We are committed to building a sustainable future for everyone, worldwide. Our women and men turn every small step into a great leap ahead. Always inspired by our **purpose**.
Contribute to the world’s progress and safety by delivering meaningful and innovative technological solutions.
Our horizons are limitless. We find new pathways, aspiring to new levels for all our stakeholders. Always guided by our mission.
To be the international Aerospace, Defense and Security company that best enables its customers’ success, by thinking creatively and working with passion.
This is us.
Globally, ambitiously, dynamically Leonardo.
**Group structure**

**BUSINESS SECTORS**

**Helicopters**
- Helicopters Division

**Defence**
- Electronics Division
- Cyber Security Division
- Leonardo DRS
- MBDA (*)

**Aeronautics**
- Aircraft Division
- Aerostructures Division
- ATR (*)

**Space**
- Telespazio (*)
- Thales Alenia Space (*)

(*) Joint venture.
Other main subsidiaries and investees: Leonardo Global Solutions, Vitrociset, Avio, Elettronica, NHIndustries, Orizzonte Sistemi Navali.
Highlights by business sector
(€ millions)

NEW ORDERS
- Helicopters: 4,641
- Defence Electronics & Security: 7,022
- Aeronautics: 2,788
- Other activities: 234
- Eliminations: (580)

ORDER BACKLOG
- Helicopters: 12,551
- Defence Electronics & Security: 12,848
- Aeronautics: 11,640
- Other activities: 372
- Eliminations: (898)

REVENUES
- Helicopters: 4,025
- Defence Electronics & Security: 6,701
- Aeronautics: 3,390
- Other activities: 463
- Eliminations: (795)

RESULTS FOR 2019
- New orders: 14,105
- Order backlog: 36,513
- Revenues: 13,784
- Organic (no.): 49,530
- Research and Development expenses: 1,525
- - of which IRAD: 553

SHAREHOLDER COMPOSITION
(no. of shares)
- Institutional investors: 293,700,401, 50.8%
- Ministry of Economy and Finance: 174,601,419, 30.2%
- Retail investors: 99,441,868, 17.2%
- Treasury shares: 3,468,902, 0.6%
- Unidentified institutional investors: 6,937,805, 1.2%
- Total: 578,150,395
Leonardo
Relazione Finanziaria Annuale 2018

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Dear Shareholders,

the growth path envisaged in our Industrial Plan was fully realised in 2019, with results in line or above our targets: Your company has done what we said it would do, and even more. We are well positioned to be successful in the long term.

Our revenues showed a significant increase, reflecting commercial successes. Operating profit increased, together with the profitability, and was able to offset the lower contribution of some strategic joint ventures. The net result recorded a significant increase and the Free Operating Cash Flow was higher than expected for the second consecutive year. The results achieved were also supported by a disciplined financial strategy that led to a reduction of gross debt and financial charges.

Looking across our business areas, the performance of the Helicopters confirmed the effectiveness of our strategic path, with excellent results in terms of growing revenues and profitability. We are product leaders in the Intermediate civil segment and the 1000th AW139 was delivered in September; considerable results have been achieved in domestic and international military markets such as the MH-139 contract for the US Air Force, the first of which has already been delivered. The acquisition of Kopter also provides exciting prospects for the future: the entry into a new segment with an innovative product that will be able to gain significant market shares, expanding our customer base and further consolidating our positioning in the civil market with other possible applications including military.

Defence Electronics & Security had a good commercial performance, particularly in Leonardo DRS, and it also had a good financial performance, with growing revenues and EBITA. We have a recognised strong position in radar and electronic warfare, thanks to new technological developments, and a distinctive position in drones: the Falco Evo was used in Frontex operations and the Falco Xplorer was launched at the Paris Airshow. We benefited from important developments in the Italian Naval Law, with a general expansion of system capabilities and
with important opportunities and synergies in international markets. In **Cyber Security**, which is constantly evolving, we are a leading player in security, mobility and connectivity solutions and we are strengthening our positioning by investing in the expansion of our portfolio.

In **Aircraft**, Eurofighter strengthened its position in export markets following the Kuwait and Qatar contracts and the new developments (ESCAN radar) that enable increased operating capacity and performance. The leadership of the M-346 is confirmed in the trainers market, with new versions and developments being launched (M-346 FT/FA). We are also seeing the successes of the M-345 and the evolution of the offer towards complete training systems (IFTS - International Flight Training School). **Aerostructures** continue to play a primary role in the supply of large structural components both in traditional materials and in advanced composite and hybrid materials for the main commercial aeronautical programmes. The leadership of **ATR** for regional transport is consolidated, despite the lower deliveries made and the different mix recorded this year, with the aim of further strengthening the positioning through continuous product and customer support improvement.

In **Space**, Satellite Services performed well against a drop in the Manufacturing, particularly in the field of observation, exploration and navigation satellites.

We now have a new challenge to face: the COVID-19 pandemic which began to impact dramatically in March. In this difficult phase of health emergency that Italy and other countries are experiencing, we are continuing to provide all our support in terms of resources, means and people to support institutions in the management and containment of the epidemic.

Never as in these days, have we realised how indispensable it is to guarantee our borders, cybernetic security, the availability of air ambulances, the maintenance of secure communication systems and transmissions and communications, as well as the operation of entire satellite systems.

Our customers and the supply chain we work with on a daily basis can rely on us, and we have taken all measures to give continuity to the work and honor the commitments made on schedule.

In an effort to be transparent and despite the current difficulties of forecasting, we considered it appropriate to set out 2020 Guidance on a continuity basis, before considering the impact from COVID-19. This emergency is likely to produce effects on the regular and ordinary performance of company activities. This is despite mitigating actions already promptly put in place and aimed primarily at preserving production continuity and guaranteeing full protection of the health and safety of workers. The current high level of uncertainty makes it extremely difficult at present to assess the overall level of impact and its duration. Over time we will be able to evaluate this more fully; and we will promptly notify you as soon as possible.

However, we are convinced that COVID-19 does not change the medium/long-term prospects of Your company, which are based on solid fundamentals. We have a clear vision of the strategic path: strengthening and transforming the business to grow and accelerating the innovation process to increase long-term competitiveness. The sustainability of the Group’s growth and value creation are underpinned by the investments made in people, innovative skills and technologies and we are focused on the execution of our Industrial Plan aimed at creating value for all our stakeholders.

Your company is solid and ready to face new challenges thanks to the constant commitment of the management and all the staff who work there, to whom the Board of Directors’ sincere appreciation for the work done to date.

---

*For the Board of Directors,*

(The Chairman)

**(Giovanni De Gennaro)**

*The Chief Executive Officer*

**(Alessandro Profumo)**
Boards and Committees

Board of Directors
(for the three-year period 2017-2019)

• Giovanni De Gennaro, CHAIRMAN
• Alessandro Profumo, CHIEF EXECUTIVE OFFICER
• Guido Alpa, DIRECTOR (A,C)
• Luca Bader, DIRECTOR (A,D)
• Marina Elvira Calderone, DIRECTOR (B,C)
• Paolo Cantarella, DIRECTOR (A,C)
• Marta Dassù, DIRECTOR (C,D)
• Dario Frigerio, DIRECTOR (B,C)
• Fabrizio Landi, DIRECTOR (A,D)
• Silvia Merlo, DIRECTOR (A,D)
• Marina Rubini, DIRECTOR (B,C)
• Antonino Turicchi, DIRECTOR (B,C)
• Luciano Acciari, SECRETARY OF THE BOARD OF DIRECTORS

A: Member of the Control and Risks Committee.
B: Member of the Remuneration Committee.
C: Member of the Nomination, Governance and Sustainability Committee.
D: Member of the Analysis of International Scenarios Committee.
The Shareholders’ Meeting held on 16 May 2019 appointed new members of the Board of Statutory Auditors, following the resignation of Riccardo Raul Bauer from the position of Regular Statutory Auditor and Chairman of the control body – which occurred on 8 November 2018 – and the Alternate Statutory Auditor Luca Rossi taking over the abovementioned positions, pursuant to law and in accordance with the By-laws and until the abovementioned Shareholders’ Meeting, on the same date.

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

The Shareholders’ Meeting held on 16 May 2019 appointed Giuseppe Cerati as Alternate Statutory Auditor (on a proposal submitted by a group of asset management companies and institutional investors, which hold a total stake of about 1.06% of the share capital)
Report on Operations at 31 December 2019
Group results and financial position

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

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

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

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

The KPIs for the period and the main changes in the Group’s performance compared to 2018 are shown below. Comments are reported below for each business sector.
### Key performance indicators ("KPI")

<table>
<thead>
<tr>
<th>€ millions</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New orders</td>
<td>15,124</td>
<td>14,105</td>
<td>(6.7%)</td>
</tr>
<tr>
<td>Order backlog</td>
<td>36,118</td>
<td>36,513</td>
<td>1.1%</td>
</tr>
<tr>
<td>Revenues</td>
<td>12,240</td>
<td>13,784</td>
<td>12.6%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,534</td>
<td>1,817</td>
<td>18.4%</td>
</tr>
<tr>
<td>EBITA</td>
<td>1,120</td>
<td>1,251</td>
<td>11.7%</td>
</tr>
<tr>
<td>ROS</td>
<td>9.2%</td>
<td>9.1%</td>
<td>(0.1) p.p.</td>
</tr>
<tr>
<td>EBIT</td>
<td>715</td>
<td>1,153</td>
<td>61.3%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>5.8%</td>
<td>8.4%</td>
<td>2.6 p.p.</td>
</tr>
<tr>
<td>Net result before extraordinary transactions</td>
<td>421</td>
<td>722</td>
<td>71.5%</td>
</tr>
<tr>
<td>Net result</td>
<td>510</td>
<td>822</td>
<td>61.2%</td>
</tr>
<tr>
<td>Group net debt</td>
<td>2,351</td>
<td>2,847</td>
<td>21.1%</td>
</tr>
<tr>
<td>FOCF</td>
<td>336</td>
<td>241</td>
<td>(28.3%)</td>
</tr>
<tr>
<td>ROI</td>
<td>16.4%</td>
<td>16.7%</td>
<td>0.3 p.p.</td>
</tr>
<tr>
<td>ROE</td>
<td>9.7%</td>
<td>14.7%</td>
<td>5.0 p.p.</td>
</tr>
<tr>
<td>Workforce (no.)</td>
<td>46,462</td>
<td>49,530</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

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

The Group data do not include the contribution given by the joint ventures invested in by the Group (which mainly include GIE-ATR in the Aeronautics sector, MBDA in the Defence Electronics & Security sector and the joint ventures in the Space sector). The Group’s business conducted through the joint ventures and their strategic and financial importance remain unchanged, while for reporting purposes the joint ventures’ contribution is only recognised at the level of profitability ratios (EBITA, EBIT and net result) as a result of the valuation at equity and, from a financial point of view, limited to the dividends collected. In 2019 the main Group’s joint ventures recorded total revenues of €bil. 2.8 (€bil. 2.8 in 2018) as concerns Leonardo’s share: as a result, the Group’s aggregate pro-forma revenues come to about €bil. 16.6 (€bil. 15.0 in 2018).

<table>
<thead>
<tr>
<th>December 2018</th>
<th>€ millions</th>
<th>New orders</th>
<th>Order backlog</th>
<th>Revenues</th>
<th>EBITA</th>
<th>% ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helicopters</td>
<td>6,208</td>
<td>12,151</td>
<td>3,810</td>
<td>359</td>
<td>9.4%</td>
<td></td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>6,823</td>
<td>12,572</td>
<td>5,953</td>
<td>522</td>
<td>8.8%</td>
<td></td>
</tr>
<tr>
<td>Aeronautics</td>
<td>2,569</td>
<td>12,220</td>
<td>2,896</td>
<td>328</td>
<td>11.3%</td>
<td></td>
</tr>
<tr>
<td>Space</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>58</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Other activities</td>
<td>102</td>
<td>146</td>
<td>340</td>
<td>(147)</td>
<td>(43.2%)</td>
<td></td>
</tr>
<tr>
<td>Eliminations</td>
<td>(578)</td>
<td>(971)</td>
<td>(759)</td>
<td>-</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15,124</td>
<td>36,118</td>
<td>12,240</td>
<td>1,120</td>
<td>9.2%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 2019</th>
<th>€ millions</th>
<th>New orders</th>
<th>Order backlog</th>
<th>Revenues</th>
<th>EBITA</th>
<th>% ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helicopters</td>
<td>4,641</td>
<td>12,551</td>
<td>4,025</td>
<td>431</td>
<td>10.7%</td>
<td></td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>7,022</td>
<td>12,848</td>
<td>6,701</td>
<td>613</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td>Aeronautics</td>
<td>2,788</td>
<td>11,640</td>
<td>3,390</td>
<td>362</td>
<td>10.7%</td>
<td></td>
</tr>
<tr>
<td>Space</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>39</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Other activities</td>
<td>234</td>
<td>372</td>
<td>463</td>
<td>(194)</td>
<td>(41.9%)</td>
<td></td>
</tr>
<tr>
<td>Eliminations</td>
<td>(580)</td>
<td>(898)</td>
<td>(795)</td>
<td>-</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>14,105</td>
<td>36,513</td>
<td>13,784</td>
<td>1,251</td>
<td>9.1%</td>
<td></td>
</tr>
</tbody>
</table>
Commercial performance

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

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

Business performance

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

**EBITA**, equal to €mil. 1,251, showed significant growth compared to 2018 (€mil. 1,120), thus confirming a sound profitability (ROS of 9.1%, in line with the previous year) as a result of an improvement recorded in the Defence Electronics & Security, Helicopters and Aeronautics sectors, which more than offset a decline in the result posted by the GIE-ATR Consortium and in the manufacturing segment in the Space sector. The operating profit also reflected the investments made in strengthening the central units in support of the Group’s path to growth.

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

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

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

<table>
<thead>
<tr>
<th>% Change</th>
<th>New orders</th>
<th>Order backlog</th>
<th>Revenues</th>
<th>EBITA</th>
<th>% ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helicopters</td>
<td>(25.2%)</td>
<td>3.3%</td>
<td>5.6%</td>
<td>20.1%</td>
<td>1.3 p.p.</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>2.9%</td>
<td>2.2%</td>
<td>12.6%</td>
<td>17.4%</td>
<td>0.3 p.p.</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>8.5%</td>
<td>(4.7%)</td>
<td>17.1%</td>
<td>10.4%</td>
<td>(0.6) p.p.</td>
</tr>
<tr>
<td>Space</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>(32.8%)</td>
<td>n.a.</td>
</tr>
<tr>
<td>Other activities</td>
<td>129.4%</td>
<td>154.8%</td>
<td>36.2%</td>
<td>(32.0%)</td>
<td>1.3 p.p.</td>
</tr>
<tr>
<td>Eliminations</td>
<td>(0.3%)</td>
<td>7.5%</td>
<td>(4.7%)</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total</td>
<td>(6.7%)</td>
<td>1.1%</td>
<td>12.6%</td>
<td>11.7%</td>
<td>(0.1) p.p.</td>
</tr>
</tbody>
</table>
Below is shown the income statement for the two periods compared.

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

Notes to the reconciliation between the reclassified income statement and the statutory income statement (for more details, reference should be made to the section entitled “Non-GAAP alternative performance indicators”).

(*) Includes “Purchases and personnel expenses” (excluding restructuring costs and non-recurring costs) and “Accruals/(Reversals) for onerous contracts (losses at completion)”.

(**) Includes the net amount of “Other operating income” and “Other operating expenses”, excluding restructuring costs, non-recurring income/(costs) and accruals/(reversals) for onerous contracts (losses at completion).

(***) Includes the effects of the valuation at equity, classified under the “Share of profits/(losses) of equity-accounted investees”, of strategic investments only.

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

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

(******) Includes “Profit/(Loss) from discontinued operations” and “Gains/(Losses) relating to extraordinary transactions (key acquisitions and disposals)”. 
## Financial performance

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

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

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

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

(****) Includes “Other investing activities” classified as ”Strategic transactions”.

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

<table>
<thead>
<tr>
<th>€ millions</th>
<th>Notes</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td></td>
<td>11,824</td>
<td>12,336</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td>(2,611)</td>
<td>(2,243)</td>
</tr>
<tr>
<td><strong>Capital assets</strong></td>
<td>(*)&amp;</td>
<td>9,213</td>
<td>10,093</td>
</tr>
<tr>
<td>Inventories</td>
<td>(***)</td>
<td>(78)</td>
<td>947</td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td>2,936</td>
<td>2,995</td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>(3,028)</td>
<td>(3,791)</td>
</tr>
<tr>
<td><strong>Working capital</strong></td>
<td>(170)</td>
<td>151</td>
<td></td>
</tr>
<tr>
<td>Provisions for short-term risks and charges</td>
<td></td>
<td>(1125)</td>
<td>(1,164)</td>
</tr>
<tr>
<td>Other net current assets/(liabilities)</td>
<td>(***)</td>
<td>(1,064)</td>
<td>(968)</td>
</tr>
<tr>
<td><strong>Net working capital</strong></td>
<td>(2,359)</td>
<td>(1,981)</td>
<td></td>
</tr>
<tr>
<td><strong>Net invested capital</strong></td>
<td></td>
<td>6,854</td>
<td>8,112</td>
</tr>
<tr>
<td>Equity attributable to Owners of the Parent</td>
<td></td>
<td>4,499</td>
<td>5,323</td>
</tr>
<tr>
<td>Equity attributable to non-controlling interests</td>
<td></td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td>4,510</td>
<td>5,334</td>
</tr>
<tr>
<td><strong>Group net debt</strong></td>
<td></td>
<td>2,351</td>
<td>2,847</td>
</tr>
<tr>
<td><strong>Net (assets)/liabilities held for sale</strong></td>
<td>(****)</td>
<td>(7)</td>
<td>(69)</td>
</tr>
</tbody>
</table>

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

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

(**) Includes “Inventories”, “Contract assets” and “Contract liabilities”.

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

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

Below is shown the **balance sheet** for the two periods compared.
Below is the breakdown of the Group net debt.

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

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

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

> the repayment made in December 2019 out of the bond issue in a residual nominal amount of GBPmil. 278. The issue, which was launched in 2009 for an initial total amount of GBPmil. 400, had been the object of a partial buy-back in previous years;

> a buy-back transaction carried out in November 2019 for USDmil. 127 on the part of Leonardo US Holding out of a portion of its own bond issues due 2039 and 2040.

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

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

To meet the financing needs for ordinary Group activities, Leonardo has a Revolving Credit Facility amounting to €mil. 1,800, and unconfirmed short-term lines of credit for a total amount of €mil. 686. All the abovementioned credit lines were entirely unused at 31 December 2019. Furthermore, Leonardo has unconfirmed unsecured lines of credit for a total amount of €mil. 10,904. Of these, an amount of €mil. 3,417 was available at 31 December 2019.
Below are the comments on the sectors in terms of performance, competitive position and total market.
It should be noted that Leonardo has the objective of strengthening its positioning in the more attractive markets in which the portfolio of its products can benefit from its specific competitive advantage: the considerations reported below relate to the analysis of the competitive position, based on these two dimensions.
In the civil sector the Group confirmed its product leadership in the Intermediate segment of civil/dual-use helicopters, now also having an actual footprint in the Light Intermediate and Medium segments, thanks to the completion of the so-called “product family” (AW169, AW139 and AW189), which was confirmed, in the dual-use segment, with the delivery of the thousandth AW139 helicopter in September 2019. In the military sector the development of variants for military use based on the civil configuration (AW169M and AW139M) brought important orders on domestic and international markets in 2019. In particular, note, on the international market, the important acknowledgment on the part of the US Air Force, which has chosen the MH-139 helicopter (renamed as Grey Wolf, the first unit of which was delivered in 2019) to replace the fleet of UH-1N Huey. In addition to the orders signed in the period, which are detailed below, in January 2020 the business was further driven towards success with the US Navy awarding the contract for a first lot of 32 TH-73 (AW119) helicopters for training missions.

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

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

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

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

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

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

**Total sector market**

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

In recent years there has been a slowdown in the civil sector's market, due to a number of combined factors, including a fall in oil prices, a general economic crisis and below-expected growth rates in some emerging markets. In terms of civil applications note an almost stable trend that was recorded in the SAR (Search and Rescue) and Law Enforcement market, as well as the growth in the EMS (Emergency Medical Services) sector and a significant decline across the entire Oil & Gas sector. As regards the geographical areas, North America, while confirming itself as a reference market, has seen a continuing decline over the last five years in favour of Europe and Asia (China in particular). Demand in Latin America has fallen sharply in the last five years due to the economic and/or political crisis in some countries, first and foremost in Argentina, Venezuela and Brazil.

The total military sector's market also suffered a decline as a result of budget cuts, which entailed the postponement of some programmes to upgrade the installed fleet. The military utility segment (troop transport, training, CSAR - Combat Search and Rescue) recorded the highest sales volume in the last ten years, showing a slowdown in the last two or three years, which was partly offset by the growth rates of combat platforms; deliveries in the naval military segment remained almost stable, with a slowdown in the last two or three years. Also in the light of the recent successful sales targets achieved by Leonardo, it is clear that the use of dual-use platforms is increasingly becoming established in the military field for purely non-battlefield roles. For the next five years (2020-2024), the market is still expected to suffer slightly but with clear signs of recovery, driven by a slow recovery in oil prices and by some favourable circumstances in emerging countries (e.g. airspace liberalisation in China), as well as by an increased demand for helicopter rescue, fire-fighting and disaster relief units resulting from a greater frequency of violent weather events and natural disasters. The persistence of ongoing
international crises (Middle East, Africa, Eastern Europe) and the need to replace obsolete fleets will also support the military sector’s market with new deliveries and Mid-Life Upgrades, pending new requirements and the new generation of aircraft (Fast Rotorcraft).

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

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

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

In terms of deliveries, an important milestone was reached in 2019 with the delivery of the thousandth AW139 helicopter to the Italian Finance Police (Guardia di Finanza). In 2019 there also was the delivery of the first abovementioned MH-139 Grey Wolf helicopter to the US Air Force, which is part of the contract for 84 helicopters that was awarded to Boeing, the prime contractor under the programme, in 2018.

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

Finally note, under the OCEAN2020 programme, the important demonstration coordinated by the Italian Navy in the Mediterranean Sea to attest to the integration and interoperability capabilities of remotely piloted systems with ships and helicopters, which involved the use of two unmanned helicopters, HERO and SW-4.
Defence Electronics & Security
With reference to the **Electronics Division**, in the segment of Airborne & Space Systems, there is a recognised position of strength in the field of radars and electronic warfare thanks to new technological developments that have promoted greater market penetration; a distinctive position is also to be found in the segment of drones, confirmed by the use of the Falco Evo remotely-piloted aircraft in 2019 in the operations of the European agency Frontex for the monitoring of illegal immigration and the launch of the Falco Xplorer, a unmanned aerial vehicle in the Light MALE (Medium-Altitude, Long-Endurance) aircraft category, at the Paris International Air Show (June 2019). In the segments of Naval and Land Systems and Defence Systems Leonardo has benefitted from important measures linked to the Naval Law, thus leading to a general increase in the capabilities of the system, providing valuable opportunities and synergy in international markets in the business segments concerned.

With reference to the **Cyber Security Division**, there is strong competitive pressure with the scenarios concerned evolving all the time and operational challenges increasingly faced by means of digital transformation processes. In this area, Leonardo is a prominent producer of security, mobility and connectivity solutions, while also strengthening its position thanks to investments underway and to the enlargement of the portfolio of products.

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

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

<table>
<thead>
<tr>
<th>December 2018</th>
<th>New orders</th>
<th>Revenues</th>
<th>EBITA</th>
<th>% ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics - Europe</td>
<td>4,409</td>
<td>4,011</td>
<td>394</td>
<td>9.8%</td>
</tr>
<tr>
<td>DRS</td>
<td>2,438</td>
<td>1,980</td>
<td>128</td>
<td>6.5%</td>
</tr>
<tr>
<td><strong>Eliminations</strong></td>
<td>(24)</td>
<td>(38)</td>
<td>-</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,823</td>
<td>5,953</td>
<td>522</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 2019</th>
<th>New orders</th>
<th>Revenues</th>
<th>EBITA</th>
<th>% ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics - Europe</td>
<td>4,444</td>
<td>4,289</td>
<td>427</td>
<td>10.0%</td>
</tr>
<tr>
<td>DRS</td>
<td>2,611</td>
<td>2,438</td>
<td>186</td>
<td>7.6%</td>
</tr>
<tr>
<td><strong>Eliminations</strong></td>
<td>(33)</td>
<td>(26)</td>
<td>-</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,022</td>
<td>6,701</td>
<td>613</td>
<td>9.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% Change</th>
<th>New orders</th>
<th>Revenues</th>
<th>EBITA</th>
<th>% ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics - Europe</td>
<td>0.8%</td>
<td>6.9%</td>
<td>8.4%</td>
<td>0.2 p.p.</td>
</tr>
<tr>
<td>DRS</td>
<td>7.1%</td>
<td>23.1%</td>
<td>45.3%</td>
<td>1.1 p.p.</td>
</tr>
<tr>
<td><strong>Eliminations</strong></td>
<td>(37.5%)</td>
<td>31.6%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2.9%</td>
<td>12.6%</td>
<td>17.4%</td>
<td>0.3 p.p.</td>
</tr>
</tbody>
</table>
New orders. These showed an increase compared to 2018 due to the good performance in the European Defence Electronics & Security and in Leonardo DRS that confirms the excellent performance recorded in the previous year, and due to the positive effect of the USD/€ exchange rate. Among the main acquisitions during the period, Leonardo DRS was awarded the contract for the US Army mission commands for the production of the new generation of IT systems, known as Mounted Family of Computer Systems (MFoCS), and the additional supply to the US Army and Marine Corps of TROPHY systems for the active protection of Abrams tanks; for the Electronics Division note the export order for the supply of a naval combat system and, in the United Kingdom, the orders for Airborne Systems for the development of electronically scanning radar avionics and communication systems. For the Automation business, note the orders for the upgrading of baggage handling systems for Geneva and Athens International Airports.

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

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

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

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

- Airborne & Space Systems: the market is estimated at about €bil. 446 in the next ten years (including the value of logistics support -30%) with an average growth of 3.0%. This growth trend is mainly driven by the demand for systems and sensors for platforms used in Combat/Special and ISR (Intelligence, Surveillance and Reconnaissance) missions. More of 50% of market demand and supply is attributable to the areas of North America and Western Europe, although there is a progressive growth in technological capacity and in the supply linked to the development of programmes for indigenous combat aircraft in South Korea, Turkey, Japan, Pakistan and China. In particular:
  - the segment of airborne radars, which is assessed at €bil. 80 in the next ten years with an average growth of 3.2%, is characterised by an increasing demand for multi-functional AESA (Active Electronically Scanned Array) radars which, with their low detectability, ensure greater stealthiness, above all for the 5th generation fighters;
the segment of surveillance, tracking and targeting EO/IR (Electro-Optical and Infrared) sensors is estimated at €bil. 62 in the next ten years with an average growth of 2.6%, the component of airborne EO/IR sensors of which is worth about €bil. 47, while the component of multispectral and hyperspectral sensors in the space segment is worth about €bil. 15 with an average growth of 1.6%;

the electronic warfare segment is estimated at €bil. 76 in the next ten years with an average growth rate of 3.1%. The continuing threat posed by Man-Portable Air-Defence Systems (MANPADS) contributes to the growing demand for Self-Protection systems especially for rotary-wing platforms;

the segment of Communication, Navigation, Identification (CNI) systems is estimated at €bil. 56 with an average growth rate of 2.7%. In this segment there is an increasing demand for integrated CNI systems, Software Defined Radio (SDR), Mode 5 identification equipment and broadband communication systems;

the segments of mission systems, displays and controls are estimated at about €bil. 79 in the next ten years with an average growth of 2.9%. Also thanks to the introduction of Artificial Intelligence (AI), the mission systems will manage more and more volumes of information, even in view of the development of Manned UnManned-Teaming (MUM-T) systems;

the segment of Unmanned Aerial Systems, pertaining to the business area under consideration, which includes Aerial Target, Mini/Micro, Tactical and Light MALE systems, is estimated at about €bil. 33, in the next ten years, whose Tactical and Light MALE fixed-wing component accounts for the most significant share (€bil. 22.5) and also includes MUM-T solutions and architecture;

the Simulation & Training segment pertaining to the business area is estimated at €bil. 59 in the next ten years, with an average growth rate of 2.6% in line with the growth recorded in the market of airborne systems.

Land & Naval Defence Electronics: the global market of land & naval electronics is estimated at about €bil. 600 in the next ten years, with an average growth rate of about 2.7%. The upward trend is supported by an increase in defence spending in all major geographical areas, as a result of the intensification of geopolitical tensions, new potential symmetric threats and the need to respond to growing security concerns linked to asymmetric threats and terrorism. In particular, the market for land & naval defence electronics is characterised by rising demand for:

command & control systems, a segment estimated at approximately €bil. 146 with an average growth of more than 3%, driven by the demand for modular and scalable Combat Management Systems solutions for multi-purpose and multi-mission surface vessels in the naval defence sector and by air defence systems, for battlefield digitalisation, territory control and border surveillance in the land defence sector;

land and naval communication systems, which are estimated at about €bil. 170 with an average growth of more than 2%. The segment is strongly characterised by the demand for flexible and interoperable radio and satellite terminals and communication networks to support strategic and tactical operations;
› electro-optical systems for land and sea applications, which are worth about €bil. 85 with an average growth of more than 3.8%. The segment is characterised by robust demand for systems for detection, high-precision tracking and shooting control, as well as for Situational Awareness improvement and medium to high power lasers in order to also counter threats from unmanned platforms (C-UAV - Counter-Unmanned Aerial Vehicle);

› land and naval radars, a segment worth over €bil. 120 with an average growth of more than 2%, characterised by growing demand for air defence, land and coastal surveillance systems, systems for surface vessels and Integrated Mast (integrated turnkey sensor suite). The requirement for AESA technology remains a key driver;

› electronic warfare systems for land and sea applications, a segment worth about €bil. 28 with an average growth of 4.4%, mainly driven by a greater Anti Access/Area Denial (A2/AD) threat;

› ATM (Air Traffic Management) and VTS (Vessel Traffic System) systems, whose target market has a total value of €bil. 49, with a growth equal to 1.8%. The main growth drivers are linked to the growing volume of air traffic and to the development of solutions to integrate unmanned aircraft within controlled airspace (UTM - Unmanned Traffic Management).

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

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

› security: (i) an increasing demand for Command, Control, Communications and Intelligence (C3I) solutions for threat prevention; (ii) border monitoring and management solutions; (iii) physical and logical security solutions for critical infrastructures and transport;

› digitalisation: (i) a rising demand for anti-cyber threat solutions; (ii) the need to increase the efficiency and improve processes, access to information and information management.

Leonardo operates to address integrated physical and logical security solutions for Police Forces, government agencies and Defence, but also Critical National Infrastructures (CNIs) and large enterprises.
Aeronautics
In the military aircraft segment, the Eurofighter gained further ground in export markets after contracts with Kuwait and Qatar and the new developments (E-SCAN electronically scanning radars) which help to enhance operational capacity and performance. The M-346 remained the leader in the trainer segment, which saw the launch of new versions and developments (M-346 FT/FA) and of M-345 HET models (maiden flight at the end of 2018), as well as the expansion of the range to start taking in complete IFTS (International Flight Training School) training systems. In the tactical air transport segment, production was optimised with a view to greater competitiveness, with interesting prospects of new developments, including dual-use projects. Among vehicles for special missions were the first two ATR MP72 delivered to the Italian Finance Police. As regards civil aircraft business, ATR established its leadership in the regional transport segment. Here its objective is further to strengthen its position by means of continuous improvement in product and Customer Support.

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

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

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

- in the Aircraft Division the order for the supply of 13 additional M-345 aircraft to the Italian Army and related logistical support for five years, the first order for the sale of 6 M-346 aircraft in the new FT/FA version to a foreign customer, the orders gained from the Eurofighter Consortium for services of engineering and support to the fleet of EFA (European Fighter Aircraft), as well as from Lockheed Martin in relation to the F-35 programme and from other customers for logistical support to the C27J, ATR Maritime Patrol and training aircraft. Finally, note the execution of the export contract for two C-27J aircraft during the last quarter of 2019, again in the military aircraft segment;

- in the Aerostructures Division the orders for the supply of B787 and ATR fuselages for production operations on the B767, A321 and A220 programmes.

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

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

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

**Total sector market**

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

- the **Tempest** fighter should replace the Typhoon as from 2035. The governments of Italy and Sweden must still define their involvement in the programme; the **Future Combat Air System Technology Initiative (FCAS TI)** is an eight-year research programme worth over GBPbil. 2, which is funded jointly by the UK government and industry;

- **FCAS**: at the end of 2017 the governments of France and Germany agreed to develop a new generation combat aircraft, which will replace the French Rafale and German Typhoon aircraft as from 2040. In February 2019, said governments signed a contract with Dassault and Airbus, with French leadership, for the joint concept study (JCS) phase worth €mil. 65 for the first two years of the programme. In June 2019, the Spanish government formally joined the French-German programme with an initial contribution of €mil. 25 for the first two years.

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

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

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

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

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

In 2019 there was a negative trend in sales compared to 2018. Net new orders for aircraft with a capacity exceeding 110 seats amounted to 830 units (776 Airbus and 54 Boeing), with a decrease of approximately 50% compared to the previous year (1,670 net orders) as a result of the suspension of deliveries of Boeing 737 aircraft. There was a decline also in production accruals and global deliveries. As already occurred in the last two years, Airbus and Boeing expanded their presence in the cross-over segment of the so-called “high-capacity regional aircraft”, i.e. planes with a capacity halfway between those of actual regional aircraft (turboprops with up to 70 seats and jets with up to 100 seats) and the bigger airliners.

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

During 2019, sales of 160 regional aircraft totalled approximately €bil. 6, including sales of 86 turboprop aircraft. A change in the competitive scenario is also underway for regional aircraft: Bombardier has transferred the Q400 turboprop programme to De Havilland Aircraft in Canada and the CRJ regional jet programme to the Japanese company Mitsubishi, which has already declared its phase out in 2021 when the Space Jet should have entered into service. The ATR programme was still the leader in the turboprop segment, with 65 orders (24 ATR 72 and 41 ATR 42), while its direct competitor Q400 totalled 11 sales. Also in terms of production volumes, ATR clearly dominated in 2019 with 68 units delivered compared to 15 Q400. At the end of 2019 the backlog of regional aircraft amounted to 1,108 units (877 jets and 231 TP) equivalent to more than 5 years of production at current rates.

The total market for civil and military aerostructures is closely linked to demand for new aircraft, showing a net dominance of production for civil programmes (accounting for about 69% of the entire market). Over the next decade, the demand for aerostructures will reach a total value of €bil. 590 (at constant 2018 economic conditions), while the related outsourced share (assigned to the supply chain) will total approximately €bil. 226 with an average of almost €bil. 23 per year and an annual growth rate of 1.6% for 2019-2028. Both manufacturers Airbus and Boeing have so far driven outsourcing with their market and product policies and it is expected that they will continue to do so over the next decade, too; however, some critical production operations are expected to potentially go back to be carried out in house with consequent reduction and streamlining of the supplier base. Only 5% of outsourcing operations, a still limited volume, is generated by military aircraft, this market being mainly linked to intergovernmental programmes, offset policies or manufacturing collaboration agreements. 2019 was marked by several significant events, which are already described in the paragraph on civil aircraft (B737 MAX accidents, Boeing negative orders, fall in deliveries and production accruals for Boeing aircraft, postponement of the launch of new aircraft), the impact of which is gradually becoming clear on Airbus, Boeing and the entire sub-contracting chain. In addition to the considerable uncertainty regarding the impact on the subcontracting chain involved in the key programmes of Boeing and Airbus, the consequences of the gradual process aimed at strengthening the aerostructures sector, which has already been underway for some years, are also to be assessed. Some major acquisition and disposal operations should be highlighted: Spirit Aero Systems (United States) announced the acquisition of Asco Industries (Belgium) for $mil. 420 and the three manufacturing sites of Bombardier Aerospace (Belfast, Casablanca and Dallas), including approximately 4,000 employees, for a total cost equal to about $bil. 1.1; in October 2019, Triumph reached an agreement with TECT Aerospace (United States) for the sale of its Nashville site. In the long term, growing competition from new products and new players in emerging countries (such as China and Russia) will change the competitive scenario once again, thus eroding the market shares held by the Airbus-Boeing duopoly and paving the way for collaboration and partnership agreements with Western suppliers, even in the aerostructures market segment. However, these new programmes (MS-21 from UAC, C919 from COMAC, CR929 from the CRAIC joint venture) are expected to report lower levels of outsourcing and lower production volumes than the current Western programmes.
Space
Leonardo’s footprint in the satellite services market foresees a global expansion scenario in each of its three components: telecommunications, geo-information and satellite operation services. During the last twenty years, Telespazio has strengthened its role as a market leader in satellite operations of institutional systems for the European market, as a result of skills and expertise acquired as a Galileo System Operator (GSOp) and under other major national programmes. On the other hand, interesting growth opportunities in the telecommunications’ market arise from the offer of services based on high-capacity satellite systems and end-to-end services, in particular in the solutions dedicated to defence and mobility. In the geo-information segment Telespazio is interested in strengthening its position as a provider of solutions for the most attractive applications, such as those dedicated to intelligence and national security, as well as to humanitarian and environmental emergencies. To this end, Telespazio may strengthen its role thanks to the capabilities offered by the new generation of the COSMO constellation and the integration of data provided by both new satellite systems and non-satellite sources, such as ground sensors and drones, in order to deliver efficient and innovative products and services capable of meeting its customer requirements.

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

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

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

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

Demand in the sector of space systems and services shows an overall value equal to €bil. 1,230 in the ten-year period from 2019 to 2028, associated with a stable growth rate of about 3% per year. A 46% share of total market related to space activities is accounted for by services, with a high growth rate of 8.4% for the next decade. This growth is to be attributed to the increasing availability of new technologies that pave the way for new applications and a higher demand for connectivity, even in remote locations. The remaining 54% is related to operations concerning manufacturing and launch systems. In this second cluster of activities, a stable market is expected for the next decade, with a growth rate of around 1%, due in particular to an uncertain demand that has seen the decline of traditional systems (large satellites for geostationary orbit) giving way to smaller and lighter satellites with lower costs.

This trend is also having an impact on the market of launch systems, where increasingly efficient and less expensive solutions are being sought, with systems and facilities dedicated to the launch of smaller satellites. The institutional bodies, including space agencies, national and international civil and military government agencies, play a particularly important role in the Space industry, since they represent major investors and promoters of space development, as well as major customers. The development of space capabilities and infrastructures continues to be a goal to be attained in many countries, including emerging countries, which see space as a crucial market for promoting local economic development. In this context, partnership agreements, which include technology transfer, serve to meet this need and encourage the creation of a national industry of their own.

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

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

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

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<th>2018</th>
<th>2019</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>FFO</td>
<td>1,400</td>
<td>1,476</td>
<td>5.4%</td>
</tr>
<tr>
<td>Research and Development expenses</td>
<td>1,440</td>
<td>1,525</td>
<td>5.9%</td>
</tr>
<tr>
<td>- of which IRAD</td>
<td>524</td>
<td>553</td>
<td>5.5%</td>
</tr>
<tr>
<td>Net interest</td>
<td>(196)</td>
<td>(182)</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Please refer to the section entitled “Non-GAAP alternative performance indicators” for definitions.

The section “Leonardo and sustainability” contains a more detailed description of Research and Development expenses.
“Non-GAAP” alternative performance indicators

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

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

> **New orders**: this includes contracts entered into with customers during the period that have commercial substance and represent an obligation for both parties to fulfil the contract.

> **Order backlog**: this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.

> **EBITDA**: this is given by EBITA, as defined below, before amortisation (excluding amortisation of intangible assets from business combinations), depreciation and impairment losses (net of those relating to goodwill or classified among “non-recurring costs”).

> **EBITA**: it is arrived at by eliminating from EBIT, as defined below, the following items:
  > any impairment in goodwill;
  > amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;
  > restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.);
  > other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.
EBITA is then used to calculate Return On Sales (ROS) and Return On Investment (ROI).

A reconciliation of income before tax and financial expenses, EBIT and EBITA is shown below (the reconciliation by segment is reported in Note 8 to the consolidated financial statements):

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

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

Non-recurring costs are mainly related to management’s estimates on particularly significant situations, which are not attributable to the normal course of business, linked to write-downs or to the effects deriving from the discontinuance of some businesses. Specifically the abovementioned costs relate to the Defence Electronics & Security and the Aeronautics Divisions.

> **Return On Sales (ROS):** this is calculated as the ratio of EBITA to revenues.

> **EBIT:** this is obtained by adding to income before tax and financial expenses (defined as earnings before “financial income and expenses”, “share of profits/(losses) of equity-accounted investees”, “income taxes” and “Profit/(Loss) from discontinued operations”) the Group’s share of profit in the results of its strategic joint ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the “share of profits/(losses) of equity-accounted investees”.

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

<table>
<thead>
<tr>
<th>€ millions</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net result</td>
<td>510</td>
<td>822</td>
</tr>
<tr>
<td>Net result of discontinued operations</td>
<td>(89)</td>
<td>(100)</td>
</tr>
<tr>
<td>Net result before extraordinary transactions</td>
<td>421</td>
<td>722</td>
</tr>
</tbody>
</table>

> **Group net debt:** this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items, as well as the main non-current receivables. In particular, the Group net debt included, until 2018, the non-current financial receivable from SuperJet, backed by bank guarantees. Starting from 2019, such position was reclassified under current receivables based on the arrangements for the rescheduling of the Group’s participation in this programme, which provided for the repayment within...
2020. The reconciliation with the net financial position required by the CONSOB Communication no. DEM/6064293 of 28 July 2006 is reported in Note 21 to the consolidated financial statements.

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

> **Return On Investment (ROI):** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.

> **Return On Equity (ROE):** this is calculated as the ratio of the net result before extraordinary transactions for the financial period to the average value of equity in the two comparative periods.

> **Workforce:** the number of employees recorded in the register on the last day of the period.

> **Funds From Operations (FFO):** this is the cash flows generated from/(used in) operating activities net of changes in working capital and the repayment of debts under Law 808/1985, included within “Cash flows from ordinary investing activities” in the reclassified statement of cash flows. The FFO also includes dividends received.

> **Research and Development expenses:** the Group classifies under R&D all internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. The item includes:

  › development costs capitalised even if covered by grants;

  › research costs, whose activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, or development costs for which the accounting requirements for capitalisation do not obtain, are expensed as incurred, even if covered by grants;

  › research and development costs reimbursed by the customer as part of existing contracts (which fall, from an accounting viewpoint, under the scope of “contract assets” and “contract liabilities”).

The value of the Internal Research and Development (IRAD) refers to the portion of Research and Development expenses charged to the income statement and capitalised.

