%** | **0.4 p.p.** |

### *Commercial performance*

**New orders** acquired in the first three months of 2017 highlight a growth especially attributable to *Aeronautics* (+ 25%), which took advantage of new orders for the support services for the EFA aircraft in the *Aircraft* division and the B787 and ATR programmes in the *Aerostructures*. Worth noting is the progress made in the *Helicopters* division compared to the very negative figure posted in 2016 (+20%), despite a context still characterised by uncertainties and difficulties in certain reference markets, as against a drop recorded by the *Electronics, Defence & Security Systems*.

The book-to-bill ratio is equal to 1.1, an increase from the first quarter of 2016 when it was equal to 1. The order backlog, considered in terms of its workability, ensures about three years of production for the Group.

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***Business performance***

| *(€ millions)* | For the Three months ended 31 March 2017 | 2016 | Change | % Change |
|---|---|---|---|---|
| Revenues | 2,476 | 2,536 | (60) | (2.4%) |
| Purchases and personnel expenses | (2,158) | (2,253) | | |
| Other net operating income/(expenses) | (4) | 36 | | |
| Equity-accounted strategic JVs | 16 | 7 | | |
| **EBITDA** | **330** | **326** | **4** | **1.2%** |
| *EBITDA Margin* | *13.3%* | *12.9%* | *0.4 p.p.* | |
| Amortisation, depreciation and impairment losses | (143) | (162) | | |
| **EBITA** | **187** | **164** | **23** | **14.0%** |
| *ROS* | *7.6%* | *6.5%* | *1.1 p.p.* | |
| Restructuring costs | (7) | (6) | | |
| Amortisation of intangible assets acquired as part of business combinations | (25) | (24) | | |
| **EBIT** | **155** | **134** | **21** | **15.7%** |
| *EBIT Margin* | *6.3%* | *5.3%* | *1.0 p.p.* | |
| Net financial income/(expenses) | (68) | (71) | | |
| Income taxes | (9) | (7) | | |
| **Net Result before extraordinary transactions** | **78** | **56** | **22** | **39.3%** |
| Net result related to discontinued operations and extraordinary transactions | - | 8 | | |
| **Net profit/(loss) for the period attributable to:** | **78** | **64** | **14** | **21.9%** |
| *- owners of the parent* | *78* | *64* | | |
| *- non-controlling interests* | - | - | | |

**Revenues** decreased over the corresponding period of 2016 by €mil. 60, mainly attributable to the reduction of volumes in *Helicopters*, in addition to the negative effect from the GBP to EUR exchange rate fluctuations. The profitability indicators showed an improvement supported by the results recorded in the sectors of *Aeronautics* and *Electronics* in particular, which more than offset the drop in the *Helicopters* sector due to the abovementioned lower volumes, with an **EBITA** and **EBIT** considerably higher (+ 14% and + 16% respectively, with an increase in ROS and the EBIT Margin up by 1.1 p.p. and 1 p.p., respectively).

The **Net Result Before Extraordinary Transactions** shows a marked improvement (€mil. 78 compared with €mil. 56 in the first three months of 2016), due to the mentioned rise in EBIT. The **Net Result** for the period is equal to the net result before extraordinary transactions on account of the absence of extraordinary transactions. On the contrary, the first quarter of 2016 benefitted from the capital gain from the disposal of Fata (€mil. 8).

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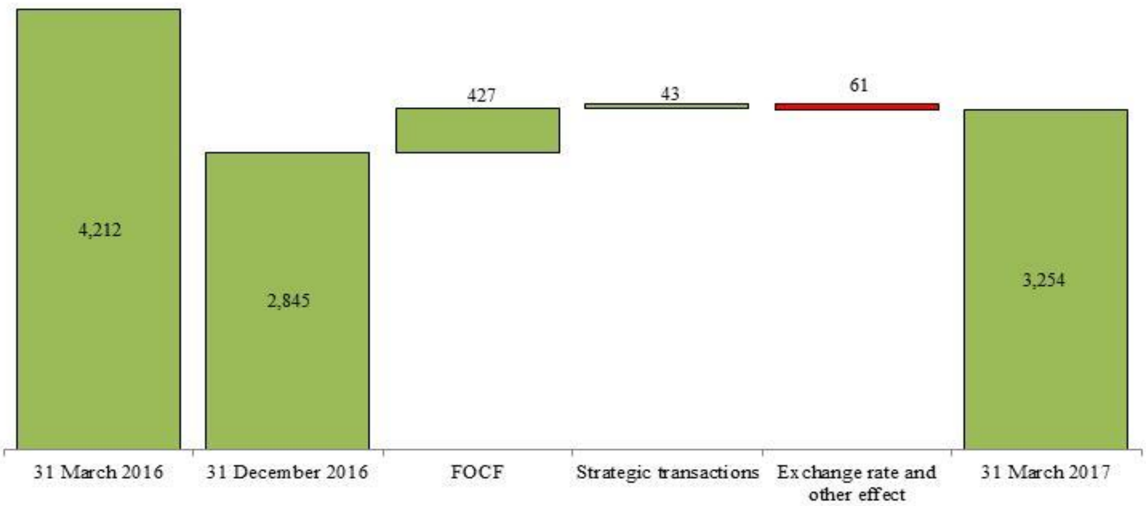
### *Financial performance*

| (€ millions) | For the Three months ended 31 March 2017 | 2016 | Change | % Change |
|---|---|---|---|---|
| Cash flows used in operating activities | (449) | (936) | | |
| Dividends received | 174 | 177 | | |
| Cash flows from ordinary investing activities | (152) | (117) | | |
| ***Free Operating Cash Flow (FOCF)*** | **(427)** | **(876)** | **449** | **51.3%** |
| Strategic transactions | (43) | - | | |
| Change in other investing activities | 1 | (5) | | |
| Net change in loans and borrowings | 59 | 12 | | |
| **Net increase (decrease) in cash and cash equivalents** | **(410)** | **(869)** | | |
| Cash and cash equivalents at 1 January | 2,167 | 1,771 | | |
| Exchange rate differences and other changes | (5) | (18) | | |
| **Cash and cash equivalents at 31 March** | **1,752** | **884** | | |

The cash flow performance showed a considerable improvement compared to the first three months of 2016, also as a result of the cash-in of the second advance payment on the EFA Kuwait contract. **FOCF** was negative, overall, in the amount of €mil. 427, but considerably improved against the corresponding figure of the previous period (+ 51.3%), though confirming the usual trend in the first part of the financial year in which the Group reports considerable cash absorptions. The **Group Net Debt** shows an improvement of 23% as against 31 March 2016. Compared to 31 December 2016, there were the following changes, which were affected by the usual cash absorption characterising the first months of the financial year and by the cash-out for the acquisition of additional shares in Avio:



**Net capital invested** rose compared with the figure for 31 December 2016 due to the increase in net working capital, resulting from the seasonal fluctuation in cash flows, vis-à-vis capital assets substantially unchanged.

| *(€ millions)* | 31 March 2017 | 31 December 2016 | 31 March 2016 |
|---|---|---|---|
| Non-current assets | 11,852 | 12,119 | 12,051 |
| Non-current liabilities | (3,178) | (3,373) | (3,438) |
| **Capital assets** | **8,674** | **8,746** | **8,613** |
| Inventories | 4,179 | 4,014 | 4,433 |
| Trade receivables | 6,472 | 5,965 | 6,635 |
| Trade payables | (9,874) | (9,295) | (9,544) |
| **Working capital** | **777** | **684** | **1,524** |
| Provisions for short-term risks and charges | (763) | (792) | (708) |
| Other net current assets (liabilities) | (996) | (1,434) | (1,048) |
| **Net working capital** | **(982)** | **(1,542)** | **(232)** |
| **Net invested capital** | **7,692** | **7,204** | **8,381** |
| Equity attributable to the Owners of the Parent | 4,437 | 4,357 | 4,163 |
| Equity attributable to non-controlling interests | 15 | 16 | 19 |
| **Equity** | **4,452** | **4,373** | **4,182** |
| **Group Net Debt** | **3,254** | **2,845** | **4,212** |
| **Net (assets)/liabilities held for sale** | **(14)** | **(14)** | **(13)** |

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Below are the key performance indicators by sector:

### Helicopters

Even in a background that is still characterised by uncertainties and difficulties of some target markets, new orders for the first quarter increased compared to the same period of the prior year. Financial results were affected by slowdowns in the production progress, albeit confirming a double-digit profitability.