> **Net interest:** this is calculated as the sum of the items “Interest”, “Premiums (paid)/received on IRSs” and “Commissions on borrowings” (see the Note “Financial income and expenses” of the consolidated financial statements).
Below are also provided the reconciliation statements between the items in the reclassified tables reported in the Report on Operations and the accounting statements shown in the notes of consolidated financial statements:

<table>
<thead>
<tr>
<th>€ millions</th>
<th>Scheme</th>
<th>PPA amortis.</th>
<th>Restructuring and non-recurring costs</th>
<th>Strategic JVs</th>
<th>Onereous contracts (losses at completion)</th>
<th>Reclassified scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>13,784</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,784</td>
</tr>
<tr>
<td>Purchases and personnel expenses</td>
<td>(12,136)</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>22</td>
<td>(12,104)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>551</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(587)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other net operating income/(expenses)</td>
<td>(36)</td>
<td>-</td>
<td>35</td>
<td>-</td>
<td>(22)</td>
<td>(23)</td>
</tr>
<tr>
<td>Equity-accounted strategic JVs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>160</td>
<td>-</td>
<td>160</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>(619)</td>
<td>27</td>
<td>26</td>
<td>-</td>
<td>-</td>
<td>(566)</td>
</tr>
<tr>
<td>EBITA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,251</td>
</tr>
<tr>
<td>Non-recurring income/(costs)</td>
<td>-</td>
<td>-</td>
<td>(43)</td>
<td>-</td>
<td>-</td>
<td>(43)</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>-</td>
<td>-</td>
<td>(28)</td>
<td>-</td>
<td>-</td>
<td>(28)</td>
</tr>
<tr>
<td>Amortisation of intangible assets acquired as part of business combinations</td>
<td>-</td>
<td>(27)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(27)</td>
</tr>
<tr>
<td>EBIT</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,153</td>
</tr>
<tr>
<td>Financial income</td>
<td>168</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(475)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share of profits/(losses) of equity-accounted investees</td>
<td>183</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net financial income/(expenses)</td>
<td>(124)</td>
<td>-</td>
<td>-</td>
<td>(160)</td>
<td>-</td>
<td>(284)</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(147)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(147)</td>
</tr>
<tr>
<td>Net result before extraordinary transactions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>722</td>
</tr>
<tr>
<td>Net result related to discontinued operations and extraordinary transactions</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Net result</td>
<td>822</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>822</td>
</tr>
<tr>
<td>€ millions</td>
<td>Scheme</td>
<td>Financial receivables and cash</td>
<td>Financial payables</td>
<td>Hedging derivatives on debt items</td>
<td>Reclassified scheme</td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td>--------</td>
<td>--------------------------------</td>
<td>--------------------</td>
<td>-----------------------------------</td>
<td>---------------------</td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>12,336</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12,336</td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(6,218)</td>
<td>-</td>
<td>3,975</td>
<td>-</td>
<td>(2,243)</td>
<td></td>
</tr>
<tr>
<td>Capital assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,093</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>14,465</td>
<td>(2,159)</td>
<td>-</td>
<td>-</td>
<td>12,306</td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(15,318)</td>
<td>-</td>
<td>1,031</td>
<td>-</td>
<td>(14,287)</td>
<td></td>
</tr>
<tr>
<td>Net working capital</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,981)</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>5,334</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,334</td>
<td></td>
</tr>
<tr>
<td>Group net debt</td>
<td>-</td>
<td>(2,159)</td>
<td>5,006</td>
<td>-</td>
<td>2,847</td>
<td></td>
</tr>
<tr>
<td>Net (assets)/liabilities held for sale</td>
<td>(69)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(69)</td>
<td></td>
</tr>
<tr>
<td>€ millions</td>
<td>Scheme</td>
<td>Dividends received</td>
<td>Cash out from Law 808/1985 payables</td>
<td>Strategic investments</td>
<td>Reclassified scheme</td>
<td></td>
</tr>
<tr>
<td>-----------</td>
<td>--------</td>
<td>-------------------</td>
<td>-----------------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td></td>
</tr>
<tr>
<td>Gross cash flows from operating activities</td>
<td>1,847</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Change in trade receivables/(payables), contract assets/(liabilities) and inventories</td>
<td>(528)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Change in other operating assets and liabilities and provisions for risks and charges</td>
<td>(390)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>(216)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Income taxes received/(paid)</td>
<td>(68)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cash flows generated from/(used in) operating activities</td>
<td>645</td>
<td>-</td>
<td>128</td>
<td>-</td>
<td>773</td>
<td></td>
</tr>
<tr>
<td>Dividends received</td>
<td>-</td>
<td>174</td>
<td>-</td>
<td>-</td>
<td>174</td>
<td></td>
</tr>
<tr>
<td>Investments in property, plant and equipment and intangible assets</td>
<td>(594)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Sales of property, plant and equipment and intangible assets</td>
<td>17</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cash flows from ordinary investing activities</td>
<td>(577)</td>
<td>-</td>
<td>(128)</td>
<td>-</td>
<td>(706)</td>
<td></td>
</tr>
<tr>
<td>Free Operating Cash Flow (FOCF)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>241</td>
<td></td>
</tr>
<tr>
<td>Strategic transactions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(44)</td>
<td>(44)</td>
<td></td>
</tr>
<tr>
<td>Other investing activities</td>
<td>111</td>
<td>(174)</td>
<td>-</td>
<td>44</td>
<td>(18)</td>
<td></td>
</tr>
<tr>
<td>Cash flows generated from/(used in) investing activities</td>
<td>(466)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Treasury shares purchase</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Bond issue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Term Loan and EIB subscription</td>
<td>300</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Bond redemption</td>
<td>(423)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Net change in other loans and borrowings</td>
<td>(58)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Net change in loans and borrowings</td>
<td>(181)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(181)</td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(81)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(81)</td>
<td></td>
</tr>
<tr>
<td>Cash flows generated from/(used in) financing activities</td>
<td>(262)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td>(83)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(83)</td>
<td></td>
</tr>
<tr>
<td>Exchange-rate differences and other changes</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at 1 January</td>
<td>2,049</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,049</td>
<td></td>
</tr>
<tr>
<td>Increase/(Decrease) in cash of discontinued operations</td>
<td>(6)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6)</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at 31 December</td>
<td>1,962</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,962</td>
<td></td>
</tr>
</tbody>
</table>
Effects of the new IFRS 16 accounting standard “Leases”

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

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

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

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

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

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

The estimates for the year 2020 are summarised below.

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

<table>
<thead>
<tr>
<th></th>
<th>2019 financial statements figures</th>
<th>2020 Outlook (**)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New orders (€bil.)</td>
<td>14.1</td>
<td>ca. 14</td>
</tr>
<tr>
<td>Revenues (€bil.)</td>
<td>13.8</td>
<td>14-14.5</td>
</tr>
<tr>
<td>EBITA (€mil.)</td>
<td>1,251</td>
<td>1,325-1,375</td>
</tr>
<tr>
<td>FOCF (€mil.)</td>
<td>241</td>
<td>400-450</td>
</tr>
<tr>
<td>Group net debt (€bil.)</td>
<td>2.8</td>
<td>ca. 2.8 (***))</td>
</tr>
</tbody>
</table>

(*) Within the sections “Leonardo and risk management” and “Significant post-balance sheet events”, the topic related to COVID-19 is discussed.
(**) Assuming a €/USD exchange rate of 1.15 and €/GBP of 0.88.
(***) Includes an additional IFRS 16 effect (approximately €bil. 0.1), the acquisition of Kopter (approximately €bil. 0.2) and dividend payment.
**Related-party transactions**

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

Pursuant to Article 5.8 of the Regulation, during 2019 neither transactions of greater importance (as defined by Article 4.1.a of the Regulation and identified by the abovementioned Procedure pursuant to Annex 3 attached to the Regulation) nor other transactions with related parties were carried out that significantly affected the consolidated financial position or the results of the Leonardo Group for the period under consideration. Finally, it should be noted that no changes or developments took place in relation to the related-party transactions described in the 2018 Report on Operations.

**CONSOB Market Regulation no. 20249/2017, Article 15**

In accordance with CONSOB provisions contained in the Market Regulation adopted by CONSOB Resolution no. 20249 of 28 December 2017 and subsequently updated by the amendments made by Resolution no. 21028 of 3 September 2019, Leonardo SpA performed the verifications on the Group subsidiaries that were incorporated and are governed under the laws of non-EU Member States and that, as a result, were deemed “material” based on the requirements under Article 151 of the Issuers’ Regulations adopted with CONSOB Resolution no. 11971 of 14 May 1999, as amended by CONSOB Resolution no. 21016 of 24 July 2019. As regards the non-EU foreign subsidiaries (Leonardo DRS Inc., Leonardo US Holding Inc., AgustaWestland Philadelphia Co.) identified based on the above regulations and in compliance with the provisions of local laws, these verifications revealed that the administrative and accounting system, which oversees the preparation of financial reports, falls within the scope of a control environment that is effectively operating and substantially suitable to the requirements envisaged in said Article 15. Therefore, it is not necessary to prepare an adaptation plan pursuant to the abovementioned Article.

**Information pursuant to Articles 70 and 71 of the Issuers’ Regulations**

By resolution of the Board of Directors on 23 January 2013, the Company adopted the simplification regime under Articles 70/8 and 71/1-bis of the Issuers’ Regulations, adopted with CONSOB Resolution no. 11971/1999, as subsequently amended and supplemented. By this resolution, the Company chose the option to make exceptions to the obligation to issue the documents required by the law when transactions of greater importance (such as mergers, spin-offs, capital increases by means of the contribution of assets in kind, acquisitions or disposals) occur.
Industrial and financial transactions

**Industrial transactions.** The major transactions that took place in 2019 are described below.

- **Acquisition of Vitrociset:** on 31 January 2019, as all required conditions were met including Golden Power and Antitrust approvals, Leonardo signed the closing of the acquisition of 98.54% in Vitrociset. As amply discussed in Note 33 to the consolidated financial statements, to which reference is made, the space business unit of Vitrociset will be spun off and offered to the Space Alliance.

- **Joint venture in Algeria:** on 25 March 2019, Leonardo signed an arrangement with the Algerian Ministry of Defence for the establishment of a joint venture for the assembly, sale and supply of services regarding Leonardo’s helicopters in the country.

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

- **Sale of the interest owned in Eurotech:** on 2 August 2019, Leonardo sold to Emera Srl its entire stake held in Eurotech SpA, equal to 11.08% of the share capital (3,936,461 shares), at a price of €4.58 per share. The transaction was completed on 5 August 2019.

- **Acquisition of an interest in Skydweller Aero Inc.:** on 11 November 2019, Leonardo acquired an interest in Skydweller Aero Inc., a start-up specialising in the development of a new generation of unmanned aircraft. The project will entail the development and use of the Skydweller drone, the world’s first solar-powered remotely-controlled aircraft capable of perpetual flight with heavy payloads. Leonardo’s investment is equal to 8.02% of the share capital and to 27.96% of the “Series A Preferred Stock” issued as at the date of subscription.

- **Agreement with Precision Aviation Service:** on 20 December 2019, Leonardo signed the contract for the acquisition of Precision Aviation Service (PAS) with the objective of strengthening its local service capacity and, therefore, improving support to the fleet operating in the Sub-Saharan Africa region (in particular South Africa). PAS operates mainly on the fleet of Leonardo Helicopters, which relies on 120 aircraft in the Sub-Saharan region, with some operations for other helicopters. The closing of the transaction is expected during the first half of 2020.
Finally, it should be noted that on 28 January 2020 Leonardo signed a contract with Lynwood (Schweiz) AG to acquire 100% of the Swiss helicopter company Kopter Group AG (Kopter). The SH09, the new single-engine helicopter currently under development by Kopter, is part of Leonardo’s product portfolio and offers opportunities for further technological developments in the future. The Swiss company’s expertise will allow the development of new technologies, mission capabilities and increased performance, including hybrid/electric propulsion solutions, to be speed up. The acquisition will replace the investments aimed at developing a new single-engine helicopter already envisaged in the Plan. Kopter will act as an autonomous legal entity and competence centre within the Leonardo Helicopter Division. For more details on the transaction, reference should be made to Note 7 of the consolidated financial statements. The operation is expected to be completed in the first half of 2020.

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

- in May there was the use of the loan raised with the European Investment Bank (EIB) with a value of €mil. 300, which had been signed in November 2018 and was aimed at supporting the investment programmes envisaged in the Groups’ Industrial Plan;

- in November there was the completion of a Tender Offer on the US market, concerning the repurchase of bonds due 2039 and 2040 (with coupons of 7.375% and 6.25%, respectively) for outstanding nominal amounts of USDmil. 169 and USDmil. 263, respectively, which were issued by Leonardo US Holding and guaranteed by Leonardo SpA. The offer was successfully completed with bonds repurchased for an overall nominal amount of USDmil. 127, which gave rise to a residual outstanding value of the bonds equal to USDmil. 124 due 2039 and USDmil. 182 due 2040. The bonds involved in the repurchase have been cancelled. The overall transaction cost (deriving from a total amount paid exceeding the entry value of repurchased bonds) amounted to USDmil. 23 (€mil. 20). The transaction will allow the Group’s future financial costs to be reduced by a gross amount of about USDmil. 154 (€mil. 139) on a whole-life basis, with a present value (NPV) of about USDmil. 92 (€mil. 83), net of transaction costs. The table below reports the restated nominal value of the issues involved in the transaction:

<table>
<thead>
<tr>
<th>Year of issue</th>
<th>Maturity</th>
<th>Currency</th>
<th>Outstanding nominal amount before buy-back (USDmil.)</th>
<th>Annual coupon</th>
<th>Outstanding nominal amount after buy-back (USDmil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2039</td>
<td>USD</td>
<td>169</td>
<td>7.375%</td>
<td>124</td>
</tr>
<tr>
<td>2009</td>
<td>2040</td>
<td>USD</td>
<td>263</td>
<td>6.25%</td>
<td>182</td>
</tr>
</tbody>
</table>

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

Furthermore, in May there was the renewal of the EMTN programme for 12 additional months, leaving the maximum available amount of €bil. 4 unchanged.
The Group’s outstanding bonds are governed by rules with standard legal clauses for these types of corporate transactions on institutional markets that do not require any undertaking with regard to compliance with specific financial parameters (financial covenants) but they do require negative pledge and cross-default clauses. Based on negative pledge clauses, Group issuers, Leonardo and their “Material Subsidiaries” (companies in which Leonardo owns more than 50% of the share capital and the gross revenues and total assets of which represent at least 10% of Leonardo’s consolidated gross revenues and total assets) are expressly prohibited from pledging collateral security or other obligations to secure their debt in the form of bonds or listed financial instruments or financial instruments that qualify for listing, unless these guarantees are extended to all bondholders. Exceptions to this prohibition are securitisation and the establishment of assets for the use indicated in Articles 2447-bis et seq. of the Italian Civil Code. On the contrary, the cross-default clauses give the bondholders the right to request early redemption of the bonds in their possession in the event of default by the Group issuers and/or Leonardo and/or any “Material Subsidiary” that results in a failure to make payment beyond pre-set limits.

Financial covenants are included in the Revolving Credit Facility in place at 31 December 2019 for €mil. 1,800, as well as in the Term Loan of €mil. 500. More specifically, the covenants require Leonardo to comply with two financial ratios: (Group net debt, excluding payables to the joint ventures MBDA and Thales Alenia Space and lease liabilities)/EBITDA (including depreciation of the right of use assets) must be no higher than 3.75 and the ratio of EBITDA (including depreciation of the right of use assets) to net interest must be no lower than 3.25, tested annually based upon the consolidated data at the end of the year. These covenants, in accordance with contractual provisions providing for this option, have also been included in the new EIB loan mentioned above, in the same way as provided for in the EIB loan already in place. Furthermore, these covenants are envisaged in certain loans granted in past years to DRS by US banks. In relation to this Annual Financial Report, there was full compliance with the covenants (the two ratios are 1.0 and 9.6, respectively).

Outstanding bond issues are given a medium/long-term financial credit rating by the international rating agencies: Moody’s Investors Service (Moody’s), Standard & Poor’s and Fitch. On the basis of the improvement reported in terms of profitability and cash generation, Standard & Poor’s upgraded Leonardo’s outlook from stable to positive in December 2019.

On the reporting date, Leonardo’s credit ratings, compared to those preceding the last change, were as follows:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Last update</th>
<th>Updated</th>
<th>Previous</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s</td>
<td>October 2018 (*)</td>
<td>Ba1 stable</td>
<td>Ba1 positive</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>December 2019</td>
<td>BB+ positive</td>
<td>BB+ stable</td>
</tr>
<tr>
<td>Fitch</td>
<td>October 2017</td>
<td>BBB stable</td>
<td>BB+ positive</td>
</tr>
</tbody>
</table>

(*) Furthermore, Moody’s upgraded the baseline credit assessment (BCA) from Ba2 to Ba1, while maintaining both the rating (Ba1) (Corporate Family Rating - CFR) and the outlook (stable) unchanged, in May 2019.
With regard to the impact of positive or negative changes in Leonardo’s credit ratings, there are no default clauses linked to the credit ratings. The only possible effects deriving from further changes, if any, to the credit ratings refer to higher or lower finance costs on certain payables of the Group, especially with reference to the Revolving Credit Facility and to the Term Loan as provided for in the related agreements. Finally, for the sake of completeness, it should be noted that the Funding Agreement between MBDA and its shareholders provides, inter alia, that any downgrade of the rating assigned to the shareholders will result in a gradual increase in the margins. Additionally, under a pre-set rating limit (for at least two out of three rating agencies: BB- from Standards & Poor’s, BB- from Fitch and Ba3 from Moody’s) MBDA is entitled to determine the applicable margin each time. Finally, the agreement provides for rating limits the achievement of which allows MBDA to request the issue of a bank guarantee from its shareholders.

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

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

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

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

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

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

The prices of raw materials grew moderately, in any case to the benefit of exporting countries. Externally, the European Union had to handle the immigration phenomenon and internally it was under pressure from nationalists and had the Brexit process to deal with.
In 2019 the New York stock exchange fully recovered the drop in 2018, while the Japanese stock market recorded a fall owing to profound doubts concerning the efficacy of the policies that had been put in hand. European markets chalked up a 15% recovery in 2019, which more than offset the decline in 2018. In Europe returns on bonds are still low thanks to the ECB’s quantitative easing and other policies.

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

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

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

In the Eurozone, Germany’s economic strength wobbled, also owing to Angela Merkel’s announced withdrawal in 2021. The CDU/CSU remained the biggest party (29.0%) in the 2019 European elections even if it lost ground. Germany, which recorded modest growth (1.2%), also renewed the Elysée Treaty with France, with which it keeps up a privileged relationship. Italy, particularly reliant on export, was adversely affected by the slowdown in the economies of some European countries and the protectionist policy embarked upon by the United States. Growth in Spain was satisfactory (2.2%) while Greece improved its economic position and is able to place its debt on the market again. The unemployment rate in the Eurozone went down to 7.7% in 2019.
Among the non-Eurozone EU countries, Poland’s economy grew again (4.0% in 2019) although slower growth is forecast for 2020, while the scenario in the United Kingdom is uncertain owing to Brexit: economic growth in 2019 was 1.2%.

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

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

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

Asia is the continent with the highest growth rate (5.3% in 2019). China, the second economy in the world in nominal terms and the first for purchasing power, recorded a progressive slowdown (from 9.5% in 2011 to 6.1% in 2019) which is likely to continue in 2020, also owing to the crisis due to the spreading of the coronavirus.

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

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

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

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

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

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

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

The complex political situation in Turkey put a brake on foreign investment, while the rising deficit and the absence of reforms undermined international confidence. A more and more aggressive foreign policy (Turkey invaded Syrian territory and took up an active role in conflict in Libya) and ties with Russia, not only at political level but also in the defence sector, became causes of disagreement with the United States and its other NATO allies.
Sub-Saharan Africa continued to grow at a satisfactory rate (3.6%) in 2019 but the picture is anything but homogeneous. There was a recovery in Nigeria (2.5%) after the 2016 recession, brought about by the fall in the prices of hydrocarbons, while growth slowed down in South Africa (0.7%) and inflation held at 4%-5%; the political crisis caused by the resignation of President Zuma in 2018 and the uncertain management of the economy slowed down foreign investment and increased the volatility of the rand.

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

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

**Trend of world defence budget**

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

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

Observance of the commitments entered into at the NATO summit in Wales in September 2014, confirmed in Warsaw in 2016 with the Defence Investment Pledge, continues to be one of the fundamental political issues in debates in the Atlantic Alliance. The Member States signed an undertaking to allocate 2.0% of their GDP within 2024 to expenditure on defence, on which the 20% to the contribution for NATO missions, operations and other activities.

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

Finally, for the first time NATO considers Chinese growth as a challenge to transatlantic security.
The trend of defence budgets (total and procurement + R&D) is as follows (values in €bil.):

The United States defence budget increased substantially in the two-year period 2018-2019 and the President’s request for 2020 was extremely high (€bil. 670, reduced to €bil. 659 by the Congress). The draft bill forbids all military cooperation with Russia and proposes sanctions against Turkey, also blocking the transfer of Lockheed Martin’s F-35s owing to the Turkish acquisition of S-400s from Russia. The draft bill also institutes the Space Force under the Air Force as the sixth United States armed force and contains a number of provisions that meet the potential threats from China, asking for special reports on Chinese investments and its military relations with Russia. Finally, the draft bill’s intention is to prevent North Korea from developing nuclear weapons by imposing fresh sanctions.

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

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

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

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

The total Italian integrated defence budget for 2019 (funds from the Ministry of Defence, the Ministry for Economic Development and the Ministry of Economy and Finance) accounts for 1.36% of GDP, while procurement, including investments in defence and in the Ministry for Economic Development, accounted for 0.3% of GDP. Even if more funds are allocated in the coming years, Italy will remain well under the 2.0% NATO target. The country has expressed its intention to raise its budget to 1.58% by the end of 2024. The inclusion of the G2G (Government to Government) rules in the tax decree is very important: this is a new factor that has long been expected in the sector which will allow the Ministry of Defence to support companies by negotiating contracts in the name and on behalf of foreign countries.
NATO/EU defence projects

In recent years the European Union has taken some vital steps forward on the front of common security and defence and at the end of 2017 set up the PERmanent Structured COoperation (PESCO), an addition to the other two projects being developed: the Coordinated Annual Review on Defence (CARD, a system for the coordination of EU Defence Ministers to harmonise capability development) and the European Defence Fund (EDF), whose intention is to foster competitiveness and innovation capacity in the European defence industry.

This initiative is divided into two phases in time:

> the starting phase, which encompasses two separate projects already started:
  > Preparatory Action on Defence Research (PADR), devoted to research with a total €mil. 90 allocation over 3 years (2017-2018-2019);
  > the European Defence Industry Development Programme (EDIDP), devoted to the development of capacity, with a total €mil. 500 allocation in 2 years (2019-2020);

> the fully operational phase from 2021 to 2027, with a proposed total budget still under review of €bil. 13, of which €bil. 4.1 for research and €bil. 8.9 for capacity development.

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

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

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

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

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

It is strategically important for Leonardo to develop a holistic vision in participating in European projects, also taking the requirements which Member States have agreed on with NATO into account. Leonardo has always been an important partner in NATO projects and works on various Alliance programmes, including cyber projects.
Leonardo has been responsible since 2017 for the development and maintenance of the services for the land-based segment of the Alliance Ground Surveillance (AGS) programme. Leonardo is also active in the Alliance Future Surveillance and Control (AFSC) programme, which is aimed at replacing the fleet of NATO AWACS (Airborne WAning & Control System) of aircraft in 2035. In December 2019, for the High Level Technical Concept phase of this major programme, Leonardo, in participating in a team of companies led by Boeing, was awarded one of the 6 contracts assigned by the NATO Support and Procurement Agency (NSPA).
Leonardo and risk management

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

The analysis of the main risks and related mitigation actions presented below is also provided to complete the information reported in the Consolidated Non-financial Statement for 2019.

### MAJOR RISKS

#### Effects of spreading of infectious diseases

The spreading of global health emergencies or pandemic affecting the population (i.e. COVID-19) can lead, in addition to a deterioration of the macroeconomic scenario, to a slowdown in the business operations due to the measures issued by national and foreign authorities, the unavailability of staff, difficulties encountered by both public and private customers and the intermittent supply chain, with an adverse impact on the Group’s results.

Leonardo has adopted processes that support the identification, management and monitoring of those events that can have a significant potential impact on the Company’s resources and business. These processes are the responsibility of decision-making inter-functional committees, which have been appropriately set up, and are aimed at maximising the timeliness and efficacy of the measures taken.

### MAJOR RISKS

#### The change in the level of expenditure of national governments and public institutions may affect business performance and may influence R&D work, particularly in the aeronautics and defence and security systems sectors

The major customers of the Group are national governments or public institutions. Moreover, the Group takes part in numerous international programmes funded by the European Union or in multinational collaborations. Therefore, it is affected by geopolitical and economic factors, the reduction in the expense policies of the public institutions, in addition to the medium/long-term plans of the countries that are considered individually and as a whole within common defence programmes. Geopolitical and economic scenarios, mostly characterised by an increasing uncertainty, represent important challenges for the companies operating on foreign markets. The expenditure programmes adopted by governments may be subject to delays, changes underway, annual reviews or cancellations, in particular in periods with high instability or critical periods in macroeconomic terms, with effects on the Group’s volumes, results and indebtedness.

The acquisition of contracts, especially outside Europe, may be affected by local preferences for certain products. Moreover, any possible pressure on public budgets might further reduce their contribution to Research Development activities (R&D).

In Italy, in particular, R&D expenditure in the aeronautics sector is financed under Law 808/1985, which is an essential support to research activities. Failure to bring funding levels into line with those of other European competitors might adversely affect the Group’s ability to compete successfully, thus giving rise to possible impacts on the time-to-market of products under development.

The Group pursues an international diversification policy, in order to reduce the effects of cuts made by each country, placing it in its main markets, as well as in emerging markets marked by significant growth rates, in the aeronautics and defence markets. The ongoing monitoring of its performance in the major countries ensures a timely alignment of activities planned with customer needs.
<table>
<thead>
<tr>
<th><strong>MAJOR RISKS</strong></th>
<th><strong>ACTIONS</strong></th>
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<tbody>
<tr>
<td><strong>The Group operates in civil sectors that are highly exposed to growing levels of competition</strong></td>
<td>In civil sectors, the slowdown in demand due to customers’ reduced spending capacity may lead to delays or reductions in the acquisition of new orders, or to their acquisition on less favourable terms than in the past. In these markets there are highly innovative competitors, especially in adjacent markets of information technology and consumer electronics, which maintain high and ongoing R&amp;D investments by leveraging significant economies of scale. Competitors in adjacent markets already operate in the security market and are offering themselves as new entrants in the aerospace and defence sectors, especially in the field of electronics, with advanced and often cheaper technology solutions. These factors contribute to a growing complexity of the prospective target scenario characterised, however, by growing competition and could reduce production volumes and profit margins, as well as increase the Group’s financial requirements. The Group’s goal is to increase its industrial efficiency, diversify its customer base and improve its ability to perform contracts, while reducing overhead costs with a view to enhance its competitive capacity. The Group maintains its competitive positioning on markets by ensuring highly qualitative and innovative product standards, while continuing to pay constant attention to exploiting and updating its technological edge with the constant trend toward the environmental sustainability. The organisational “One Company” structure ensures a higher ability to compete in domestic and foreign markets, as well as a strengthening of the synergies between company functions involved in the development of new products.</td>
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<tr>
<th><strong>MAJOR RISKS</strong></th>
<th><strong>ACTIONS</strong></th>
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<tbody>
<tr>
<td><strong>The capacity for innovation and growth depends on the strategic planning and management of skills, on the attraction and development of talents</strong></td>
<td>The constant technological innovation and the growing complexity of the Group’s businesses require constant alignment of skills, in order to provide high added-value products and services and consolidate the role of System Integrator and Prime Contractor. A lack of specialist expertise might impact on the full achievement of the corporate objectives, including possible repercussions in terms of time-to-market of new products and services, as well as of access to emerging business segments. The Group continued to implement the action plans aimed at attracting, retaining and motivating people, managing talents, providing ongoing specialist training, insourcing core competencies and defining succession plans. The purpose of these plans is to ensure an adequate level of technical, specialist and managerial skills necessary to achieve the Group’s strategic objectives and business sustainability in the medium- to long-term. Training and collaboration programmes are also in place with schools and universities, and projects have been started to promote the study of technical and scientific subjects (STEM, Science, Technology, Engineering and Mathematics) with the aim of creating specific expertise in the high technology sectors and supporting social and economic growth.</td>
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</table>
### MAJOR RISKS

<table>
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<tr>
<th>The Group operates in some business segments through partnerships or joint ventures</th>
<th>The Group’s corporate strategies contemplate the possibility of gaining business opportunities partly through joint ventures or commercial alliances in order to integrate its technology portfolio or strengthen its presence in the market. The operation of partnerships and joint ventures is subject to management risks and uncertainties, mainly due to possible divergences between partners about the identification and achievement of operational and strategic objectives involving markets, technologies and products, as well as to the difficulty of resolving any possible conflict relating to core business operations. Moreover, in joint ventures, situations of decision-making “deadlock” might ultimately lead to the liquidation of the joint venture itself or to the disposal of the investment by the Group, with the risk of not obtaining the expected benefits.</th>
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<tbody>
<tr>
<td>The Group is exposed to the risk of fraud or illegal activities on the part of employees and third parties</td>
<td>The Group makes every effort in terms of organisation, controls, internal procedures and training to ensure compliance with any and all anti-corruption laws applicable in the domestic and foreign markets in which it operates; however, the possibility cannot be ruled out of employees or third parties behaving in an ethically incorrect or not fully compliant manner. This may also expose the Group to financial responsibility and generate adverse reputational effects, nor can we rule out the possibility of judicial authorities initiating proceedings aimed at establishing any possible liability attributable to the Group, the results and timing of which are difficult to determine and which are likely to entail temporary suspensions from the market concerned.</td>
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| The Group systematically carries out due diligence activities following the completion of partnerships and joint ventures. At this purpose, the active involvement of its top management in any related operation is aimed, among other things, at directing its strategies and identifying and managing any critical issue in a timely fashion. | The Group has set out a model of responsible business conduct aimed at preventing, identifying and responding to the risk of corruption, based on:
- spreading a company culture, values and rules of conduct, based on the principle of zero-tolerance for corruption;
- promoting anti-corruption commitment, starting with top management, adopting a “Tone from the Top” approach;
- providing training courses for the entire corporate population, and specifically for resources involved in processes that are most exposed to the risk of corruption (Council Programme).

In 2018 Leonardo SpA was the first company in the world’s top ten in Aerospace, Defence and Security to obtain ISO 37001 certification, the first international standard on anti-corruption management systems. The certification was confirmed during 2019.

Specific actions have also been taken in the responsible management of the supply chain, through the strengthening of supplier qualification, selection and management processes. A specific risk analysis tool is applied to the assignment of tasks to promoters and sales advisors as part of structured due diligence audits based on international best practices. |
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<tr>
<td><strong>The settlement of legal disputes can be extremely complex and might require a considerable period of time</strong></td>
<td>The Group is party to judicial, civil and administrative proceedings; for some of these, the Group has established a specific provision for risks and charges in the consolidated financial statements to cover any potential liabilities. Some of these proceedings in which the Leonardo Group is involved – for which a negative outcome is unlikely or cannot be quantified – are not covered by the provision. As more fully explained in paragraph “Provisions for risks and charges and contingent liabilities” of the explanatory notes to the consolidated financial statements, in the past certain Group subsidiaries and the Parent Company itself were involved in judicial investigations, some of which are still underway. Further developments presently unforeseeable and indefinable, together with the possible consequential impact on Leonardo’s reputation, could have a significant impact on the Group’s financial position, results of operations and cash flows as well as on its relationships with customers.</td>
</tr>
<tr>
<td><strong>The Group operates in particularly complex and regulated markets, which require compliance with specific regulations (e.g. export control)</strong></td>
<td>The Group regularly monitors potential and existing disputes, taking the necessary corrective actions and adjusting its provisions for risks on a quarterly basis.</td>
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</table>

The Group operates in particularly complex and regulated markets, which require compliance with specific regulations (e.g. export control). Defence solutions are of particular importance in terms of compliance with regulatory obligations and, therefore, their export must comply with foreign policy guidelines and is subject to restrictions and prior authorisation, based on specific regulations and agreements that may change in relation to the evolution of the geo-political scenario and of international economic interests (such as, for example, Italian Law 185/1990 and the US International Traffic in Arms Regulations - ITAR and the Export Administration Regulations - EAR), as well as of compliance with customs regimes applicable to any and all products offered by the Group. The prohibition on, limitation or any possible revocation (for example in the case of embargoes or geopolitical conflicts) of export authorisations for defence or dual-use products, as well as failure to comply with any applicable customs regime, may have substantial adverse effects on the Group’s business, financial position, results of operations and cash flows. Moreover, failure to comply with these regulations could also make it impossible for the Group to operate in specific regulated areas. The Group ensures, through specific functions, a timely implementation and management of the formalities required by the relevant regulations, monitoring their updating on an ongoing basis in order to allow the day-to-day performance of commercial and operational activities, in compliance with the provisions of law and with any possible authorisation and/or limitation.
### MAJOR RISKS

#### The Group operates through a number of industrial plants and processes that may expose it to risks to the health and safety of workers and to environmental risks

The Group’s activities are subject to compliance with laws, rules and regulations governing the protection of workers’ health and safety. Specifically, Legislative Decree 81/2008 provides for a health and safety management system for preventive and permanent work, through the identification of risk factors and sources, the elimination or reduction of risk, the ongoing monitoring of preventive measures implemented, the development of a corporate strategy to be implemented through the participation of all stakeholders in the working communities. The mentioned rule of law also proposes to plan measures that are considered to be appropriate to ensure the improvement of safety levels over time, including through the adoption of codes of conduct and good practices. The Group’s activities are subject to compliance with laws, rules and regulations governing the protection of environment and energy management, which imply specific environmental permits aimed at ensuring the compliance with restrictions and conditions on emissions into the atmosphere, water discharges, storage and use of chemicals (e.g. REACH Regulation and RoHS Directive) and waste management and disposal.

#### ACTIONS

In order to protect the health and safety of its workers, the Group constantly monitors trends in accident frequency and severity rates, in relation to which improvement objectives are set out, checking whether the safety measures adopted are effective. Risks to the workers’ health and safety are based on the principle of zero tolerance, in strict compliance with the relevant regulations, and are managed through targeted risk analyses, specific action and training plans, within the framework of a precise system of proxies and powers for each relevant matter, aimed at ensuring that the action taken complies with the Group’s guidelines. The Group also confirms its commitment to extend the coverage in terms of Health and Safety System, for example through the OHSAS 18001 certification. The Group complies with the ever-increasing limits and restrictions imposed by the environmental protection regulations as regards sites and production processes. The Group also confirms its commitment to extent coverage in terms of Environmental Management System, for example through the ISO 14001 certification. The Group regularly performs environmental assessments of sites and monitoring, and it also takes out specific insurance policies in order to mitigate the consequences of unexpected events.

### MAJOR RISKS

#### The Group defines its industrial strategy also taking into consideration environmental sustainability objectives, in order to face the uncertainties linked, among other things, to climate change

The Group’s activities may be subject to transition risks towards an economy with low polluting emissions, with possible impacts on business processes, with particular reference to production processes, as well as on the products and services offered. Corporate sites and assets may also be affected by natural events (floods, drought, fires and others) generated by the effects of climate change.

#### ACTIONS

The Group pursues an industrial strategy aimed improving the efficiency of its production systems and processes on an ongoing basis for the reduction of energy consumption and atmospheric emissions and, thanks also to the participation, as a partner of excellence, in the main European programmes for research and innovation such as Horizon 2020 to which Phase 2 of Clean Sky and SESAR is linked, it develops low environmental impact technological solutions which are functional to the fight against climate change. The Group takes out specific insurance policies in order to cover against any possible consequence arising from disastrous weather and natural events.
## MAJOR RISKS

**Breaches of information security obligations can cause damage to the Group, its customers and suppliers and pose a threat to the security of citizens and critical infrastructures**

Companies are required to face the risks associated with information security, deriving from cyber-attacks, increased digitalisation and the use of innovative technologies. Computer incidents, business interruption, the leakage of data and information, including personal data, may compromise the business but also the Group’s image, especially in the case of theft of third-party data stored in its archives. IT incidents in the supply chain might have repercussions on the Group’s operations.

The Group manages cyber security through dedicated controls and training for the entire corporate population, as well as processes, procedures and specific technologies for the prediction, prevention, detection and management of potential threats and for responding to them. Leonardo is ISO 27001 certified and is constantly engaged in management and improvement activities aimed at maintaining the certification itself. Leonardo also benefits from substantial experience in the field of cyber security, in addition to that already available to its Corporate staff, gained on the market through the competent business Division and partnerships established with its partners and institutional stakeholders, in addition to a plan to develop and improve the professional skills of its staff.

Leonardo continues to take any action to extend computer data processing methods and processes to its own suppliers.

## MAJOR RISKS

**The Group operates significantly on long-term contracts at a given price for supplies of highly complex products, systems and services**

The Group supplies very complex products, systems and services due to their advanced technological content under long-term contracts at a fixed all-inclusive price. Given a fierce competition in the market concerned, contract terms and conditions generally include challenging levels of requirement and stringent execution times. If, due to the occurrence of risk events, the Group does not perform the contract in compliance with quality requirements and within the required time limit, the customer is entitled to apply penalties and other contract clauses that might have an adverse economic and financial impact on the Group.

In order to recognise revenues and margins in the income statement of each period, the Group adopts the percentage-of-completion method, which requires: (i) an estimate of the costs necessary to carry out the contract, including contingency to cover project risks, as well as the costs of any related mitigation action; and (ii) checking the state of progress of the activities. An unexpected increase in the costs incurred while performing the contract might determine a reduction in profitability or a loss.

Leonardo, starting with the business proposal stage, considers the project’s main performance and financial parameters in order to assess its performance throughout the entire life cycle and carries out risk analyses systematically. The Group reviews the estimated costs of contracts regularly. Project risks with similar frequency throughout the related life cycle are managed systematically through the detection, assessment, mitigation and monitoring of risks with the definition and management of appropriate contingencies, in order to protect the financial margins of the projects themselves. Risk management is carried out by project teams (IPT - Integrated Project Team) led by Project Managers and supported by Risk Managers.

The Group is committed to improving its industrial efficiency and its ability to meet customer specifications on time.
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<th>MAJOR RISKS</th>
<th>ACTIONS</th>
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<tr>
<td><strong>The risks of proper performance of contracts, associated with the liability to customers or third parties, also depend on the supply and sub-supply chain</strong></td>
<td>The Group purchases, in very substantial proportions with respect to its sales, industrial products and services, materials and components, equipment and subsystems; it may therefore incur liability to its customers for operational, legal or financial risks attributable to third parties outside the Group, who operate as suppliers or sub-suppliers. The Group’s dependence on suppliers for certain business activities might give rise to difficulties in maintaining quality standards and meeting delivery times.</td>
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<td>The Group chooses its suppliers by implementing specific selection criteria and monitors their performance, results of operations and financial position. The Group is also committed to improving efficiency and developing its supply chain, especially through targeted actions aimed at certain areas of strategic importance and/or critical expenditure. In particular, Leonardo has in progress the LEAP2020 programme (Leonardo Empowering Advanced Partnerships), provided for in the 2018-2022 Industrial Plan and aimed at establishing a new relationship between the Company and its Italian and international suppliers, based on an industrial and supply chain approach. The programme sets out a model for the selection and appointment of “partners for growth” based on an objective assessment of suppliers in terms of capacity, performance, competitiveness, transparency, traceability and process sustainability. In addition, contract procurement forms provide clauses for exchange of information with the supply chain on project risks.</td>
</tr>
<tr>
<td><strong>The Group is required to fulfil direct or indirect offset obligations in certain countries</strong></td>
<td>The Group manages offset risks by means of appropriate analyses carried out from the offering phase within the project teams, which also appoint an Offset Manager for the Division concerned. It has also set up a dedicated central Organisational Unit to guide and supervise offset activities.</td>
</tr>
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## MAJOR RISKS

### ACTIONS

The recoverability of amounts recognised in intangible assets (including goodwill and development costs) is linked to the implementation of future plans and the business plans for the relevant products.

The Group implements a policy of monitoring and limiting amounts capitalised under intangible assets, with specific regard to development costs, and carries out ongoing monitoring of performance under scheduled plans, taking any necessary corrective action in the event of unfavourable trends. These updates affect the expected cash flows used for impairment tests when assessing the fairness of the values recorded in the financial statements.

## MAJOR RISKS

### ACTIONS

The debt level, beside impacting the profitability as an effect of the related borrowing costs, could affect the Group’s strategy, limiting its operational flexibility. Potential future liquidity crises could also restrict the Group’s ability to repay its debts.

Leonardo pursues an ongoing strategy of limiting its debt by paying steady attention to cash generation, which is used, market conditions permitting, to partially reduce the existing debt. As a matter of fact, the financial measures adopted during the years on the bond and bank market have ensured sources of liquidity that meet the Group’s short- and medium/long-term financial requirements.

## MAJOR RISKS

### ACTIONS

All Group bond issues are given a medium-term financial credit rating by the international agencies Moody’s Investors Service (Moody’s), Standard & Poor’s and Fitch. A possible downgrade in the Group’s credit rating could severely limit its access to funding sources, as well as increase its borrowing costs for existing and future loans, which would have a negative impact on the business prospects, performance and financial results.

The Group is actively engaged in reducing its debt as required by the Industrial Plan. The Group’s financial policies and careful selection of investments and contracts involve being constantly alert to maintaining a balanced financial structure. In seeking out strategies to pursue, the Group always takes into account the potential impact such could have in the indicators used by the credit rating agencies.
<table>
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<tr>
<th>MAJOR RISKS</th>
<th>ACTIONS</th>
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<tbody>
<tr>
<td>The Group realises part of its revenues in currencies other than the currencies in which costs are incurred, exposing it to the risk of exchange-rate fluctuations. A part of consolidated assets is denominated in US dollars and pound sterling</td>
<td>The Group reports a significant portion of revenues and costs in currencies other than euro (mainly in US dollars and pounds). Accordingly, any negative changes in the reference exchange rate might have negative effects (transaction risk). Moreover, the Group made significant investments in the United Kingdom (Brexit took place on 31 January 2020, with a transitional phase until December 2020) and in the United States, which might have a negative impact on the Group balance sheet and income statement due to the translation of the financial statements of foreign investees (translation risk).</td>
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<td></td>
<td>The Group continuously applies an organised hedge policy to combat transaction risk for all contracts using the financial instruments available on the market. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the central level.</td>
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<tr>
<td>The Group is a sponsor of defined-benefit pension plans in the United Kingdom and the United States and of other minor plans in Europe</td>
<td>Under the pension schemes reserved for employees who mainly operate in the United Kingdom and in the United States, the Group is required to ensure a specific future retirement benefit level for employees participating in the plan. In said countries the pension funds in which the Group participates invest resources in the plan assets (stocks, bonds, etc.) that might not be sufficient to cover the agreed-upon benefits. If the value of plan assets is less than the agreed-upon benefit level, the Group duly recognises the amount of the deficit among liabilities, with consequent adverse effects on its financial position, results of operations and cash flows.</td>
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<td></td>
<td>The Group monitors pension funds’ investment plans and strategies on an ongoing basis and takes immediate deficit corrective action when necessary.</td>
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<tr>
<td>The United Kingdom leaving the European Union and transition phase 2020 (Brexit)</td>
<td>Following the United Kingdom leaving the EU, the Parties could not reach, at the conclusion of the planned negotiations, a deal on a future partnership and, at the same time, they could decide not to extend the transition period lasting until 31 December 2020. The complex negotiations and the relative implications could end in a “no deal” thus requiring, unless already in place, arrangements between the United Kingdom and the single country involved. In the event of a no-deal, there would be a discontinuous cooperation that could affect defence programmes.</td>
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<td></td>
<td>Leonardo keeps an eye on the progress of the negotiations between the United Kingdom and the EU, beside supporting the relevant institutional bodies and associations (in the defence sector) in their actions. Moreover, based on internal analyses recently performed, the Company has identified a first set of management measures to cope, if necessary, with the “no deal” situation, especially in relation to the management of customs operations.</td>
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Leonardo and sustainability

Leonardo integrates Sustainability and Innovation into all business sectors to create long-term value and generate positive impacts in financial, social and environmental terms for the enterprise and all of its stakeholders. To achieve these objectives Leonardo enhances the skills and ability of its people, as well as invests in R&D and searches for new solutions to reduce environmental impact of its operations and products.

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

To bear witness to its commitment to sustainability, in 2019 Leonardo was appointed as Industry leader of the Dow Jones Sustainability Indices, the major international stock exchange indices for the valuation of corporate sustainability, the eligibility for inclusion process of which is managed by the rating agency RobecoSam. Furthermore CDP, which is a non-profit organisation that operates the largest platform for the publication of information about greenhouse gas emissions, confirmed a score equal to “A-” (on a decreasing scale from “A” to “F”) in 2019.

The development guidelines, the sustainability objectives, together with any action and initiative taken during the year, are described in the Sustainability and Innovation Report 2019, which also constitutes the Consolidated Non-financial Statement pursuant to Legislative Decree 254 of 30 December 2016 and which is prepared on an annual basis, according to the guidelines of the Global Reporting Initiative (GRI), while also taking account of the standards issued by the SASB (Sustainability Accounting Standards Board) and of the framework of the International Integrated Reporting Council (IIRC). The document is subject to limited audit by KPMG.

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

Employees

The Group’s workforce at 31 December 2019 was equal to 49,530 employees, 98% of which based in domestic markets (Italy, the United Kingdom, the United States and Poland).

Below is the breakdown of human resources by sector:

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

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

- the creation of three new first-level Organisational Units: Chief Strategic Equity Officer, Chief Strategy and Market Intelligence Officer and Chief Technology & Innovation Officer (with the consequent closure of the Chief Strategy & Innovation Officer Organisational Unit, in order to give a stronger impetus to the attainment of the challenging objectives in the Industrial Plan and long-term sustainable growth, through technological innovation and the improvement of the positioning in the target market of AD&S (Aerospace, Defence & Security);

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

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

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

- within the Aerostructures Division, the creation of the New Initiatives Organisational Unit, reporting directly to the Head of Division, with the objective of supporting new business development activities by promoting the Division’s technological and production capacity, pursuing the process of relaunching and promoting business and fostering the development of new products and markets;

- within the Helicopters Division, the creation of the Safety Systems Governance Organisational Unit, reporting directly to the Head of Division, in order to set up an overall, organic and strategic Operational Safety addressing mode at Division level;

- within the Aircraft Division, the creation of the Quality Assurance and Certification Organisational Unit, reporting directly to the Head of Division, in order to spread a quality culture as a value that ensures an outstanding product and total customer satisfaction.

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

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

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

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

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

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

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

About 60% of the Group’s employees took part in the project, which was rolled out in five languages (Italian, English, French, German, Polish). In detail, 21,692 persons were appraised with a participation rate of 97% among the executives, middle managers and office workers called upon (blue-collar staff were also included in some foreign branches). This process allowed the
resources to hold a structured feedback meeting with their manager to discuss the appraisal made in the previous year and the allocation of objectives for the current year.

**People Review** - The People Review process commenced in 2018 in order to foster the professional development of Leonardo’s human resources and then ensure the future sustainability of the Group. This process focuses on identifying and developing key resources through sessions that support their personal and professional growth. The analysis involved 1,264 employees, including executives, middle managers and office workers. “High potential” resources also belong to this catchment group, which are called Future Leaders, equal to 41.2% of the population involved in the process, for which a dedicated Talent Management programme has been designed.

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

> univocal criteria for the appraisal of all the resources analysed;

> an Action Plan dedicated to each Division or Function concerned, aiming to assign clear responsibilities regarding the development of key personnel.

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

**Succession planning** - In 2019 the plans for succession to the first-level organisational positions were updated and a similar process was conducted to select candidates for the succession to positions up to the third organisational level under Chief Executive Officer totalling 260 positions analysed. Such high coverage in the implementation of the succession plans has the purpose of ensuring continuity of business in Divisions and subsidiaries, starting from a study of the future challenges and from the determination of the progressive replacement procedures. Furthermore, during 2019 as many as 49 positions connected with the previous year’s succession plans were filled by new holders from the analysis process.

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

**Development of Pillar Leaders in support of the implementation of the LPS (Leonardo Production System)** - The Leonardo Production System (LPS) is a production system taking inspiration from World Class Manufacturing (WCM) methodology based on a continuous improvement technique that deals with
the technical aspects of day-to-day work and focuses on the operational issues with a sound governance. Its purpose is to increase the efficiency and efficacy of company performance, eliminating waste and losses and at the same time raising the level of competence of all the workers involved in manufacturing processes, so as to make the organisation more competitive. LPS encompasses all typical processes of the operations grouped in 10 Technical Pillars. The necessary continuous improvement actions for each Pillar, managed by a Pillar Leader and its team, are established according to a common approach based on assessments of quality, safety and cost. Pillar Leaders, through learning by doing, are called upon to convey their technical and professional competencies to their respective teams (and trickle them down to other colleagues). In the manufacturing plants in which LPS has been put in place, the Pillar Leaders responsible for the various areas of development of the programme were chosen also thanks to the results of some appraisal tools that analyse behaviours at work. The personnel that took part in the analysis and appraisal stage received structured and personalised feedback, one of whose objectives was to set out a growth path for the enhancement of competencies.

**Compensation systems** - The Board of Directors’ meeting held on 28 March 2019 approved, and then presented to the Shareholders’ Meeting, the remuneration policy for 2019 and subsequent financial years, which is available in the Company’s Remuneration Report that is summarised below.

The short-term incentive system (MBO) is aimed at encouraging the achievement of the annual targets set out in the Company’s budget and in line with the Industrial Plan for the relevant year; it is also structured in such a way as to make the link between remuneration and the degree of achievement of targets more transparent. For this purpose the targets are set with reference to quantitative indicators, which are based on and are consistent with strategic and industrial priorities, measured according to preset and objective criteria. In addition, an objective linked to sustainability/ESG (Environmental, Social and Governance) was extended to all the participants in the short-term incentive plan - MBO in 2019.

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

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

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

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

The architecture of the compensation systems’ structure for the 2020 financial year will be submitted to the attention of Leonardo’s corporate bodies, which will be called upon to approve it for subsequent implementation in accordance with the procedure laid down in current corporate governance rules.

In 2019 the remuneration and incentive policies were aimed at attracting and retaining personnel with high professionalism and technical and management skills, paying them appropriately according to the responsibilities assigned to them, the abilities they give proof of and their performance of the requisite behaviour. As a whole, the levels of remuneration were managed in accordance with the principles of transparency and merit, so as to ensure the pay progression to reflect not only the complexity of the positions held and of the duties assigned, but also the outcome of the appraisal processes applied. The management of the fixed component was based on a policy aimed at ensuring a uniform and consistent pay so as to guarantee the application of equity principles in internal practices and adequate competitiveness levels with respect to the market.

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

**Leonardo Learning Academy** - In order to make the most of its human capital and render its people increasingly capable of responding to the new challenges laid down by the market, Leonardo launched Leonardo Learning Academy in 2019, i.e. a Company in-house workshop focused on strengthening the key competencies for the Group’s success and the sustainability of its business. Its aim is to ensure the ongoing alignment of the competencies available in the Company, which Leonardo has come to know in detail from 2018 thanks to the processes of mapping professional expertise and measuring competencies, and their short- and medium/long-term requirements. The approach taken enables Leonardo to manage obsolescent professionalism by means of
training programmes directed at continuous learning and the constant enhancement of technical and transversal competencies, both of upskilling and of reskilling. This is a first important contribution that the Academy provides, even to assisting personnel at an advanced stage of their career. Another fundamentally important contribution to the active ageing process is given by some of the most experienced Leonardo professionals acting as lecturers and tutors, even with a view to the management of generational diversity. About 200 members of Leonardo took part in this project in 2019 in six different training programmes addressed at the following areas of competence: Project Management, Procurement, Cyber Security & Resilience, Data Management, Bid & Tender, Marketing & Sales.

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

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

Specifically, note the following initiatives:

- *Procurement & Supply Chain* - A project was carried out for the updating of professional competencies with a related competencies catalogue in order to allow the mix of competencies to be managed in line with organisational and operational efficiency requirements, and with the development trends of the market (e.g. big data management). A training plan was laid down to support this organisational development after this task had been completed and together with the aggregate analysis of the main gaps observed during assessment processes, which will be implemented in 2010;

- *Customer Service, Support & Training* - The development of the Customer Support, Services & Training business is another pillar in Leonardo’s Industrial Plan, which is founded on the adoption of a new pattern of attention to service, the evolution of customer satisfaction as a stimulus for the conduct of business and the reinforcement of new abilities consistently with changes in market trends. A workshop to launch the Professional Family was held in 2019, attended by about 100 managers, the objective of which was to start a process of engaging in the transformation in progress which will spread through the organisation by means of a programme of
training and change management which was structured in 2019 and will be implemented in 2020;

> Programme Management - In 2019 the third edition of the Excellence in Execution - Project Management programme, started up in 2018, ended after involving about 800 members working in various ways in project teams with the objective of equipping them with core PM competencies; at the same time about 75 persons started the programme for the SMEs certification in Project or Risk Management. A project has also started for the optimisation of programme management processes, one of the objectives of which is to revise role and competence models to ensure their alignment to the new operating model. A new training plan will be implemented in 2020 to support this organisational development after this task had been completed and together with the aggregate analysis of the main gaps observed during assessment processes;

> Leonardo Production System - In 2019 various training projects were launched:
  › training sessions with Professor Yamashina, the inventor of the World Class Manufacturing method, on which the Leonardo Production System is based;
  › transversal training for personnel in Pillars functions in the form of speakers from the outside world and in-house lecturers for Cost Deployment, Quality Control, Logistics;
  › theoretical and practical training course at FCA WCM Academy for Plant Managers and Operations Managers involved and to be involved in the LPS;

> Risk Management - Leonardo has recently updated its Enterprise Risk Management (ERM) process and methodology, with a view to continuous improvement and increasing support for business corporate decision-making processes. A training programme has been designed and started to help staff to adopt the revised model, aligning the competencies necessary for its effective implementation, which was developed with the MIP, the Business School of Milan Polytechnic University, which involves about 80 members of the Professional Family.

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

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

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

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

"SpeakYourMind" People Survey - Leonardo’s commitment to bringing its people into the processes of Group change is borne witness to in the People Survey, conducted in 2019. More than 31,300 colleagues – equal to 64% of the company staff involved – from all over the world answered this survey anonymously. The massive support of this initiative enabled Leonardo to produce a reliable analysis of the results, on the basis of which 164 improvement actions were taken in order to respond to the priorities that emerged from the survey. These actions concentrated on engaging with and valuing personnel, sharing information, efficiency in processes and innovation, diversity and inclusion, support of local communities and the recognisability of our brand. The Action Plan started in response to the results was the subject of an in-depth study at the Executive Convention which was held at the Auditorium della Tecnica in Rome on 5 December 2019 and which involved all Group executives, thus giving rise to a cascade communication process that involved all Leonardo resources.

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

In Leonardo, Insieme - In 2019 for the first time, Leonardo opened the doors of 41 sites in Italy to give its people and the members of their families the opportunity to live their workplace in an informal and convivial atmosphere. The objective was totally attained, as confirmed by the numbers and enthusiasm of the employees and their guests. More than 53,000 persons visited the Company’s open sites, of which almost 10,000 children and more than 400 seniors. The younger were drawn into workshops, games and didactic activities while the older were able to recount their experience in the Company live. This was also an opportunity for the promotion of Leonardo’s image through the social media, where content and images were shared leading to over 90,000 views of the official Twitter account and 320,00 on Instagram.

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

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

**Innovathon** - In 2019 the Company’s Innovation Award for external competitors took on the new guise of the Innovathon, a marathon of ideas that was conducted according to the hackathon method. This Open Innovation tool was conceived by Leonardo to stimulate the outside world with technological challenges aiming at contributing to the corporate innovation process. On 16 and 17 November university students and graduates in STEM (Science, Technology, Engineering and Mathematics) disciplines were contestants in a 48-hour non-stop competition at the Talent Garden in Rome, in which they were asked to conceive and develop working prototypes in a situation of critical infrastructures. The success of this new approach was borne out above all by the number of candidatures received: more than 240 students from 27 various universities, including 43 foreign students from 13 countries all over the world. 55 young people were selected and grouped in 11 teams, representing 5 different nationalities and 13 universities. All the participants showed evidence of creativity, a spirit of adaptation, problem solving ability and teamwork. The first three teams ranked received a prize in money and received their awards in Genoa on 2 December, during the ceremony of the Leonardo Innovation Award.

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

**Industrial relations and labour regulations**
In continuity with the previous financial year, during 2019 observation of labour law regulations - on a system basis at Group level - took the form of the normal monitoring of the production of Italian and EU laws, also taking account of the most recent case law rulings issued on the merits and by the Supreme Court.
In the field of its industrial relations, Leonardo carried out its plan for consulting and informing the Unions holding the customary annual Strategy
Observatory and information meetings on the performance of the economy, technological and market scenarios and employment and investment trends. The 2019 year was also marked by the start of trade union negotiations for the renewal of the second-level supplementary agreement applied to personnel up to the 8th grade of middle managers (One Company agreement) during the second half of the year.

In particular, the general structure of the performance bonus referred to in the One Company agreement and that of the Target Bonus for “High-level Professionals” remained unaltered in 2019 and the “proximity indicators” at Division and individual production unit level were determined. Talks with the Unions focused on the following issues and arrangements were agreed whose effects will be seen after renegotiation and final signature of the entire renewal agreement:

- the update of the Industrial Relations Model as a factor allowing the attainment of growth targets, the generation and development of innovative know-how and the stronger competitiveness in international markets set out in the Industrial Plan; the new model clearly redetermined the limits of the autonomy of the three different negotiating levels (Group, Division, Plant) and, above all, outlined the procedures for linking, referral and coordination between these levels;

- the redetermination of the general approach to the performance bonus for the two years from 2020 to 2021, increasingly useful for the measurement of productivity in the Organisational Units in which it is actually achieved and for the encouragement of over-performance, as well as to support the processes for production optimisation and productivity and efficiency recovery, including through the introduction of new indicators and benchmarks based on the WCM method, in support of the implementation of the Leonardo Production System organisational model;

- the redefinition of the Target Bonus award system for the two years from 2020 to 2021 to reward High-level Professionals (in Grade 7 employees and middle managers).

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

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

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

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

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

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

The most significant actions are described below.

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

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

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

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

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

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

**Data breach** - The Group completed the setting out of a process for the management of personal data breaches, including: raising employees’ awareness of those security incidents that may result in the destruction, loss, modification and unauthorised disclosure of personal data; risk assessment by the heads of corporate functions and security departments and the DPO; the adoption of security measures on the part of said officers to mitigate any potential damage caused to data subjects resulting from personal data breaches; finally, the methods of communication and notification to the competent authority within the time limits set out by law.

**Privacy by Design/Default** - A method was set up which is aimed at applying Privacy by Design/Default measures to fulfil the obligation to implement, in each personal data processing operation, any appropriate measure from the design stage (Privacy by Design) and by default (Privacy by Default) based on the degree of criticality of the data processed.

**Data Protection Impact Assessment** - A method was adopted and used for various processing activities for the execution, where required, of a Data Protection Impact Assessment (DPIA) for the preliminary evaluation of the impact on the processing of personal data, including an assessment of risks and security measures.
The Environment

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

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

Leonardo’s Organisational, Management and Control Model (Legislative Decree 231/2001, as amended and supplemented), conceived in order to ensure the protection of the environment in addition to compliance with its provisions, and the Health, Safety & Environment (HSE) integrated policy are the high-level instruments which lay down Leonardo’s approach and strategy guidelines in environmental and health and safety matters. These instruments are made operational and applied by the Divisions and the Group companies through operational procedures and instructions.

According to Leonardo’s business model, operational responsibilities in these matters are entrusted directly to the Divisions, whose duties it is to lay down, on the basis of the particular nature of their processes and business activities, the best and most effective procedures for the operational management of environmental and health and safety issues and to put these procedures into practice. It is very common for Divisions voluntarily to adopt Environmental Management Systems (EMSs) and Occupational Health and Safety Management Systems (OHSMSs), which are certified according to the International Standards ISO 14001:2015 and OHSAS 18001:2015 respectively (recently replaced by Standard ISO 45001:2018 “Occupational health and safety management systems - Requirements with guidance for use”, with a transition period of 3 years as from 2018), and which, on one hand, are a fundamental instrument for the identification, management and minimisation of risks and, on the other hand, enable them to define and pursue improvement targets and monitor the extent to which these targets have been attained.

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

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

> 12 sites used by Leonardo are subject to the Integrated Pollution Prevention & Control (IPPC2) Directive, which suggests the adoption of best available techniques (BATs) in designing, managing, servicing and decommissioning

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

2 Sites falling within the scope of application of Directive 2008/1/EC and Directive 2010/75/EU.
industrial processes. The sites used by Leonardo which are subject to the Directive adopt BATs in order to maintain a high level of protection of the environment and prevent pollution while ensuring a high standard of efficiency at the same time;

> 4 sites used by Leonardo are graded as Major Accident Hazard (MAH\(^3\)) and must follow the proper management and operational protocols for reducing the risk of accidents to a minimum and managing any health and safety or environmental emergencies that arise;

> 22 Italian sites used by Leonardo hold a Single Environmental Authorisation (SEA\(^4\)).

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

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

> obtaining or maintaining certifications of site management systems;
> certifying the EU-ETS emission allowances;
> checking the activities related to environmental reporting;
> checking and assessing environmental risks.

In particular, during 2019 Leonardo Global Solutions (LGS) conducted:

> 31 environmental risk audits at sites owned by LGS used by Leonardo Divisions and third-party companies on any basis, decommissioned sites and land, as required by the annual environmental risk audit plan. After each audit carried out, the Heads of operating companies and Divisions using the sites were asked to provide the related follow-up plans, laying down the actions to be taken to resolve the critical issues reported and the related timing for implementation;

> 21 audits, within LGS’ Environmental Management System which is ISO 14001:2015-certified, in order to establish whether LGS comply with applicable regulations as the company managing real estate assets and service provider. After each audit carried out, the Heads of the relevant Business Units were asked to provide the related follow-up plans, laying down the actions to be taken to resolve the critical issues reported and the related timing for implementation.

### Relevant environmental issues

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

Below are specific issues that are worthy of mention.

> **Waste:** the quantities of waste produced by Leonardo in 2019 were 38,499 tons, with an increase of about 13\(^5\) connected to non-recurring operations.

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\(^3\) Directive 2012/18/EU (Seveso III) on the control of major-accident hazards involving dangerous substances, which was transposed into the Italian legal system under Legislative Decree 105/2015, as amended and supplemented.

\(^4\) This is the measure provided for in Presidential Decree 59/2013, as amended and supplemented, which was issued at the request of the party concerned, which incorporates various environmental authorisations required by the sector regulations into a single one.

\(^5\) The value does not include: quantities of waste produced by joint ventures.
compared to those produced in 2018. The amount of recycled waste out of the total quantity was 51%. Identifying ways to reduce the amount of waste produced, making efforts to improve waste sorting procedures and increasing the amount of waste for recycling are among the objectives laid down in Leonardo’s Health, Safety & Environment (HSE) integrated policy.

> **CO₂ emissions**: Leonardo has been engaged for some time in a process of reducing its CO₂ emissions, which are reported and analysed by means of the Carbon Management System, the system developed on a voluntary basis in line with the provisions laid down in the Greenhouse Gas Protocol. From a regulatory point of view:

› 10 sites located throughout Italy are covered by the application of the Emission Trading Directive⁶, the instrument for implementing the Kyoto Protocol for reducing greenhouse gas emissions;

› no site falls within the scope of application of the Aviation Emission Trading Scheme (ETS)⁷, which extends the European CO₂ emission trading system to certain flight activities.

All the sites covered by the scheme received certification of their emissions by a body accredited by the Ministry for the Environment, Land and Sea.

> **Ozone-depleting substances and fluorinated greenhouse gases (F-gases)**: ozone-depleting substances (ODS) and fluorinated greenhouse gases, where they are present, are periodically monitored and investigated. The amount of ozone-depleting substances on Group sites is constantly falling owing to the removal and decommissioning programmes carried out, in line with the EU regulations.

> **Contaminated sites**: from the point of view of operations, an actual example of the adoption of a responsible and sustainable approach to the environment is the management of contaminated sites (environmental surveys, securing sites, characterisation, risk analysis, reclamation and environmental remediation), which is directly carried out by the Divisions/subsidiaries of Leonardo with the support of Leonardo Global Solutions after the signature of specific agreements in support of the management of reclamation procedures and with the help of persons with specific knowledge and expertise aimed at finding the best technical and operational solutions. A total of 20 reclamation procedures (including those that are “suspended” or being monitored post operam pending their completion) were in progress in the Leonardo Group in 2019: two of these procedures were formally ended and two procedures were opened during the period between the end of 2018 and 2019. In this context, Leonardo has not been found definitively liable for causing environmental damage and there have been no definitive penalties imposed on Leonardo for environmental violations.

**Energy Management**

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

> **the “Smart Facilities” project**, aimed at the integrated and innovative

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management of the energy and maintenance issues of plants. In 2019 about 100 energy efficiency operational projects were implemented in relation to both production and general plants, including through the support of the new monitoring platform installed at the sites used by Leonardo which are more energy intensive;

> the Leonardo Energy Self-production programme, which provides a list of more than 10 plants with potential capacity of distributed energy generation. The objective of the programme, which is under consideration at the moment, is a substantial increase in the amount of electricity self-produced by Leonardo, which would put the Group among the Italian companies most committed to energy and environmental sustainability issues;

> Energy Governance processes, which will be detailed through the new Leonardo Operating Instructions, are currently in the phase of their final review. The action to be taken for the systematic consumption of less energy will be put on an operational basis in this way;

> regulatory compliance in the energy sector: 14 efficiency improvement audits were conducted in accordance with Legislative Decree 102/2014 on the main plants and sites used by Leonardo. Another result of the project has been to update site energy performance indicators and establish which plants could be upgraded in the near future;

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

In line with customers’ requirements and the vision and objectives of its institutional stakeholders, Leonardo invests every year in R&D aimed at the refinement and progress of its technological and product portfolio and make it market competitive and remunerative for the Company itself. The breakdown of R&D expenses by segment is as follows (data in €mil.):

Group governance of technologies and products

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

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

In 2019 Leonardo invested about 11% of its revenues in R&D, involving about 9,000 highly qualified human resources (engineering graduates, mostly in aeronautics, aerospace, electronics, mechanics, IT and telecommunications, physics, in addition to specialist technicians). These resources belong to its engineering departments and divisional facilities responsible for both technological and product innovation, allocated to the following areas of competence: Technology Office Management, Engineering Management, System Engineering, Aeronautics Engineering, Mechanical Engineering, Electronics Engineering, Software Engineering and Verification & Validation Engineering.

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<tr>
<th>Segment</th>
<th>31 December 2018</th>
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<tr>
<td>Helicopters</td>
<td>436</td>
<td>333</td>
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<td>Defence &amp; Security</td>
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<td>871</td>
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<td>Aeronautics</td>
<td>302</td>
<td>218</td>
</tr>
<tr>
<td>Other activities</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
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Electronics Engineering: 11%
Mechanical Engineering: 12%
Verification & Validation Engineering: 12%
Engineering Management: 14%
Systems Engineering: 26%
Software Engineering: 17%
Technology Office Management: 2%
Aeronautics Engineering: 6%
In 2019 the following main activities were carried out and used in the Group’s Innovation and Technology Governance area:

- consolidating the methods for evaluating investments, both in technology and in product development, to assist in utilising human and financial resources as well as possible, reducing development times and maximising return on investments;

- strengthening the technology assessment processes and Product and Technology Innovation Plans, which are now well-established within the Group;

- creating cross-sector technology communities impacting on the Group’s future products, relating to Artificial Intelligence, additive manufacturing and graphene issues;

- commitment to future and disruptive technologies: Leonardo opened central laboratories at the end of the year. Their purpose is to study, conduct research into and try out technological innovation and product development programmes with an impact across all the corporate areas of business. Among the main research areas are big data, high-performance computing and simulation, Artificial Intelligence and unmanned systems, quantum technology, materials and electric mobility. The laboratories will also enable Leonardo to have a continuous flow of talents providing flexibility and renewal in terms of both ability and professional expertise in addition to keeping the Company always up to date with global technological trends;

- defining the skills matrix of the “Engineering Professional Family”, on the basis of which a process was started to assess the training gaps of in-house resources in the various disciplinary areas of “One Leonardo” Engineering (Systems Engineering, Mechanics, Electronics, Software), continuing to
support the supply chain rationalisation processes and framing training schemes for core competencies, including through re-skilling and continuous learning for competencies deriving from ongoing digitisation processes;

> Open Innovation, in relation to which particular attention during the year was paid to the world of start-ups by taking part in national programmes that scout for start-ups that meet special needs or that seize technological opportunities. Furthermore, there was the launch of PoC (Proof of Concept) programmes with various Italian and European start-ups on blockchain, composite recycling, quantum technology, unmanned systems and additive manufacturing issues.

**Funding programmes on Research and Innovation.** The Group takes part in regional, domestic and European Research and Innovation projects and funding programmes. The regional and domestic initiatives include the Italian Technology Clusters (Leonardo holds the chairmanship of the “National Aerospace Technology Cluster”) and the Regional Technology Districts.

In 2019 Leonardo presented about 30 projects for co-financing to support Research & Development work, distributed among European, national and regional tenders.

Within the framework of Horizon 2020, which is a European Research and Innovation funding programme, Leonardo is an outstandingly important partner in prestigious projects regarding areas including maritime surveillance, space technologies, the reduction of environmental impact to counter climate change, the development of technologies for the construction of a new generation of more efficient and ecological helicopters and regional aircraft and future generation Air Traffic Management (ATM) infrastructures. In 2019 Leonardo submitted, and was awarded a number of proposals, mainly within the scope of security, space and ICT issues:

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

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

> Clean Sky 2, which focuses on the development of the most appropriate technologies to reduce the environmental impact of aircraft;
> SESAR (Single European Sky ATM Research) 2020, focusing on the development of the new European ATM system, including the insertion of unmanned vehicles in non-segregated airspace;
> ECSEL (Electronic Components and Systems for European Leadership) for the development of components and electronic systems, including big
data applications, clouds, software and Artificial Intelligence for embedded systems;

- ECSO (European Cyber Security Organisation) for the protection of the European Digital Single Market and the development of the Cyber Security solutions market;
- 5G for the creation of future generation communication networks providing a high level of connectivity and associated professional services;
- ECCSA (European Centre for Cyber Security in Aviation), established by the EASA (European Aviation Safety Agency) with the aim of acting as a centre of expertise for sharing information on IT security for the aeronautics sector.

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

As part of the objective of developing opportunities in European defence research supported by the future EDF (European Defence Fund) programme, Leonardo assisted the Defence Administration in activities related to the themes of PESCO (PErmanent Structured COoperation) programmes led by Italy and presented, within the scope of the 2019 EDIDP (European Defence Industrial Development Programme) calls, 9 projects with other European consortium companies, 4 of which as coordinator.
Finally, work continued on the Research and Innovation initiatives promoted within NATO, the European Defence Agency (EDA) and the Italian (ASI) and European (ESA) Space Agencies.

Leonardo also takes part in many Italian funding programmes supported by the Ministry of Education, University and Research (MiUR, Ministero dell’Istruzione, dell’Università e della Ricerca).

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

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

- the preparation, with the support of all the members, of technological aeronautical and space roadmaps, which laid down Italian development strategies and determined specific technological research projects through which it is proposed that these strategies are put into practice;

- the publication of a Three-year 2020-2022 Plan of Action, a key document regarding the status, scenarios and ambitions of the Italian aerospace community, including large, small and medium enterprises, universities and research centres;

- obtaining funds from the MiUR to finance the work carried out by the CTNA and in support of the activities the members will carry out together with the CTNA, in line with the Plan.

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

**NMRP and EDA**

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

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

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

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

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

![Image showing patent portfolio distribution by sectors](image)

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

- Further strengthening, in the Helicopters and Aircraft Divisions, of the network of experts in protection and enhancement of intellectual property (IP Correspondants Network) with the task of identifying any potential infringement of proprietary or third-party IP committed by or against Leonardo;

- Further development of Leonardo Divisions which have submitted new applications for ruling to the Revenue Agency to access tax concessions on the income connected with the use of intangible assets being involved in R&D investments, provided for in national regulations governing the Patent Box;

- Further development of the project for enhancement of Intellectual Property started through the “Leonardo Patent Shop Window” (transferring R&D results in industrial relations to SMEs throughout Italy). Leonardo’s cooperation with MESAP (Meccatronica e Sistemi Avanzati di Produzione, Mechatronics and Advanced Production Systems) for the technology transfer of Leonardo patents in the mechatronics sector and with some Patent Brokers offered the opportunity in 2019 to licence some solutions patented by Leonardo. Furthermore, there was the launch of the website [https://techtransfer.leonardocompany.com](https://techtransfer.leonardocompany.com), which is the main initiative for the exploitation of intellectual property in sectors that rub shoulders with Aerospace and Defence, on a dual-use basis.
Research and Development during the year
Following is a summary of the main activities conducted during the year, as reported by making reference to the classification described above.

Research and Technology, within which cooperation schemes with universities and, in general, with the entire Open Innovation ecosystem also play a key role.

Helicopters

> In 2019 the Next Generation Civil Tiltrotor (NGCTR) project, which defines a new architecture for a next generation convertiplane within the scope of the Clean Sky 2 European programme, led to the systems architecture being strengthened, while continuing work on the design of the technology demonstrator in its main parts such as wing, tail and transmission system, with the objective of the first flight in 2023. Furthermore, analysis activities were started on materials and processes with the selection of production technologies with low environmental impact (Eco-Design) developed in collaboration with the consortia that support the project.

> In the framework of the COMFORT project, whose purpose is the reduction of vibration and noise on board, a system of noise insulation has been created for the cabin panels and prototype systems have been created for insulation from vibrations of various kinds and vibrations of the transmission and rotor area;

> In the field of Additive Layer Manufacturing (ALM) Technology, development, engineering and production activities were carried out for secondary parts, in addition to the design and approval of construction processes for primary components (e.g. motion transmission system).

> Actions were taken to increase the use of electrical systems on board helicopters to replace hydraulic and mechanical systems and to improve the existing ones. In this area, note that the concept was developed of an
innovative way of generating electric power from the fixed system (fuselage) to the rotating system (rotor) in order to fuel on-board systems and sub-systems with auxiliary functions.

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

Aeronautics

➢ Work continued on the European SESAR 2020 programme, focusing in particular on the issues of integration of the RPAS (Remotely Piloted Aircraft Systems) in civil airspace, while the validation was completed for the functionalities regarding trajectory management and the operation of aircraft at airports.

➢ Work continued on the Clean Sky 2 Programme, with the aim of further reducing environmental impact through activities carried out within the Regional Innovative Aircraft Demonstration Platform (REG IADP) and within the Airframe Integrated Technology Demonstrator (Airframe ITD), for the maturation of innovative technologies and their validation on full-scale demonstrators. The project is now at a very advanced stage with the execution of all the Critical Design Reviews for on-ground demonstrators and manufacturing and assembly operations have been started for all demonstrators.

➢ Projects were started on research into unmanned aircraft (detect and avoid) for the insertion of the UAS (Unmanned Aircraft Systems) in non-segregated air space. Proposals were put forward in national and European military research projects to support new training concepts, new training technologies and feasibility studies for trainers with Light Combat capability as a secondary role. In December 2019 an AIR4MAM (Addestramento Immersivo e Manutenzione a distanza 4.0 per l’A.M., Immersive Training and Remote Maintenance 4.0 for AF) military research agreement was signed with the Ministry of Defence, with the objective of working on a solution to enhance the efficiency of maintenance training and remote support to operational maintenance on site by making use of advanced IT technologies.

➢ Projects were started on setting up a Structural Health system and searching for the advantages and problems arising from the adoption of electric/hybrid propulsion.

➢ Work was completed on the design, installation and preliminary set-up of the automated press-forming cell for thermoplastic matrix composite parts (a technology patented by Leonardo - flat charge maintenance system for zero-waste parts).
Defence Electronics & Security

In line with the actions taken, work continued on:

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

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

In the cyber field innovative technologies were studied, following current trends, in cooperation with leading research centres. In particular:

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

Space

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

Technology developments continued in relation to Artificial Intelligence and Big Data Analytics for integration into application platforms and CLEOS (CLoud Earth Observation Services).

Work was completed on the implementation of hybrid service architectures based on ground (LTE, Long-Term Evolution) and satellite (HTS, High-Throughput Satellite) broad-band connectivity for terrestrial and maritime mobility services.

Study of architectures of 5G/ satellite integration.

For the development of new products, 2019 was devoted to going on with the new work already started in previous years on stepping up the measures taken to rationalise and optimise the product portfolio in order to also focus investments on the most innovative and competitive products and bring in new products targeted at responding to the requirements and new opportunities and needs which the market has brought into the open. Therefore, priority was given to technology and product policies that put Leonardo at the forefront of innovation and among the main players all over the world, thus promoting its international footprint.

Helicopters

The AW609 programme continued on its way to certification by the Federal Aviation Administration (FAA). In 2019 work on flight loads data gathering was completed on the AC1 prototype (Aircraft 1); the AC3 prototype continued certification activities, completing the aeroelastic stability engine performance trials. The AC4 aircraft made its first flight.

In the AW249 programme all the Critical Design Reviews (CDRs) were completed, thus allowing the development of the final configuration to be continued.

In the AW139 programme, operations were carried out for the development of the final fitting out of the helicopter for the US armed forces in the required configuration (identified as MH139), which culminated in delivery and the first craft coming into service in operating units.

The work on the RUAV (Rotary-wing Unmanned Aerial Vehicle) enabled Leonardo to pursue with the development of the AWHERO platform with a view to obtaining certification for military use, which is expected in 2020. At the same time as the development programme, experiments continued in demonstrating the operational capacities of the AWHERO and SOLO platforms, ending with an operational demonstration in the Mediterranean within the OCEAN2020 European research programme.

Aeronautics

In the M-346 programme work continued on the development of the LFFA (Light Fighter Family of Aircraft) version. In June 2019 the Critical Design Review was completed for the Pre-Series aircraft with reinforced wing. After the execution of loads data gathering flights in the first part of the
In the M-345 programme, after the first flight of the M-345 X-624 Pre-Series aircraft at the end of 2018, a development and demonstration campaign for certification purposes was simultaneously launched on the two M-345 Pre-Series (named W01) and Series (W02) aircraft. At the same time as test flights, in-lab and ground tests continued and results were gathered for the Military Type Certificate. About 170 experimental flights were carried out with various intervals for lay-up that prepared the two aircraft for the representative configuration for the Initial Certification at the end of 2019. A preview in flight was conducted at the end of November with pilots from the Italian Air Force Experimental Flight Unit for a preliminary assessment of the product with a view to certification.

In the European “MALE 2025” MALE RPAS (Medium Altitude Long Endurance - Remotely Piloted Aircraft System) programme the Design Baseline was refined with a series of optimisations in 2019.

A study in cooperation between Italian and British companies was completed to assess the feasibility of a Future Air Combat System programme, after which a Statement of Intent was signed by the industries in the two countries that affirms a desire to cooperate in working out an innovative and effective product concept and a partnership model.

**Defence Electronics & Security**

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

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

The year also saw the completion of:

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

**Cyber Security**

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

**Space**

- Work was completed on the development of a multi-mission user segment (EASE, Earth dAta InfraStructurE) was completed within the ground satellite segment infrastructures and systems until obtaining a minimum viable product, while it continued on the development of a new generation satellite control segment, from CubeSat to SmallSat, for the New Space market (ENABLE), as well as for larger satellites used in the institutional and government market (CORE).
An action plan was designed and launched for the development of a platform (Ionolab) for the provision of ionospheric navigation services for High Accuracy corrections. A first release of this platform is already an integral part of the broader pilot platform for the provision of GNSS (Global Navigation Satellite Systems) services that Telespazio is developing for SpaceOpal.

A concept was developed for the design of an integrated Space Traffic Management and Space Intelligence architecture in collaboration with the Italian Space Weather community and shared with the main institutional stakeholders (SMA, SMD, Segredifesa).

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

Helicopters

AW169 and AW189 programmes: most of the work done was on upgrading avionic systems to respond to market requirements and to improve navigation and flight management systems according to the best standards applicable on the market.

The AW119 model’s avionics configuration was certified, which meets the requirements for operating an aircraft according to instrumental flight procedures, which enables the model to offer greater operational flexibility and increased market opportunities.

The AW109 Trekker model was certified by the US aviation authorities, ensuring new business opportunities in a key market.

Aeronautics

Eurofighter Typhoon: the P3Eb Inc0 package was completed for the Entry Into Service version of Kuwait aircraft. Flight campaigns were conducted with two IPA2 (Instrumented Production Aircraft) – aimed at testing VOR (VHF Omnidirectional Range) – and ISPA4 prototype aircraft - devoted to the integration of new loads. On 23 December, after a complex configuration lay-up, there was the first flight of the ISPA6 (Instrumented Series Production Aircraft) prototype in full Kuwait configuration, including the new E-SCAN Radar.

The “LTE ACE (Long Term Evolution - Assessment of Capability Exploitation) Study” contract was signed between NETMA and Eurofighter; furthermore, assessment and trade-offs of architectural and systems solutions started in order to give the aircraft the necessary ability to deal with operational scenarios in the years 2025 and after.

C-27J: work was completed on the development of the New Industrial Baseline configuration, thus obtaining software qualification of Block 1 being accepted for the first two aircraft for the customer Kenya, which took place at the end of 2019. The new standard for this product includes a new avionic system, new pilot’s cabin control panels and systems and sensors upgraded to the latest technological standards. The standard ensures full compliance with current civil regulations and the most rigorous military requirements.

Work continued on upgrading the US Coast Guard C-27J fleet in a mission
configuration. The objective of the programme is to achieve an ISR (Intelligence, Surveillance and Reconnaissance) capacity configuration.

- M-346 AJT (Advanced Jet Trainer) programme: work continued on the development and approval of configuration upgrading.

- Work was completed on the new Cargo version of ATR 72. The development of the ATR 42 STOL (Short Take-Off & Landing) variant also started. The goal is to give the aircraft greater take-off and landing capacity on short runways, thus expanding its possible market.

**Defence Electronics & Security**

In line with the actions taken, work continued on:

- investments in the evolution of the product portfolio: New Generation Obstacle Warning System (to equip the rotary-wing platforms of an auxiliary system which assists pilots to detect obstacles), Mission Management System (for manned and unmanned platforms - overall mission and integrated on-board sensor management), Airborne AESA Radar (for surveillance and targeting applications), FF (Identification Friend or FOE) Systems (developments in the interrogation system family), Skyward IRST (Infra-Red Search and Track - development work continued in order to enhance performance and simplify the system to assist with integration, also with medium-sized aeronautical platforms), upgrading of targeting systems, ITSS (Integrated Test & Simulation Systems) and training systems for M-345;

- large programmes, both national and international: Eurofighter Typhoon, NEES (New Exploration and Escort Helicopter);

- the development on space devices such as the new generation “Rb POP” atomic clock, on attitude sensors, payloads (Spectrometers) and robotic arms, which search for and collect samples for planetary exploration and debris during its in-orbit service;

- developments of the X-, C- and L-band AESA radars for naval applications and Long Range Radar;

- investments in the sector of radio communications for strengthening the capabilities for Software Defined Radio (MR-CNR/Multi Role Combat Net Radio) and the improvement of Galileo PRS (Public Regulated Service);

- developments in the sector of optronics, in particular on the LEOSS (airborne domain), DSS-IRST (marine domain) and Janus D (terrestrial domain);

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

**Space**

- The development of application platforms (SEonSE, bRaN'T, AssetWatch, agriGEo, mapcy) and inclusion of new data analysis services in the segments that are relevant to geo-information: agriculture, defence and security, territory management, asset management, crisis management, maritime surveillance, image intelligence.
The completion and entry into operation of the transversal CLEOS platform for satellite data management/pre-processing.

The development of multi-constellation satellite navigation systems and solutions (Navigation Gateway) in support of applications for unmanned systems (RPAS, Remotely Piloted Aircraft Systems/drones).

The improvement of the architecture for the supply of SST (Space, Surveillance & Tracking) services and e2e simulation capacity for planning visual debris observation missions. Specifically, a prototype based on COTS was set up to measure mission performance and plan observations.
Share price

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

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

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

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

Major shareholders

Below is the last Shareholder Analysis performed in February 2020 showing the geographical distribution of the Leonardo’s share capital and the total shareholder composition:
For more information, please refer to the page “Shareholding Structure” of Investors section at the institutional website (www.leonardocompany.com).

**Performance of Leonardo stock in the Bloomberg EMEA Aerospace&Defence (BEUAERO) and the leading Italian and European indices (29 February 2020 = 100)**

Below is Leonardo’s stock performance from the beginning of 2019 to 29 February 2020, compared with the Bloomberg EMEA Aerospace&Defence (BEUAERO), the index of the 40 major listings in the Milan Stock Exchange (FTSE-MIB) and the index composed of the 600 top listings in Europe (S&P600).
Corporate governance

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

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

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

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

The corporate governance system of Leonardo and its compliance with the guidelines laid down in the Code are the object of periodic analytical reporting on the part of the Board of Directors in the specific “Report on Corporate Governance and Shareholder Structure”, which is prepared on the occasion of the approval of the draft financial statements (in compliance with the provisions on the contents under Article 123-bis, paragraphs 1 and 2 of the Consolidated Law on Financial Intermediation and on the basis of the Articles of the current Corporate Governance Code) and published at the same time as this Annual Financial Report.

The Company’s governance structure is summarised below. For more information on the corporate governance structure of Leonardo, the main updates that took place in 2019 and in the first months of the current year, as well as on the initiatives and implementing measures adopted by the Company in order to ensure the strictest compliance with the Corporate Governance Code, reference is made to the Report on Corporate Governance and Shareholder Structure that was approved by the Board of Directors at the same time as this Report and that is available in the Corporate Governance section of the Company’s website (www.leonardocompany.com), as well as in the appropriate section prepared on the occasion of the Shareholders’ Meeting called to approve the financial statements, reporting documents and information relating to the Shareholders’ Meeting.
Corporate governance structure

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

> **Shareholders’ Meeting.** It passes resolutions in ordinary and extraordinary sessions in relation to such matters as are reserved for the same by law or the By-laws;

> **Board of Directors.** It is vested with the fullest powers for the administration of the Company, with the authority to perform any act it considers appropriate to the fulfilment of the Company’s business purpose, except for those acts reserved to the Shareholders’ Meeting by law or by the By-laws. The current Board of Directors was appointed by the Shareholders’ Meeting on 16 May 2017 for the three-year period 2017-2019; the related mandate will expire at the next Shareholders’ Meeting called to approve the 2019 financial statements;

> **Chairman of the Board of Directors.** On 16 May 2017, the Board of Directors granted Giovanni De Gennaro, beside the powers relating to the Company’s legal representation pursuant to law and to the By-laws and signatory powers, some powers concerning Institutional Relationships (to be exercised in coordination with the Chief Executive Officer), Group Safety and Group Internal Audit. On the same day the Board also assigned the Chairman the task of supervising the implementation of corporate governance rules regarding the integrity of corporate behaviours and the fight of corruption;

> **Chief Executive Officer.** The Board of Directors’ meeting held on 16 May 2017 appointed Alessandro Profumo as Chief Executive Officer. Specifically, the Board, without prejudice to any matters reserved for the Board itself, granted the Chief Executive Officer any and all delegated powers and authority for the joint management of the Company, its business units and subsidiaries, and for the management of all equity interests in associated and investee companies, in accordance with the strategic guidelines identified by him and approved by the Board of Directors, as well as powers relating to the Company’s legal representation and signatory powers (within the limits of powers granted pursuant to law and to the By-laws), along with the power to implement the resolutions passed by the governing body (including resolutions adopted before his appointment on 16 May 2017);

> **Lead Independent Director.** Following the renewal of the Board of Directors by the Shareholders’ Meeting held on 16 May 2017, on this same date the Board of Directors appointed the director Paolo Cantarella as Lead Independent Director with the task of coordinating the requests and contributions from non-executive directors and in particular from independent directors.