<u>New orders.</u> The increase was mainly due to higher new orders for government entities, in particular referred to AW139 helicopters.

<u>Revenues.</u> These showed a decline attributable to a slower recovery of production than expected on certain product lines, especially for the civil market and to the completion of some programmes on the AW159/Lynx lines, in addition to a negative exchange rate effect for those companies with a currency other than the Euro.

<u>EBITA.</u> The reduction was substantially due to the effect of lower revenues with a profitability that is unchanged compared to 2016.

**Electronics, Defence & Security Systems**

The first quarter of 2017 showed a good commercial performance and confirmed the positive performance recorded during 2016.

*New orders*. These were lower than in the first quarter of 2016 due to the expected decline recorded by the *Land&Naval Defence Electronics* Division, which last year had benefitted from a major export order for the supply of an air traffic surveillance and protection system to the Armed Forces in Qatar. This was partially offset by higher orders acquired by the *Airborn & Space Systems* Division.

*Revenues*. These remained substantially in line with the same period of 2016. The higher volumes recorded by DRS despite the different scope of operations, resulting from the sale of the "no core" business occurred at the end of last year, and the growth of revenues in the *Land&Naval Defence Electronics* and the *Security & Information Systems* Divisions more than compensated the postponement of the activities recorded by the *Defence Systems* and *Airborn & Space Systems* Divisions and the negative exchange rate effect.

*EBITA*. A considerable improvement compared with the same period of the previous year mainly as a result of the benefits arising from efficiency improvement and cost curbing actions within all the Divisions and within DRS, as well as a recovery in the industrial profitability within the *Security & Information Systems* Division.

The key performance indicators of DRS are provided below in US dollars and euros:

| | New orders | Revenues | EBITA | ROS | EBITDA | EBITDA Margin |
|---|---|---|---|---|---|---|
| DRS ($mil.) March 2017 | 401 | 395 | 25 | 6.3% | 34 | 8.6% |
| DRS ($mil.) March 2016 | 422 | 364 | 17 | 4.7% | 26 | 7.1% |
| DRS (€mil.) March 2017 | 377 | 371 | 24 | 6.3% | 32 | 8.6% |
| DRS (€mil.) March 2016 | 503 | 356 | 16 | 4.7% | 25 | 7.1% |

*Average exchange rate €/USD: 1.0647 (Q1 2017) and 1.1021 (Q1 2016)*

**Aeronautics**

From a commercial point of view, the first quarter of 2017 recorded a significant level of new orders both in the *Aircraft* Division, among which we recall the order for the capability maintenance and the supply of support engineering services for the EFA aircraft for the 2017-2021 period, and in the *Aerostructures* Division, which received orders for the supply of 100 fuselage sections for the B787 aircraft and 44 fuselages for the ATR aircraft. From a production point of view, deliveries were made for 35 fuselage sections and 20 stabilisers for the B787 programme (30 fuselage sections and 19 stabilisers delivered in the first quarter of 2016) and 10 ATR fuselages (24 delivered in the first quarter of 2016). As regards the production of the M-346 programme, there was the completion of 2 aircraft, one of which for the Italian Air Force and one to the Polish Air Force.

<u>*New orders*</u>**.** They recorded an increase due to the abovementioned orders gained by the Eurofighter Consortium for the support of the EFA aircraft and by the GIE-ATR Consortium. The other major orders gained in the first quarter of 2017 included orders for the *Aerostructures* Division, namely those for the B767 and A321 programmes, and for the *Aircraft* Division consisting in the order received from the Italian Air Force for the first 5 units of the new M-345 trainer aircraft and orders from various customers for logistic support activities for the C27J aircraft.

<u>*Revenues*</u>. Overall, business volumes were in line with the result recorded in the first quarter of 2016; the increase related to the activities for the EFA-Kuwait contract in the *Aircraft* Division offset the decline in revenues recorded by the *Aerostructures* Division, due to lower foreign pass-through supplies concerning the B787 programme and to the reduction in the production rate of the A380 programme.

<u>*EBITA*</u>**.** There was an increase that was attributable to an improvement in the performance in the *Aircraft* Division, in particular for the greater volumes of operations for the EFA programme, while the *Aerostructures* Division recorded results in line with the first quarter of 2016.