Even in the absence of the specific situations contemplated in the Corporate Governance Code, the Rules of Procedure provide for such power of appointment on the part of the Board, with the abstention of the executive directors and in any case of the non-independent directors; in any case the Board shall make this appointment in the event of the Chairman being granted delegated operational powers. The Board granted no delegated operational powers to the Chairman; however, also considering the authority granted to the latter, the same Board was of the opinion to appoint the Lead
Independent Director, who will serve throughout the term of office of the Board of Directors;

> **Committees.** The Board of Directors of Leonardo has established the following internal Committees, with advisory and consulting functions: the Control and Risks Committee (which also perform duties as Committee for Transactions with Related Parties), the Remuneration Committee and the Nomination, Governance and Sustainability Committee (as provided for in the Corporate Governance Code), as well as the Analysis of International Scenarios Committee. The Committees’ composition, duties and operation are set out and regulated by appropriate Rules approved by the Board of Directors itself, in accordance with the guidelines laid down in the Corporate Governance Code;

> **Board of Statutory Auditors.** The Board of Statutory Auditors has – *inter alia* – the task of monitoring: a) compliance with the law and By-laws and observance of the principles of proper business administration; b) the adequacy and effectiveness of the Company’s organisational structure, internal control and risk management system, as well as the administrative and accounting system, and also the latter’s reliability as a means of accurately reporting business operations; c) any procedures for the actual implementation of the corporate governance rules provided for in the Corporate Governance Code; d) the adequacy of the Company’s instructions to subsidiaries with regard to disclosures prescribed by law. The current Board of Statutory Auditors was appointed by the Shareholders’ Meeting on 15 May 2018 for the three-year period from 2018 to 2020; as well as members added by the Shareholders’ Meeting of 16 May 2019, as largely described in the Corporate Governance Report to which reference is made;

> **Independent Auditing Firm.** The independent auditors are the persons appointed to carry out the statutory audit of accounts. They are appointed by the Shareholders’ Meeting, on a reasoned proposal by the Board of Statutory Auditors. The Shareholders’ Meeting of 16 May 2012 appointed KPMG SpA to carry out the statutory audit of accounts for the period 2012-2020;

> **Officer in charge of financial reporting.** On 9 November 2017, pursuant to Article 154-*bis* of the Consolidated Law on Financial Intermediation and Articles 25.4 and 25.5 of the Company’s By-laws, the Board of Directors appointed Alessandra Genco (the Company’s Chief Financial Officer) as the Officer in charge of financial reporting until the expiry of the term of office of the Board of Directors.

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

- By-laws;
- Code of Ethics;
- Organisational, Management and Control Model pursuant to Legislative Decree 231/2001;
- Whistleblowing Guidelines;
- Leonardo Group’s Anti-Corruption Code;
- Shareholders’ Meeting Regulations;
- Rules of Procedure of the Board of Directors;
- Rules of Procedure of the Control and Risks Committee;
- Rules of Procedure of the Remuneration Committee;
- Rules of Procedure of the Nomination, Governance and Sustainability Committee;
- Rules of Procedure of the Analysis of International Scenarios Committee;
- Procedure for Related Parties Transactions;
- Code of Internal Dealing;
- Procedure for the management, processing and disclosure of inside and confidential information of Leonardo SpA and for the management of the Insider List.
Performance of the Parent Company

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<th>2018</th>
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<tbody>
<tr>
<td>New orders</td>
<td>10,169</td>
<td>9,163</td>
<td>(9.9%)</td>
</tr>
<tr>
<td>Order backlog</td>
<td>28,030</td>
<td>27,987</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>Revenues</td>
<td>8,079</td>
<td>9,010</td>
<td>11.5%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>699</td>
<td>1,025</td>
<td>46.6%</td>
</tr>
<tr>
<td>EBITA</td>
<td>410</td>
<td>568</td>
<td>38.5%</td>
</tr>
<tr>
<td>ROS</td>
<td>5.1%</td>
<td>6.3%</td>
<td>1.2 p.p.</td>
</tr>
<tr>
<td>EBIT</td>
<td>127</td>
<td>538</td>
<td>323.6%</td>
</tr>
<tr>
<td>Net result before extraordinary transactions</td>
<td>195</td>
<td>390</td>
<td>100.0%</td>
</tr>
<tr>
<td>Net result</td>
<td>284</td>
<td>390</td>
<td>37.3%</td>
</tr>
<tr>
<td>Net debt</td>
<td>2,815</td>
<td>3,874</td>
<td>37.6%</td>
</tr>
<tr>
<td>FOCF</td>
<td>134</td>
<td>(264)</td>
<td>(297.0%)</td>
</tr>
<tr>
<td>ROI</td>
<td>4.9%</td>
<td>6.3%</td>
<td>1.4 p.p.</td>
</tr>
<tr>
<td>ROE</td>
<td>3.4%</td>
<td>6.7%</td>
<td>3.3 p.p.</td>
</tr>
<tr>
<td>Workforce (no.)</td>
<td>28,140</td>
<td>29,348</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

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

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

Specifically:

> new orders, equal to €bil. 9.2, showed a decrease of 9.9%, compared to 2018 (€bil. 10.2), mainly due to the acquisition of the NH90 Qatar contract in 2018. Net of this figure, all the Company businesses were on the rise;

> revenues, equal to €bil. 9.0, showed a significant increase of about 11.5% compared to 2018 (€bil. 8.1), with a considerable growth of operating profits (ROS from 5.1% in 2018 to 6.3% in 2019);

> net result, equal to €mil. 390 (€mil. 284 at 31 December 2018) benefits, compared to the previous year, of the improvement in operating profits, net of the related tax charge;

> the Company’s net debt at 31 December 2019 is mainly affected, in addition to the cash flows figure, by the recognition of financial liabilities arising from the adoption of IFRS 16 “Leases” (the effect on the Company’s net debt was equal to €mil. 626 at 31 December 2019; the effects of the adoption of the accounting standard on the 2019 financial statements are described in Note 4 of the separate financial statements), as well as by the impact of the distribution of dividends (€mil. 81) and the acquisition of equity investments (see Note 11 to the separate financial statements).
The table below provides the performance of earnings:

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

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

(*) Includes “Purchases and personnel expenses”, net of restructuring costs of non-recurring income/(costs), and “Accruals/(Reversals) for onerous contracts (losses at completion)”.

(**) Includes “Other operating income/(costs)

(****) Includes “Financial income/(expenses), net of gains/(losses) relating to extraordinary transactions.

(*****) Includes “Profit/(Loss) from discontinued operations” and “Gains/(Losses) relating to extraordinary transactions (key acquisitions and disposals)”.
The following table compares the balance sheets at 31 December 2019 and at 31 December 2018:

<table>
<thead>
<tr>
<th>€ millions</th>
<th>Notes</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td></td>
<td>12,333</td>
<td>13,221</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td>(1,719)</td>
<td>(1,449)</td>
</tr>
<tr>
<td>Capital assets</td>
<td>(*)</td>
<td>10,614</td>
<td>11,772</td>
</tr>
<tr>
<td>Inventories</td>
<td>(**)</td>
<td>(522)</td>
<td>41</td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td>2,405</td>
<td>2,698</td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>(2,542)</td>
<td>(3,057)</td>
</tr>
<tr>
<td>Working capital</td>
<td></td>
<td>(659)</td>
<td>(318)</td>
</tr>
<tr>
<td>Provisions for short-term risks and charges</td>
<td></td>
<td>(810)</td>
<td>(804)</td>
</tr>
<tr>
<td>Other net current assets/(liabilities)</td>
<td>(***)</td>
<td>(924)</td>
<td>(756)</td>
</tr>
<tr>
<td>Net working capital</td>
<td></td>
<td>(2,393)</td>
<td>(1,878)</td>
</tr>
<tr>
<td>Net invested capital</td>
<td></td>
<td>8,221</td>
<td>9,894</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td>5,691</td>
<td>6,020</td>
</tr>
<tr>
<td>Net debt</td>
<td></td>
<td>2,815</td>
<td>3,874</td>
</tr>
<tr>
<td>Net (assets)/liabilities held for sale</td>
<td>(****)</td>
<td>(285)</td>
<td>-</td>
</tr>
</tbody>
</table>

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

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

(**) Includes “Inventories”, in addition to contract assets and liabilities.

(***) Includes “Income tax receivables/(payables)” and “Other current assets/(liabilities)” (excluding “Hedging derivatives in respect of debt items”).

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

Below is the breakdown of net debt:

<table>
<thead>
<tr>
<th>€ millions</th>
<th>31 December 2018</th>
<th>Of which current</th>
<th>31 December 2019</th>
<th>Of which current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>2,778</td>
<td>394</td>
<td>2,469</td>
<td>83</td>
</tr>
<tr>
<td>Bank debt</td>
<td>691</td>
<td>51</td>
<td>942</td>
<td>48</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(1,621)</td>
<td>(1,621)</td>
<td>(1,407)</td>
<td>(1,407)</td>
</tr>
<tr>
<td>Net bank debt and bonds</td>
<td>1,848</td>
<td>2,004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current loans and receivables from related parties</td>
<td>(193)</td>
<td>(193)</td>
<td>(263)</td>
<td>(263)</td>
</tr>
<tr>
<td>Other current loans and receivables</td>
<td>(28)</td>
<td>(28)</td>
<td>(26)</td>
<td>(26)</td>
</tr>
<tr>
<td>Current loans and receivables and securities</td>
<td>(221)</td>
<td>(289)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current financial receivables from SuperJet</td>
<td>(25)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current financial receivables from Group’s consolidated entities</td>
<td>(283)</td>
<td>(402)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedging derivatives in respect of debt items</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related-party loans and borrowings</td>
<td>1,425</td>
<td>1,425</td>
<td>1,842</td>
<td>1,842</td>
</tr>
<tr>
<td>Lease liabilities from related parties</td>
<td>-</td>
<td>-</td>
<td>573</td>
<td>97</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>-</td>
<td>-</td>
<td>53</td>
<td>15</td>
</tr>
<tr>
<td>Other loans and borrowings</td>
<td>71</td>
<td>39</td>
<td>93</td>
<td>61</td>
</tr>
<tr>
<td>Net debt</td>
<td>2,815</td>
<td>3,874</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The increase in “borrowings from related parties”, compared to the previous year, was mainly due to the adoption, as reported earlier, of the new IFRS 16 that regulates the treatment of leases, in an amount of €mil. 573 together with other borrowings from related parties (Note 34 to the separate financial statements).

The table below reports the cash flow for the year:

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

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

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

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

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

(****) Includes “Other investing activities”, excluding dividends received and the operations classified as “Strategic transactions”.


The Parent Company’s offices

The Parent Company’s offices are:

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

Reconciliation of net profit and shareholders’ equity of the Group Parent with the consolidated figures at 31 December 2019

<table>
<thead>
<tr>
<th>€ millions</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity</td>
</tr>
<tr>
<td>Group Parent equity and net profit/(loss)</td>
<td>6,020</td>
</tr>
<tr>
<td>Excess of shareholders’ equities in the annual financial statements compared with the carrying amounts of the equity investments in consolidated companies</td>
<td>(3,846)</td>
</tr>
<tr>
<td>Consolidation adjustments for:</td>
<td></td>
</tr>
<tr>
<td>- difference between purchase price and corresponding book equity</td>
<td>3,304</td>
</tr>
<tr>
<td>- elimination of intercompany profits</td>
<td>101</td>
</tr>
<tr>
<td>- deferred tax assets and liabilities</td>
<td>-</td>
</tr>
<tr>
<td>- dividends from consolidated companies</td>
<td>-</td>
</tr>
<tr>
<td>- translation differences</td>
<td>(256)</td>
</tr>
<tr>
<td>Group equity and net profit/(loss)</td>
<td>5,323</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total consolidated equity and net profit/(loss)</strong></td>
<td><strong>5,334</strong></td>
</tr>
</tbody>
</table>
Proposal to the Shareholders’ Meeting

Dear Shareholders,

The 2019 financial statements, which we submit for your approval, close with a net profit of €389,777,585.94. In light of the foregoing, we submit the following proposed resolution for your approval:

“The Ordinary Shareholders’ Meeting of Leonardo - Società per azioni:
> considering the Report of the Board of Directors;
> considering the Report of the Board of Statutory Auditors;
> having examined the financial statements at 31 December 2019;
> having acknowledged the report of KPMG SpA;

resolves

> to approve the Directors’ Report on Operations and the financial statements of Leonardo - Società per azioni at 31 December 2019;
> to approve the proposal posed by the Board of Directors of allocating the 2019 net profit of €389,777,585.94 as follows:
  › €19,488,879.30 equal to 5% of the net profit, to legal reserve;
  › €0.14 as the dividend to be paid - before tax, if any - starting from 24 June 2020, with the ex-dividend date of coupon no. 11 falling on 22 June 2020 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to Article 83-terdecies of Legislative Decree 58 of 24 February, 1998 and Article 2.6.6, paragraph 2, of the Market Rules organised and managed by Borsa Italiana SpA) falling on 23 June 2020; the foregoing is with reference to each ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, without prejudice to the regime of those actually assigned in the current financial year based on the incentive plans in force;
  › the residual as retained earnings.”

For the Board of Directors
The Chairman
(Giovanni De Gennaro)
Consolidated financial statements at 31 December 2019
## Consolidated accounting statements

### CONSOLIDATED SEPARATE INCOME STATEMENT

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

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

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th>Notes</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(Loss) for the period</td>
<td>510</td>
<td>822</td>
</tr>
<tr>
<td>Other comprehensive income/(expenses)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- measurement of defined-benefit plans:</td>
<td>20</td>
<td>(15)</td>
</tr>
<tr>
<td>. revaluation</td>
<td>(9)</td>
<td>(74)</td>
</tr>
<tr>
<td>. exchange-rate gains/(losses)</td>
<td>(6)</td>
<td>4</td>
</tr>
<tr>
<td>- tax effect</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>- tax rate adjustments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(12)</td>
<td>(57)</td>
<td></td>
</tr>
<tr>
<td>Comprehensive income/(expenses) which will or might be subsequently reclassified within the profit/(loss) for the period:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- changes in cash-flow hedges:</td>
<td>20</td>
<td>(53)</td>
</tr>
<tr>
<td>. change generated in the period</td>
<td>(58)</td>
<td>26</td>
</tr>
<tr>
<td>. transferred to the profit/(loss) for the period</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>- translation differences:</td>
<td>20</td>
<td>68</td>
</tr>
<tr>
<td>. change generated in the period</td>
<td>65</td>
<td>142</td>
</tr>
<tr>
<td>. transferred to the profit/(loss) for the period</td>
<td>3</td>
<td>(1)</td>
</tr>
<tr>
<td>- tax effect</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>25</td>
<td>165</td>
<td></td>
</tr>
<tr>
<td>Current portion of “Other comprehensive income/(expenses)”, equity-accounted investees</td>
<td>2</td>
<td>(27)</td>
</tr>
<tr>
<td>Total other comprehensive income/(expenses), net of tax</td>
<td>15</td>
<td>81</td>
</tr>
<tr>
<td>Total comprehensive income/(expenses), attributable to:</td>
<td>525</td>
<td>903</td>
</tr>
<tr>
<td>- Owners of the Parent</td>
<td>524</td>
<td>902</td>
</tr>
<tr>
<td>- non-controlling interests</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total comprehensive income/(expenses), attributable to Owners of the Parent:</td>
<td>524</td>
<td>902</td>
</tr>
<tr>
<td>- from continuing operations</td>
<td>435</td>
<td>802</td>
</tr>
<tr>
<td>- from discontinued operations</td>
<td>89</td>
<td>100</td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>€ millions</th>
<th>Notes</th>
<th>31 December 2018</th>
<th>Of which with related parties</th>
<th>31 December 2019</th>
<th>Of which with related parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>9</td>
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<td>6,764</td>
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<td>2,166</td>
<td>2,177</td>
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<tr>
<td>Investment property</td>
<td></td>
<td>56</td>
<td>103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Right of use</td>
<td>11</td>
<td>-</td>
<td>431</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments accounted for under equity method</td>
<td>12</td>
<td>1,139</td>
<td>1,154</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>13</td>
<td>450</td>
<td>436</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>32</td>
<td>1,208</td>
<td>1,096</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>13</td>
<td>239</td>
<td>175</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td>11,849</td>
<td>12,336</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>15</td>
<td>5,449</td>
<td>5,823</td>
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<td></td>
</tr>
<tr>
<td>Contract assets</td>
<td>16</td>
<td>2,528</td>
<td>2,928</td>
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<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>17</td>
<td>2,936</td>
<td>504</td>
<td>2,995</td>
<td>573</td>
</tr>
<tr>
<td>Income tax receivables</td>
<td></td>
<td>72</td>
<td>71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>17</td>
<td>185</td>
<td>153</td>
<td>197</td>
<td>161</td>
</tr>
<tr>
<td>Other current assets</td>
<td>18</td>
<td>444</td>
<td>489</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>19</td>
<td>2,049</td>
<td>1,962</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td>13,663</td>
<td>14,465</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets held for sale</td>
<td>33</td>
<td>7</td>
<td>92</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>25,519</td>
<td>26,893</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>20</td>
<td>2,495</td>
<td>2,496</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other reserves</td>
<td></td>
<td>2,004</td>
<td>2,827</td>
<td></td>
<td></td>
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<tr>
<td><strong>Equity attributable to the Owners of the Parent</strong></td>
<td></td>
<td>4,499</td>
<td>5,323</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity attributable to non-controlling interests</strong></td>
<td>11</td>
<td></td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>4,510</td>
<td>5,334</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings (non-current)</td>
<td>21</td>
<td>3,423</td>
<td>3,975</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>23</td>
<td>506</td>
<td>509</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for risks and charges</td>
<td>22</td>
<td>885</td>
<td>675</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>32</td>
<td>322</td>
<td>245</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>24</td>
<td>898</td>
<td>814</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td>6,034</td>
<td>6,218</td>
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<td></td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>16</td>
<td>8,055</td>
<td>7,804</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>25</td>
<td>3,028</td>
<td>153</td>
<td>3,791</td>
<td>350</td>
</tr>
<tr>
<td>Loans and borrowings (current)</td>
<td>21</td>
<td>1,190</td>
<td>669</td>
<td>1,031</td>
<td>730</td>
</tr>
<tr>
<td>Income tax payables</td>
<td></td>
<td>35</td>
<td>43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for short-term risks and charges</td>
<td>22</td>
<td>1,125</td>
<td>1,164</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>24</td>
<td>1,542</td>
<td>1,485</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td>14,975</td>
<td>15,318</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities associated with assets held for sale</td>
<td>33</td>
<td></td>
<td>23</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>21,009</td>
<td>21,559</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td></td>
<td>25,519</td>
<td>26,893</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>€ millions</th>
<th>Share capital</th>
<th>Retained earnings</th>
<th>Cash-flow hedge reserve</th>
<th>Revaluation reserve of defined-benefit plans</th>
<th>Translation reserve</th>
<th>Equity attributable to Owners of the Parent</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 January 2018</strong></td>
<td>2,491</td>
<td>2,401</td>
<td>(57)</td>
<td>(158)</td>
<td>(478)</td>
<td>4,199</td>
<td>14</td>
<td>4,213</td>
</tr>
<tr>
<td><strong>IFRS 9 adoption</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(147)</td>
<td>(147)</td>
<td>(147)</td>
</tr>
<tr>
<td><strong>1 January 2018</strong></td>
<td>2,491</td>
<td>2,254</td>
<td>(57)</td>
<td>(158)</td>
<td>(478)</td>
<td>4,052</td>
<td>14</td>
<td>4,066</td>
</tr>
<tr>
<td><strong>Profit/(Loss) for the period</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>509</td>
<td>1</td>
<td>510</td>
</tr>
<tr>
<td><strong>Other comprehensive income/(expenses)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>47</td>
<td>7</td>
<td>54</td>
</tr>
<tr>
<td><strong>Total comprehensive income/(expenses)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>509</td>
<td>1</td>
<td>525</td>
</tr>
<tr>
<td><strong>Repurchase of treasury shares less shares sold</strong></td>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividends resolved</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with Owners of the Parent, recognised directly in equity</strong></td>
<td>4</td>
<td>(80)</td>
<td></td>
<td></td>
<td></td>
<td>(76)</td>
<td>(1)</td>
<td>(77)</td>
</tr>
<tr>
<td><strong>Other changes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>31 December 2018</strong></td>
<td>2,495</td>
<td>2,685</td>
<td>(104)</td>
<td>(168)</td>
<td>(409)</td>
<td>4,499</td>
<td>11</td>
<td>4,510</td>
</tr>
<tr>
<td><strong>1 January 2019</strong></td>
<td>2,495</td>
<td>2,685</td>
<td>(104)</td>
<td>(168)</td>
<td>(409)</td>
<td>4,499</td>
<td>11</td>
<td>4,510</td>
</tr>
<tr>
<td><strong>Profit/(Loss) for the period</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>821</td>
<td>1</td>
<td>822</td>
</tr>
<tr>
<td><strong>Other comprehensive income/(expenses)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive income/(expenses)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>821</td>
<td>1</td>
<td>822</td>
</tr>
<tr>
<td><strong>Repurchase of treasury shares less shares sold</strong></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividends resolved</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total transactions with Owners of the Parent, recognised directly in equity</strong></td>
<td>1</td>
<td>(80)</td>
<td></td>
<td></td>
<td></td>
<td>(79)</td>
<td>(1)</td>
<td>(80)</td>
</tr>
<tr>
<td><strong>Other changes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td>2,496</td>
<td>3,427</td>
<td>(70)</td>
<td>(274)</td>
<td>(256)</td>
<td>5,323</td>
<td>11</td>
<td>5,334</td>
</tr>
</tbody>
</table>
Notes to the consolidated financial statements at 31 December 2019

1. General information

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

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

2. Form, content and applicable accounting standards

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

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

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

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

The International Financial Reporting Standards (IFRS) used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2018 except for what indicated below (Note 5).

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

Preparation of the consolidated financial statements under the going-concern assumption required management to make certain evaluations and estimates. The main areas affected by estimates or assumptions of particular importance
or that have significant effects on the balances shown are described in Note 4.

The consolidated financial statements at 31 December 2019 of the Leonardo Group were approved by the Board of Directors on 12 March 2020 that authorised their distribution. Publication is scheduled for the same day.

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

### 3. Accounting policies

#### 3.1 Standards and scope of consolidation

The consolidated financial statements include the statements at 31 December 2019 of companies consolidated on a line-by-line basis, which have been prepared in accordance with the IFRSs adopted by the Leonardo Group. The consolidated entities and the respective shares held either directly or indirectly by the Group are reported in the attachment “Scope of consolidation”.

#### 3.1.1 Subsidiaries

The entities over which Leonardo exercises a controlling power, either by directly or indirectly holding a majority of shares with voting rights or by exercising the right to earn the variable profits deriving from its relations with those same entities, impacting on such profits and exercising its power on the company, also regardless of the nature of the shareholding, have been consolidated on a line-by-line basis. With regard to the activities of the Group in the United States, it is noted that some of them are subject to specific governance rules (such as the Special Security Agreement and the Proxy Agreement), which were agreed with the Defense Security Service (DSS) of the US Department of Defense (in charge of the protection of information related to the national security or, however, subject to secrecy restrictions). In particular, the Leonardo DRS group is managed through a Proxy Agreement, which provides for the appointment by Leonardo US Holding (the parent company of Leonardo DRS) – after consultation with Leonardo SpA – of at least 5 US Proxy Holders subject to the approval of the DSS. These 5 Proxy Holders (with US nationality and residence, security clearance and independent with respect to Leonardo DRS and the Leonardo Group), besides acting as the directors of the company (together with 2 Non Proxy Directors appointed by them and chosen among the candidates indicated by Leonardo US Holding), are entitled to vote (a prior right of Leonardo US Holding) in the context of a trust relationship with the latter on whose basis their activity is performed in the interest of the shareholders and of the US national security. The Proxy Holders cannot be discharged by the shareholder, except in case of fraud or gross negligence or, subject to the approval of the DSS, if their conduct infringes the principle of preservation of Leonardo DRS assets and the legitimate interests of the shareholders. Moreover, the Proxy Holders are committed to implementing specific governance procedures in order to guarantee shareholders their rights with the consent of the DSS and in compliance with the restrictions under the Proxy Agreement in relation to “classified” information, and to oversee that Company’s management maintains independence in relation to any possible influence exercised by the foreign partner. The shareholder is directly responsible for the decisions on extraordinary transactions, the purchase/disposal of assets, the taking over
of debts, the granting of guarantees and the transfer of intellectual property rights in the context of defence.

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

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

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

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

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

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

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

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

3.1.2 Jointly controlled entities and other equity investments

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

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

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

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

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

Investments available for sale, like those acquired with the sole purpose of being disposed within the subsequent twelve months, are classified separately within “Assets held for sale” applying the recognition criteria described in Note 3.10.3.
3.2 Segment information
In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates (Helicopters, Defence Electronics & Security, Aeronautics, Space and Other activities).

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

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

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

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

Goodwill and adjustments deriving from the fair value measurement of assets and liabilities related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the end-of-period exchange rate.
With reference to data comparability, the current year has been marked by the following changes in the euro against the main currencies of interest for the Group:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018 average</th>
<th>31 December 2018 final</th>
<th>31 December 2019 average</th>
<th>31 December 2019 final</th>
<th>% Change average</th>
<th>% Change final</th>
</tr>
</thead>
<tbody>
<tr>
<td>US dollar</td>
<td>1.1815</td>
<td>1.1450</td>
<td>1.1195</td>
<td>1.1234</td>
<td>(5.2%)</td>
<td>(1.9%)</td>
</tr>
<tr>
<td>Pound sterling</td>
<td>0.8847</td>
<td>0.8945</td>
<td>0.8777</td>
<td>0.8508</td>
<td>(0.8%)</td>
<td>(4.9%)</td>
</tr>
</tbody>
</table>

### 3.4 Intangible assets

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

#### 3.4.1 Industrial patents and intellectual property rights

Patents and intellectual property rights are carried at acquisition cost net of amortisation and accumulated impairment losses. Amortisation begins in the period in which the rights acquired are available for use and is calculated based on the shorter of the period of expected use and that of ownership of the rights. The useful life changes according to the business of the company and its range is between 3 and 15 years.

#### 3.4.2 Concessions, licence and trademarks

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

#### 3.4.3 Intangible assets acquired as a result of business combinations

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

<table>
<thead>
<tr>
<th></th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer backlog and commercial positioning</td>
<td>7-15</td>
</tr>
<tr>
<td>Backlog</td>
<td>10-30</td>
</tr>
<tr>
<td>Software/know how</td>
<td>3</td>
</tr>
</tbody>
</table>
3.4.4 Goodwill

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

3.5 Property, plant and equipment

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

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

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

| Years | Land (indefinite useful life) | Buildings 20-33 | Plant and machinery 5-10 | Equipment 3-5 | Other assets 5-8 |

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

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

In the event the asset to be depreciated is composed of significant distinct elements with useful lives that are different from those of the other constituent parts, each individual part that makes up the asset is depreciated separately, in application of the component approach to depreciation.
This item also includes equipment intended for specific programmes (tooling), although it is depreciated, as with other non-recurring costs (Note 4.2), on the basis of units manufactured in relation to those expected to be produced.

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

### 3.6 Investment properties

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

### 3.7 Impairment of intangible assets and property, plant and equipment

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

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

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

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

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

### 3.8 Inventories

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

Revenues from contracts with customers are recognised when the performance obligations are satisfied through the transfer of control over the good or service to the customer, which may occur either over time or at a point in time.

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

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

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

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

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

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

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

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

- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

The Group determines such classification based on the business model used in the management of financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets are initially measured at fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Trade receivables are initially measured at their transaction price, since this is representative of the fair value.

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

The Group recognises as value adjustments the expected losses related to financial assets measured at amortised cost, to contract assets and to debt instruments measured at fair value through other comprehensive income. Expected losses are calculated over the credit lifetime.

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

3.10.1 Financial assets at amortised cost
Such category includes financial assets held to collect contractual cash flows (Held to Collect), which are solely payments of principal and interest, calculated on the principal amount outstanding. All receivables are included in this category.

Such assets are measured at amortised cost, in compliance with the effective interest method, decreased by impairment losses. Interest income, exchange profits or losses and impairment losses are recognised in profit/(loss) for the year as well as profits or loss from derecognition.

3.10.2 Financial assets at fair value through other comprehensive income
Such category includes financial assets held with the twofold objective of collecting contractual cash flows on one hand, which are solely payments of principal and interest calculated on the total of the principal amount outstanding, and selling them on the other (Held to Collect and Sell).

3.10.3 Financial assets at fair value through profit or loss
This category includes financial assets that are not classified as measured at amortised cost or at fair value through other comprehensive income. Such category includes all derivatives (Note 3.11) and financial assets held for trading.
The fair value of financial assets held for trading is calculated by drawing from the market prices at the annual (or interim) reporting date or through financial techniques and models.

### 3.11 Derivatives

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

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

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

#### 3.11.1 Fair-value hedges

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

#### 3.11.2 Cash-flow hedges

Changes in the fair value of derivatives that have been designated and qualify as cash-flow hedges are recognised – with reference to the “effective” component of the hedge only – in the statement of comprehensive income through a specific equity reserve (“Cash-flow hedge reserve”), which is subsequently recognised in the income statement when the underlying transaction affects profit or loss. Changes in fair value attributable to the non-effective component are immediately recognised in the income statement for the period. If the occurrence of the underlying operation ceases to be highly probable, the relevant portion of the “Cash-flow hedge reserve” is immediately recognised in the income statement. If the derivative is sold, expires or ceases to function as an effective hedge against the risk for which it was originated, the relevant portion of the “Cash-flow hedge reserve” is kept recognised until the underlying contract shows its effect. The recognition of the cash-flow hedge is discontinued prospectively.

#### 3.11.3 Determining fair value

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

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

> Level 1: financial assets and liabilities whose fair value is determined on the
basis of the unadjusted quoted prices in an active market for identical assets
and liabilities that Leonardo can access at the measurement date;

> Level 2: financial assets and liabilities whose fair value is determined on the
basis of inputs other than the quoted prices as in Level 1, that are directly or
indirectly observable;

> Level 3: financial assets and liabilities whose fair value is determined on the
basis of unobservable inputs.

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

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

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

3.14 Financial liabilities
Financial liabilities are initially recognised at fair value and subsequently
classified as “measured at amortised cost” or at “fair value through profit or
loss”. Financial liabilities are classified at fair value through profit or loss when
these are held for trading, represent a derivative or are so designated at the
time of initial recognition. Other financial liabilities are measured at amortised
cost, using the effective interest method. All payables are included in this
category.

Financial liabilities are classified as current liabilities unless the Group has the
contractual right to settle its debts at least 12 months after the date of the
annual or interim financial statements.
3.15 Taxation
The Group’s tax burden is made up of current and deferred taxes. If these taxes are related to income and expenses recognised in equity in the statement of comprehensive income, a balancing entry is recorded under the same item.

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

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

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

3.16 Employee benefit obligations
3.16.1 Post-employment benefit plans
Group companies use several types of pension and supplementary benefit plans, which can be classified as follows:

- **defined-contribution plans** in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;

- **defined-benefit plans** in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method. Accordingly, the Group recognises a liability for the same amount arising from the actuarial estimation, and recognises actuarial gains and losses immediately and in full in the period in which they occur in the statement of comprehensive income through a special equity reserve (“Remeasurement reserve”). To determine the amount to be entered in the balance sheet, the fair value of the plan assets is deducted from the
current value of the obligation for the defined-benefit plans. This fair value is calculated using the interest rate adopted for discounting back the obligation.

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

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

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

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

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

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.
With reference to contract assets and liabilities, in case the reassessment of the economic plans (whole life estimates) during the progress of a contract highlights the presence of elements that make them onerous, the amount of costs considered as “unavoidable” that is higher than the economic benefits arising from the contract is recognised in full in the financial period in which it becomes reasonably foreseeable and allocated to a “Provision for onerous contracts” under provisions for current risks and charges. The reversal of such accruals is recognised as absorption under “Other operating income”.

3.18 Leasing

3.18.1 Group entities as lessees

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

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

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

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

3.18.2 Group entities as lessors in a finance lease

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

The unsecured residual value is reviewed periodically for possible impairment.
3.18.3 Group entities as lessors in an operating lease
Receipts in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract on a straight-line basis.

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

3.20 Costs
Costs are recorded in compliance with the accrual principle.

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

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

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

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

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

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

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

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

### 3.24 New IFRS and IFRIC interpretations

At the date of preparation of this Report, the European Commission has endorsed certain standards and interpretations that are not compulsory which will be applied by the Group in the following financial periods.

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

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

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

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

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

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

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

The main capitalised costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans.

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

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

4.3 Hedging long-term contracts against foreign exchange risk

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

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

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis in case the requirements for the revenue recognition over time are met. Margins recognised in the income statement are a function of both the state of progress on performance obligations included in the contracts and the margins that are expected to be recognised for the completed contract.

Estimating the expected overall costs of contracts in progress is marked by a high degree of uncertainty as they can be influenced by a number of factors such as the engineering complexity of the products, the ability to precisely fulfil specific technical requests made by customers and to meet the manufacturing time-frame provided for in the contract. Failure to comply with such contractual terms and conditions may imply penalties and extra-costs of a remarkable amount to be considered in estimating total costs. In order
to enhance support for management’s estimates, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management’s best estimate at the reporting date supported by said tools.

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

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

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

The recoverable amount is generally based on the value in use calculated according to the “discounted cash-flow” method, which is characterised by a high level of complexity and the use of estimates, which are by their nature uncertain and subjective in relation with the expected cash flows and the financial parameters used to determine the discount rate.

For these valuations, the Group uses the estimated cash flows based on the plans that have been approved by corporate bodies and financial parameters that are in line with those resulting from the current performance of reference markets.

Details about the methods for the calculation of the impairment tests are reported in Note 9.

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

With effect from 1 January 2019 (first-time adoption) the Group adopted IFRS 16 “Leases”, which redefines the methods of recognition of agreements in the financial statements of lessee companies, thus providing for a single method of accounting for any and all types of agreements. The distinction between operating and finance leases is maintained for lessor companies.

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights of use</td>
<td>445</td>
</tr>
<tr>
<td>Financial liabilities for leases</td>
<td>458</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(13)</td>
</tr>
</tbody>
</table>
Finally, the statement of cash flows includes, under “Cash flows generated from/(used in) operating activities”, the component of interest reimbursed in relation to the lease rentals paid during the period (€mil. 18); the component concerning the repayment of the capital quota of the financial liability is stated under the item of “Cash flows generated from/(used in) financing activities” (€mil. 54). On the contrary, in 2018 “Cash flows generated from/(used in) operating activities” included the full amount of the lease rentals paid during the period.

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

<table>
<thead>
<tr>
<th>Payments for non-cancellable leases at 31 December 2018</th>
<th>574</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of discounting-back at 1 January 2019</td>
<td>(95)</td>
</tr>
<tr>
<td>Exclusion of “exempt” lease agreements</td>
<td>(22)</td>
</tr>
<tr>
<td>Recognition of instalments of leases signed but not yet started</td>
<td>(52)</td>
</tr>
<tr>
<td>Other changes</td>
<td>53</td>
</tr>
</tbody>
</table>

**Financial liability for leases at 1 January 2019**

458

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

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

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

The other new standards and interpretations that came into force on 1 January 2019 had no significant impact on the Group’s financial statements.
6. **Significant non-recurring events or transactions**

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

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

With reference to 2018 it should be noted that, during the period, the judgment became final, which acquitted Ansaldo Energia of the charge of unlawful act referred to in Article 25 of Legislative Decree 231/2001, which had led to the confiscation of €mil. 98.7, in addition to a monetary penalty. These amounts had been the object of a guarantee issued by Leonardo for the sale of its equity investment, with the concurrent recognition of a provision for risks, which was subsequently released following the favourable judgment. The effects of the provision absorption through profit or loss, consistently with the reporting of the accounting effects of the sale made in the previous financial statements, have been classified under the result from “Discontinued operations”. Furthermore, during 2018 an agreement was signed under Article 4 of Law 92/2012 (Fornero Act), with the consequent allocation amounting to about €mil. 170.

7. **Significant post-balance sheet events**

After the end of the year, we saw the full-blown outbreak during January 2020 of the new coronavirus (COVID-19), an epidemic which spread rapidly in many countries of the world and declared by the World Health Organization a pandemic.

In Europe, at the time of the issue of this Report, Italy is one of the most affected countries. This has placed substantial pressure on the Italian health system and led the government to issue a series of measures to curb the spread of the virus among the Italian population.

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

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

- commercial campaigns;
- continuity of supply chain;
- respect of production times/flows;
- respect of timing and acceptance processes of products/activities by customers.
In this regard, Leonardo Board of Directors concluded that the current trend of the emergency, now classified by the WHO as a “pandemic”, accompanied by uncertainty related to further developments in terms of impact on public health and, consequently, on industrial, economic and social situation of Italy, does not allow any quantification of the potential effects on 2020 Group’s performance.

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

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

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

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

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

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

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

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Helicopters</th>
<th>Defence Electronics &amp; Security</th>
<th>Aeronautics</th>
<th>Space</th>
<th>Other activities</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>3,810</td>
<td>5,953</td>
<td>2,896</td>
<td>-</td>
<td>340</td>
<td>(759)</td>
<td>12,240</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>(5)</td>
<td>(498)</td>
<td>(3)</td>
<td>-</td>
<td>(253)</td>
<td>759</td>
<td>-</td>
</tr>
<tr>
<td>revenues (*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third-party revenues</td>
<td>3,805</td>
<td>5,455</td>
<td>2,893</td>
<td>-</td>
<td>87</td>
<td>-</td>
<td>12,240</td>
</tr>
<tr>
<td>EBITA</td>
<td>359</td>
<td>522</td>
<td>328</td>
<td>58</td>
<td>(147)</td>
<td>-</td>
<td>1,120</td>
</tr>
<tr>
<td>Investments (**)</td>
<td>141</td>
<td>197</td>
<td>122</td>
<td>-</td>
<td>48</td>
<td>-</td>
<td>508</td>
</tr>
<tr>
<td>Non-current assets (***)</td>
<td>3,188</td>
<td>3,561</td>
<td>1,347</td>
<td>-</td>
<td>717</td>
<td>-</td>
<td>8,813</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>4,025</td>
<td>6,701</td>
<td>3,390</td>
<td>-</td>
<td>463</td>
<td>(795)</td>
<td>13,784</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>(15)</td>
<td>(491)</td>
<td>(4)</td>
<td>-</td>
<td>(285)</td>
<td>795</td>
<td>-</td>
</tr>
<tr>
<td>revenues (*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third-party revenues</td>
<td>4,010</td>
<td>6,210</td>
<td>3,386</td>
<td>-</td>
<td>178</td>
<td>-</td>
<td>13,784</td>
</tr>
<tr>
<td>EBITA</td>
<td>431</td>
<td>613</td>
<td>362</td>
<td>39</td>
<td>(194)</td>
<td>-</td>
<td>1,251</td>
</tr>
<tr>
<td>Investments (**)</td>
<td>231</td>
<td>167</td>
<td>146</td>
<td>-</td>
<td>107</td>
<td>-</td>
<td>651</td>
</tr>
<tr>
<td>Non-current assets (***)</td>
<td>3,219</td>
<td>3,567</td>
<td>1,290</td>
<td>-</td>
<td>968</td>
<td>-</td>
<td>9,044</td>
</tr>
</tbody>
</table>

(*) Inter-segment revenues includes revenues among Group consolidated undertakings belonging to various business sectors. (**) Investments relate to intangible assets and property, plant and equipment as well as to investment property. (***) The portion of non-current assets relates to intangible assets and property, plant and equipment as well as to investment property.
The reconciliation of EBITA, EBIT and earnings before income taxes and financial expenses for the periods concerned is shown below:

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

<table>
<thead>
<tr>
<th></th>
<th>Helicopters</th>
<th>Defence Electronics &amp; Security</th>
<th>Aeronautics</th>
<th>Space</th>
<th>Other activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITA</td>
<td>431</td>
<td>613</td>
<td>362</td>
<td>39</td>
<td>(194)</td>
<td>1,251</td>
</tr>
<tr>
<td>Amortisation of intangible assets acquired as part of business combinations</td>
<td>(9)</td>
<td>(18)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(27)</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>-</td>
<td>(24)</td>
<td>(1)</td>
<td>-</td>
<td>(3)</td>
<td>(28)</td>
</tr>
<tr>
<td>Non-recurring income/(costs)</td>
<td>(16)</td>
<td>(8)</td>
<td>(19)</td>
<td>-</td>
<td>-</td>
<td>(43)</td>
</tr>
<tr>
<td>EBIT</td>
<td>406</td>
<td>563</td>
<td>342</td>
<td>39</td>
<td>(197)</td>
<td>1,153</td>
</tr>
<tr>
<td>Equity-accounted strategic JVs</td>
<td>-</td>
<td>(68)</td>
<td>(53)</td>
<td>(39)</td>
<td>-</td>
<td>(160)</td>
</tr>
<tr>
<td>Income before tax and financial expenses</td>
<td>406</td>
<td>495</td>
<td>289</td>
<td>-</td>
<td>(197)</td>
<td>993</td>
</tr>
</tbody>
</table>
Below is the breakdown of revenues by geographical area (based on the customer’s home country) and relevant sector:

<table>
<thead>
<tr>
<th></th>
<th>Helicopters</th>
<th>Defence Electronics &amp; Security</th>
<th>Aeronautics</th>
<th>Other activities</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>441</td>
<td>1,407</td>
<td>207</td>
<td>325</td>
<td>(569)</td>
<td>1,811</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>593</td>
<td>942</td>
<td>-</td>
<td>-</td>
<td>(187)</td>
<td>1,348</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>1,236</td>
<td>810</td>
<td>1,027</td>
<td>11</td>
<td>-</td>
<td>3,084</td>
</tr>
<tr>
<td>United States</td>
<td>252</td>
<td>2,052</td>
<td>910</td>
<td>11</td>
<td>(3)</td>
<td>3,212</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>1,288</td>
<td>742</td>
<td>752</td>
<td>3</td>
<td>-</td>
<td>2,785</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>3,810</td>
<td>5,953</td>
<td>2,896</td>
<td>340</td>
<td>(759)</td>
<td>12,240</td>
</tr>
<tr>
<td><strong>Inter-segment revenues (</strong>)**</td>
<td>(5)</td>
<td>(498)</td>
<td>(3)</td>
<td>(253)</td>
<td>759</td>
<td>-</td>
</tr>
<tr>
<td><strong>Third-party revenues</strong></td>
<td>3,805</td>
<td>5,455</td>
<td>2,893</td>
<td>87</td>
<td>-</td>
<td>12,240</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Helicopters</th>
<th>Defence Electronics &amp; Security</th>
<th>Aeronautics</th>
<th>Other activities</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>628</td>
<td>1,537</td>
<td>268</td>
<td>458</td>
<td>(667)</td>
<td>2,224</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>622</td>
<td>905</td>
<td>-</td>
<td>-</td>
<td>(122)</td>
<td>1,405</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>1,442</td>
<td>817</td>
<td>937</td>
<td>4</td>
<td>(1)</td>
<td>3,199</td>
</tr>
<tr>
<td>United States</td>
<td>340</td>
<td>2,623</td>
<td>1,023</td>
<td>1</td>
<td>(5)</td>
<td>3,982</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>993</td>
<td>819</td>
<td>1,162</td>
<td>-</td>
<td>-</td>
<td>2,974</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>4,025</td>
<td>6,701</td>
<td>3,390</td>
<td>463</td>
<td>(795)</td>
<td>13,784</td>
</tr>
<tr>
<td><strong>Inter-segment revenues (</strong>)**</td>
<td>(15)</td>
<td>(491)</td>
<td>(4)</td>
<td>(285)</td>
<td>795</td>
<td>-</td>
</tr>
<tr>
<td><strong>Third-party revenues</strong></td>
<td>4,010</td>
<td>6,210</td>
<td>3,386</td>
<td>178</td>
<td>-</td>
<td>13,784</td>
</tr>
</tbody>
</table>

(✱) Inter-segment revenues include revenues among Group consolidated undertakings belonging to various business sectors.

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>5,024</td>
<td>5,044</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,688</td>
<td>1,818</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>134</td>
<td>133</td>
</tr>
<tr>
<td>United States</td>
<td>1,953</td>
<td>2,032</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,813</strong></td>
<td><strong>9,044</strong></td>
</tr>
</tbody>
</table>
9. Intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Development costs</th>
<th>Non-recurring costs</th>
<th>Concessions, licences and trademarks</th>
<th>Acquired through business combinations</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1st January 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>5,847</td>
<td>1,100</td>
<td>2,078</td>
<td>627</td>
<td>1,283</td>
<td>429</td>
<td>11,364</td>
</tr>
<tr>
<td>Amortisation and impairment losses</td>
<td>(2,169)</td>
<td>(641)</td>
<td>(437)</td>
<td>(362)</td>
<td>(871)</td>
<td>(334)</td>
<td>(4,814)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td>3,678</td>
<td>459</td>
<td>1,641</td>
<td>265</td>
<td>412</td>
<td>95</td>
<td>6,550</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>47</td>
<td>196</td>
<td>5</td>
<td>-</td>
<td>25</td>
<td>273</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Amortisation</td>
<td>-</td>
<td>(30)</td>
<td>(26)</td>
<td>(18)</td>
<td>(98)</td>
<td>(31)</td>
<td>(203)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>(3)</td>
<td>(52)</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>(56)</td>
</tr>
<tr>
<td>Increase for business combination</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other changes</td>
<td>55</td>
<td>4</td>
<td>1</td>
<td>(45)</td>
<td>8</td>
<td>5</td>
<td>28</td>
</tr>
<tr>
<td><strong>31 December 2018</strong></td>
<td>3,733</td>
<td>476</td>
<td>1,760</td>
<td>207</td>
<td>322</td>
<td>93</td>
<td>6,591</td>
</tr>
<tr>
<td>broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>5,988</td>
<td>1,147</td>
<td>2,261</td>
<td>585</td>
<td>1,331</td>
<td>458</td>
<td>11,770</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>(570)</td>
<td>(453)</td>
<td>(378)</td>
<td>(1,009)</td>
<td>(344)</td>
<td>(2,754)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(2,255)</td>
<td>(101)</td>
<td>(48)</td>
<td>-</td>
<td>-</td>
<td>(21)</td>
<td>(2,425)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td>3,733</td>
<td>476</td>
<td>1,760</td>
<td>207</td>
<td>322</td>
<td>93</td>
<td>6,591</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>66</td>
<td>204</td>
<td>6</td>
<td>-</td>
<td>44</td>
<td>320</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>(2)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td>Amortisation</td>
<td>-</td>
<td>(29)</td>
<td>(54)</td>
<td>(16)</td>
<td>(27)</td>
<td>(29)</td>
<td>(155)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>(3)</td>
<td>(48)</td>
<td>-</td>
<td>-</td>
<td>(3)</td>
<td>(54)</td>
</tr>
<tr>
<td>Increase for business combination</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other changes</td>
<td>91</td>
<td>(5)</td>
<td>(61)</td>
<td>22</td>
<td>8</td>
<td>2</td>
<td>57</td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td>3,825</td>
<td>503</td>
<td>1,805</td>
<td>219</td>
<td>305</td>
<td>107</td>
<td>6,764</td>
</tr>
<tr>
<td>broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>6,117</td>
<td>1,269</td>
<td>2,435</td>
<td>635</td>
<td>1,363</td>
<td>486</td>
<td>12,305</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>(628)</td>
<td>(508)</td>
<td>(416)</td>
<td>(1,058)</td>
<td>(353)</td>
<td>(2,963)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(2,292)</td>
<td>(138)</td>
<td>(122)</td>
<td>-</td>
<td>-</td>
<td>(26)</td>
<td>(2,578)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td>3,825</td>
<td>503</td>
<td>1,805</td>
<td>219</td>
<td>305</td>
<td>107</td>
<td>6,764</td>
</tr>
</tbody>
</table>

**31 December 2018**
- Gross value: 4,888
- Grants: 3,128

**31 December 2019**
- Gross value: 4,902
- Grants: 3,097

(*) Increases from business combinations, net of reclassification to “Assets held for sale”.
2019 overall investments were mainly made in the Helicopters (€mil. 175), Aeronautics (€mil. 80) and Defence Electronics & Security (€mil. 38) sectors. Commitments are in place for the purchase of intangible assets for €mil. 8 at 31 December 2019 (€mil. 5 at 31 December 2018).

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

**Goodwill**

Goodwill is allocated to the Cash Generating Units (CGUs) or to groups of CGUs concerned, which are determined on the basis of the Group’s organisational, management and control structure, which coincides, as is known, with the Group’s four business segments.

Below is the breakdown of goodwill by segment at 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helicopters</td>
<td>1,243</td>
<td>1,266</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>2,430</td>
<td>2,499</td>
</tr>
<tr>
<td>DRS</td>
<td>1,459</td>
<td>1,490</td>
</tr>
<tr>
<td>Leonardo Divisions</td>
<td>971</td>
<td>1,009</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,733</strong></td>
<td><strong>3,825</strong></td>
</tr>
</tbody>
</table>

The net increase compared to 31 December 2018 was mainly due to the foreign currency translation differences on goodwill denominated in pound sterling and US dollars. Goodwill is subject to impairment testing to determine any loss in value. This is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale (fair value). The Group has established an operational hierarchy between calculating the fair value net of transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group’s five-year business plans prepared by the management of the CGUs and incorporated into the plan approved by Leonardo’s Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates (“g-rate”) no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial 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 underlying macroeconomic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and future developments in the Group’s markets.

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

- the risk-free rate was determined using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU;
- the market premium, determined using Damodaran’s computations;
- the sector beta;
- the cost of debt;
- the debt/equity ratio.

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

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

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

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

The following WACCs and (nominal) growth rates were used at 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WACC</td>
<td>g-rate</td>
</tr>
<tr>
<td>Helicopters</td>
<td>8.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>8.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>DRS</td>
<td>6.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Leonardo Divisions</td>
<td>7.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>8.5%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The 2019 headroom amounts benefitted from a decrease in WACCs due to the interest-rate market trend. Sensitivity analysis was conducted on the results of the tests, making reference to the assumptions for which it is reasonable to believe that a change in the same may significantly modify the results of the test. The wide positive margins recorded for all sectors are such that they may not be significantly modified by any changes in the assumptions described above; for information purposes, below are reported the results of all the CGUs. The table below shows, for the 2019 and 2018 financial years, the headroom relating to the base scenario, compared with the results of the following sensitivity analyses: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal.

<table>
<thead>
<tr>
<th>Margin (base case)</th>
<th>Margin post sensitivity</th>
<th>WACC</th>
<th>g-rate</th>
<th>ROS TV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helicopters</td>
<td>471</td>
<td>219</td>
<td>273</td>
<td>303</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>1,319</td>
<td>1,050</td>
<td>1,118</td>
<td>1,158</td>
</tr>
<tr>
<td>DRS (USD millions)</td>
<td>6,679</td>
<td>5,719</td>
<td>5,867</td>
<td>6,385</td>
</tr>
<tr>
<td>Leonardo Divisions</td>
<td>9,823</td>
<td>9,103</td>
<td>9,231</td>
<td>9,577</td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Helicopters</td>
<td>1,314</td>
<td>940</td>
<td>1,011</td>
<td>1,110</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>1,995</td>
<td>1,624</td>
<td>1,693</td>
<td>1,779</td>
</tr>
<tr>
<td>DRS (USD millions)</td>
<td>7,436</td>
<td>6,234</td>
<td>6,410</td>
<td>7,050</td>
</tr>
<tr>
<td>Leonardo Divisions</td>
<td>8,348</td>
<td>7,685</td>
<td>7,794</td>
<td>8,091</td>
</tr>
</tbody>
</table>

**Other intangible assets**

Investments in “Development costs” refer to the Defence Electronics & Security (€mil. 37) and Helicopters (€mil. 29) sectors. Investments attributable to “Non-recurring costs” are mainly related to the Helicopters (€mil. 140), Defence Electronics & Security (€mil. 50) and Aeronautics (€mil. 72) sectors. 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 13). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 28.
Total research and development costs, comprising also “Development costs” and “Non-recurring costs” just mentioned, are equal to €mil. 1,525.

“Concessions, licences and trademarks” include in particular the value of licenses acquired in previous years in the Helicopters segment. With regard to the full acquisition of the AW609 programme, this value also comprises the estimated variable fees due to Bell Helicopter on the basis of the commercial performance of the programme (Note 24).

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-how</td>
<td>105</td>
<td>99</td>
</tr>
<tr>
<td>Trademarks</td>
<td>45</td>
<td>44</td>
</tr>
<tr>
<td>Backlog and commercial positioning</td>
<td>172</td>
<td>162</td>
</tr>
<tr>
<td></td>
<td><strong>322</strong></td>
<td><strong>305</strong></td>
</tr>
</tbody>
</table>

Specifically, “Backlog and commercial positioning” chiefly refers to the UK component related to the Defence Electronics & Security and Helicopters Divisions allocated to this item during the Purchase Price Allocation. The item “Other” mainly includes software, intangible assets in progress and advances.
10. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Plant and machinery</th>
<th>Equipment</th>
<th>Other tangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>1,542</td>
<td>1,537</td>
<td>2,109</td>
<td>1,240</td>
<td>6,428</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>(662)</td>
<td>(1,111)</td>
<td>(1,508)</td>
<td>(914)</td>
<td>(4,195)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>880</td>
<td>426</td>
<td>601</td>
<td>326</td>
<td>2,233</td>
</tr>
<tr>
<td>Investments</td>
<td>10</td>
<td>24</td>
<td>44</td>
<td>157</td>
<td>235</td>
</tr>
<tr>
<td>Sales</td>
<td>(4)</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(10)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(45)</td>
<td>(83)</td>
<td>(116)</td>
<td>(52)</td>
<td>(296)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>(16)</td>
<td>-</td>
<td>(1)</td>
<td>(17)</td>
</tr>
<tr>
<td>Other changes</td>
<td>53</td>
<td>36</td>
<td>40</td>
<td>(108)</td>
<td>21</td>
</tr>
<tr>
<td>31 December 2018</td>
<td>894</td>
<td>402</td>
<td>551</td>
<td>319</td>
<td>2,166</td>
</tr>
<tr>
<td>broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>1,599</td>
<td>1,592</td>
<td>2,169</td>
<td>1,277</td>
<td>6,637</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>(705)</td>
<td>(1,190)</td>
<td>(1,618)</td>
<td>(958)</td>
<td>(4,471)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>894</td>
<td>402</td>
<td>551</td>
<td>319</td>
<td>2,166</td>
</tr>
<tr>
<td>Investments</td>
<td>3</td>
<td>21</td>
<td>42</td>
<td>258</td>
<td>324</td>
</tr>
<tr>
<td>Sales</td>
<td>(8)</td>
<td>-</td>
<td>-</td>
<td>(5)</td>
<td>(13)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(43)</td>
<td>(77)</td>
<td>(131)</td>
<td>(57)</td>
<td>(308)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increase for business combination</td>
<td>19</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>21</td>
</tr>
<tr>
<td>Other changes</td>
<td>(32)</td>
<td>15</td>
<td>49</td>
<td>(44)</td>
<td>(12)</td>
</tr>
<tr>
<td>31 December 2019</td>
<td>833</td>
<td>363</td>
<td>510</td>
<td>471</td>
<td>2,177</td>
</tr>
<tr>
<td>broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>1,518</td>
<td>1,649</td>
<td>2,281</td>
<td>1,520</td>
<td>6,968</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>(685)</td>
<td>(1,286)</td>
<td>(1,771)</td>
<td>(1,049)</td>
<td>(4,791)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>833</td>
<td>363</td>
<td>510</td>
<td>471</td>
<td>2,177</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

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

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

At 31 December 2019 the contract commitments in place was equal to €mil. 79, mainly related to the completion of a new production plant of DRS.
12. Equity investments and share of profits/(losses) of equity-accounted investees

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th></th>
<th>2019</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity</td>
<td>Risk</td>
<td>Total</td>
<td>Equity</td>
<td>Risk</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>investments</td>
<td>provisions</td>
<td></td>
<td>investments</td>
<td>provisions</td>
<td></td>
</tr>
<tr>
<td>Material joint ventures</td>
<td>929</td>
<td>929</td>
<td>902</td>
<td>929</td>
<td>902</td>
<td>902</td>
</tr>
<tr>
<td>Joint ventures not individually material:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- RotorSim Srl</td>
<td>60 (3)</td>
<td>-</td>
<td>34</td>
<td>-</td>
<td>62 (5)</td>
<td>37</td>
</tr>
<tr>
<td>- Advanced Acoustic Concepts LLC</td>
<td>19</td>
<td></td>
<td></td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- RotorSim USA LLC</td>
<td>7 -</td>
<td>19</td>
<td>6</td>
<td>19</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>- Closed Joint Stock Company Helivert</td>
<td>-</td>
<td>(3)</td>
<td>-</td>
<td>(3)</td>
<td>-</td>
<td>(5)</td>
</tr>
<tr>
<td>Associates</td>
<td>989 (3)</td>
<td>986</td>
<td>964</td>
<td>(5) 959</td>
<td>190</td>
<td>190</td>
</tr>
</tbody>
</table>

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

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

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

In particular, as regards the companies falling under the so-called Space Alliance – Thales Alenia Space and Telespazio – the Company carried out for the purposes of the 2014 consolidated financial statements, during the first classification, an in-depth analysis of the existing arrangements, in order to verify whether situations of control (with reference to Telespazio) or of significant influence (with reference to Thales Alenia Space) existed, concluding that both entities should be considered by Leonardo as joint ventures. Specifically, the Space Alliance univocally regulates the governance of both companies, making reference to shareholders’ agreements prepared alike. With particular reference to Telespazio, in which the Group holds more than 50% of the stakes, the analyses performed led to deem that the company’s governance is such that Telespazio can be regarded as a jointly controlled entity by virtue of the composition rules for the decision-making bodies – these rules being such that cannot be defined as merely “protective”,...
as referred to in IFRS 10 – and due to the expected unanimous consent of the shareholders on particularly significant matters for the company’s management. Moreover, the substantive analysis, carried out taking into account the peculiarity of the businesses, highlighted that the methods to resolve deadlocks (i.e. when a stalemate in the decision-making process occurs and the shareholders have no possibility to jointly decide on matters about which they are required to make decisions through the unanimous consent mechanism) do not allow the majority venturer to impose its will. This is because, in case no decision can be reached, despite the complex escalation mechanism under the shareholders’ agreements, the minority venturer has the right to dissolve the joint venture, recovering the assets originally assigned, through a call option or, solely if this option is not exercisable, to leave the joint venture through a put option. Finally, in the event of a decision-making deadlock, the joint venture might be eventually wound up or the minority venturer might sell its interest; in both of these cases, the venturers might be required to share or transfer part of the assets – with particular reference to technological expertise or know-how – originally assigned.

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>+486</td>
<td>+526</td>
</tr>
<tr>
<td>EBITA</td>
<td>+32</td>
<td>+27</td>
</tr>
<tr>
<td>EBIT</td>
<td>+22</td>
<td>+26</td>
</tr>
<tr>
<td>Net result (non-controlling interests)</td>
<td>+10</td>
<td>+13</td>
</tr>
<tr>
<td>FOCF</td>
<td>+37</td>
<td>+52</td>
</tr>
<tr>
<td>Group net debt</td>
<td>-35</td>
<td>-4</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Telespazio</th>
<th>Thales Space</th>
<th>MBDA (through AMSH BV)</th>
<th>GIE-ATR</th>
<th>Other JV not individually material</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>281</td>
<td>1,917</td>
<td>2,438</td>
<td>173</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Current assets

|                      | 329        | 1,518        | 4,326                   | 850     |                                    |       |

- **of which cash and cash equivalent**
  | 17         | 29          | 142                     | 3       |                                    |       |

### Non-current liabilities

|                      | 49         | 306          | 861                     | 133     |                                    |       |

- **of which non-current financial liabilities**
  | 1          | -           | 9                       | 18      |                                    |       |

### Current liabilities

|                      | 285        | 1,401        | 5,315                   | 591     |                                    |       |

- **of which current financial liabilities**
  | 8          | 179         | 11                      | 2       |                                    |       |

### NCI net equity (100%)

|                      | 16         | -             | 1                       | -       |                                    |       |

### Group net equity (100%)

|                      | 260        | 1,728        | 587                     | 299     |                                    |       |

### Revenues (100%)

|                      | 493        | 2,454        | 3,477                   | 1,497   |                                    |       |

### Amortisation, depreciation and impairment losses (100%)

|                      | 17         | 63           | 108                     | 18      |                                    |       |

### Financial income/(expenses) (100%)

|                      | (2)        | (5)          | (5)                     | -       |                                    |       |

### Income taxes (100%)

|                      | (11)       | (59)         | (96)                    | (3)     |                                    |       |

### Profit/(Loss) from continuing operations (100%)

|                      | 24         | 129          | 243                     | 193     |                                    |       |

### Profit/(Loss) from discontinued operations, net of taxes (100%)

|                      | -          | -            | -                       | -       |                                    |       |

### Other comprehensive income/(expenses) (100%)

|                      | (1)        | 5            | (4)                     | -       |                                    |       |

### Total comprehensive income/(expenses) (100%)

|                      | 23         | 134          | 239                     | 193     |                                    |       |

### % Group’s interest in equity at 1 January

|                      | 182        | 555          | 88                      | 173     | 77                                  | 1,075 |

### % Group’s interest in profit/(loss) from continuing operations

|                      | 16         | 43           | 61                      | 97      | 5                                  | 222   |

### % Group’s interest in other comprehensive income/(expenses)

|                      | (1)        | 2            | (1)                     | -       | -                                  |       |

### % Group’s interest in total comprehensive income/(expenses)

|                      | 15         | 45           | 60                      | 97      | 5                                  | 222   |

### Dividends received

|                      | (19)       | (29)         | (17)                    | (125)   | (4)                                | (194) |

### Acquisitions

|                      | -          | -            | -                       | -       | -                                  |       |

### Disposals

|                      | -          | -            | -                       | (18)    | (18)                               |       |

### Exchange-rate differences and other movements

|                      | (4)        | -            | 5                       | (1)     | -                                  |       |

### % Group’s interest in equity at 31 December

|                      | 174        | 571          | 131                     | 150     | 59                                  | 1,085 |

### Consolidation adjustments

|                      | 2          | (214)        | 115                     | -       | 1                                  | (96)  |

### Equity investments at 31 December

|                      | 176        | 357          | 246                     | 150     | 60                                  | 989   |

### % Group’s interest in profit/(loss)

|                      | 16         | 43           | 61                      | 97      | 5                                  | 222   |

### Consolidation adjustments

|                      | -          | (1)          | -                       | -       | -                                  | (1)   |

### Share of profits/(losses) of equity-accounted investees

|                      | 16         | 42           | 61                      | 97      | 5                                  | 221   |

<p>|                      | 216        |              |                         |        |                                    |       |</p>
<table>
<thead>
<tr>
<th></th>
<th>Telespazio</th>
<th>Thales Alenia Space</th>
<th>MBDA (through AMSH BV)</th>
<th>GIE-ATR</th>
<th>Other JV not individually material</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>322</td>
<td>1,976</td>
<td>2,706</td>
<td>253</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which cash and cash equivalent</td>
<td>15</td>
<td>11</td>
<td>161</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>63</td>
<td>347</td>
<td>1,016</td>
<td>204</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which non-current financial liabilities</td>
<td>16</td>
<td>-</td>
<td>5</td>
<td>64</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>312</td>
<td>1,549</td>
<td>6,127</td>
<td>677</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which current financial liabilities</td>
<td>30</td>
<td>352</td>
<td>25</td>
<td>52</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NCI net equity (100%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group net equity (100%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>270</td>
<td>1,761</td>
<td>627</td>
<td>223</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues (100%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>535</td>
<td>2,141</td>
<td>3,877</td>
<td>1,439</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Amortisation, depreciation and impairment losses (100%)</strong></td>
<td>19</td>
<td>65</td>
<td>126</td>
<td>30</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial income/(expenses) (100%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2)</td>
<td>(7)</td>
<td>(6)</td>
<td>(3)</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Income taxes (100%)</strong></td>
<td>(11)</td>
<td>(18)</td>
<td>(129)</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit/(Loss) from continuing operations (100%)</strong></td>
<td>33</td>
<td>48</td>
<td>270</td>
<td>106</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit/(Loss) from discontinued operations, net of taxes (100%)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other comprehensive income/(expenses) (100%)</strong></td>
<td>6</td>
<td>(15)</td>
<td>(77)</td>
<td>(8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive income/(expenses) (100%)</strong></td>
<td>39</td>
<td>33</td>
<td>193</td>
<td>98</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>% Group’s interest in equity at 1 January</strong></td>
<td>174</td>
<td>571</td>
<td>131</td>
<td>150</td>
<td>59</td>
<td>1,085</td>
</tr>
<tr>
<td><strong>% Group’s interest in profit/(loss) from continuing operations</strong></td>
<td>22</td>
<td>16</td>
<td>68</td>
<td>53</td>
<td>5</td>
<td>164</td>
</tr>
<tr>
<td><strong>% Group’s interest in profit/(loss) from discontinued operations, net of taxes</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>% Group’s interest in other comprehensive income/(expenses)</strong></td>
<td>4</td>
<td>(5)</td>
<td>(19)</td>
<td>(4)</td>
<td>-</td>
<td>(24)</td>
</tr>
<tr>
<td><strong>% Group’s interest in total comprehensive income/(expenses)</strong></td>
<td>26</td>
<td>11</td>
<td>49</td>
<td>49</td>
<td>5</td>
<td>140</td>
</tr>
<tr>
<td><strong>Dividends received</strong></td>
<td>(14)</td>
<td>-</td>
<td>(56)</td>
<td>(90)</td>
<td>(3)</td>
<td>(163)</td>
</tr>
<tr>
<td><strong>Subscriptions and capital increases/(decreases)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Acquisitions</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Disposals</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Exchange-rate differences and other movements</strong></td>
<td>(5)</td>
<td>(1)</td>
<td>(1)</td>
<td>2</td>
<td>-</td>
<td>(5)</td>
</tr>
<tr>
<td><strong>% Group’s interest in equity at 31 December</strong></td>
<td>181</td>
<td>581</td>
<td>123</td>
<td>111</td>
<td>61</td>
<td>1,057</td>
</tr>
<tr>
<td><strong>Consolidation adjustments</strong></td>
<td>2</td>
<td>(211)</td>
<td>115</td>
<td>-</td>
<td>1</td>
<td>(93)</td>
</tr>
<tr>
<td><strong>Equity investments at 31 December</strong></td>
<td>183</td>
<td>370</td>
<td>238</td>
<td>111</td>
<td>62</td>
<td>964</td>
</tr>
<tr>
<td><strong>% Group’s interest in profit/(loss)</strong></td>
<td>22</td>
<td>16</td>
<td>68</td>
<td>53</td>
<td>5</td>
<td>164</td>
</tr>
<tr>
<td><strong>Consolidation adjustments</strong></td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Share of profits/(losses)</strong></td>
<td>22</td>
<td>17</td>
<td>68</td>
<td>53</td>
<td>5</td>
<td>165</td>
</tr>
</tbody>
</table>

160
Below is provided a summary of the aggregate financial data of the associates, inasmuch as there are no associates which are individually material for the Group:

<table>
<thead>
<tr>
<th>Associates not individually material</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Group’s interest in equity at 1 January</td>
<td>140</td>
<td>150</td>
</tr>
<tr>
<td>% Group’s interest in profit/(loss) from continuing operations</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>% Group’s interest in profit/(loss) from discontinued operations, net of taxes</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>% Group’s interest in other comprehensive income/(expenses)</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Dividends received</td>
<td>(8)</td>
<td>(10)</td>
</tr>
<tr>
<td>Subscriptions and capital increases/(decreases)</td>
<td>(1)</td>
<td>37</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td>Exchange-rate differences and other movements</td>
<td>(1)</td>
<td>(4)</td>
</tr>
<tr>
<td>% Group’s interest in equity at 31 December</td>
<td>150</td>
<td>190</td>
</tr>
<tr>
<td>Consolidation adjustments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity investments at 31 December</td>
<td>150</td>
<td>190</td>
</tr>
<tr>
<td>% Group’s interest in profit/(loss)</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Consolidation adjustments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share of profits/(losses) of equity-accounted investees</td>
<td>20</td>
<td>20</td>
</tr>
</tbody>
</table>

13. Receivables and other non-current assets

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing to third parties</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Non-current financial receivables from SuperJet</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Deferred grants under Law 808/1985</td>
<td>36</td>
<td>61</td>
</tr>
<tr>
<td>Defined-benefit plan assets, net (Note 23)</td>
<td>309</td>
<td>289</td>
</tr>
<tr>
<td>Related-party receivables (Note 36)</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Other non-current receivables</td>
<td>67</td>
<td>68</td>
</tr>
<tr>
<td><strong>Non-current receivables</strong></td>
<td><strong>450</strong></td>
<td><strong>436</strong></td>
</tr>
<tr>
<td>Prepayments - non-current portion</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Equity investments at cost</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Non-recurring costs pending under Law 808/1985</td>
<td>216</td>
<td>151</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td><strong>239</strong></td>
<td><strong>175</strong></td>
</tr>
</tbody>
</table>

Loans and receivables from SuperJet were reclassified under current receivables due to their approaching date of collection.
14. Business combination

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

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

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

<table>
<thead>
<tr>
<th>Book values</th>
<th>Fair value adjustments</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>50</td>
<td>(16)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Inventories</td>
<td>6</td>
<td>(1)</td>
</tr>
<tr>
<td>Contract assets</td>
<td>67</td>
<td>(17)</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>76</td>
<td>(3)</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>Other assets</td>
<td>15</td>
<td>(1)</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>268</strong></td>
<td><strong>(32)</strong></td>
</tr>
<tr>
<td>Loans and borrowings (non-current)</td>
<td><strong>(27)</strong></td>
<td>-</td>
</tr>
<tr>
<td>Employee benefits</td>
<td><strong>(8)</strong></td>
<td>-</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td><strong>(8)</strong></td>
<td>5</td>
</tr>
<tr>
<td>Trade payables</td>
<td><strong>(87)</strong></td>
<td>-</td>
</tr>
<tr>
<td>Loans and borrowings (current)</td>
<td><strong>(55)</strong></td>
<td>-</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td><strong>(15)</strong></td>
<td>5</td>
</tr>
<tr>
<td>Net assets acquired</td>
<td><strong>68</strong></td>
<td><strong>(22)</strong></td>
</tr>
<tr>
<td>Cash paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Space Alliance agreements signed in 2005 by the then Finmeccanica SpA with Alcatel Participations (now Thales) included, among non-competition clauses, a prohibition on the joint venture’s partners operating in space-related businesses. These clauses also provided for the obligation to grant the Space Alliance a right of first refusal on any space-related business that the shareholders had acquired after the establishment of the space joint ventures. In compliance with these provisions, Leonardo completed the identification of the space business unit included in the Vitrociset Group’s operations and set its fair value at 31 December 2019 at €mil. 51, classified in this Annual Financial Report as a group of assets held for sale and “Discontinued operations” (the related details are provided in Note 33). There were no significant business combinations during 2018.
15. Inventories

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials, supplies and consumables</td>
<td>1,857</td>
<td>2,052</td>
</tr>
<tr>
<td>Work in progress and semi-finished goods</td>
<td>1,382</td>
<td>1,411</td>
</tr>
<tr>
<td>Point-in-time contract assets</td>
<td>424</td>
<td>491</td>
</tr>
<tr>
<td>Advances to suppliers</td>
<td>1,786</td>
<td>1,869</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,449</strong></td>
<td><strong>5,823</strong></td>
</tr>
</tbody>
</table>

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

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

16. Contract assets and liabilities

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

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

This setoff was made limited to contract assets and liabilities and not also to assets arising from point-in-time contracts classified in inventories. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost incurred and margins recognised</td>
<td>3,968</td>
<td>5,113</td>
</tr>
<tr>
<td>Advances received</td>
<td>(9,495)</td>
<td>(9,989)</td>
</tr>
<tr>
<td><strong>Net value</strong></td>
<td>(5,527)</td>
<td>(4,876)</td>
</tr>
</tbody>
</table>
17. Trade and financial receivables

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade</td>
<td>Financial</td>
</tr>
<tr>
<td>Receivables</td>
<td>3,097</td>
<td>47</td>
</tr>
<tr>
<td>Cumulative impairments</td>
<td>(665)</td>
<td>(15)</td>
</tr>
<tr>
<td>Related-party current</td>
<td>504</td>
<td>153</td>
</tr>
<tr>
<td>receivables (Note 36)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,936</td>
<td>185</td>
</tr>
</tbody>
</table>

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

18. Other current assets

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Derivatives</td>
<td>107</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses -</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>current portion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables for grants</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Receivables from</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>employees and social</td>
<td></td>
<td></td>
</tr>
<tr>
<td>security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect tax</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred receivables</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>under Law 808/1985</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other related-party</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>receivables (Note 36)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>94</td>
<td></td>
</tr>
<tr>
<td></td>
<td>444</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Interest-rate swaps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>-</td>
<td>(3)</td>
</tr>
<tr>
<td>Fair-value hedges</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cash-flow hedges</td>
<td>-</td>
<td>(3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency forwards/swaps/options</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fair-value hedges</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Cash-flow hedges</td>
<td>102</td>
<td>(196)</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Embedded derivatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(trading)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
19. **Cash and cash equivalents**

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

20. **Equity**

<table>
<thead>
<tr>
<th>SHARE CAPITAL</th>
<th>Number of ordinary shares</th>
<th>Par value</th>
<th>Treasury shares</th>
<th>Costs incurred (net of tax effect)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding shares</td>
<td>578,150,395</td>
<td>2,544</td>
<td>-</td>
<td>(19)</td>
<td>2,525</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(3,305,230)</td>
<td>-</td>
<td>(30)</td>
<td>-</td>
<td>(30)</td>
</tr>
<tr>
<td>31 December 2018</td>
<td>574,845,165</td>
<td>2,544</td>
<td>(30)</td>
<td>(19)</td>
<td>2,495</td>
</tr>
</tbody>
</table>

| Repurchase of treasury shares less shares sold | 162,733 | - | 1 | - | 1 |
| 31 December 2019 | 575,007,898 | 2,544 | (29) | (19) | 2,496 |

*broken down as follows:*

| Outstanding shares | 578,150,395 | 2,544 | - | (19) | 2,525 |
| Treasury shares | (3,142,497) | - | (29) | - | (29) |

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of €4.40 each, including 3,142,497 treasury shares.

At 31 December 2019 the Ministry of Economy and Finance owned around 30.204% of the share capital.

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

**Cash-flow hedge reserve**

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

The reserve relating to consolidated companies showed the following changes:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>US dollar</td>
<td>95</td>
<td>38</td>
</tr>
<tr>
<td>Pound sterling</td>
<td>(18)</td>
<td>99</td>
</tr>
<tr>
<td>Other currencies</td>
<td>(9)</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>68</strong></td>
<td><strong>141</strong></td>
</tr>
</tbody>
</table>

Overall, the reserve is negative for €mil. 256, mainly for the translation differences on the components denominated in pound sterling partially offset by the components denominated in US dollars, due in particular to Leonardo DRS.

Tax effects on the gain and loss items recognised in equity

<table>
<thead>
<tr>
<th></th>
<th>Group - consolidated entities</th>
<th>Group - equity accounted investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount before taxes</td>
<td>Tax effect</td>
</tr>
<tr>
<td><strong>2018</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation of defined-benefit plans</td>
<td>(15)</td>
<td>3</td>
</tr>
<tr>
<td>Changes in cash-flow hedges</td>
<td>(53)</td>
<td>10</td>
</tr>
<tr>
<td>Foreign currency translation difference</td>
<td>68</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>13</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Group - consolidated entities</th>
<th>Group - equity accounted investments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount before taxes</td>
<td>Tax effect</td>
</tr>
<tr>
<td><strong>2019</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation of defined-benefit plans</td>
<td>(70)</td>
<td>13</td>
</tr>
<tr>
<td>Changes in cash-flow hedges</td>
<td>30</td>
<td>(6)</td>
</tr>
<tr>
<td>Foreign currency translation difference</td>
<td>141</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>101</strong></td>
<td>7</td>
</tr>
</tbody>
</table>

There are no tax effects on the gain and loss items recognised in equity of non-controlling interests.
## 21. Current and non-current loans and borrowings

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-current</td>
<td>Current</td>
</tr>
<tr>
<td>Bonds</td>
<td>2,746</td>
<td>408</td>
</tr>
<tr>
<td>Bank loans and borrowings</td>
<td>651</td>
<td>70</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Related-party lease liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other related-party loans and borrowings (Note 36)</td>
<td>-</td>
<td>669</td>
</tr>
<tr>
<td>Other loans and borrowings</td>
<td>22</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td><strong>3,423</strong></td>
<td><strong>1,190</strong></td>
</tr>
</tbody>
</table>

Changes in loans and borrowings are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1 January 2018</th>
<th>New borrowings</th>
<th>Repayments/ Payments of coupons</th>
<th>Other net increase/ (decrease)</th>
<th>Exchange-rate differences</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>3,647</td>
<td>-</td>
<td>(688)</td>
<td>178</td>
<td>17</td>
<td>3,154</td>
</tr>
<tr>
<td>Bank loans and borrowings</td>
<td>246</td>
<td>498</td>
<td>(46)</td>
<td>23</td>
<td>-</td>
<td>721</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Related-party lease liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other related-party loans and borrowings</td>
<td>701</td>
<td>-</td>
<td>-</td>
<td>(32)</td>
<td>-</td>
<td>669</td>
</tr>
<tr>
<td>Other loans and borrowings</td>
<td>83</td>
<td>-</td>
<td>(1)</td>
<td>(18)</td>
<td>-</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td><strong>4,682</strong></td>
<td><strong>498</strong></td>
<td><strong>(735)</strong></td>
<td><strong>151</strong></td>
<td><strong>17</strong></td>
<td><strong>4,613</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1 January 2019</th>
<th>New borrowings</th>
<th>Repayments/ Payments of coupons</th>
<th>Other net increase/ (decrease)</th>
<th>Exchange-rate differences</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>3,154</td>
<td>-</td>
<td>(571)</td>
<td>150</td>
<td>8</td>
<td>2,741</td>
</tr>
<tr>
<td>Bank loans and borrowings</td>
<td>721</td>
<td>-</td>
<td>300</td>
<td>(46)</td>
<td>9</td>
<td>983</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>5</td>
<td>422</td>
<td>71</td>
<td>(54)</td>
<td>(38)</td>
<td>415</td>
</tr>
<tr>
<td>Related-party lease liabilities</td>
<td>-</td>
<td>36</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>36</td>
</tr>
<tr>
<td>Other related-party loans and borrowings</td>
<td>669</td>
<td>-</td>
<td>-</td>
<td>58</td>
<td>-</td>
<td>727</td>
</tr>
<tr>
<td>Other loans and borrowings</td>
<td>64</td>
<td>-</td>
<td>-</td>
<td>39</td>
<td>1</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td><strong>4,613</strong></td>
<td><strong>458</strong></td>
<td><strong>371</strong></td>
<td><strong>(671)</strong></td>
<td><strong>216</strong></td>
<td><strong>5,006</strong></td>
</tr>
</tbody>
</table>

Net changes for current liabilities. The items also include changes resulting from the application of the effective interest-rate method, which may not correspond with actual cash movements.
The increase for the period was mainly due to the use of the loan (equal to €mil. 300) raised with the European Investment Bank (EIB), to support some investment projects envisaged in the Group’s Industrial Plan and to the adoption of the new IFRS 16 (for €mil. 451 at 31 December 2019), which regulates the treatment of lease operations, partially offset by the reduction in bonds (as commented below) and by the amount repaid (€mil. 46) of the loan in place with the EIB raised in July 2009 and aimed at carrying out development work in the aeronautics sector. The total remaining value of the payable to EIB, equal to €mil. 439 at 31 December 2019, is stated in payables to banks.

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

It should be noted that financial covenants are included in the Revolving Credit Facility in place at 31 December 2019 for €mil. 1,800, as well as in the Term Loan of €mil. 500. More specifically, the covenants require Leonardo to comply with two financial ratios: (Group net debt, excluding payables to the joint ventures MBDA and Thales Alenia Space and lease liabilities)/EBITDA (including depreciation of the right of use assets) must be no higher than 3.75 and the ratio of EBITDA (including depreciation of the right of use assets) to net interest must be no lower than 3.25, tested annually based upon the consolidated data at the end of the year. These covenants, in accordance with contractual provisions providing for this option, have also been included in the new EIB loan mentioned above, in the same way as provided for in the EIB loan already in place. Furthermore, these covenants are envisaged in certain loans granted in past years to DRS by US banks. In relation to this Annual Financial Report, there was full compliance with the covenants (the two ratios are 1.0 and 9.6, respectively).

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

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

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

Below is the detail of the bonds at 31 December 2019 which shows the bonds issued by Leonardo (“LDO”) and Leonardo US Holding Inc. (“LH”), the latter being fully guaranteed by Leonardo SpA:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Year of issue</th>
<th>Maturity</th>
<th>Currency</th>
<th>Outstanding nominal amount (mil.) (*)</th>
<th>Annual coupon</th>
<th>Type of offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDO</td>
<td>(**)</td>
<td>2005</td>
<td>2025</td>
<td>€ 500</td>
<td>4.875%</td>
<td>European institutional</td>
</tr>
<tr>
<td>LDO (originally Fin Fin)</td>
<td>(**)</td>
<td>2009</td>
<td>2022</td>
<td>€ 556</td>
<td>5.250%</td>
<td>European institutional</td>
</tr>
<tr>
<td>LH</td>
<td>(**)</td>
<td>2009</td>
<td>2039</td>
<td>USD 124</td>
<td>7.375%</td>
<td>American institutional</td>
</tr>
<tr>
<td>LH</td>
<td>(***)</td>
<td>2009</td>
<td>2040</td>
<td>USD 182</td>
<td>6.250%</td>
<td>American institutional</td>
</tr>
<tr>
<td>LDO</td>
<td>(**)</td>
<td>2017</td>
<td>2024</td>
<td>€ 600</td>
<td>1.500%</td>
<td>European institutional</td>
</tr>
<tr>
<td>LDO (originally Fin Fin)</td>
<td>(**)</td>
<td>2013</td>
<td>2021</td>
<td>€ 739</td>
<td>4.500%</td>
<td>European institutional</td>
</tr>
</tbody>
</table>

(*) Residual nominal amounts for bond issues subject to the buy-back transactions.
(**) Bonds listed on the Luxembourg Stock Exchange and issued as part of the EMTN programme for a maximum of €bil. 4. The transaction was authorised pursuant to Article 129 of Legislative Decree 385/1993.
(***) Bonds issued under Rule 144A, Regulation S of the US Securities Act. The proceeds of this issue were entirely used by Leonardo US Holding Inc. to finance the purchase of the subsidiary Leonardo DRS replacing the dollar-issue bonds originally issued by the company. These bonds were redeemed early following Leonardo’s purchase of Leonardo DRS. As a result, these issues were not hedged against exchange-rate risk, and no interest-rate transactions on the issue were performed.
Movements in bonds are as follows:

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>1 January 2018</th>
<th>New Borrowings</th>
<th>Interest</th>
<th>Repayments/Repurchases</th>
<th>Payments of coupons</th>
<th>Effect of Exchange Rate</th>
<th>31 December 2018</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>€mil. 500 LDO 2018 (*)</td>
<td>501</td>
<td>27</td>
<td>(500)</td>
<td>(28)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>€mil. 500 LDO 2025 (*)</td>
<td>517</td>
<td>25</td>
<td>(26)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>516</td>
<td>555</td>
</tr>
<tr>
<td>GBPmil. 400 LDO 2019 (*)</td>
<td>323</td>
<td>26</td>
<td>(13)</td>
<td>(25)</td>
<td>(1)</td>
<td>-</td>
<td>310</td>
<td>328</td>
</tr>
<tr>
<td>€mil. 600 LDO 2022 (*)</td>
<td>581</td>
<td>30</td>
<td>(30)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>581</td>
<td>618</td>
</tr>
<tr>
<td>USDmil. 300 LH 2039 (*)</td>
<td>142</td>
<td>11</td>
<td>(11)</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>149</td>
<td>162</td>
</tr>
<tr>
<td>USDmil. 500 LH 2040 (*)</td>
<td>222</td>
<td>14</td>
<td>(13)</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>234</td>
<td>214</td>
</tr>
<tr>
<td>600 €mil. LDO 2024 (*)</td>
<td>597</td>
<td>10</td>
<td>(9)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>598</td>
<td>567</td>
</tr>
<tr>
<td>€mil. 950 LDO 2021 (*)</td>
<td>764</td>
<td>35</td>
<td>(33)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>766</td>
<td>793</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,647</td>
<td>-</td>
<td>(513)</td>
<td>(175)</td>
<td>17</td>
<td>-</td>
<td>3,154</td>
<td>3,237</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bond Description</th>
<th>1 January 2019</th>
<th>New Borrowings</th>
<th>Interest</th>
<th>Repayments/Repurchases</th>
<th>Payments of coupons</th>
<th>Effect of Exchange Rate</th>
<th>31 December 2019</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>€mil. 500 LDO 2018 (*)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>€mil. 500 LDO 2025 (*)</td>
<td>516</td>
<td>25</td>
<td>(24)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>517</td>
<td>605</td>
</tr>
<tr>
<td>GBPmil. 400 LDO 2019 (*)</td>
<td>310</td>
<td>25</td>
<td>(310)</td>
<td>(25)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>€mil. 600 LDO 2022 (*)</td>
<td>581</td>
<td>30</td>
<td>(30)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>581</td>
<td>616</td>
</tr>
<tr>
<td>USDmil. 300 LH 2039 (*)</td>
<td>149</td>
<td>11</td>
<td>(40)</td>
<td>(12)</td>
<td>3</td>
<td>-</td>
<td>111</td>
<td>137</td>
</tr>
<tr>
<td>USDmil. 500 LH 2040 (*)</td>
<td>234</td>
<td>14</td>
<td>(73)</td>
<td>(15)</td>
<td>5</td>
<td>-</td>
<td>165</td>
<td>179</td>
</tr>
<tr>
<td>600 €mil. LDO 2024 (*)</td>
<td>598</td>
<td>10</td>
<td>(9)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>599</td>
<td>620</td>
</tr>
<tr>
<td>€mil. 950 LDO 2021 (*)</td>
<td>766</td>
<td>35</td>
<td>(33)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>768</td>
<td>774</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,154</td>
<td>150</td>
<td>(423)</td>
<td>(148)</td>
<td>8</td>
<td>-</td>
<td>2,741</td>
<td>2,931</td>
</tr>
</tbody>
</table>

(*) Maturity date of bond.