**Space**

The first three months of 2017 confirm the good performance of the manufacturing segment, which recorded an increase in the volumes of activity compared with the corresponding period of the previous year, in particular as regards telecommunications programmes. All this, together with an improvement of the industrial profitability in the supply of satellite services, determined a considerable growth of the result of operations.

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## *Outlook*

In consideration of the results achieved in the first quarter of 2017 and of the expectations for the following ones, we confirm the guidance for the entire year that were made at the time of the preparation of the financial statements at 31 December 2016.

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## Main transactions in the first three months of 2017

***Industrial transactions.*** In the period the following industrial transactions were carried out:

- ***Acquisition of Daylight Solutions***. On 7 March 2017 Leonardo signed, through the US subsidiary DRS Technologies, an agreement for the acquisition of Daylight Solutions Inc, world leader in the development of Quantum Cascade Laser products. DRS will pay USD150 million for 100% of the share capital of Daylight Solutions. The purchase price includes an earn-out to be paid to the shareholders of Daylight Solutions upon the achievement of certain financial and operating targets for the year 2017. This acquisition will enable the expansion of DRS' offer within the advanced solutions for the civil and military market. The closing of the transaction is expected within the end of the second quarter of 2017;
- ***Completion of the closing of Avio***. 31 March 2017 marked the closing of the acquisition by Space2, Leonardo and In Orbit (a company held by certain managers of Avio) of the entire share capital of Avio not yet owned by Leonardo, with the subsequent merger into Space2 and concurrent listing of Avio on the MTA/Star Segment of the Italian Stock Exchange which was finalised last 10 April. As a result of this transaction Leonardo now holds about 28% in the company in respect of a payment of approx. €43 million.

***Financial transactions.*** On 13 April 2017 Leonardo renewed the EMTN programme for a further, 12 months, keeping unchanged the maximum amount of €bil. 4.

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## Explanatory notes

This interim reporting that has been approved today by the Board of Directors, was made available to the public with the registered office, with Borsa Italiana S.p.A., on the Company website (www.leonardocompany.com, in the section Investors/Financial Reports), as well as on the website of the authorised storage mechanism NIS-Storage (www.emarketstorage.com).

The accounting policies, measurement criteria and consolidation methods used for this interim reporting at 31 March 2017 which should be read in conjunction with the 2016 annual consolidated financial statements, are unchanged from those of the 2016 annual consolidated financial statements (except for those specifically applicable to interim financial reports) – and the interim reporting at 31 March 2016.

This interim reporting, approved by the Board of Directors on 3 May 2017, was not subject to any statutory review.

## 1. FINANCIAL INCOME AND EXPENSES

| | For the Three months ended 31 March | |
|---|---|---|
| | **2017** | **2016** |
| Interest | (63) | (62) |
| Commissions | (3) | (2) |
| Fair value gains (losses) through profit or loss | (3) | 1 |
| Premiums (paid) received on forwards | (1) | - |
| Exchange rate differences | 5 | 1 |
| Other financial income and expenses | (7) | (11) |
| Share of profits/(losses) of equity-accounted investees | 4 | 2 |
| | **(68)** | **(71)** |

## 2. LOANS AND BORROWINGS

The Group Net Debt breaks down as follows:

| ***(€ millions)*** | **31 March 2017** | *of which current* | **31 December 2016** | *of which current* | **31 March 2016** | *of which current* |
|---|---|---|---|---|---|---|
| Bonds | 4,297 | 572 | 4,375 | 638 | 4,256 | 53 |
| Bank debt | 293 | 69 | 297 | 59 | 353 | 72 |
| Cash and cash equivalents | (1,752) | (1,752) | (2,167) | (2,167) | (884) | (884) |
| **Net bank debt and bonds** | **2,838** | | **2,505** | | **3,725** | |
| *Fair value of the residual portion in portfolio of Ansaldo Energia* | (139) | | (138) | | (133) | |
| Current loans and receivables from related parties | (7) | (7) | (40) | (40) | (114) | (114) |
| Other current loans and receivables | (48) | (48) | (58) | (58) | (26) | (26) |
| **Current loans and receivables and securities** | **(194)** | | **(236)** | | **(273)** | |
| Non current financial receivables from Superjet | (65) | - | (65) | - | - | - |
| Hedging derivatives in respect of debt items | 21 | 21 | 35 | 35 | 66 | 66 |
| Related-party loans and borrowings | 542 | 542 | 502 | 502 | 605 | 603 |
| Other loans and borrowings | 112 | 78 | 104 | 68 | 89 | 58 |
| **Group Net Debt** | **3,254** | | **2,845** | | **4,212** | |