The fair value of the bonds was determined on the basis of the quoted prices of the existing issues (Level 1 of the fair-value hierarchy).
The Group’s financial liabilities are subject to the following exposures to interest-rate risk:

### 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Bank loans and borrowings</th>
<th>Lease liabilities</th>
<th>Related-party lease liabilities</th>
<th>Other related-party loans and borrowings (Note 36)</th>
<th>Other loans and borrowings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Float</td>
<td>Fixed</td>
<td>Float</td>
<td>Fixed</td>
<td>Float</td>
<td>Fixed</td>
<td></td>
</tr>
<tr>
<td>Within 1 year</td>
<td>-</td>
<td>408</td>
<td>41</td>
<td>29</td>
<td>1</td>
<td>669</td>
<td>38</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>-</td>
<td>1,306</td>
<td>561</td>
<td>82</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Beyond 5 years</td>
<td>-</td>
<td>1,440</td>
<td>8</td>
<td>-</td>
<td>4</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td><strong>3,154</strong></td>
<td><strong>610</strong></td>
<td><strong>111</strong></td>
<td><strong>5</strong></td>
<td><strong>669</strong></td>
<td><strong>56</strong></td>
</tr>
</tbody>
</table>

### 31 December 2019

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Bank loans and borrowings</th>
<th>Lease liabilities</th>
<th>Related-party lease liabilities</th>
<th>Other related-party loans and borrowings (Note 36)</th>
<th>Other loans and borrowings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Float</td>
<td>Fixed</td>
<td>Float</td>
<td>Fixed</td>
<td>Float</td>
<td>Fixed</td>
<td></td>
</tr>
<tr>
<td>Within 1 year</td>
<td>-</td>
<td>94</td>
<td>58</td>
<td>27</td>
<td>61</td>
<td>3</td>
<td>727</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>-</td>
<td>1,882</td>
<td>592</td>
<td>55</td>
<td>158</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Beyond 5 years</td>
<td>-</td>
<td>765</td>
<td>251</td>
<td>-</td>
<td>196</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td><strong>2,741</strong></td>
<td><strong>901</strong></td>
<td><strong>82</strong></td>
<td><strong>415</strong></td>
<td><strong>36</strong></td>
<td><strong>727</strong></td>
</tr>
</tbody>
</table>
Below is the financial information required under CONSOB Communication no. DEM/6064293 of 28 July 2006:

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

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net financial debt CONSOB Com. no. DEM/6064293</td>
<td>2,379</td>
<td>2,847</td>
</tr>
<tr>
<td>Hedging derivatives in respect of debt items</td>
<td>18</td>
<td>(3)</td>
</tr>
<tr>
<td>Non-current financial receivables from SuperJet</td>
<td>13</td>
<td>(25)</td>
</tr>
<tr>
<td><strong>Group net debt (KPI)</strong></td>
<td>2,351</td>
<td>2,847</td>
</tr>
</tbody>
</table>
## 22. Provisions for risks and charges and contingent liabilities

<table>
<thead>
<tr>
<th></th>
<th>Guarantees given</th>
<th>Restructuring</th>
<th>Tax</th>
<th>Product guarantees</th>
<th>Onerous contracts (losses at completion)</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>109</td>
<td>51</td>
<td>107</td>
<td>92</td>
<td>482</td>
<td>424</td>
<td>1,265</td>
</tr>
<tr>
<td>Non-current</td>
<td>140</td>
<td>68</td>
<td>25</td>
<td>82</td>
<td>-</td>
<td>558</td>
<td>873</td>
</tr>
<tr>
<td></td>
<td>249</td>
<td>119</td>
<td>132</td>
<td>174</td>
<td>482</td>
<td>982</td>
<td>2,138</td>
</tr>
<tr>
<td>Allocations</td>
<td>10</td>
<td>194</td>
<td>38</td>
<td>88</td>
<td>36</td>
<td>158</td>
<td>524</td>
</tr>
<tr>
<td>Uses</td>
<td>(13)</td>
<td>(41)</td>
<td>(20)</td>
<td>(19)</td>
<td>(11)</td>
<td>(34)</td>
<td>(138)</td>
</tr>
<tr>
<td>Reversals</td>
<td>(99)</td>
<td>(2)</td>
<td>(43)</td>
<td>(39)</td>
<td>(156)</td>
<td>(89)</td>
<td>(428)</td>
</tr>
<tr>
<td>Other changes</td>
<td>(9)</td>
<td>(29)</td>
<td>(7 )</td>
<td>3</td>
<td>(33)</td>
<td>(77)</td>
<td>(86)</td>
</tr>
<tr>
<td>31 December 2018</td>
<td>138</td>
<td>241</td>
<td>100</td>
<td>207</td>
<td>384</td>
<td>940</td>
<td>2,010</td>
</tr>
</tbody>
</table>

*Broken down as follows:*

|                     | Current         | Non-current    |     |                    |                                          |                  |       |
|---------------------|-----------------|----------------|-----|                    |                                          |                  |       |
| Current             | 30              | 108            | 86  | 80                 | 120                                      | 384              | 425   | 1,125 |
| Non-current         | 108             | 155            | 20  | 87                 | -                                        | 515              | 885   |
|                     | 138             | 241            | 100 | 207                | 384                                      | 940              | 2,010 |
| Allocations         | 8               | 19             | 6   | 80                 | 107                                      | 203              | 423   |
| Uses                | (6)             | (93)           | (7 )| (17)               | (19)                                     | (21)             | (163) |
| Reversals           | (98)            | -              | (5 )| (50)               | (129)                                    | (137)            | (419) |
| Other changes       | -               | (4)            | -   | -                  | 42                                       | (50)             | (12)  |
| 31 December 2019    | 42              | 163            | 94  | 220                | 385                                      | 935              | 1,839 |

*Broken down as follows:*

|                     | Current         | Non-current    |     |                    |                                          |                  |       |
|---------------------|-----------------|----------------|-----|                    |                                          |                  |       |
| Current             | 32              | 10             | 81  | 74                 | 125                                      | 385              | 467   | 1,164 |
| Non-current         | 10              | 82             | 20  | 95                 | -                                        | 468              | 675   |
|                     | 42              | 163            | 94  | 220                | 385                                      | 935              | 1,839 |

Other provisions for risks and charges mainly include:

- the provision for litigation with employees and former employees of €mil. 31 (€mil. 26 at 31 December 2018);
- the provision for litigation underway of €mil. 52 (€mil. 53 at 31 December 2018);
- other provisions mainly related to offset obligations and critical issues on contracts especially in the Aeronautics and Helicopters sectors.

The decrease in provisions for guarantees given reflects the positive outcome of the settlement agreement signed with Hitachi concerning the guarantees issued by Leonardo upon the disposal of the transport business that took place in 2015 (€mil. 92).
With regard to risks, below is a summary of the criminal proceedings that are currently underway against a number of subsidiary companies or Leonardo itself, as well as certain former directors and executives, concerning acts committed during the performance of their duties at subsidiary companies or at Leonardo itself. With specific reference to the events that occurred in 2019 and in early 2020:

> on 27 November 2019 the Rome Court of Appeal confirmed the judgment for acquittal, which was handed down by the Court of Rome on 22 September 2017 within the criminal proceedings pending against, among others, the former Commercial Director of Leonardo, for the crime under Articles 110, 319, 319-bis, 320, 321 and 322-bis of the Italian Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the government of Panama. It should be noted that on 21 September 2017 the Judge for Pre-trial Hearing handed down a judgment for dismissal of charge against Leonardo concerning the administrative violation referred to in Article 25 of Legislative Decree 231/2001;

> on 22 May 2019 the Supreme Court rejected the appeals submitted against the judgment whereby on 8 January 2018 the Milan Court of Appeal had acquitted the former Chairman and Chief Executive Officer of Leonardo and the former Chief Executive Officer of AgustaWestland SpA of the charges for the crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-bis, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000, within the proceedings brought in relation to the supply of twelve AW 101 VIP/VVIP helicopters to the Indian government. In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding groundless, following the conclusion of investigations, the Company’s involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, Giudice delle Indagini Preliminari) of the Court of Busto Arsizio – in granting the motions put forth by the companies – imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland SpA and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5. As regards the investigations started by the Indian Judicial Authority (CBI) in February 2013 for the same facts referred to above, on 2 February 2018 a notice was served on AgustaWestland International Ltd, whereby the latter was invited to appear at the hearing to be held on 30 May 2018 before the Patiala House Court in New Delhi within the criminal proceedings brought therein against the aforesaid company and other entities and persons, including Leonardo SpA. On 13 April 2018 the Milan Public Prosecutor’s Office served the abovementioned notice of invitation to appear at the hearing on 30 May 2018 on Leonardo SpA. The Company submitted an application for enforcement review before the Judge for Preliminary Investigations of the
Court of Milan, which was rejected on 22 May 2018, as well as an appeal before the Lazio Regional Administrative Court. By a judgment dated 3 July 2019, the latter rejected the appeals submitted by Leonardo SpA. The time limits for the appeal before the Council of State are still pending.

Leonardo SpA has brought the same lawsuits before the administrative Court and before the Judge for Preliminary Investigations of the Court of Milan, including with reference to the service of the notice of invitation to appear at the hearing finally set on 18 December 2019.

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

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

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

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

- two criminal proceedings are pending in relation to the awarding of the contract for the construction and operation of the Control System for Waste Tracking (SISTRI), in particular:
  
  Immediate trial - Bringing of civil action (Selex Service Management in liquidation)
  
  The proceedings are still in the debate phase before the Court of Naples against certain suppliers and sub-suppliers of Selex Service Management in liquidation. Within these proceedings, the company brought a civil action at the hearing held on 7 November 2013.
  
  Abbreviated trial - Bringing of civil action (Selex Service Management in liquidation)
  
  On 26 June 2019 the Supreme Court rejected the appeals submitted,
among others, by the former Chief Executive Officer of the Company against the sentence of conviction handed down by the Naples Court of Appeal for crimes under Article 416 of the Italian Criminal Code and Articles 81-paragraph 2, 110, 320 and 321 of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/2000, with referral to the Naples Court of Appeal, limited to the application of the penalty and incidental sanctions, in relation to the award of a contract for the implementation and operation of the Control System for Waste Tracking (SISTRI). It should be noted that, within these proceedings, the Company had brought a civil action;

➢ on 17 July 2019 the Court of Rome handed down a judgment of acquittal against the former Director of Selex Service Management for the crime under Articles 110, 319 and 321 of the Italian Criminal Code and Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Italian Criminal Code, as well for Selex Service Management itself for violations under Article 25 of Legislative Decree 231/2001, within the criminal proceedings concerning the tender for awarding a contract in the ICT area for operational, contract management and procurement services launched by the Prime Minister’s Office in 2010 and awarded to a temporary business combine (RTI, Raggruppamento Temporaneo di Imprese) established by Selex Service Management and a company outside the Leonardo Group;

➢ the debate is still continuing within the criminal proceedings pending before the Court of Rome involving the Chief Executive Officer of the then-Selex Systems Integration GmbH (then Selex ES GmbH, now Leonardo Germany GmbH), with respect to crimes under Articles 110 and 223, paragraph 2(2), of the Italian Criminal Code, as well as crimes under Articles 216 and 219, paragraphs 1 and 2(1), of Royal Decree 267/1942, in connection with the bankruptcy of a supplier;

➢ the criminal proceedings are still pending before the Milan Court of Appeal against certain directors of the then-Breda Termomeccanica 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. It should be noted that on 26 October 2017 an appeal was filed against the judgment of acquittal that had been handed down by the Court of Milan on 15 June 2017; Leonardo has entered appearance in the civil action within the abovementioned proceedings;

➢ the phase of debate is still continuing within the criminal proceedings pending before the Court of Vercelli against three former employees of AgustaWestland SpA (who are currently working for Leonardo - Helicopters Division) and an employee of AgustaWestland Philadelphia Corporation for the crime referred to in Article 449 of the Italian Criminal Code in relation to Articles 428 and 589 of the Italian Criminal Code, relating to the accident that occurred in Santhià on 30 October 2015;

➢ criminal proceedings are pending before the Public Prosecutor’s Office of Benevento against the Manager responsible under Legislative Decree 152/2006 for the Benevento Plant (Helicopters Division) as to the crime referred to in Article 452-quinquies of the Italian Criminal Code.
Based upon the information gathered and the results of the analysis carried out so far, the directors of Leonardo did not allocate any specific provisions in relation to these cases. Any negative developments – which cannot be foreseen, nor determined to date – arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

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

> within the proceedings brought by Firema under extraordinary management before the Court of Naples against the directors and statutory and independent auditors of Firema Trasporti in order to have them declared responsible for the financial collapse caused to the company – within which Giorgio and Gianfranco Fiore, in turn, summoned Leonardo and AnsaldoBreda in court – the Supreme Court handed down a judgment on 11 December 2019, whereby it rejected the appeal submitted by Leonardo and by AnsaldoBreda for being dropped from action. It should be noted that, by an order dated 18 November 2014, the Court of Naples declared that both the claims submitted by Giorgio and Gianfranco Fiore against Leonardo and AnsaldoBreda and those submitted by 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 17 June 2015 the judge responsible for preliminary investigations reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and recorded the case on the docket once again for discussion. Before being reversed, the order for dropping a party from action had been challenged before the Naples Court of Appeal by GMR and, on a cross-appeal basis, by Leonardo and AnsaldoBreda. On 16 June 2017 the Court declared, in the light of the reversal referred to above, that both appeals were inadmissible, due to the subsequent lack of interest. On 18 January 2018 Leonardo and AnsaldoBreda submitted an appeal against this order, which was rejected by the Supreme Court with the aforesaid judgment. The proceedings brought by Firema under extraordinary management had been suspended pending the ruling of the Supreme Court.

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

With reference to the aforesaid proceedings, it should be noted that in February 2011 GMR, as the sole shareholder of Firema Trasporti, summoned
Leonardo and AnsaldoBreda before the Court of Santa Maria Capua Vetere. These proceedings were concluded with the declaration of lack of jurisdiction in favour of the Court of Naples. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits prescribed by law. On 23 June 2015, GMR then served a new writ of summons before the Court of Naples, whereby it once again submitted the same claims as those brought in the previous proceedings. More specifically, according to the plaintiff company, during the period in which Leonardo held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of the company itself and in the sole interest of the Leonardo Group. Moreover, even after the sale of the investment by Leonardo, Firema Trasporti was allegedly de facto subjected to an abuse of economic dependence from the abovementioned Group in performing the various agreements existing with AnsaldoBreda. Leonardo and AnsaldoBreda appeared before the Court requesting that, on the merits, the plaintiff’s claims be dismissed as clearly groundless, as a result of the non-fulfilment of any and all conditions required by law as requirements to bring an action against directors pursuant to Article 2497 of the Italian Civil Code. Moreover, the aforesaid companies also asked the Court to preliminarily hand down a ruling based on the principle of *lis alibi pendens* (i.e. the suit was pending elsewhere and then the claim was precluded) within these new proceedings with respect to the pending proceedings, between the same parties, before the Naples Court of Appeal, which are described below;

the proceedings brought by Mr Pio Deiana before the Rome Court of Appeal – which were discontinued due to his subsequent death – have been resumed by one of the heirs within the prescribed time limits. The next hearing to be held for specifying the conclusions has been scheduled on 12 October 2021. It should be noted that on 4 March 2013 Mr Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei Srl and of Società Progetto Cina Srl, brought proceedings, before the Court of Rome, against Leonardo in order to ask the Court to rule the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (a company which was a subsidiary of Leonardo until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built. As stated by the plaintiff in the writ of summons, the 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 also submitted against Leonardo, on the basis of the latter’s alleged general liability in the capacity as the parent company of Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, are 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 plaintiff's claims as they are entirely groundless in fact and in law. A minority shareholder
Moreover, given their complexity, their cutting-edge technological content and the nature of the customers, the Group's long-term contracts are sometimes affected by disputes with customers in relation to the compliance of works with customer specifications and product performances. The Group adjusts the estimated contract costs for foreseeable issues, also taking into account the possible developments in the relevant disputes. With regard to contracts in progress affected by uncertainties and issues under discussion with customers, there are:

- the proceedings brought before the Court of Rome by Selex Service Management against the Ministry for the Environment, Land and Sea in relation to the performance of the SISTRI contract, were finally postponed for specifying the conclusions to the hearing scheduled on 16 July 2020. It should be noted that the SISTRI contract was signed between the Ministry for the Environment, Land and Sea and Selex Service Management in December 2009 in relation to the design, operation and maintenance of the System for Waste Tracking until 30 November 2014. The performance of the contract was affected by a number of legislative acts aimed at postponing the time at which it was to come into force, at a drastic reduction of the categories of persons under an obligation to adopt the system, at introducing simplification and/or optimisation measures of the system and at indefinitely postponing the applicable penalties. Such legislative acts had a significant impact on the financial stability of the contract, which was further impaired by the non-payment of a large part of the amounts due to the company.

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

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

Afterwards, Law 116 of 11 August 2014 as amended which converted Law
Decree 91 of 24 June 2014, by introducing certain significant changes to the wording of Article 11 of Law Decree 101 of 31 August 2013 (which had provided, inter alia, (i) that the payment of the amounts due would be subject to an audit of the fairness of the final costs throughout 30 June 2013 and to the availability of the amounts paid by users at that date and (ii) a financial rebalancing of the contract, which was then not carried out), extended the ultimate effective date of the contract with Selex Service Management until 31 December 2015, granting Selex Service Management the compensation for the production costs calculated up until the aforesaid date, subject to the fairness assessment by the Agency for Digital Italy (Agenzia per l’Italia digitale), to the maximum extent of the fees paid by the operators.

Said Law provided that by 30 June 2015 the Ministry for the Environment, Land and Sea had to start the procedures for the award of the service under concession in accordance with the provisions and methods set out in the Italian Code of Public Contracts. Decree Law 244 of 30 December 2016 extended again the ultimate effective date of the contract with Selex Service Management “until the date of entry of the new concessionaire (…) and anyway with the time limit of 31 December 2017.” Law 205 of 27 December 2017 once again extended the term of the SISTRI service operation on the part of Selex Service Management until 31 December 2018. On 14 December 2018, Law Decree 135 of 14 December 2018 – Urgent provisions on supporting and simplifying companies and Public Administration – was published on the Ordinary Supplement to the Official Gazette no. 290, as amended by Law of 11 February 2019. Article 6 of the mentioned Law Decree provides for the cancellation of the control system for waste tracking (SISTRI).

Following the refusal of jurisdiction of the arbitration panel served on the company on 19 February 2015 by the Government Lawyers, the Company brought a legal action against said Ministry before the Court of Rome. This action aims at seeking a declaration that the contract had expired on 30 November 2014, as well as the payment of the agreed fees and compensation for damages.

By an order dated 17 February 2016, the Court granted the claims submitted by Selex Service Management pursuant to Article 186-ter of the Italian Code of Civil Procedure and ordered the Ministry to pay the plaintiff company an amount of €mil. 12, plus interest and VAT. By virtue of the abovementioned order, on 12 December 2016 the Ministry paid Selex Service Management an amount of €mil 17. At the hearing held on 24 January 2018, the parties specified their conclusions and the case was retained for decision. Following the filing by Selex Service Management of the documentation proving the additional receivables accrued in the meantime, the Court referred the case back to preliminary investigations by an order dated 18 July 2018; the hearing to be held for specifying the conclusions has been scheduled on 16 July 2020;

> within the dispute pending between Augusta Westland International Ltd and the Indian Ministry of Defence in relation to the supply contract for 12 helicopters signed in 2010, worth around €mil. 560 in total, following the conclusion of the arbitration proceedings, the Company give a notice to the Ministry in accordance with Article 80 of the Indian Code of Civil Procedure on 6 August 2019, whereby it repeated the same claims as those submitted within the arbitration proceedings; on 1 October 2019 the Indian Ministry of
Defence gave its reply, rejecting the claims submitted by AgustaWestland International Ltd in the aforesaid notice. It should be noted that on 15 February 2013 the Indian Ministry of Defence sent a Show Cause Notice asking AgustaWestland International Ltd to provide information on the bribery alleged to have occurred in violation of the contract and the Pre-Contract Integrity Pact. In the letter, in addition to notifying the company that it was suspending payments, the Indian government suggested that it could possibly cancel the contract if the company was unable to provide proof that it was not involved in the alleged corrupt conduct. The company promptly provided the information and documentation requested to the Indian authorities and also invited the Ministry to initiate bilateral discussions to settle the matter.

Not having received any indication of interest on the part of the Indian Ministry in beginning a dialogue, on 4 October 2013 AgustaWestland International Ltd started arbitration proceedings provided for by the contract in New Delhi.

On 1 January 2014, the Indian Ministry of Defence formally communicated its decision to cancel/terminate/rescind the contract, and simultaneously notified the company that it had taken steps to execute the guarantees and counter-guarantees given in relation to the aforesaid contract in the total amount of €mil. 306.

On 28 October 2014, the Indian Ministry of Defence filed a defence brief raising a number of preliminary objections challenging, among other things, whether the case could be referred to arbitration. At the hearing of 5 April 2017, the Arbitration Board requested AgustaWestland International Ltd and the Indian Ministry to file their defence papers, reserving to hand down its decision on the preliminary exceptions raised. On 29 September 2017, the company filed its own Statement of Claim whereby it specified its claims restating their reasonableness. On 28 February 2018, the Indian Ministry filed its Statement of Defence whereby it requested the rejection of the plaintiff’s claim and asked a as counterclaim that AgustaWestland International Ltd be ordered to pay damages quantified in €mil. 514. On 9 January 2019 the Ministry of Defence filed a motion before the New Delhi High Court, whereby it asked said Court to hand down a ruling about the possibility of the dispute being referred to arbitration. The New Delhi High Court has set a time limit for the parties to file their statements. At the hearing at 28 February 2019, AgustaWestland International Ltd declared, before the New Delhi High Court, that it intended to abandon the arbitration proceedings, without prejudice to and affecting the rights enforced therein, while also announcing its intention to initiate ordinary proceedings before the Indian Civil courts. The Court, in accepting the request submitted by AgustaWestland International Ltd, declared the arbitration proceedings concluded by an order issued on the same date.

Finally, it should be recalled that, on 23 May 2014, in the framework of the proceedings pursuant to Article 700 of the Italian Code of Civil Procedure brought by AgustaWestland SpA and AgustaWestland International Ltd to prevent the enforcement of the guarantees, the Court of Milan – in partial acceptance of the complaint submitted by the Indian Ministry of Defence – partially amended the order it had previously handed down and revoked its injunction with regard to the whole amount of the performance bond equal to about €mil. 28 and up to an amount of about €mil. 200 as regards the Advance Bank Guarantees, as only about €mil. 50 of the guarantees cannot be enforced (corresponding to the reduction that, according to the contract,
was to be made from the Advance Bank Guarantees after the customer accepted three of the helicopters).
As to the portion of the delivery already made (3 helicopters already delivered, plus spare parts and support), which is only partially covered by the advances received and not subject to the enforceability of the guarantees, the recoverability of the remaining balance as at 31 December 2019, as well as the recognition of any compensation to be paid or received, are dependent upon the settlement of the overall lawsuit;

> under the contract for the design and construction of Al Bayt Stadium in Al Khor City (Qatar), on 22 September 2016 the GSIC JV (set up by Galfar Misnad Engineering & Contracting WLL, Salini - Impregilo SpA and Cimolai SpA), as Prime Contractor, awarded the work to the unincorporated joint venture set up by Leonardo SpA and PSC SpA (L&P JV) for the procurement, delivery, installation and testing & commissioning of the entire package of electronic and mechanical components of the stadium infrastructure. It should be noted that, from the beginning, the regular progress of the work was strongly conditioned by a number of delays not attributable to the L&P JV, as well as by the introduction of numerous additions and changes to the initial project, which was found to be incomplete during the execution of the order. The above circumstances led to considerable extra costs for the L&P JV, which the Prime Contractor did not intend to pay. For this reason, on 25 October 2019 the L&P JP brought arbitration proceedings within which it requested, in addition to the payment of some activities envisaged as per contract and regularly performed, compensation for damage suffered as a result of the abovementioned circumstances, which allegedly amounted to a total of €mil. 258. The GSIC JV appeared in Court according to formal procedures and, in addition to asking the Court to reject the plaintiff’s claims, also submitted a counterclaim seeking for compensation for damage it had allegedly suffered as a result of an alleged instance of non-compliance on the part of the L&P JV, which amounted to approximately €mil. 176. The arbitration proceedings are still in progress.

### 23. Employee benefit obligations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th></th>
<th>31 December 2019</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Liabilities</td>
<td>Assets</td>
<td>Net</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Severance pay provision</td>
<td>302</td>
<td>-</td>
<td>302</td>
<td>290</td>
</tr>
<tr>
<td>Defined-benefit plans</td>
<td>178</td>
<td>309</td>
<td>(131)</td>
<td>191</td>
</tr>
<tr>
<td>Defined-contribution plans</td>
<td>26</td>
<td>-</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>506</strong></td>
<td><strong>309</strong></td>
<td><strong>197</strong></td>
<td><strong>509</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP area</td>
<td>(248)</td>
<td>(232)</td>
</tr>
<tr>
<td>Euro area</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>USD area</td>
<td>89</td>
<td>101</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(131)</strong></td>
<td><strong>(98)</strong></td>
</tr>
</tbody>
</table>

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

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

Changes in the defined-benefit plans are shown below:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
<th>Net liability defined benefit plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening balance</strong></td>
<td>2,783</td>
<td>2,919</td>
<td>(136)</td>
</tr>
<tr>
<td>Costs of benefits paid</td>
<td>66</td>
<td>-</td>
<td>66</td>
</tr>
<tr>
<td>Net interest expenses</td>
<td>66</td>
<td>69</td>
<td>(3)</td>
</tr>
<tr>
<td>Remeasurement</td>
<td>(169)</td>
<td>(182)</td>
<td>13</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity - demographic assumptions</td>
<td>39</td>
<td>-</td>
<td>39</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity - financial assumptions</td>
<td>(223)</td>
<td>-</td>
<td>(223)</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity resulting from adjustments based on the experience</td>
<td>15</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Expected return on plan assets (no interest)</td>
<td>-</td>
<td>(182)</td>
<td>182</td>
</tr>
<tr>
<td>Curtailments</td>
<td>(16)</td>
<td>-</td>
<td>(16)</td>
</tr>
<tr>
<td>Contributions paid</td>
<td>-</td>
<td>75</td>
<td>(75)</td>
</tr>
<tr>
<td>Contributions from other plan participants</td>
<td>11</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>Exchange-rate differences</td>
<td>(12)</td>
<td>(17)</td>
<td>5</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(68)</td>
<td>(83)</td>
<td>15</td>
</tr>
<tr>
<td>Other changes</td>
<td>(2)</td>
<td>(2)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td>2,659</td>
<td>2,790</td>
<td>(131)</td>
</tr>
<tr>
<td>of which, related to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net liabilities</td>
<td>1,910</td>
<td>1,732</td>
<td>178</td>
</tr>
<tr>
<td>- net assets</td>
<td>749</td>
<td>1,058</td>
<td>(309)</td>
</tr>
</tbody>
</table>
### CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

#### 31 December 2019

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

Changes in severance pay provision are shown below:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening balance</strong></td>
<td>329</td>
<td>302</td>
</tr>
<tr>
<td>Costs of benefits paid</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Net interest expenses</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Remeasurement</td>
<td>(4)</td>
<td>1</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity - demographic assumptions</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity - financial assumptions</td>
<td>(6)</td>
<td>(1)</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity resulting from adjustments based on the experience</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Increase for business combination</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(31)</td>
<td>(26)</td>
</tr>
<tr>
<td>Other changes</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td><strong>302</strong></td>
<td><strong>290</strong></td>
</tr>
</tbody>
</table>
The amount recognised in profit or loss on defined-benefit plans (including the severance pay provision) was calculated as follows:

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

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (annual)</td>
<td>1.2%</td>
<td>0.7%</td>
<td>2.90%-3.67%</td>
<td>2.00% - 2.80%</td>
</tr>
<tr>
<td>Rate of salary increase</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3.25%-3.50%</td>
<td>2.75% - 3.00%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>1.5%</td>
<td>0.7%</td>
<td>2.15%-4.76%</td>
<td>2.00% -3.00%</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (annual)</td>
<td>-0.25%</td>
<td>+0.25%</td>
<td>-0.25%</td>
<td>+0.25%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>(4)</td>
<td>4</td>
<td>(3)</td>
<td>3</td>
</tr>
</tbody>
</table>

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

The estimate of the contributions to be paid in 2020 related to defined-benefit plans is about €mil. 62.
As regards the strategies of correlation of assets and liabilities in defined-benefit plans, there is the prevalence of investing in diversified assets in order to limit the negative impact, if any, on the total return on the plan assets. Assets of defined-benefit plans include:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>242</td>
<td>214</td>
</tr>
<tr>
<td>Shares and investment funds</td>
<td>1,099</td>
<td>1,680</td>
</tr>
<tr>
<td>Debt instruments</td>
<td>1,393</td>
<td>1,312</td>
</tr>
<tr>
<td>Real properties</td>
<td>52</td>
<td>16</td>
</tr>
<tr>
<td>Derivatives</td>
<td>4</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td><strong>2,790</strong></td>
<td><strong>3,334</strong></td>
</tr>
</tbody>
</table>

### 24. Other current and non-current liabilities

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-current</td>
<td>Current</td>
</tr>
<tr>
<td>Employee obligations</td>
<td>49</td>
<td>351</td>
</tr>
<tr>
<td>Deferred income</td>
<td>106</td>
<td>78</td>
</tr>
<tr>
<td>Amounts due to social security institutions</td>
<td>-</td>
<td>164</td>
</tr>
<tr>
<td>Payables to MED (Law 808/1985)</td>
<td>204</td>
<td>52</td>
</tr>
<tr>
<td>Payables to MED for royalties (Law 808/1985)</td>
<td>179</td>
<td>19</td>
</tr>
<tr>
<td>Indirect tax liabilities</td>
<td>-</td>
<td>117</td>
</tr>
<tr>
<td>Derivatives</td>
<td>-</td>
<td>199</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>360</td>
<td>458</td>
</tr>
<tr>
<td>Other payables to related parties (Note 36)</td>
<td>-</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td><strong>898</strong></td>
<td><strong>1,542</strong></td>
</tr>
</tbody>
</table>

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

“Other liabilities” include, in particular, the non-current payable due to Bell Helicopter amounting to €mil. 221 (€mil. 189 at 31 December 2018), deriving from the acquisition of 100% of the AW609 programme. This amount also includes the reasonably estimated potential consideration due to Bell Helicopter based on the commercial performance of the programme.
25. Trade payables

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>2,875</td>
<td>3,441</td>
</tr>
<tr>
<td>Trade payables to related parties (Note 36)</td>
<td>153</td>
<td>350</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,028</strong></td>
<td><strong>3,791</strong></td>
</tr>
</tbody>
</table>

26. Guarantees

The Group has existing guarantee for €mil. 14,755 (€mil. 15,536 at 31 December 2018). The item mainly includes guarantees given to third parties, banks and insurance companies as well as commitments in favour of lenders, tax authorities and customers.

27. Revenues

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from contracts with customers</td>
<td>10,235</td>
<td>11,071</td>
</tr>
<tr>
<td>Change in contract assets</td>
<td>194</td>
<td>818</td>
</tr>
<tr>
<td>Revenues from related parties (Note 36)</td>
<td>1,811</td>
<td>1,895</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,240</strong></td>
<td><strong>13,784</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues recognised at point in time</td>
<td>2,773</td>
<td>2,830</td>
</tr>
<tr>
<td>Revenues recognised over time</td>
<td>9,467</td>
<td>10,954</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,240</strong></td>
<td><strong>13,784</strong></td>
</tr>
</tbody>
</table>
28. Other operating income/(expenses)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th>2019</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Expenses</td>
<td>Net</td>
<td>Income</td>
</tr>
<tr>
<td>Grants for research and</td>
<td>39</td>
<td>-</td>
<td>39</td>
<td>29</td>
</tr>
<tr>
<td>development costs (*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating grants</td>
<td>4</td>
<td>-</td>
<td>4</td>
<td>35</td>
</tr>
<tr>
<td>Gains/(Losses) on sales of</td>
<td>12</td>
<td>-</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>intangible asset, property,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>plant and equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reversals/(Accruals) to</td>
<td>273</td>
<td>(261)</td>
<td>12</td>
<td>304</td>
</tr>
<tr>
<td>provisions for risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange-rate differences on</td>
<td>147</td>
<td>(150)</td>
<td>(3)</td>
<td>91</td>
</tr>
<tr>
<td>operating items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>2</td>
<td>(29)</td>
<td>(27)</td>
<td>-</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>-</td>
<td>(33)</td>
<td>(33)</td>
<td>-</td>
</tr>
<tr>
<td>Other operating income/</td>
<td>116</td>
<td>(37)</td>
<td>79</td>
<td>87</td>
</tr>
<tr>
<td>(expenses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating income/</td>
<td>6</td>
<td>(1)</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>(expenses) from/to related</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>parties (Note 36)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>599</td>
<td>(511)</td>
<td>88</td>
<td>551</td>
</tr>
</tbody>
</table>

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

Restructuring costs include both costs incurred during the year and accruals to the “Restructuring provision”. Costs and accruals relating to personnel are found under personnel expenses (Note 29).
## 29. Purchases and personnel expenses

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

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

<table>
<thead>
<tr>
<th>Position</th>
<th>Average workforce</th>
<th>Total workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2018</td>
<td>31 December 2019</td>
</tr>
<tr>
<td>Senior managers (*)</td>
<td>1,151</td>
<td>1,193</td>
</tr>
<tr>
<td>Middle managers</td>
<td>5,584</td>
<td>5,891</td>
</tr>
<tr>
<td>Clerical employees</td>
<td>26,336</td>
<td>27,466</td>
</tr>
<tr>
<td>Manual labourers (**)</td>
<td>12,451</td>
<td>13,247</td>
</tr>
<tr>
<td></td>
<td>45,522</td>
<td>47,797</td>
</tr>
</tbody>
</table>

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

30. Amortisation, depreciation and financial assets value adjustments

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

The impairment of other assets mainly refers to the write-down of non-recurring costs related to the Aeronautics sector.
31. Financial income and expenses

Below is a breakdown of financial income and expenses:

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

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

More specifically:

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange-rate swaps</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest-rate swaps</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ineffective portion of hedging swaps</td>
<td>24</td>
<td>(15)</td>
<td>9</td>
<td>22</td>
<td>(51)</td>
<td>(29)</td>
</tr>
<tr>
<td>Embedded derivatives</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>(5)</td>
<td>(5)</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>(16)</td>
<td>9</td>
<td>22</td>
<td>(56)</td>
<td>(34)</td>
</tr>
</tbody>
</table>

- income from equity investments and securities are related to the capital gain arising from the sale of the stake in Eurotech SpA. The comparative data, on the contrary, included the effect of the capital gain arising from the disposal of the stake in Aviation Training Int. Ltd;
- the interest on lease liabilities included the effects of the adoption of IFRS 16, which entailed the recognition of new financial liabilities. A non-significant component (€mil. 1) of interest on lease liabilities is also stated among “Income/(Expenses) from/to related parties”;

200
> other net financial expenses include the cost (€mil. 20) linked to the buyback transactions carried out during the period out of a portion of the bond issues denominated in US dollars.

### 32. Income taxes

Income taxes can be broken down as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRES</td>
<td>(12)</td>
<td>(13)</td>
</tr>
<tr>
<td>IRAP</td>
<td>(25)</td>
<td>(29)</td>
</tr>
<tr>
<td>Other income taxes (foreign)</td>
<td>(65)</td>
<td>(74)</td>
</tr>
<tr>
<td>Tax related to previous periods</td>
<td>6</td>
<td>27</td>
</tr>
<tr>
<td>Provisions for tax disputes</td>
<td>6</td>
<td>(1)</td>
</tr>
<tr>
<td>Deferred tax - net</td>
<td>26</td>
<td>(57)</td>
</tr>
<tr>
<td></td>
<td>(64)</td>
<td>(147)</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit/(loss) before income taxes and discontinued operations</td>
<td>485</td>
<td>869</td>
</tr>
<tr>
<td>Total taxes</td>
<td>64</td>
<td>147</td>
</tr>
<tr>
<td>Provisions for tax disputes</td>
<td>6</td>
<td>(1)</td>
</tr>
<tr>
<td>Tax related to previous periods</td>
<td>6</td>
<td>27</td>
</tr>
<tr>
<td>Gains on ATIL JV dismission</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>82</td>
<td>173</td>
</tr>
<tr>
<td>Tax rate</td>
<td>16.9%</td>
<td>19.9%</td>
</tr>
</tbody>
</table>

Deferred taxes and related receivables and payables at 31 December 2019 were the result of the following temporary differences. In this regard, we point out that part of the deferred tax assets relate to tax losses valued on the basis of the taxable income envisaged in the companies’ plans, in particular €mil. 113 is related to the tax consolidation mechanism (about €mil. 550 of unrecognised losses).
### 33. Assets held for sale and discontinued operations

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

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

Assets held for sale also include the value of assets owned by Leonardo Global Solutions held for sale (€mil. 18, €mil. 7 at 31 December 2018).
The space business unit of Vitrociset consists of a group of assets acquired for
the purposes of a subsequent sale and, therefore, the related results through
P&L have also been classified as “Discontinued operations” (a net result of
€mil. 4).

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

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

The value posted for 2018 included the effects of the acquittal judgment
against Ansaldo Energia with reference to the administrative violation
referred to in Article 25 of Legislative Decree 231/2001, which had ordered
the confiscation of an amount of €mil. 99 imposing also administrative
penalties. These amounts had been the object of a guarantee granted by
Leonardo at the time of the disposal of its investment in Ansaldo Energia,
with the concurrent recognition of a provision for risks, released during 2018
following the outcome of the judgment. In particular, this item included the
abovementioned absorption (€mil. 99), net of a provision set aside during the
year out of the guarantees provided in relation to the abovementioned sale
and to another transaction of a minor significance.
### 34. Earnings per share

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

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average shares outstanding during the reporting period (in thousands)</td>
<td>574,605</td>
<td>574,914</td>
</tr>
<tr>
<td>Earnings for the period (excluding non-controlling interests) (€ millions)</td>
<td>510</td>
<td>821</td>
</tr>
<tr>
<td>Earnings from continuing operations (excluding non-controlling interests) (€ millions)</td>
<td>421</td>
<td>721</td>
</tr>
<tr>
<td>Earnings from discontinued operations (excluding non-controlling interests) (€ millions)</td>
<td>89</td>
<td>100</td>
</tr>
<tr>
<td><strong>Basic and diluted EPS (€)</strong></td>
<td><strong>0.888</strong></td>
<td><strong>1.428</strong></td>
</tr>
<tr>
<td>Basic and diluted EPS from continuing operations (€)</td>
<td>0.733</td>
<td>1.254</td>
</tr>
<tr>
<td>Basic and diluted EPS from discontinued operations (€)</td>
<td>0.155</td>
<td>0.174</td>
</tr>
</tbody>
</table>

Basic EPS, as that relating to the comparative period, was equal to diluted earnings per share, since there are no dilutive elements.
35. Gross cash flows from operating activities

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

Costs for severance pay provision and other defined-benefit plans include the portion of costs relating to defined-benefit pension plans that is recognised as personnel expenses (the portion of costs relating to interest is carried among net financial expenses).

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>(853)</td>
<td>(380)</td>
</tr>
<tr>
<td>Contract assets and liabilities</td>
<td>569</td>
<td>(564)</td>
</tr>
<tr>
<td>Trade receivables and payables</td>
<td>(37)</td>
<td>416</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(321)</strong></td>
<td><strong>(528)</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of pension plans</td>
<td>(91)</td>
<td>(78)</td>
</tr>
<tr>
<td>Changes in provisions for risks and other operating items</td>
<td>(349)</td>
<td>(312)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(440)</strong></td>
<td><strong>(390)</strong></td>
</tr>
</tbody>
</table>
## 36. Related-party transactions

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

### Receivables at 31 December 2018

<table>
<thead>
<tr>
<th>Associates</th>
<th>Non-current loans and receivables</th>
<th>Other non-current receivables</th>
<th>Current loans and receivables</th>
<th>Trade receivables</th>
<th>Other current receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NHIndustries SAS</td>
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</tr>
<tr>
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<tr>
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<td>15</td>
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<td></td>
<td>15</td>
</tr>
<tr>
<td>AgustaWestland Aviation Services LLC</td>
<td>13</td>
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<td></td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Iveco - OTO Melara Scarl</td>
<td>11</td>
<td></td>
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<td></td>
<td></td>
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<tr>
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<td>1</td>
<td>18</td>
<td>1</td>
<td></td>
<td></td>
<td>20</td>
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<tr>
<td>Joint ventures</td>
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<tr>
<td>Consortiums (*)</td>
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<td></td>
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<tr>
<td>Other with unit amount lower than €mil. 10</td>
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<tr>
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<td>82.7%</td>
<td>17.2%</td>
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(*) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
### Receivables at 31 December 2019

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<tr>
<th></th>
<th>Non-current loans and receivables</th>
<th>Other non-current receivables</th>
<th>Current loans and receivables</th>
<th>Trade receivables</th>
<th>Other current receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Associates</strong></td>
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</tr>
<tr>
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<td>15</td>
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<tr>
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<td><strong>3.5%</strong></td>
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</table>

(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
## Payables at 31 December 2018

<table>
<thead>
<tr>
<th>Associates</th>
<th>Non-current loans and borrowings</th>
<th>Other non-current borrowings</th>
<th>Current loans and borrowings</th>
<th>Trade payables</th>
<th>Other current payables</th>
<th>Total</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurofighter Jagdflugzeug GmbH</td>
<td>27</td>
<td></td>
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<td>27</td>
<td></td>
</tr>
<tr>
<td>Elettronica SpA</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>12</td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
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<td>13</td>
<td>7</td>
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<td>28</td>
<td>170</td>
</tr>
<tr>
<td>RotorSIM Srl</td>
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<td></td>
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<tr>
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<tr>
<td>Companies subject to the control or considerable influence of the MEF</td>
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<td>104</td>
<td>926</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>56.2%</td>
<td>5.1%</td>
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</table>

(*) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
### Payables at 31 December 2019

<table>
<thead>
<tr>
<th>Associates</th>
<th>Non-current loans and borrowings</th>
<th>Other non-current borrowings</th>
<th>Current loans and borrowings</th>
<th>Trade payables</th>
<th>Other current payables</th>
<th>Total</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf System Logistic Services Company WLL</td>
<td>133</td>
<td></td>
<td></td>
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<td>133</td>
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<tr>
<td>Eurofighter Jagdflugzeug GmbH</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Leonardo Hélicoptères Algérie SpA</td>
<td></td>
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<td>20</td>
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<td></td>
<td></td>
</tr>
<tr>
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<td></td>
<td>21</td>
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<td>6</td>
<td>30</td>
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</table>

<table>
<thead>
<tr>
<th>Joint ventures</th>
<th>Non-current loans and borrowings</th>
<th>Other non-current borrowings</th>
<th>Current loans and borrowings</th>
<th>Trade payables</th>
<th>Other current payables</th>
<th>Total</th>
<th>Guarantees</th>
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<tbody>
<tr>
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<td>86</td>
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<tr>
<td>RotorSim SrI</td>
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<td></td>
<td>21</td>
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<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
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<td>182</td>
<td></td>
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<tr>
<td>Other with unit amount lower than €mil. 10</td>
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<td>9</td>
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<table>
<thead>
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<th>Consortiums (*)</th>
<th>Non-current loans and borrowings</th>
<th>Other non-current borrowings</th>
<th>Current loans and borrowings</th>
<th>Trade payables</th>
<th>Other current payables</th>
<th>Total</th>
<th>Guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
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<td></td>
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</table>

<table>
<thead>
<tr>
<th>Companies subject to the control or considerable influence of the MEF</th>
<th>Non-current loans and borrowings</th>
<th>Other non-current borrowings</th>
<th>Current loans and borrowings</th>
<th>Trade payables</th>
<th>Other current payables</th>
<th>Total</th>
<th>Guarantees</th>
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<tr>
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<td>16</td>
<td></td>
<td>6</td>
<td>23</td>
<td>592</td>
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</tbody>
</table>

Total | 727 | 350 | 63 | 1,140 | 821 |

% against total for the period: n.a. n.a. 70.5% 9.2% 5.2%

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

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

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

Trade payables related to amounts due to joint ventures, as well as mainly to amounts due to Gulf System Logistic Services Company WLL for operations under the EFA/Kuwait contract. The increase in payables to MBDA was mainly due to the combined effect of higher final costs recorded in 2019, mainly on ongoing projects.

Loans and borrowings from related parties include in particular the amount of €mil. 651 (€mil. 612 at 31 December 2018) due by Group companies to the joint venture MBDA and payables of €mil. 16 (€mil. 27 at 31 December 2018) to Eurofighter, 21% owned. As regards the latter, under a cash pooling agreement its surplus cash and cash equivalents are distributed among the partners.
### Income statement transactions at 31 December 2018

<table>
<thead>
<tr>
<th>Unconsolidated subsidiaries</th>
<th>Other with unit amount lower than €mil. 10</th>
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<tr>
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<td></td>
</tr>
<tr>
<td>Eurofighter Jagdflugzeug GmbH</td>
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<td>NHIndustries SAS</td>
<td>304</td>
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<tr>
<td>Orizzonte Sistemi Navali SpA</td>
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<td>Iveco - OTO Melara Scarl</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Macchi Hurel Dubois SAS</td>
<td>58</td>
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</tr>
<tr>
<td>Advanced Air Traffic Systems SDH BHD</td>
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<tr>
<td>Other with unit amount lower than €mil. 10</td>
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<tr>
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<td></td>
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<tr>
<td>GIE-ATR</td>
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<td></td>
<td>4.7%</td>
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(*) Consortions over which the Group exercises considerable influence or which are subject to joint control.
### Income statement transactions at 31 December 2019

<table>
<thead>
<tr>
<th>Associates</th>
<th>Revenues</th>
<th>Other operating income</th>
<th>Costs</th>
<th>Other operating costs</th>
<th>Financial income</th>
<th>Financial expenses</th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced Air Traffic Systems SDH BHD</td>
<td>17</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AgustaWestland Aviation Services LLC</td>
<td>15</td>
<td></td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf System Logistic Services Company WLL</td>
<td>273</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elettronica SpA</td>
<td>1</td>
<td></td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
<td>19</td>
<td></td>
<td>4</td>
<td></td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Joint ventures</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GIE-ATR</td>
<td>276</td>
<td></td>
<td>43</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thales Alenia Space SAS</td>
<td>82</td>
<td></td>
<td>3</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>MBDA SAS</td>
<td>59</td>
<td></td>
<td>61</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Joint Stock Company Helivert</td>
<td>10</td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>RotorSim Srl</td>
<td></td>
<td></td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
<td>5</td>
<td></td>
<td>3</td>
<td></td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consortiums (*)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GEIE Eurotornp</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
<td>11</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Companies subject to the control or considerable influence of the MEF</th>
<th>258</th>
<th>68</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,895</td>
<td>4</td>
<td>669</td>
</tr>
<tr>
<td>% against total for the period</td>
<td>13.7%</td>
<td>0.7%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

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

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

- Eurofighter in the scope of the EFA Kuwait aeronautical programme, for which higher volumes were developed compared to 2018;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (mainly VBM Freccia for the Italian Army);
- NHIndustries in the scope of the NH90 helicopter programme;
- Orizzonte Sistemi Navali for the FREMM programme;
- Macchi Hurel Dubois for the commercialisation of nacelles;
- subsidiaries or companies subject to significant influence on the part of the
Ministry of Economy and Finance, including relations with Ferrovie dello Stato for train revamping, as well as Fintecna for supplies to subsidiary Fincantieri, with Poste Italiane for servicing, equipment and related maintenance for the logistics platform, with ENAV for the supply of systems and software components for flight assistance and the Polygraphic Institute and State Mint for the implementation of the Green Data Center in Foggia.

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

Costs related to those to joint ventures, as well as to companies:

- Eurofighter Jagdflugzeug GmbH and Gulf System Logistic Services Company WLL for operations within the EFA/Kuwait programme;
- subsidiaries or companies subject to significant influence by the Ministry of Economy and Finance, including those to Enel.

## 37. Financial risk management

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

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

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

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

### Interest-rate risk

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

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

At 31 December 2019, the transactions were the following:

> **options for €mil. 200** (CAP at 4.20% and Knock out at 5.60% in relation to the 6-month Euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group’s strategy providing for a return to the floating rate and the levels of said rate should become unfavourable;

> **floating/fixed interest-rate swap for €mil. 300** relating to the EIB loan in the same amount, which guarantees a fixed rate of 0.82% in addition to the spread applied to the loan.

The detail of the main interest-rate swaps at 31 December 2019 is as follows:

<table>
<thead>
<tr>
<th>Notional</th>
<th>Underlying (maturity)</th>
<th>Fair value 1 January 2018</th>
<th>Changes</th>
<th>Fair value 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRS fixed/floating/fixed</td>
<td>- 200 Bond 2018</td>
<td>1</td>
<td>- (1)</td>
<td>-</td>
</tr>
<tr>
<td>Options</td>
<td>200</td>
<td>Bond 2025 (3)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>IRS fixed/floating/fixed</td>
<td>300 - EIB</td>
<td>- (3)</td>
<td>-</td>
<td>(3) (3)</td>
</tr>
<tr>
<td>Total notional</td>
<td>500 400</td>
<td>(2)</td>
<td>-</td>
<td>(1) (3) (6)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Notional</th>
<th>Underlying (maturity)</th>
<th>Fair value 1 January 2019</th>
<th>Changes</th>
<th>Fair value 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRS fixed/floating/fixed</td>
<td>- - Bond 2018</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Options</td>
<td>200 200 Bond 2025 (3)</td>
<td>(3)</td>
<td>-</td>
<td>(13) (16)</td>
</tr>
<tr>
<td>IRS floating/fixed</td>
<td>300 300 EIB</td>
<td>(3)</td>
<td>-</td>
<td>(13) (19)</td>
</tr>
<tr>
<td>Total notional</td>
<td>500 500</td>
<td>(6)</td>
<td>-</td>
<td>(13) (19)</td>
</tr>
</tbody>
</table>

The table below shows the effects of the sensitivity analysis for 2018 and 2019 deriving from the 50-basis-point shift in the interest-rate at the reporting date:

<table>
<thead>
<tr>
<th>Effect of shift of interest-rate curve</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018</td>
</tr>
<tr>
<td>Increase of 50 bps</td>
</tr>
<tr>
<td>Net result</td>
</tr>
<tr>
<td>Equity (*)</td>
</tr>
</tbody>
</table>

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

Transaction risk

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

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

The effectiveness of the hedge is tested at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is recognised through profit and loss according to accounting principles. In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash-flow hedge accounting method of recognition is adopted (Note 4.3).

Leonardo carries out these transactions with banks in its own interest and of Group companies.

At 31 December 2019 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 7,493 (notional amount). Overall, the average euro/US dollar exchange rate for hedging purposes is 1.13 on sales and about 1.14 on purchases.
The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

<table>
<thead>
<tr>
<th>Notional receipts</th>
<th>Notional payments</th>
<th>Notional receipts</th>
<th>Notional payments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>GBP</td>
<td>USD</td>
</tr>
<tr>
<td>Cash-flow and fair-value hedges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within 1 year</td>
<td>865</td>
<td>158</td>
<td>624</td>
</tr>
<tr>
<td>2 to 3 years</td>
<td>550</td>
<td>-</td>
<td>137</td>
</tr>
<tr>
<td>4 to 9 years</td>
<td>382</td>
<td>-</td>
<td>73</td>
</tr>
<tr>
<td>Total</td>
<td>1,797</td>
<td>158</td>
<td>834</td>
</tr>
</tbody>
</table>

Hedging transactions which cannot be classified as hedging transactions

| 224 | 3 | 420 | 7 | 474 | 1 | 474 | 1 |

Total transactions

| 2,021 | 161 | 1,254 | 1,888 | 4,142 | 11 | 1,886 | 1,140 |

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the US dollar (USD) and the pound sterling (GBP) and, assuming a +/-5% change in the euro/USD exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2019 (equal to 1.1234 and 0.8508, respectively) and at 31 December 2018 (1.1450 and 0.8945 respectively).

<table>
<thead>
<tr>
<th>Effect of change in the €/GBP rate</th>
<th>Effect of change in the €/USD rate</th>
<th>Effect of change in the €/GBP rate</th>
<th>Effect of change in the €/USD rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of 5%</td>
<td>Decrease of 5%</td>
<td>Increase of 5%</td>
<td>Decrease of 5%</td>
</tr>
<tr>
<td>Net result</td>
<td>8</td>
<td>(8)</td>
<td>(1)</td>
</tr>
<tr>
<td>Equity (*)</td>
<td>(25)</td>
<td>28</td>
<td>54</td>
</tr>
</tbody>
</table>

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

Translation risk

The Group is exposed to “translation risk”, i.e. the risk that assets, liabilities and results in consolidated companies whose reporting currency is not the euro (mainly US dollars and pound sterling) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named “Translation reserve” (Note 20) and results of operations. It should be noted that Leonardo does not hedge translation risk relating to its own equity investments, the most important of which are in the United States and in the United Kingdom.

Leonardo MW Ltd, which is Leonardo’s main equity holding in the United Kingdom had a positive net financial position which is transferred to Leonardo through cash pooling arrangements. Leonardo systematically hedges this
exposure through exchange-rate derivatives recognised as fair-value hedges. As a result, even though the Group has no economic exposure, it is subject to balance-sheet volatility directly impacting the amount of Group net debt, which is affected by the realigning payables/receivables in foreign currency from third parties or, similarly, by the cash effects deriving from the renewal of hedges.

The effects on the equity of the Group, broken down by the main currencies, are reported in Note 20.

**Liquidity risk**

The Group is exposed to liquidity risk, i.e. the risk of not being able to finance the prospective requirements deriving from its usual business and investment operations, as well as those connected with the volatility of the relevant markets and with operations linked to commercial contracts for which there is the risk of renegotiation or cancellation. Finally, there is the risk of not being able to repay or refinance debts at the expiry dates.

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

Furthermore, in order to finance its own operations, the Leonardo Group can use the cash and cash equivalents of €mil. 1,962 generated at 31 December 2019 related to Leonardo SpA (€mil. 1,407), to Group companies that, for different reasons, do not fall within the scope of the treasury centralisation (€mil. 514) and, for the remaining part, to cash amounts of the companies falling, directly or indirectly, within the scope of the treasury centralisation, as well as to deposits made for different reasons.

It should be also recalled that, in order to meet the financing needs for ordinary Group activities, Leonardo obtained a Revolving Credit Facility (RCF) amounting to €mil. 1,800 due 2023, as well as additional uncommitted bank credit lines totalling €mil. 686; both of said sources of financing were entirely unused at 31 December 2019.

**Credit risk**

The Group is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties.

Regarding commercial transactions, the most significant programmes are made with public sector contractors or contractors belonging to public institutions, mainly in the Euro area, in the United Kingdom, the United States and the Middle East. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to highlight and mitigate insolvency
risks, if any. While solvency is guaranteed with public-entity customers, collection times are longer (in some countries they are significantly longer) than for other business sectors, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. When possible, the Group hedges against potential defaults of its customers by entering into insurance policies with leading Export Credit Agencies (ECAs) internationally and with major Italian agencies (eg. SACE).

The types of contracts entered into by the Group provide for sizeable retention money withheld by customers, as well as back-to-back clauses in case of sub-supplies. All this inherently extends the times for collection of outstanding receivables.

Furthermore, the Group operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2019, we note the following relations with countries exposed to credit risk according to the international institutions (SACE):

<table>
<thead>
<tr>
<th></th>
<th>Lybia</th>
<th>Zambia</th>
<th>Pakistan</th>
<th>Other countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>51</td>
<td>3</td>
<td>52</td>
<td>21</td>
<td>127</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(70)</td>
<td>(14)</td>
<td>(16)</td>
<td>(5)</td>
<td>(109)</td>
</tr>
<tr>
<td>Net exposure</td>
<td>(19)</td>
<td>(11)</td>
<td>36</td>
<td>12</td>
<td>18</td>
</tr>
</tbody>
</table>

Finally, the receivables related to certain existing contracts, might not be paid, renegotiated or written off. With particular regard to this, we highlight receivables linked to the SISTRI programme and to the supply to the Indian government – already described in Note 22.

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

<table>
<thead>
<tr>
<th>€ billions</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portion due</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>- of which: for more than 12 months</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Portion not yet due</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>Total trade receivables</td>
<td>2.9</td>
<td>3.0</td>
</tr>
</tbody>
</table>

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.
Financial receivables, amounting to €mil. 215 (€mil. 223 at 31 December 2018) include €mil. 18 (€mil. 13 at 31 December 2018) classified as “non-current” and consequently excluded from the net financial position. It should be noted that the non-current receivable from SuperJet was vice versa included within the “Group net debt” indicator until 31 December 2018, as reported in Note 21. This position was reclassified, as from the financial statements at 31 December 2019, to current financial receivables, due to its approaching date of collection. Loans and receivables are broken down in the table below.

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and receivables from related parties</td>
<td>1</td>
</tr>
<tr>
<td>Non-current financial receivables from SuperJet</td>
<td>25</td>
</tr>
<tr>
<td>Other loans and receivables</td>
<td>12</td>
</tr>
<tr>
<td>Non-current loans and receivables</td>
<td>38</td>
</tr>
<tr>
<td>Loans and receivables from related parties</td>
<td>153</td>
</tr>
<tr>
<td>Other loans and receivables</td>
<td>32</td>
</tr>
<tr>
<td>Current loans and receivables</td>
<td>185</td>
</tr>
<tr>
<td>Total loans and receivables</td>
<td>223</td>
</tr>
</tbody>
</table>

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

**Classification of financial assets and liabilities**

The table below shows the fair-value hierarchy for the financial assets and liabilities of the Group measured at fair value. The fair value of derivatives (classified under other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called “Level 2”); the payable to Bell Helicopter (classified under other current and non-current liabilities) is determined on the basis of measurement techniques which do not consider directly observable market inputs (the so-called “Level 3”). The fair value of the payable to Bell Helicopter was determined by discounting back the estimate of the variable amounts payable on the basis of the commercial performance of the programme.

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other non-current assets</td>
<td>-</td>
</tr>
<tr>
<td>Other current assets</td>
<td>107</td>
</tr>
<tr>
<td>Total</td>
<td>107</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>189</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>199</td>
</tr>
<tr>
<td>Total</td>
<td>199</td>
</tr>
</tbody>
</table>
38. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA amounted to €mil. 9 (€mil. 11 at 31 December 2018). The decrease compared to the value for the comparative period was due to the lower impact of incentives paid to top management who left the Company.

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 2 (€mil. 2 in 2018). This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

39. Share-based payments

In order to implement an incentive and retention system for the Group’s employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the Company.

The cost recognised in the income statement for the share incentive plans amounted in 2019 to €mil. 9 (€mil. 9 in 2018).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group net debt for 25% and ROS for 25%) was equal to €13.12 for the first plan (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017), to €9.83 (value of Leonardo shares at the grant date of 31 July 2016) with reference to the second three-year cycle (2016-2018) and to €14.76 (value of Leonardo shares at the grant date of 31 July 2017) with reference to the third three-year cycle (2017-2019), while it was equal to €10.25 for the second plan (value of Leonardo shares at the grant date of 31 July 2018) with reference to the first three-year cycle (2018-2020) and to €11.04 (value of Leonardo shares at the grant date of 31 July 2019) with reference to the second three-year cycle (2019-2021).

Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90 for the first plan with reference to the first three-year cycle (2015-2017), to €3.88 with reference to the second three-year cycle (2016-2018) and to €8.55 with reference to the third three-year cycle (2017-2019), while for the second plan it was equal to €3.51 with reference to the first three-year cycle (2018-2020) and to €6.72 with reference to the second three-year cycle (2019-2021).
The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;
- the expected volatility of the price of Leonardo shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;
- correlation coefficients between Leonardo and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis.

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

For the Board of Directors
The Chairman
(Giovanni De Gennaro)
Attachment: Disclosure under Law 124/2017

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

Grants received

Worth noting are the provisions of Law 124/2017 imposing disclosure obligations on those entities carrying out the activity referred to in Article 2195 of the Italian Civil Code in relation to sums which are not of a general nature and do not consist of fees, remuneration or compensation received from public administrations or similar entities.

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

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

It should also be noted that the transparency of State aid and De Minimis aid for which there is a publication obligation is protected by their publication in the National Register of State Aids referred to in Article 52 of Law 234 of 24 December 2012, as provided for in Article 125-quinquies of Law 124/2017.

Grants made

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

There are no grants disbursed by Leonardo SpA and its Italian subsidiaries in the form of donations or disbursements that do not consist of a consideration for services received, not even in the form of a return in terms of image.
## Attachment:
### Scope of consolidation

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

<table>
<thead>
<tr>
<th>Company name</th>
<th>Registered office</th>
<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership</th>
<th>% Group shareholding</th>
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List of companies consolidated on a line-by-line basis (amounts in currency)

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<th>Company name</th>
<th>Registered office</th>
<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership</th>
<th>% Group shareholding</th>
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<td>Basildon, Essex (UK)</td>
<td>LEONARDO MW LTD</td>
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<td>SELEX ES SPA (IN LIQ.)</td>
<td>Rome</td>
<td>SOGEPA SPA</td>
<td>EUR</td>
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<td>Riyadh (Saudi Arabia)</td>
<td>LEONARDO MW LTD SELEX ES (PROJECTS) LTD</td>
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<td>SISTEMI DINAMICI SPA</td>
<td>Pisa</td>
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<td>Rome</td>
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<td>LEONARDO DRS INC.</td>
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<td>LEONARDO MW LTD</td>
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<td>Rome</td>
<td>LEONARDO SPA TELESPAZIO SPA</td>
<td>EUR</td>
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<td>VEGA DEUTSCHLAND GMBH</td>
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### List of companies consolidated on a line-by-line basis (amounts in currency)

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<th>Company name</th>
<th>Registered office</th>
<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership Direct</th>
<th>% Group ownership Indirect</th>
<th>% Group shareholding</th>
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<tr>
<td>WYTWORNIA SPRZETU KOMUNIKACYJNEGO “PZL-ŚWIDNIK” SPOLKA AKCYJNA</td>
<td>Świdnik (Poland)</td>
<td>LEONARDO SPA</td>
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### List of companies consolidated using the equity method (amounts in currency)

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<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership Direct</th>
<th>% Group ownership Indirect</th>
<th>% Group shareholding</th>
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<td>CARDPRIZE TWO LIMITED</td>
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<td>CONSORZIO GIE-ATR</td>
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<td>LEONARDO SPA</td>
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<td>TELESPAZIO SPA</td>
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<td>EUROFIGHTER AIRCRAFT MANAGEMENT GmbH (IN LIQ.)</td>
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<td>Company name</td>
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<td>Currency</td>
<td>Share capital</td>
<td>% Group ownership</td>
<td>% Group shareholding</td>
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<td>GAF AG</td>
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<td>E-GEOS SPA</td>
<td>EUR</td>
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<td>ALENIA AERMACCHI SPA</td>
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<td>LEONARDO SPA</td>
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<td>Naples</td>
<td>ANSALDOBREDA SPA</td>
<td>EUR</td>
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<td>IVECO - OTO MELARA SCarl</td>
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<td>EUR</td>
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<td>JIANGXI CHANGHE AGUSTA HELICOPTER CO. LTD</td>
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<td>LEONARDO SPA</td>
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<td>LEONARDO SPA</td>
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<td>LEONARDO AEROSPACE DEFENSE &amp; SECURITY INDIA PRIVATE LTD</td>
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<td>INR</td>
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<td>LEONARDO CANADA CO.</td>
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<td>100</td>
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<tr>
<td>LEONARDO (CHINA) CO. LTD former SAPHIRE INTERNATIONAL AVIATION &amp; ATC ENGINEERING CO. LTD</td>
<td>Beijing (China)</td>
<td>LEONARDO INTERNATIONAL SPA</td>
<td>USD</td>
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<td>LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE) LTD</td>
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<td>GBP</td>
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<td>LEONARDO HELICOPTERES ALGERIE SPA</td>
<td>Bir Mourad Rais (Algerie)</td>
<td>LEONARDO SPA</td>
<td>EUR</td>
<td>55,000,000</td>
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</table>
### List of companies consolidated using the equity method (amounts in currency)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Registered office</th>
<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership</th>
<th>% Group shareholding</th>
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<tbody>
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<td>LEO NARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD</td>
<td>Yeovil, Somerset (UK)</td>
<td>LEO NARDO MW LTD</td>
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<td>LEO NARDO LIMITED formerly FINMECCANICA UK LTD</td>
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<td>LEO NARDO POLAND SP. Z O.O.</td>
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<td>PKR</td>
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<td>AMSH BV</td>
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<td>LEO NARDO SPA</td>
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<td>GBP</td>
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<td>SPACEOPAL GMBH</td>
<td>Munich (Germany)</td>
<td>TELESPAZIO SPA</td>
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<td>TELESPAZIO SPA</td>
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<td>TELESPAZIO LATIN AMERICA LTDA</td>
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</tr>
</tbody>
</table>
### List of companies consolidated using the equity method (amounts in currency)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Registered office</th>
<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership</th>
<th>% Group shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>TELESPAZIO SPA</td>
<td>Rome</td>
<td>LEONARDO SPA</td>
<td>EUR</td>
<td>50,000,000</td>
<td>67.00</td>
<td>67.00</td>
</tr>
<tr>
<td>TELESPAZIO VEGA DEUTSCHLAND GMBH</td>
<td>Darmstadt (Germany)</td>
<td>TELESPAZIO SPA</td>
<td>EUR</td>
<td>44,150</td>
<td>100</td>
<td>67.00</td>
</tr>
<tr>
<td>TELESPAZIO VEGA UK LTD</td>
<td>Luton, Bedfordshire (UK)</td>
<td>TELESPAZIO SPA</td>
<td>GBP</td>
<td>30,000,100</td>
<td>100</td>
<td>67.00</td>
</tr>
<tr>
<td>TELESPAZIO VEGA UK SL</td>
<td>Madrid (Spain)</td>
<td>TELESPAZIO VEGA UK LTD</td>
<td>EUR</td>
<td>14,400,048</td>
<td>100</td>
<td>67.00</td>
</tr>
<tr>
<td>THALES ALENIA SPACE SAS</td>
<td>Cannes (France)</td>
<td>LEONARDO SPA</td>
<td>EUR</td>
<td>918,037,500</td>
<td>33.00</td>
<td>33.00</td>
</tr>
<tr>
<td>TORPEDO SOUTH AFRICA (PTY) LTD</td>
<td>Gauteng (South Africa)</td>
<td>LEONARDO SPA</td>
<td>ZAR</td>
<td>-</td>
<td>49.00</td>
<td>49.00</td>
</tr>
<tr>
<td>VITROCISET JADWALEAN LTD</td>
<td>Riyadh (Saudi Arabia)</td>
<td>VITROCISET SPA</td>
<td>SAR</td>
<td>2,000,000</td>
<td>45.00</td>
<td>45.00</td>
</tr>
<tr>
<td>WIN BLUEWATER SERVICES PRIVATE LIMITED (IN LIQ.)</td>
<td>New Delhi (India)</td>
<td>LEONARDO SPA</td>
<td>INR</td>
<td>12,000,000</td>
<td>99.9999</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Company name</th>
<th>Registered office</th>
<th>Participating company</th>
<th>Currency</th>
<th>Share capital</th>
<th>% Group ownership</th>
<th>% Group shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADVANCED MALE AIRCRAFT LLC</td>
<td>Al Ain, Muwaiji (UAE)</td>
<td>LEONARDO SPA</td>
<td>AED</td>
<td>200,000</td>
<td>49.00</td>
<td>49.00</td>
</tr>
<tr>
<td>CCRT SISTEMI SPA (IN BANKR.)</td>
<td>Milan</td>
<td>SOGEPA SPA</td>
<td>EUR</td>
<td>697,217</td>
<td>30.34</td>
<td>30.34</td>
</tr>
<tr>
<td>CHONGQING CHUANYI ANSALDOREDA RAILWAY TRANSPORT. EQUIP. CO. LTD</td>
<td>Chongqing (China)</td>
<td>ANSALDOREDA SPA</td>
<td>CNY</td>
<td>50,000,000</td>
<td>50.00</td>
<td>50.00</td>
</tr>
<tr>
<td>EARTHLAB LUXEMBOURG SA</td>
<td>Luxembourg (Luxembourg)</td>
<td>TELESPAZIO FRANCE SAS</td>
<td>CNY</td>
<td>50,000,000</td>
<td>54.40</td>
<td>34.20</td>
</tr>
<tr>
<td>ELSACOM - UKRAINE JOINT STOCK COMPANY</td>
<td>Kiev (Ukraine)</td>
<td>SOGEPA SPA</td>
<td>UAH</td>
<td>7,945,000</td>
<td>49.00</td>
<td>49.00</td>
</tr>
<tr>
<td>INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (EXT. ADM.)</td>
<td>Genoa</td>
<td>LEONARDO SPA</td>
<td>EUR</td>
<td>103,567</td>
<td>30.98</td>
<td>30.98</td>
</tr>
<tr>
<td>LEONARDO INTERNATIONAL LTD</td>
<td>Grantham, Lincolnshire (UK)</td>
<td>LEONARDO MW LTD</td>
<td>GBP</td>
<td>1</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
Below are the main changes in the scope of consolidation at 31 December 2019 in comparison with 31 December 2018:

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>EVENT</th>
<th>MONTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vitrociset Group</td>
<td>acquired</td>
<td>January 2019</td>
</tr>
<tr>
<td>D-Flight SpA</td>
<td>acquired</td>
<td>February 2019</td>
</tr>
<tr>
<td>UTM Systems &amp; Services Srl</td>
<td>became operating</td>
<td>February 2019</td>
</tr>
<tr>
<td>Leonardo Poland SP. Z O.O.</td>
<td>newly established</td>
<td>March 2019</td>
</tr>
<tr>
<td>Leonardo Technology Pakistan (SMC-Private) Ltd</td>
<td>newly established</td>
<td>March 2019</td>
</tr>
<tr>
<td>Leonardo Hélicoptères Algérie SpA</td>
<td>newly established</td>
<td>March 2019</td>
</tr>
<tr>
<td>Leonardo Singapore PTE Ltd</td>
<td>newly established</td>
<td>May 2019</td>
</tr>
<tr>
<td>Airbus Telespazio Capacity Operator SAA</td>
<td>newly established</td>
<td>July 2019</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMPANIES WHICH LEFT THE SCOPES OF CONSOLIDATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>AgustaWestland North America Inc.</td>
</tr>
<tr>
<td>TELAER consortium</td>
</tr>
<tr>
<td>Eurotech SpA</td>
</tr>
<tr>
<td>AnsaldoBreda France SAS (in liq.)</td>
</tr>
<tr>
<td>A4ESSOR SAS</td>
</tr>
<tr>
<td>Eurosystav SAS (in liq.)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMPANIES INVOLVED IN MERGER TRANSACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merged company</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Leonardo do Brasil Ltda</td>
</tr>
<tr>
<td>OTO Melara do Brasil Ltda</td>
</tr>
<tr>
<td>Selex ES do Brasil Ltda</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMPANIES WHICH CHANGED THEIR CORPORATE NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old name</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>Agusta Aerospace Services AAS SA</td>
</tr>
<tr>
<td>Selex ES Elektronk Turkey AS</td>
</tr>
<tr>
<td>AgustaWestland do Brasil Ltda</td>
</tr>
<tr>
<td>AugustaWestland Australia PTY Ltd</td>
</tr>
<tr>
<td>Saphire International Aviation ATC Engineering Co. Ltd</td>
</tr>
<tr>
<td>AgustaWestland Malaysia SDN BHD</td>
</tr>
<tr>
<td>Finmeccanica UK Ltd</td>
</tr>
</tbody>
</table>
Statement on the consolidated financial statements pursuant to Article 154-bis, paragraph 5 of Legislative Decree 58/1998 as amended

1. The undersigned Alessandro Profumo, as the Chief Executive Officer, and Alessandra Genco, as the Officer in charge of financial reporting for Leonardo SpA, certify, in accordance with Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:

   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2019.

2. In this respect it is noted that no significant matters arose.

3. It is also certified that:

3.1 the consolidated financial statements:

   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-ter of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation;

3.2 the Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This statement also is made pursuant to and for the purposes of Article 154-bis, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 12 March 2020

The Chief Executive Officer (Alessandro Profumo)

The Officer in charge of financial reporting (Alessandra Genco)
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 article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of Leonardo S.p.a.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Leonardo Group (the “group”), which comprise the statement of financial position as at 31 December 2019, the separate income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Leonardo Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the consolidated financial statements” section of our report. We are independent of Leonardo S.p.a. (the “Parent”) in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Recognition of long-term contract revenue and losses

Notes to the consolidated financial statements: notes 3.9 “Revenues and contract assets/liabilities with customers”, 4.4 “Estimate of revenue and final costs of long-term contracts”, 16 “Contract assets and liabilities”, 22 “Provisions for risks and charges and contingent liabilities” and 27 “Revenue”

Key audit matter | Audit procedures addressing the key audit matter

| A significant portion of the group’s revenue from long-term contracts is recognised using the percentage of completion method based on the cost-to-cost model, if the IFRS 15 requirements for recognition over time are met. Estimating the total expected contract costs, which is necessary to calculate the stage of completion, is, by its very nature, complex. It also entails a high degree of uncertainty as it may be affected by many factors, including the products’ design complexity and the ability to duly meet the technical specifications of its customers and the working time contractually agreed. Moreover, any failure to comply with the contractual provisions, such as, for example, those relating to delivery times and products’ and services’ compliance with the customers’ specific requests, may give rise to material penalties and extra-costs which shall be considered in estimating total contract costs. Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses. Accordingly, we believe that the recognition of long-term contract revenue and losses is a key audit matter. |
| — updating our understanding of the process for the recognition of contract revenue and losses; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of contracts deemed material for the purposes of our audit: – examining the contracts signed with the customers in order to check whether their main provisions had been duly considered in management estimates; – assessing the assumptions underlying the estimated contract costs, based on (i) discussions with the relevant internal departments and (ii) any communications with customers; – analysing the most significant discrepancies between past years’ estimates and actual figures, in order to assess the accuracy of the forecasting process; – agreeing the costs incurred during the year and their allocation to contract work in progress; – for certain types of production, obtaining evidence of the physical stage of completion through a physical count; – assessing the accuracy of the calculation of the percentage of completion and the related recognition of contract revenue and expected losses, if any; – inquiring at the entities legal department on long-term contracts disputes; – requesting external confirmations from legal advisors, if involved in the above disputes; |
Leonardo Group
Independent auditors’ report
31 December 2019

– assessing the appropriateness of the presentation and adequacy of disclosures about contract revenue and losses in the consolidated financial statements.

Recoverability of goodwill

Notes to the consolidated financial statements: notes 3.4.4 “Goodwill”, 4.6 “Impairment of assets” and 9 “Intangible assets”

Key audit matter Audit procedures addressing the key audit matter

The consolidated financial statements at 31 December 2019 include goodwill of €3,825 million.

The directors tested goodwill for impairment estimating the recoverable amount of the cash-generating units (CGU) to which goodwill is allocated. The estimated recoverable amount is based on value in use, that is the present value of the future expected cash flows (discounted cash flows method).

This method is characterised by a high degree of complexity and the use of estimates which are by their very nature, uncertain and subjective, about:

— the expected cash flows, determined on the basis of the general and sector trends, the actual cash flows for recent years and the projected growth rates;

— the financial parameters used to calculate the discount rate.

The 2020-2024 business plan (the “business plan”) that the parent’s directors approved on 12 March 2020 which is the basis for the cash flow estimates, is not only affected by the uncertainties inherent in forecasting, but also by the spending programmes of governments and public agencies, which are subject to delays, changes when work is in progress or cancellations.

For the above reasons, we believe that the recoverability of goodwill is a key audit matter.

Our audit procedures included:

— updating our understanding of the impairment testing procedure approved by the parent’s board of directors on 25 February 2020;

— updating our understanding of the process used to draft the group’s business plan;

— analysing the criteria used to identify the CGU and tracing the amount of the CGU assets and liabilities to the relevant carrying amounts in the consolidated financial statements;

— comparing the cash flows used for impairment testing to the cash flows included in the business plan;

— analysing the main assumptions used by the directors in drafting the business plan for reasonableness;

— considering the most significant discrepancies between the data included in the past years’ plans and actual figures, in order to assess the accuracy of the forecasting process;

— involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information;

— assessing the sensitivity analysis included in the notes to the consolidated financial statements with reference to the key assumptions used in the impairment test;

— assessing the appropriateness of the presentation and adequacy of disclosures about goodwill and impairment testing in the consolidated financial statements.
Recognition and measurement of non-recurring costs and development costs

Notes to the consolidated financial statements: notes 4.1 “Research and Development costs”, 4.2 “Non-recurring costs”, 4.6 “Impairment of assets” and 9 “Intangible assets”

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>Audit procedures addressing the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>In its consolidated financial statements at 31 December 2019, the group has recognised non-recurring costs and development costs relating to the design, prototyping, start-up and technical and functional specification adjustments of its products totalling €2,308 million under intangible assets.</td>
<td>Our audit procedures included:</td>
</tr>
<tr>
<td>The initial recognition and subsequent measurement of their recoverability through impairment test requires complex estimates with a high degree of uncertainty, since they are affected by many factors, including the horizon of the product business plans and management’s ability to forecast the commercial success of new technologies. Accordingly, these estimates require a significant level of judgement by directors.</td>
<td>— updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs;</td>
</tr>
<tr>
<td>For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.</td>
<td>— assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;</td>
</tr>
<tr>
<td></td>
<td>— for a sample of development projects deemed material for the purposes of our audit:</td>
</tr>
<tr>
<td></td>
<td>— examining the main internal and external cost items recognised during the year on the basis, inter alia, of inquiries of the relevant internal departments and documentary evidence provided by management;</td>
</tr>
<tr>
<td></td>
<td>— challenging the reasonableness of the assumptions underlying the product business plans;</td>
</tr>
<tr>
<td></td>
<td>— involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information;</td>
</tr>
<tr>
<td></td>
<td>— assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the consolidated financial statements.</td>
</tr>
</tbody>
</table>

Responsibilities of the parent’s directors and board of statutory auditors (“Collegio Sindacale”) for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group’s ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures.
The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, the group’s financial reporting process.

**Auditors’ responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors’ report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 16 May 2012, the parent’s shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent’s directors are responsible for the preparation of the group’s directors’ report and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors’ report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group’s consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors’ report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group’s consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the group and its environment obtained through our audit, we have nothing to report.
Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Leonardo S.p.a. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Rome, 13 March 2020

KPMG S.p.A.

(signed on the original)

Marcella Balistreri
Director
Separate financial statements at 31 December 2019
Leonardo - Società per azioni
### SEPARATE INCOME STATEMENT

<table>
<thead>
<tr>
<th>€</th>
<th>Notes</th>
<th>2018</th>
<th>Of which with related parties</th>
<th>2019</th>
<th>Of which with related parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>27</td>
<td>8,079,344,137</td>
<td>2,210,589,533</td>
<td>9,009,514,782</td>
<td>2,367,868,350</td>
</tr>
<tr>
<td>Other operating income</td>
<td>28</td>
<td>448,709,332</td>
<td>14,237,199</td>
<td>394,053,724</td>
<td>8,856,207</td>
</tr>
<tr>
<td>Purchase and personnel expenses</td>
<td>29</td>
<td>(7,579,100,125)</td>
<td>(1,374,290,213)</td>
<td>(8,025,905,631)</td>
<td>(1,440,000,436)</td>
</tr>
<tr>
<td>Amortisation, depreciation and financial assets value adjustments</td>
<td>30</td>
<td>(432,916,242)</td>
<td></td>
<td>(480,589,162)</td>
<td></td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>28</td>
<td>(389,133,882)</td>
<td>(915,365)</td>
<td>(358,651,892)</td>
<td>(1,149,117)</td>
</tr>
</tbody>
</table>

**Income before tax and financial expenses**

| 126,903,220 | 538,421,822 |

| Financial income | 31 | 508,762,440 | 27,006,042 | 335,066,858 | 22,884,962 |
| Financial expenses | 31 | (394,081,922) | (9,008,138) | (387,982,318) | (23,935,570) |

**Operating profit/(loss) before income taxes and discontinued operations**

| 241,583,738 | 485,506,362 |

| Income taxes | 32 | (47,049,564) | (95,728,776) |

**Profit/(Loss) from discontinued operations**

| 89,266,457 | - |

**Net profit/(loss) for the period**

| 283,800,631 | 389,777,586 |

### STATEMENT OF COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th>€</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(Loss) for the period</td>
<td>283,800,631</td>
<td>389,777,586</td>
</tr>
</tbody>
</table>

**Other comprehensive income/(expenses):**

- measurement of defined-benefit plans:
  - revaluation | 1,269,444 | (1,033,534) |
  - tax effect | (161,040) | 8,078        |

**Comprehensive income/(expenses) will or might be subsequently reclassified within the profit/(loss) for the period:**

- changes in cash-flow hedges:
  - change generated in the period | (46,812,189) | 8,138,891 |
  - transferred to the profit/(loss) for the period | 11,823,898 | 8,709,941 |
  - tax effect | 7,076,617 | (3,260,635) |

**Total other comprehensive income/(expenses), net of tax**

| (27,911,674) | 13,588,197 |

**Total comprehensive income**

| 256,997,361 | 402,340,327 |
### STATEMENT OF FINANCIAL POSITION

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

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

<table>
<thead>
<tr>
<th>€</th>
<th>Notes</th>
<th>2018</th>
<th>Of which with related parties</th>
<th>2019</th>
<th>Of which with related parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cash flows from operating activities</td>
<td>33</td>
<td>986,820,332</td>
<td></td>
<td>1,112,742,707</td>
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</tr>
<tr>
<td>Change in working capital</td>
<td>33</td>
<td>(64,245,031)</td>
<td>208,584,163</td>
<td>(593,969,445)</td>
<td>20,371,965</td>
</tr>
<tr>
<td>Change in other operating assets and liabilities and provisions for risks and charges</td>
<td>33</td>
<td>(326,374,955)</td>
<td>(58,839,865)</td>
<td>(374,606,982)</td>
<td>140,564,144</td>
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<tr>
<td>Interest paid</td>
<td></td>
<td>(189,323,077)</td>
<td></td>
<td>(161,075,578)</td>
<td>14,975,124</td>
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<tr>
<td>Income taxes received/(paid)</td>
<td></td>
<td>57,428,901</td>
<td></td>
<td>(23,207,790)</td>
<td></td>
</tr>
<tr>
<td>Cash flows generated from/(used in) operating activities</td>
<td></td>
<td>464,306,170</td>
<td></td>
<td>(40,117,088)</td>
<td></td>
</tr>
<tr>
<td>Investments in property, plant and equipment and intangible assets</td>
<td></td>
<td>(466,559,592)</td>
<td></td>
<td>(397,853,115)</td>
<td></td>
</tr>
<tr>
<td>Sales of property, plant and equipment and intangible assets</td>
<td></td>
<td>14,684,337</td>
<td></td>
<td>2,874,044</td>
<td></td>
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<tr>
<td>Dividends received</td>
<td></td>
<td>386,579,803</td>
<td></td>
<td>184,697,377</td>
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</tr>
<tr>
<td>Other investing activities</td>
<td></td>
<td>(190,518,527)</td>
<td></td>
<td>(38,938,978)</td>
<td></td>
</tr>
<tr>
<td>Cash flows generated from/(used in) investing activities</td>
<td></td>
<td>(255,813,979)</td>
<td></td>
<td>(249,260,672)</td>
<td></td>
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<tr>
<td>Repayment of EIB loan</td>
<td></td>
<td>(46,320,346)</td>
<td></td>
<td>(46,320,346)</td>
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</tr>
<tr>
<td>Term Loan and EIB subscription</td>
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<td>498,297,500</td>
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<td>300,000,000</td>
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<tr>
<td>Bond buy repayments</td>
<td></td>
<td>(512,613,892)</td>
<td></td>
<td>(310,342,861)</td>
<td></td>
</tr>
<tr>
<td>Net change in other loans and borrowings</td>
<td></td>
<td>(9,224,154)</td>
<td></td>
<td>209,210,761</td>
<td>380,862,321</td>
</tr>
<tr>
<td>Dividends paid</td>
<td></td>
<td>(80,548,863)</td>
<td></td>
<td>(80,500,435)</td>
<td></td>
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<tr>
<td>Cash flows generated from/(used in) financing activities</td>
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<td>(150,409,755)</td>
<td></td>
<td>72,047,119</td>
<td></td>
</tr>
<tr>
<td>Net increase/(decrease) in cash and cash equivalents</td>
<td></td>
<td>58,082,436</td>
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<td>(217,330,641)</td>
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<tr>
<td>Exchange-rate differences and other changes</td>
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<td>3,394,262</td>
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<tr>
<td>Cash and cash equivalents at 1 January</td>
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<td>1,621,151,631</td>
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<tr>
<td>Effect from mergers/demergers</td>
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<td>-</td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at 31 December</td>
<td></td>
<td>1,621,151,631</td>
<td></td>
<td>1,407,215,252</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Retained earnings</th>
<th>Cash-flow hedge reserve</th>
<th>Revaluation reserve of defined-benefit plans</th>
<th>Merger surplus</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2018</td>
<td>2,491,155,064</td>
<td>2,542,526,050</td>
<td>(61,264,085)</td>
<td>(60,565,049)</td>
<td>722,681,269</td>
<td>5,634,533,249</td>
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<tr>
<td>Application of IFRS 9</td>
<td>(127,992,251)</td>
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<td></td>
<td></td>
<td></td>
<td>(127,992,251)</td>
</tr>
<tr>
<td>1 January 2018</td>
<td>2,491,155,064</td>
<td>2,414,533,799</td>
<td>(61,264,085)</td>
<td>(60,565,049)</td>
<td>722,681,269</td>
<td>5,506,540,998</td>
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<tr>
<td>Profit/(Loss) for the period</td>
<td>-</td>
<td>283,800,631</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>283,800,631</td>
</tr>
<tr>
<td>Other comprehensive income/(expenses)</td>
<td>-</td>
<td></td>
<td>(27,911,674)</td>
<td>1,108,404</td>
<td>-</td>
<td>(26,803,270)</td>
</tr>
<tr>
<td>Total comprehensive income/(expenses)</td>
<td>-</td>
<td>283,800,631</td>
<td>(27,911,674)</td>
<td>1,108,404</td>
<td>-</td>
<td>256,997,361</td>
</tr>
<tr>
<td>Repurchase of treasury shares less shares sold</td>
<td>3,704,195</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,704,195</td>
</tr>
<tr>
<td>Dividends resolved</td>
<td>-</td>
<td>(80,549,138)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(80,549,138)</td>
</tr>
<tr>
<td>Total transactions with Owners of the Parent, recognised directly in equity</td>
<td>3,704,195</td>
<td>(80,549,138)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(76,844,943)</td>
</tr>
<tr>
<td>Stock-option/grant plans - performance's value</td>
<td>-</td>
<td>99,237</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>99,237</td>
</tr>
<tr>
<td>Other changes</td>
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<td>4,374,451</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,374,451</td>
</tr>
<tr>
<td>31 December 2018</td>
<td>2,494,859,259</td>
<td>2,622,258,980</td>
<td>(89,175,759)</td>
<td>(59,456,645)</td>
<td>722,681,269</td>
<td>5,691,167,104</td>
</tr>
<tr>
<td>1 January 2019</td>
<td>2,494,859,259</td>
<td>2,622,258,980</td>
<td>(89,175,759)</td>
<td>(59,456,645)</td>
<td>722,681,269</td>
<td>5,691,167,104</td>
</tr>
<tr>
<td>Profit/(Loss) for the period</td>
<td>-</td>
<td>389,777,586</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>389,777,586</td>
</tr>
<tr>
<td>Other comprehensive income/(expenses)</td>
<td>-</td>
<td></td>
<td>13,588,197</td>
<td>(1,025,456)</td>
<td>-</td>
<td>12,562,741</td>
</tr>
<tr>
<td>Total comprehensive income/(expenses)</td>
<td>-</td>
<td>389,777,586</td>
<td>13,588,197</td>
<td>(1,025,456)</td>
<td>-</td>
<td>402,340,327</td>
</tr>
<tr>
<td>Repurchase of treasury shares less shares sold</td>
<td>1,492,415</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,492,415</td>
</tr>
<tr>
<td>Dividends resolved</td>
<td>-</td>
<td>(80,508,421)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(80,508,421)</td>
</tr>
<tr>
<td>Total transactions with Owners of the Parent, recognised directly in equity</td>
<td>1,492,415</td>
<td>(80,508,421)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(79,016,006)</td>
</tr>
<tr>
<td>Stock-option/grant plans - performance's value</td>
<td>-</td>
<td>5,852,891</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,852,891</td>
</tr>
<tr>
<td>31 December 2019</td>
<td>2,496,351,674</td>
<td>2,937,381,036</td>
<td>(75,587,562)</td>
<td>(60,482,101)</td>
<td>722,681,269</td>
<td>6,020,344,316</td>
</tr>
</tbody>
</table>
Notes to the separate financial statements at 31 December 2019

1. General information

Leonardo SpA 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, Defence Electronics & Security and Aeronautics sectors.