*The reconciliation with the net financial position required by Consob Communication no. DEM/6064293 of 28 July 2006 is provided in Annex 2.*

Leonardo, to meet the financing needs for ordinary Group activities, obtained a revolving credit facility for a total of €mil. 2,000 with a pool of Italian and international banks as described in more detail in the 2016 Annual Report. At 31 March 2017, such credit facility was entirely unused. The Group also has additional unconfirmed short-term lines of credit of €mil. 725, which at 31 March 2017 were entirely unused. Leonardo has unsecured lines of credit, as well as unconfirmed, of approximately €mil 3,998 at 31 March 2017.

For an analysis on the clauses related to the existing bonds (financial covenant, negative pledge and cross default) reference is made to what reported in the 2016 consolidated financial statements.

## 3. CONTINGENT LIABILITIES

There are no significant changes in comparison with the situation at 31 December 2016, commented on in the 2016 Annual Financial Report to which reference is made.

For the Board of Directors
The Chairman
Giovanni De Gennaro

## Annex 1: scope of consolidation

Below are the changes in the scope of consolidation at 31 March 2017 in comparison with 31 March 2016:

| COMPANY NAME | EVENT | MONTH |
|---|---|---|
| **Companies which entered the scope of consolidation**: | | |
| Gulf Systems Logistics Services Company WLL | purchase | May 2016 |
| Sistemi Dinamici Spa | change in the consolidation method | December 2016 |
| **Companies which left the scope of consolidation:** | | |
| Finmeccanica North America Inc. | deconsolidated | June 2016 |
| SELEX ES Romania | deconsolidated | September 2016 |
| LMATTS LLC | deconsolidated | September 2016 |
| SELES ES Electro Optics (Overseas) Ltd | deconsolidated | October 2016 |
| Sirio Panel Inc. | deconsolidated | October 2016 |
| AgustaWestland Espana SL (in liq.) | deconsolidated | October 2016 |
| AgustaWestland Properties Ltd | deconsolidated | November 2016 |
| Superjet International Spa | amendment to shareholders' agreement | December 2016 |
| Joint Stock Company Sukhoi Civil Aircraft | sold | December 2016 |
| Ed Contact Srl | sold | February 2017 |
| Electron Italia Srl | sold | March 2017 |
| Wing Ned BV | sold | March 2017 |
| **Merged company:** | **Merging company** | |
| Fata Engineering SpA | SO.GE.PA. SpA | July 2016 |
| Selex Sistemi Integrati SpA | SO.GE.PA. SpA | July 2016 |
| Sirio Panel SpA | Leonardo SpA | January 2017 |
| **Companies which changed their name:** | **New name**: | |
| Finmeccanica Global Services Spa | Leonardo Global Solutions Spa | June 2016 |
| SELEX ES Ltd | Leonardo MW Ltd | September 2016 |
| Closed Joint Stock Company Helivert | Joint Stock Company Helivert | September 2016 |
| SELEX Systems Integration Ltd | SELEX ES Ltd | October 2016 |
| SELEX Pension Scheme (Trustee) Limited | Leonardo Electronics Pension Scheme (Trustee) Limited | December 2016 |
| AgustaWestland UK Pension Scheme (Trustee) Limited | Leonardo Helicopters Pension Scheme (Trustee) Limited | January 2017 |
| Alenia Aermacchi North America Inc. | Leonardo US Aircraft Inc. | March 2017 |
| Meccanica Holdings USA Inc. | Leonardo Holding Inc. | March 2017 |
| Finmeccanica Do Brasil LTDA | Leonardo Do Brasil LTDA | March 2017 |

## Annex 2: "Non-GAAP" performance indicators

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

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

- **New orders**: this includes contracts signed with customers during the period that satisfy the contractual requirements for being recorded in the order book.
- **Order backlog*:*** this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.
- **EBITDA**: this is given by EBITA, as defined below, before amortisation, depreciation and impairment losses (net of those relating to goodwill or classified among "non-recurring costs").
- **EBITDA Margin**: it is calculated as the ratio between EBITDA and revenues.
- **EBITA**: it is arrived at by eliminating from EBIT, as defined below, the following items:
  - any impairment in goodwill;
  - amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;
  - restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.)
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

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

  A reconciliation of Income before tax and financial expense, EBIT and EBITA is shown below:

| *(€ millions)* | **For the Three months ended 31 March** | |
|---|---|---|
| | **2017** | **2016** |
| Income before tax and financial expenses | 139 | 127 |
| Equity-accounted strategic JVs | 16 | 7 |
| **EBIT** | **155** | **134** |
| Amortisation of intangible assets acquired as part of business combinations | 25 | 24 |
| Restructuring costs | 7 | 6 |
| **EBITA** | **187** | **164** |

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

- **Net result before extraordinary transactions:** this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (acquisitions and disposals). Below is the reconciliation:

| *(€ millions)* | For the Three months ended 31 March | |
|---|---|---|
| | **2017** | **2016** |
| Net result | 78 | 64 |
| Effect of extraordinary transactions | - | (8) |
| **Net result before extraordinary transactions** | **78** | **56** |

- **Group Net Debt**: this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items, as well as the main non-current receivables. In particular, the Group Net Debt included the financial receivable (backed by bank guarantees) from SuperJet – that starting from 31 December 2016 was recorded within non-current receivables– which will be repaid in 4 years based on the arrangements for the rescheduling of the Group's participation in this programme. This indicator also includes the measurement of the residual interest in Ansaldo Energia in consideration – and assuming the exercise as well as in light of the creditworthiness of the other party – of the put & call rights based on which this amount will be paid by Fondo Strategico Italiano to Leonardo. Starting from 31 December 2016 the remaining portion has been classified among current assets considering that the expiry date is nearing. The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is reported below:

| | **31 March 2017** | **31 December 2016** |
|---|---|---|
| Net financial debt com. CONSOB no. DEM/6064293 | 3,437 | 3,013 |
| *Fair value* of the residual portion in portfolio of Ansaldo Energia | (139) | (138) |
| Hedging derivatives in respect of debt items | 21 | 35 |
| Non current financial receivables from Superjet | (65) | (65) |
| **Group net debt (KPI)** | **3,254** | **2,845** |

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

| | ***31 March 2017*** | *of which with related parties* | ***31 December 2016*** | *of which with related parties* |
|---|---|---|---|---|
| **Liquidity** | **(1,752)** | | **(2,167)** | |
| **Current loans and receivables** | **(55)** | *(7)* | **(98)** | *(40)* |
| Current bank loans and borrowings | 69 | | 59 | |
| Current portion of non-current loans and borrowings | 572 | | 638 | |
| Other current loans and borrowings | 620 | *542* | 570 | *502* |
| **Current financial debt** | **1,261** | | **1,267** | |
| **Net current financial debt (funds)** | **(546)** | | **(998)** | |
| Non-current bank loans and borrowings | 224 | | 238 | |
| Bonds issued | 3,725 | | 3,737 | |
| Other non-current loans and borrowings | 34 | - | 36 | - |
| **Non-current financial debt** | **3,983** | | **4,011** | |
| **Net financial debt** | **3,437** | | **3,013** | |

- **Free Operating Cash-Flow (FOCF)**: this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Group Net Debt), the cash flows generated by (used in) ordinary investing activities (investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments") and dividends. The calculation of FOCF is presented in the reclassified statement of cash flows shown in the section "Group results and financial position".

- **Return on Investments (ROI)*:*** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.
- **Return on Equity (ROE)*:*** this is calculated as the ratio of the Net Result before extraordinary transactions for the financial period to the average value of equity in the two comparative periods.
- **Workforce:** the number of employees recorded in the register on the last day of the period.

## Declaration of the officer in charge of financial reporting pursuant to Art. 154-bis, paragraph 2 of Legislative Decree no. 58/98 as amended

In accordance with the provisions of article 154-bis, paragraph 2 of Legislative Decree no. 58/1998 and subsequent amendments and integrations, the undersigned, Gian Piero Cutillo, the C.F.O. and officer in charge of financial reporting of Leonardo Società per azioni certifies that this interim reporting at 31 March 2017 corresponds to the related accounting records, books and supporting documentation.

Rome, 3 May 2017

Officer in charge of Financial Reporting

(Gian Piero Cutillo)