2. Form, content and applicable accounting standards

In application of EC Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2019 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

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

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

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

The International Financial Reporting Standards (IFRS) used for preparing these separate financial statements, drawn up under the going-concern assumption, are the same that were used in the preparation of the separate financial statements at 31 December 2018 except for what indicated below (Note 4). Preparation of the separate financial statements required management to make certain valuations and estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Note 4 to the consolidated financial statements, to which reference is made.

The Board of Directors of 12 March 2020 resolved to submit to shareholders the draft financial statements at 31 December 2019, authorising their circulation.
on the same date and convened the Ordinary Shareholders’ Meeting for the approval thereof for 8 and 15 May 2020, on first and second call, respectively.

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

3. Accounting policies

The accounting policies and criteria are the same adopted, where applicable, for the annual consolidated financial statements, to which reference is made, except for the recognition and measurement of equity investment in subsidiaries, jointly controlled companies and associates recognised at their purchase or incorporation cost. In case of any impairment losses their recoverability is verified through the comparison between their carrying amount and the higher of their value in use that is determined by discounting prospective cash flows of the equity investment, where applicable, and the assumed sales value (fair value) which is determined on the basis of recent transactions or market multiples. The portion of losses (if any) exceeding the carrying amount is recognised through profit or loss in a specific provision under liabilities to the extent that the Company states the existence of legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity. If the impaired investee shows a subsequent improvement in performance which leads to believe that the reasons for the impairment cease to exist, the equity investments are revalued to the extent of the impairment losses recognised in previous periods under “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 joint control, which are not governed by IFRSs, either from the point of view of the purchaser/assignee or from that of the seller/assignor, Leonardo recognises such transactions recognising directly in equity any gain on the transfer or sale of its subsidiaries.

4. Effects of changes in accounting policies adopted

With effect from 1 January 2019 (first-time adoption) the Company adopted IFRS 16 “Leases”, which redefines the methods of recognition of agreements in the financial statements of lessee companies, thus providing for a single method of accounting for any and all types of agreements. The distinction between operating and finance leases is maintained for lessor companies.

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

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

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights of use</td>
<td>528</td>
</tr>
<tr>
<td>Financial liabilities for leases</td>
<td>(558)</td>
</tr>
<tr>
<td>Other net (liabilities)/assets</td>
<td>30</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for non-cancellable leases at 31 December 2018</td>
<td>524</td>
</tr>
<tr>
<td>Effect of discounting-back at 1 January 2019</td>
<td>(57)</td>
</tr>
<tr>
<td>Exclusion of “exempt” lease agreements</td>
<td>(19)</td>
</tr>
<tr>
<td>Recognition of instalments of leases signed but not yet started</td>
<td>(4)</td>
</tr>
<tr>
<td>Other changes</td>
<td>84</td>
</tr>
<tr>
<td><strong>Financial liability for leases at 1 January 2019</strong></td>
<td><strong>528</strong></td>
</tr>
</tbody>
</table>
Other changes mainly encompass payments related to the renewal periods not included among the commitments for operating lease liabilities at 31 December 2018.

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

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

Other changes are mainly attributable to bring commitments into line with the assets possible use over time.

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

5. Significant non-recurring events or transactions

Within the project for concentrating the real estate assets of Leonardo SpA, with effect from 1 January 2019, there was the contribution of the real estate assets of the Company to the subsidiary Leonardo Global Solutions SpA, the disclosure relating to the financial effects was provided in the Annual Report at 31 December 2018 in the section “Assets and liabilities held for sale”.

On 31 January 2019 Leonardo signed the closing of the acquisition of 98.54% of Vitrociset, since all the planned conditions had been fulfilled, including the Golden Power and Antitrust authorisations (€mil. 27). This transaction strengthen Leonardo’s services core business, especially Logistics, Simulation & Training and Space Operations, including the Space Surveillance and Tracking segment. Additionally, this initiative enables the consolidation of the Italian allied businesses to the Aerospace, Defence and Security industry, increasing the competitive edge under significant market prospects.

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

After the end of the year, we saw the full-blown outbreak during January 2020 of the new coronavirus (COVID-19), an epidemic which spread rapidly in many countries of the world and declared by the World Health Organization a pandemic.

In Europe, at the time of the issue of this Report, Italy is one of the most affected countries. This has placed substantial pressure on the Italian health system and led the government to issue a series of measures to curb the spread of the virus among the Italian population.

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

At the current state of knowledge of the spread of the emergency, the main areas likely to be impacted by the COVID-19 emergency are the following:
> commercial campaigns;
> continuity of supply chain;
> respect of production times/flows;
> respect of timing and acceptance processes of products/activities by customers.

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

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

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

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

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

The acquisition price of the company includes a fixed amount of €mil. 185, in addition to an earn-out mechanism linked to specific milestones in the life of the programme, starting from 2022.
The company’s preliminary financial statements at 31 December 2019 showed assets of about CHF mil. 230 (equivalent to about € mil. 215), mainly relating to the capitalisation of development costs incurred, and a negative equity of about CHF mil. 185 (equivalent to about € mil. 170). Given the full development phase which Kopter is going through, the preliminary result for 2019 is negative by approximately CHF mil. 40 (equivalent to approximately € mil. 35), as the marketing phase has not yet started.

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

Furthermore, on 31 January 2020 the United Kingdom left the European Union, with a so-called transition phase being expected to last until December 2020. The Company is monitoring the negotiations between the United Kingdom and the European Union, as well as supporting the competent institutional bodies and associations (defence sector) for the relevant actions. On the basis of internal analyses recently conducted, Leonardo has identified a first set of operational actions to deal with the “no deal” scenario, if required, with particular reference to the management of customs operations.

7. Segment information

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Company operates: Helicopters, Defence Electronics & Security and Aeronautics.
8. Intangible assets

<table>
<thead>
<tr>
<th></th>
<th>Goodwill</th>
<th>Development costs</th>
<th>Non-recurring costs</th>
<th>Concessions, licences and trademarks</th>
<th>Acquired through business combinations</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 January 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,522</td>
</tr>
<tr>
<td>Cost</td>
<td>917</td>
<td>831</td>
<td>1,876</td>
<td>492</td>
<td>96</td>
<td>310</td>
<td>4,522</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>(210)</td>
<td>(455)</td>
<td>(347)</td>
<td>(409)</td>
<td>(43)</td>
<td>(233)</td>
<td>(1,697)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td>707</td>
<td>376</td>
<td>1,529</td>
<td>83</td>
<td>53</td>
<td>77</td>
<td>2,825</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>18</td>
<td>117</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>137</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>(25)</td>
<td>(24)</td>
<td>(22)</td>
<td>(4)</td>
<td>(25)</td>
<td>(100)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>(1)</td>
<td>(47)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(48)</td>
</tr>
<tr>
<td>Other changes</td>
<td>-</td>
<td>10</td>
<td>76</td>
<td>8</td>
<td>-</td>
<td>15</td>
<td>109</td>
</tr>
<tr>
<td><strong>31 December 2018</strong></td>
<td>707</td>
<td>377</td>
<td>1,651</td>
<td>69</td>
<td>49</td>
<td>69</td>
<td>2,922</td>
</tr>
<tr>
<td>Broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>917</td>
<td>859</td>
<td>2,054</td>
<td>496</td>
<td>96</td>
<td>327</td>
<td>4,749</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>(481)</td>
<td>(370)</td>
<td>(427)</td>
<td>(47)</td>
<td>(235)</td>
<td>(1,560)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(210)</td>
<td>(1)</td>
<td>(33)</td>
<td>-</td>
<td>-</td>
<td>(23)</td>
<td>(267)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td>707</td>
<td>377</td>
<td>1,651</td>
<td>69</td>
<td>49</td>
<td>69</td>
<td>2,922</td>
</tr>
<tr>
<td>Investments</td>
<td>-</td>
<td>48</td>
<td>194</td>
<td>5</td>
<td>-</td>
<td>33</td>
<td>281</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>(23)</td>
<td>(53)</td>
<td>(19)</td>
<td>(4)</td>
<td>(22)</td>
<td>(121)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>(6)</td>
<td>(48)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(54)</td>
</tr>
<tr>
<td>Other changes</td>
<td>-</td>
<td>(5)</td>
<td>(58)</td>
<td>5</td>
<td>-</td>
<td>(2)</td>
<td>(61)</td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td>707</td>
<td>390</td>
<td>1,686</td>
<td>60</td>
<td>45</td>
<td>78</td>
<td>2,966</td>
</tr>
<tr>
<td>Broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>917</td>
<td>901</td>
<td>2,216</td>
<td>513</td>
<td>96</td>
<td>346</td>
<td>4,989</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>(504)</td>
<td>(423)</td>
<td>(453)</td>
<td>(51)</td>
<td>(245)</td>
<td>(1,676)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(210)</td>
<td>(7)</td>
<td>(107)</td>
<td>-</td>
<td>-</td>
<td>(23)</td>
<td>(347)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
<td>707</td>
<td>390</td>
<td>1,686</td>
<td>60</td>
<td>45</td>
<td>78</td>
<td>2,966</td>
</tr>
</tbody>
</table>

31 December 2018

- Gross value: 4,888
- Grants: 3,128

31 December 2019

- Gross value: 4,506
- Grants: 2,820

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

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

**Goodwill**

Goodwill is allocated to the Cash Generating Units (CGUs) or groups of CGUs concerned, which are determined with reference to the Group’s organisational, management and control structure coinciding, as is known, with the Group’s four business segments. At the recognition of the mergers and demergers occurred in 2016 within the creation of the One Company, the goodwill was allocated, in accordance with the principle of “continuity of values”, to the same CGUs as those in the consolidated financial statements, differentiating the part of goodwill related to net assets recognised line-by-line from that related to foreign equity investments, for which goodwill was recognised on the basis of the investments’ values.

The breakdown of goodwill recognised by segment at 31 December 2019 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helicopters</td>
<td>459</td>
<td>459</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>188</td>
<td>188</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>707</strong></td>
<td><strong>707</strong></td>
</tr>
</tbody>
</table>

Goodwill is tested for impairment in order to determine any possible loss in value, making reference to the CGU as a whole, including, in accordance with the organisational and operational model, the equity investments falling within the scope of consolidation, which are then included and tested in the same year as the impairment. Therefore, only the equity investments that are not tested together with goodwill are subject to an impairment test separately, if required.

The test is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale (fair value). In practice, the Group has established an operational hierarchy between calculating the fair value net transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group’s five-year business plans prepared by the CGU’s Management and incorporated into the plan approved by Leonardo’s Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates (“g-rate”) no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial 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 basic macroeconomic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected prospective developments in the Leonardo’s markets.

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

- the risk-free rate was determined using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU;
- the market premium determined using the Damodaran’s computations;
- the sector beta;
- the cost of debt;
- the debt/equity ratio.

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

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

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

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

The following WACCs and (nominal) growth rates were used at 31 December 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WACC</td>
<td>g-rate</td>
</tr>
<tr>
<td>Helicopters</td>
<td>8.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>6.4%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>7.2%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>
Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The 2019 headroom amounts were affected by the increase in WACCs due to the interest-rate market trend. Sensitivity analysis was conducted on the results of the tests, making reference to the assumptions for which it is reasonable to believe that a change in the same may significantly modify the results of the test.

The wide positive margins recorded are such that they may not be significantly modified by any changes in the assumptions described above; in any case, the results for all CGUs are reported below for information purposes. The table below shows, for the 2019 and 2028 financial years, the headroom relating to the base scenario, compared with the results of the following sensitivity analyses: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal.

<table>
<thead>
<tr>
<th>Margin (base case)</th>
<th>Margin post sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WACC</td>
</tr>
<tr>
<td>31 December 2018</td>
<td></td>
</tr>
<tr>
<td>Helicopters</td>
<td>699</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>9,826</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Margin (base case)</th>
<th>Margin post sensitivity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WACC</td>
</tr>
<tr>
<td>31 December 2019</td>
<td></td>
</tr>
<tr>
<td>Helicopters</td>
<td>1,004</td>
</tr>
<tr>
<td>Defence Electronics &amp; Security</td>
<td>7,847</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>8,352</td>
</tr>
</tbody>
</table>

Other intangible assets

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

The investments for the year relating to “Non-recurring costs” refer to programmes concerning Aeronautics (about €mil. 70) and Helicopters (about €mil. 124). As regards programmes that benefit from the provisions of Law 808/1985 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 classified among “Other non-current assets” (Note 12). The related amount is calculated on the basis of the management’s estimate that takes account of both reasonable certainty of obtaining grants and the effects arising from time value in the event that, once they have been obtained, they are deferred over more than one financial period. Receivables for grants assessed by the grantor in
relation to capitalised costs (shown here net of the related grants) are illustrated in Note 28.

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

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

**9. Property, plant and equipment and investment property**

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Plant and machinery</th>
<th>Equipment</th>
<th>Other tangible assets</th>
<th>Total</th>
<th>Investment property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 January 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>463</td>
<td>1,187</td>
<td>1,694</td>
<td>655</td>
<td>3,999</td>
<td>23</td>
</tr>
<tr>
<td>Amortisation, depreciation</td>
<td>(207)</td>
<td>(853)</td>
<td>(1,175)</td>
<td>(481)</td>
<td>(2,716)</td>
<td>(16)</td>
</tr>
<tr>
<td>and write-offs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount</td>
<td>256</td>
<td>334</td>
<td>519</td>
<td>174</td>
<td>1,283</td>
<td>7</td>
</tr>
<tr>
<td><strong>31 December 2018</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>26</td>
<td>1,183</td>
<td>1,753</td>
<td>684</td>
<td>3,646</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation, depreciation</td>
<td>(19)</td>
<td>(896)</td>
<td>(1,288)</td>
<td>(497)</td>
<td>(2,700)</td>
<td>-</td>
</tr>
<tr>
<td>and write-offs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount</td>
<td>7</td>
<td>287</td>
<td>465</td>
<td>187</td>
<td>946</td>
<td>-</td>
</tr>
</tbody>
</table>

*Broken down as follows:*

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Plant and machinery</th>
<th>Equipment</th>
<th>Other tangible assets</th>
<th>Total</th>
<th>Investment property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>-</td>
<td>7</td>
<td>36</td>
<td>110</td>
<td>153</td>
<td>-</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(1)</td>
<td>(53)</td>
<td>(105)</td>
<td>(21)</td>
<td>(180)</td>
<td>-</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
</tr>
<tr>
<td>Other changes</td>
<td>(1)</td>
<td>23</td>
<td>19</td>
<td>8</td>
<td>49</td>
<td>-</td>
</tr>
<tr>
<td><strong>31 December 2019</strong></td>
<td>5</td>
<td>264</td>
<td>414</td>
<td>283</td>
<td>966</td>
<td>-</td>
</tr>
</tbody>
</table>

*Broken down as follows:*

<table>
<thead>
<tr>
<th></th>
<th>Land and buildings</th>
<th>Plant and machinery</th>
<th>Equipment</th>
<th>Other tangible assets</th>
<th>Total</th>
<th>Investment property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>25</td>
<td>1,210</td>
<td>1,803</td>
<td>792</td>
<td>3,830</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation, depreciation</td>
<td>(20)</td>
<td>(946)</td>
<td>(1,389)</td>
<td>(509)</td>
<td>(2,864)</td>
<td>-</td>
</tr>
<tr>
<td>and write-offs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount</td>
<td>5</td>
<td>264</td>
<td>414</td>
<td>283</td>
<td>966</td>
<td>-</td>
</tr>
</tbody>
</table>
This item showed an increase as a result of the new investments, net of depreciation for the period.

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

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

### 10. Right of use

<table>
<thead>
<tr>
<th></th>
<th>Right of use of land and buildings</th>
<th>Right of use of plant and machinery</th>
<th>Right of use of equipment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>IFRS 16 adoption</td>
<td>494</td>
<td>1</td>
<td>33</td>
<td>528</td>
</tr>
<tr>
<td>New contract submission</td>
<td>218</td>
<td>1</td>
<td>1</td>
<td>220</td>
</tr>
<tr>
<td>Disposals</td>
<td>-</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(100)</td>
<td>(1)</td>
<td>(10)</td>
<td>(111)</td>
</tr>
<tr>
<td>Other changes</td>
<td>(10)</td>
<td>-</td>
<td>1</td>
<td>(9)</td>
</tr>
<tr>
<td>31 December 2019</td>
<td>602</td>
<td>1</td>
<td>24</td>
<td>627</td>
</tr>
<tr>
<td>Broken down as follows:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>702</td>
<td>2</td>
<td>38</td>
<td>742</td>
</tr>
<tr>
<td>Amortisation, depreciation and write-offs</td>
<td>(100)</td>
<td>(1)</td>
<td>(14)</td>
<td>(115)</td>
</tr>
<tr>
<td>Carrying amount</td>
<td>602</td>
<td>1</td>
<td>24</td>
<td>627</td>
</tr>
</tbody>
</table>

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity investments</td>
<td>Risk provisions</td>
<td>Total</td>
</tr>
<tr>
<td>1 January</td>
<td>7,345</td>
<td>(100)</td>
<td>7,245</td>
</tr>
<tr>
<td>Acquisitions/Subscriptions</td>
<td>181</td>
<td>96</td>
<td>277</td>
</tr>
<tr>
<td>Increase for transfer of fixed assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(58)</td>
<td>(2)</td>
<td>(60)</td>
</tr>
<tr>
<td>Disposals</td>
<td>(9)</td>
<td>-</td>
<td>(9)</td>
</tr>
<tr>
<td>Other changes</td>
<td>(78)</td>
<td>-</td>
<td>(78)</td>
</tr>
<tr>
<td>31 December</td>
<td>7,381</td>
<td>(6)</td>
<td>7,375</td>
</tr>
</tbody>
</table>

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.

The carrying amount of equity investments, unless conditions obtain, is tested for impairment in order to determine any possible loss in value. As mentioned, the carrying amount of equity investments is mainly tested by making reference to the relevant Divisions as a whole; for any information on the procedures for the performance of tests and any related information, reference should then be made to Note 8.

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

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

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

<table>
<thead>
<tr>
<th>Listed company</th>
<th>Number of shares held</th>
<th>Stock exchange value</th>
<th>Book value</th>
<th>Difference unit in €</th>
<th>Difference total in €mil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avio SpA</td>
<td>6,820,832</td>
<td>13,993</td>
<td>95</td>
<td>10,339</td>
<td>71</td>
</tr>
</tbody>
</table>

12. Receivables and other non-current assets

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current financial receivables from SuperJet</td>
<td>25</td>
<td>–</td>
</tr>
<tr>
<td>Deferred grants under Law 808/1985</td>
<td>36</td>
<td>61</td>
</tr>
<tr>
<td>Related-party receivables (Note 34)</td>
<td>329</td>
<td>410</td>
</tr>
<tr>
<td>Other non-current receivables</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Non-current receivables</td>
<td>400</td>
<td>481</td>
</tr>
<tr>
<td>Prepayments - non-current portion</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Non-recurring costs pending under Law 808/1985</td>
<td>216</td>
<td>151</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>221</td>
<td>154</td>
</tr>
</tbody>
</table>

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

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

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

13. Inventories

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials, supplies and consumables</td>
<td>1,339</td>
<td>1,440</td>
</tr>
<tr>
<td>Work in progress and semi-finished goods</td>
<td>1,044</td>
<td>973</td>
</tr>
<tr>
<td>Finished goods and merchandise</td>
<td>20</td>
<td>32</td>
</tr>
<tr>
<td>Point-in-time contract assets</td>
<td>329</td>
<td>367</td>
</tr>
<tr>
<td>Advances to suppliers</td>
<td>1,793</td>
<td>1,806</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,525</strong></td>
<td><strong>4,618</strong></td>
</tr>
</tbody>
</table>

The increase in the period, equal to €mil. 93, was mainly attributable to the inventories of raw materials, supplies and consumables.
Provisions for write-down are entered against the inventories to cover any obsolescence, slow-moving items or if the entry value is higher than the net realisable value, for a total amount of €mil. 619 (€mil. 613 at 31 December 2018).

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

### 14. Contract assets and liabilities

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

Contract assets are stated among assets, net of related liabilities if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work executed at the reporting date exceeds advances received from customers, or, among liabilities, if advances exceed the relevant work. This offsetting is performed only with regard to contract assets and liabilities and not to point-in-time contract assets classified among inventories. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

Below is a breakdown of contract assets:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost incurred and margins recognised</td>
<td>2,895</td>
<td>3,598</td>
</tr>
<tr>
<td>Advanced received</td>
<td>(7,942)</td>
<td>(8,175)</td>
</tr>
<tr>
<td><strong>Net value</strong></td>
<td>(5,047)</td>
<td>(4,577)</td>
</tr>
</tbody>
</table>

### 15. Trade and financial receivables

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>Financial</td>
<td>Trade</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,935</td>
<td>30</td>
</tr>
<tr>
<td>Cumulative impairments</td>
<td>(358)</td>
<td>(2)</td>
</tr>
<tr>
<td>Related-party current receivables (Note 34)</td>
<td>828</td>
<td>193</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,405</strong></td>
<td><strong>221</strong></td>
</tr>
</tbody>
</table>

The item of accumulated impairment mainly includes the effects of the application of IFRS 9.
The composition of assets by currency and geographical area is shown in Appendices nos. 5 and 6 to these notes. The ageing of receivables together with an analysis of how the Company manages credit risk is reported under Note 35.

16. Income tax receivables and payables

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

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

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

17. Other current assets

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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair value at</strong></td>
<td><strong>Net</strong></td>
<td><strong>Net</strong></td>
</tr>
<tr>
<td><strong>Interest-rate swaps</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash-flow hedges</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Currency forwards/swaps/options</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Fair-value hedges</td>
<td>26</td>
<td>(2)</td>
</tr>
<tr>
<td>Cash-flow hedges</td>
<td>64</td>
<td>(153)</td>
</tr>
</tbody>
</table>
The cash-flow hedge is the forward instrument hedging trade items denominated in foreign currency.

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

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

“Interest-rate swaps” with a total notional value of €mil. 500, classified as trading and hedging instruments, were placed into effect to pursue the management objectives of hedging part of the bonds issued by Leonardo and the Group companies. The impact on the income statement and balance sheet is described in the section on financial risk management (Note 35).

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

18. Cash and cash equivalents

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

19. Assets and liabilities held for sale

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

20. Equity

The equity broken down by available and distributable reserves is shown in Appendix no. 7 to these notes.
The composition of the share capital is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of ordinary shares</th>
<th>Par value</th>
<th>Treasury shares</th>
<th>Costs incurred (net of tax effect)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding shares</td>
<td>578,150,395</td>
<td>2,544</td>
<td>-</td>
<td>(19)</td>
<td>2,525</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(3,305,230)</td>
<td>-</td>
<td>(30)</td>
<td>-</td>
<td>(30)</td>
</tr>
<tr>
<td><strong>31 December 2018</strong></td>
<td><strong>574,845,165</strong></td>
<td><strong>2,544</strong></td>
<td><strong>(30)</strong></td>
<td><strong>(19)</strong></td>
<td><strong>2,495</strong></td>
</tr>
</tbody>
</table>

Repurchase of treasury shares net of the portion sold

|                     | 162,733                   | -         | 1               | -                                 | 1      |
| **31 December 2019**| **575,007,898**           | **2,544** | **(29)**        | **(19)**                          | **2,496**|

**Broken down as follows:**

<table>
<thead>
<tr>
<th></th>
<th>Number of ordinary shares</th>
<th>Par value</th>
<th>Treasury shares</th>
<th>Costs incurred (net of tax effect)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding shares</td>
<td>578,150,395</td>
<td>2,544</td>
<td>-</td>
<td>(19)</td>
<td>2,525</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(3,142,497)</td>
<td>-</td>
<td>(29)</td>
<td>-</td>
<td>(29)</td>
</tr>
</tbody>
</table>

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of €4.40 each, including no. 3,142,497 treasury shares.

At 31 December 2019 the Ministry of Economy and Finance owned around 30.204% of the share capital.

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

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

The proposal for the distribution of dividends for the period is included in the section “Proposal to the Shareholders’ Meeting”.

### 21. Current and non-current loans and borrowings

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

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

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

<table>
<thead>
<tr>
<th>Year of Issue</th>
<th>Maturity</th>
<th>Currency</th>
<th>Outstanding nominal amount (mil.) (*)</th>
<th>Annual coupon</th>
<th>Type of offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2025</td>
<td>€</td>
<td>500</td>
<td>4.875%</td>
<td>European institutional</td>
</tr>
<tr>
<td>2009</td>
<td>2022</td>
<td>€</td>
<td>556</td>
<td>5.250%</td>
<td>European institutional</td>
</tr>
<tr>
<td>2013</td>
<td>2021</td>
<td>€</td>
<td>739</td>
<td>4.500%</td>
<td>European institutional</td>
</tr>
<tr>
<td>2017</td>
<td>2024</td>
<td>€</td>
<td>600</td>
<td>1.500%</td>
<td>European institutional</td>
</tr>
</tbody>
</table>

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

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

Changes in loans and borrowings are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1 January 2018</th>
<th>IFRS 16 adoption</th>
<th>Issues</th>
<th>Repayments/ Payments of coupons</th>
<th>Other net increase/ (decrease)</th>
<th>Exchange-rate differences</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>3,292</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(661)</td>
<td>150</td>
<td>(3)</td>
</tr>
<tr>
<td>Bank loans and borrowings</td>
<td>238</td>
<td>498</td>
<td>(46)</td>
<td>3</td>
<td>(2)</td>
<td>691</td>
<td></td>
</tr>
<tr>
<td>Related-party loans and borrowings</td>
<td>1,669</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(241)</td>
<td>(3)</td>
<td>1,425</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other loans and borrowings</td>
<td>77</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6)</td>
<td>-</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>5,276</td>
<td>-</td>
<td>498</td>
<td>(707)</td>
<td>(94)</td>
<td>(8)</td>
<td>4,965</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1 January 2019</th>
<th>IFRS 16 adoption</th>
<th>Issues</th>
<th>Repayments/ Payments of coupons</th>
<th>Other net increase/ (decrease)</th>
<th>Exchange-rate differences</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>2,778</td>
<td>-</td>
<td>-</td>
<td>(310)</td>
<td>1</td>
<td>-</td>
<td>2,469</td>
</tr>
<tr>
<td>Bank loans and borrowings</td>
<td>691</td>
<td>300</td>
<td>(46)</td>
<td>(19)</td>
<td>16</td>
<td></td>
<td>942</td>
</tr>
<tr>
<td>Related-party loans and borrowings</td>
<td>1,425</td>
<td>470</td>
<td>-</td>
<td>-</td>
<td>520</td>
<td>-</td>
<td>2,415</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>-</td>
<td>58</td>
<td>-</td>
<td>-</td>
<td>(5)</td>
<td>-</td>
<td>53</td>
</tr>
<tr>
<td>Other loans and borrowings</td>
<td>71</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22</td>
<td>-</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>4,965</td>
<td>528</td>
<td>300</td>
<td>(356)</td>
<td>519</td>
<td>16</td>
<td>5,972</td>
</tr>
</tbody>
</table>
Below is the reconciliation of the movements in loans and borrowings with the cash flows from financing activities in the 2019 financial year:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 January</strong></td>
<td>5,276</td>
<td>4,965</td>
</tr>
<tr>
<td><strong>Changes included in cash flows from financing activities</strong></td>
<td>(305)</td>
<td>366</td>
</tr>
<tr>
<td>Repayment of EIB loan</td>
<td>(513)</td>
<td>(309)</td>
</tr>
<tr>
<td>Term Loan and EIB subscription</td>
<td>498</td>
<td>300</td>
</tr>
<tr>
<td>Net change in other borrowings</td>
<td>(290)</td>
<td>375</td>
</tr>
<tr>
<td><strong>Non-monetary changes</strong></td>
<td>(6)</td>
<td>641</td>
</tr>
<tr>
<td>Non-monetary items of lease liabilities (*)</td>
<td>-</td>
<td>626</td>
</tr>
<tr>
<td>Exchange-rate effects</td>
<td>(8)</td>
<td>16</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>2</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Balance at 31 December</strong></td>
<td>4,965</td>
<td>5,972</td>
</tr>
</tbody>
</table>

(*) Of which €mil. 573 to related parties.

**Bank loans and borrowings**

The item includes the use of the loan of €mil. 300, due 2031, raised with the European Investment Bank (EIB) in 2018 to support the investment projects set out in the Group’s Industrial Plan, which must be added to the 12-year loan raised in 2009 aimed at development activities in the aeronautics segment. The loan raised in 2009 has been used for €mil. 300 at a fixed rate of 3.45% and for €mil. 200 at a floating rate equal to the 6-month Euribor plus a margin of 79.4 basis points. The fixed-rate tranche is repaid in 11 annual instalments with a fixed principal repayment component, while the floating-rate tranche is repaid in 21 six-month instalments, also with a fixed principal repayment component. During the year €mil. 46 was repaid.

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

**Related-party loans and borrowings**

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

**Other financial debts**

The item includes the residual balance of subsidised loans, related to programmes and projects of the companies and business units merged.
Exposure to changes in interest rates of the financial liabilities is as follows:

### 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Bank loans and borrowings</th>
<th>Related-party loans and borrowings (Note 34)</th>
<th>Lease liabilities</th>
<th>Other loans and borrowings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Floating</td>
<td>Fixed</td>
<td>Floating</td>
<td>Fixed</td>
<td>Floating</td>
<td>Fixed</td>
</tr>
<tr>
<td>Within 1 year</td>
<td>-</td>
<td>394</td>
<td>22</td>
<td>29</td>
<td>1,425</td>
<td>-</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>-</td>
<td>1,284</td>
<td>58</td>
<td>82</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Beyond 5 years</td>
<td>-</td>
<td>1,100</td>
<td>500</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>2,778</td>
<td>580</td>
<td>111</td>
<td>1,425</td>
<td>-</td>
</tr>
</tbody>
</table>

### 31 December 2019

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Bank loans and borrowings</th>
<th>Related-party loans and borrowings (Note 34)</th>
<th>Lease liabilities</th>
<th>Other loans and borrowings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Floating</td>
<td>Fixed</td>
<td>Floating</td>
<td>Fixed</td>
<td>Floating</td>
<td>Fixed</td>
</tr>
<tr>
<td>Within 1 year</td>
<td>-</td>
<td>83</td>
<td>24</td>
<td>24</td>
<td>1,826</td>
<td>113</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>-</td>
<td>1,888</td>
<td>589</td>
<td>55</td>
<td>-</td>
<td>217</td>
</tr>
<tr>
<td>Beyond 5 years</td>
<td>-</td>
<td>498</td>
<td>250</td>
<td>-</td>
<td>-</td>
<td>259</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>2,469</td>
<td>863</td>
<td>79</td>
<td>1,826</td>
<td>589</td>
</tr>
</tbody>
</table>
Below is the financial information required under CONSOB Communication no. DEM/6064293 of 28 July 2006:

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

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

<table>
<thead>
<tr>
<th>Net financial debt CONSOB Com. no. DEM/6064293</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current financial receivables from Group’s consolidated entities</td>
<td>(283)</td>
<td>(402)</td>
</tr>
<tr>
<td>Non-current financial receivables from SuperJet</td>
<td>(25)</td>
<td>-</td>
</tr>
<tr>
<td>Net debt (KPI)</td>
<td>2,815</td>
<td>3,874</td>
</tr>
</tbody>
</table>

**Lease liabilities**

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

<table>
<thead>
<tr>
<th></th>
<th>Guarantees given</th>
<th>Restructuring</th>
<th>Penalties</th>
<th>Product guarantees</th>
<th>Onerous contracts (losses at completion)</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>98</td>
<td>34</td>
<td>13</td>
<td>65</td>
<td>370</td>
<td>369</td>
<td>949</td>
</tr>
<tr>
<td>Non-current</td>
<td>22</td>
<td>50</td>
<td>19</td>
<td>41</td>
<td>-</td>
<td>460</td>
<td>592</td>
</tr>
<tr>
<td></td>
<td>120</td>
<td>84</td>
<td>32</td>
<td>106</td>
<td>370</td>
<td>829</td>
<td>1,541</td>
</tr>
<tr>
<td>Effect from mergers/ demergers</td>
<td>-</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Allocations</td>
<td>9</td>
<td>176</td>
<td>3</td>
<td>69</td>
<td>18</td>
<td>155</td>
<td>430</td>
</tr>
<tr>
<td>Uses</td>
<td>(3)</td>
<td>(21)</td>
<td>(4)</td>
<td>(10)</td>
<td>-</td>
<td>(130)</td>
<td>(168)</td>
</tr>
<tr>
<td>Reversals</td>
<td>(99)</td>
<td>-</td>
<td>(13)</td>
<td>(18)</td>
<td>(101)</td>
<td>(47)</td>
<td>(278)</td>
</tr>
<tr>
<td>Other changes</td>
<td>-</td>
<td>(28)</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>(91)</td>
<td>(94)</td>
</tr>
<tr>
<td>31 December 2018</td>
<td>27</td>
<td>211</td>
<td>18</td>
<td>147</td>
<td>312</td>
<td>716</td>
<td>1,431</td>
</tr>
</tbody>
</table>

Broken down as follows:

<table>
<thead>
<tr>
<th></th>
<th>Guarantees given</th>
<th>Restructuring</th>
<th>Penalties</th>
<th>Product guarantees</th>
<th>Onerous contracts (losses at completion)</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2019</td>
<td>30</td>
<td>137</td>
<td>14</td>
<td>172</td>
<td>247</td>
<td>682</td>
<td>1,282</td>
</tr>
</tbody>
</table>

Broken down as follows:

<table>
<thead>
<tr>
<th></th>
<th>Guarantees given</th>
<th>Restructuring</th>
<th>Penalties</th>
<th>Product guarantees</th>
<th>Onerous contracts (losses at completion)</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2019</td>
<td>30</td>
<td>70</td>
<td>11</td>
<td>103</td>
<td>247</td>
<td>343</td>
<td>804</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Guarantees given</th>
<th>Restructuring</th>
<th>Penalties</th>
<th>Product guarantees</th>
<th>Onerous contracts (losses at completion)</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2019</td>
<td></td>
<td>67</td>
<td>3</td>
<td>69</td>
<td>-</td>
<td>339</td>
<td>478</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Guarantees given</th>
<th>Restructuring</th>
<th>Penalties</th>
<th>Product guarantees</th>
<th>Onerous contracts (losses at completion)</th>
<th>Other provisions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2019</td>
<td></td>
<td>67</td>
<td>3</td>
<td>69</td>
<td>-</td>
<td>339</td>
<td>478</td>
</tr>
</tbody>
</table>

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

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

Other provisions for risks and charges mainly include:

- the provision for tax disputes of €mil. 50 (€mil. 50 at 31 December 2018);
- the provision for litigation with employees and former employees of €mil. 25 (€mil. 19 at 31 December 2018);
- the provision for litigation in progress of €mil. 1 (€mil. 3 at 31 December 2018);
- provisions for critical issues on contracts equal to €mil. 310 (€mil. 385 at 31 December 2018), attributable in particular to the Aeronautics sector.
With regard to risks, below is a summary of the criminal proceedings that are currently underway against Leonardo SpA, as well as certain former directors and executives, concerning acts committed during the performance of their duties at Leonardo SpA. With specific reference to the events that occurred in 2019 and in early 2020:

> on 27 November 2019 the Rome Court of Appeal confirmed the judgment for acquittal, which was handed down on 22 September 2017 within the criminal proceedings pending against, among others, the former Commercial Director of Leonardo, for the crime under Articles 110, 319, 319-bis, 320, 321 and 322-bis of the Italian Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the government of Panama. It should be noted that on 21 September 2017 the Judge for Pre-trial Hearing handed down a judgment for dismissal of charge against Leonardo concerning the administrative violation referred to in Article 25 of Legislative Decree 231/2001;

> on 22 May 2019 the Supreme Court rejected the appeals submitted against the judgment whereby on 8 January 2018 the Milan Court of Appeal had acquitted the former Chairman and Chief Executive Officer of Leonardo and the former Chief Executive Officer of AgustaWestland SpA of the charges for the crimes under Articles 110, 112, paragraph 1, 318, 321 and 322-bis, paragraph 2(2) of the Italian Criminal Code and Article 2 of Legislative Decree 74/2000, within the proceedings brought in relation to the supply of twelve AW 101 VIP/VVIP helicopters to the Indian government.

In respect of these companies, it is recalled that on 25 July 2014, pursuant to Article 58 of Legislative Decree 231/2001, the Public Prosecutor dismissed the proceedings against Leonardo, holding groundless, following the conclusion of investigations, the Company’s involvement from both a factual and legal point of view. The Prosecutor also acknowledged that since 2003 the Company has adopted, actually implemented and regularly updated an Organisational, Management and Control Model that is conceptually suitable to prevent offences like the one in question and is also focused on compliance processes as to guarantee adequate standards of fairness and ethical conduct. In addition, on 28 August 2014 the Judge for Preliminary Investigations (GIP, Giudice delle Indagini Preliminari) of the Court of Busto Arsizio - in granting the motions put forth by the companies - imposed administrative penalties pursuant to Article 63 of Legislative Decree 231/2001 and Article 444 and ff. of the Italian Code of Criminal Procedure, amounting to €80,000 for AgustaWestland SpA and €300,000 for AgustaWestland Ltd, and ordered the confiscation of the equivalent of €mil. 7.5. As regards the investigations started by the Indian Judicial Authority (CBI) in February 2013 for the same facts referred to above, on 2 February 2018 a notice was served on AgustaWestland International Ltd, whereby the latter was invited to appear at the hearing to be held on 30 May 2018 before the Patiala House Court in New Delhi within the criminal proceedings brought therein against the aforesaid company and other entities and persons, including Leonardo SpA.

On 13 April 2018 the Milan Public Prosecutor’s Office served the abovementioned notice of invitation to appear at the hearing on 30 May 2018 on Leonardo SpA. The Company submitted an application for enforcement review before the Judge for Preliminary Investigations of the Court of Milan, which was rejected on 22 May 2018, as well as an appeal before the Lazio Regional Administrative Court. By a judgment dated 3 July
2019, the latter rejected the appeals submitted by Leonardo SpA. The time limits for the appeal before the Council of State are still pending. Leonardo SpA has brought the same lawsuits before the administrative Court and before the Judge for Preliminary Investigations of the Court of Milan, including with reference to the service of the notice of invitation to appear at the hearing finally set on 18 December 2019.

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

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

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

> on 8 June 2018 the dismissal decree was issued within the criminal proceedings conducted by the Turin Public Prosecutor’s Office concerning the provision of helicopters to the armed forces, police and other government entities on the part of AgustaWestland, against certain directors of Leonardo (serving from 1994 to 1998) and certain directors/executives of AgustaWestland (serving from 1999 to 2014) with respect to crimes under Article 449 of the Italian Criminal Code for violation of the regulations on the use of asbestos;

> on 26 October 2017 an appeal was filed against the acquittal judgment issued by the Court of Milan on 15 June 2017 within the criminal proceedings pending against certain directors of the then-Breda Termomeccanica 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. It should be noted that Leonardo has entered appearance in the civil action within the abovementioned proceedings;

> on 22 January 2019 the Judge for Pre-trial Hearing, following a request for committal for trial submitted by the Vercelli Public Prosecutor’s Office within the criminal proceedings relating to the accident that occurred in Santhià on 30 October 2015, postponed the hearing to 16 April 2019. It should be noted that the criminal proceedings are pending before the Vercelli Public Prosecutor’s Office against three former employees of AgustaWestland SpA (who are currently working for Leonardo - Helicopters Division) and an employee of AgustaWestland Philadelphia Corporation for the crime referred to in Article 449 of the Italian Criminal Code in relation to Articles 428 and 589 of the Italian Criminal Code.
Based upon the information gathered and the results of the analysis carried out so far, the directors of Leonardo did not allocate any specific provisions in relation to these cases. Any negative developments – which cannot be foreseen, nor determined to date – arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

With regard to the provisions for civil, tax and administrative disputes, it is underlined that the Company’s operations regard industries and markets where many disputes, both as petitioner and plaintiff, are settled only after a considerable period of time, especially in cases where the customer is a government entity. Pursuant to the IFRSs, provisions have only been set aside for probable risks 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:

> within the proceedings brought by Firema under extraordinary management before the Court of Naples against the directors and statutory and independent auditors of Firema Trasporti in order to have them declared responsible for the financial collapse caused to the company – within which Giorgio and Gianfranco Fiore, in turn, summoned Leonardo and AnsaldoBreda in court – the Supreme Court handed down a judgment on 11 December 2019, whereby it rejected the appeal submitted by Leonardo and by AnsaldoBreda for being dropped from action. It should be noted that, by an order dated 18 November 2014, the Court of Naples declared that both the claims submitted by Giorgio and Gianfranco Fiore against Leonardo and AnsaldoBreda and those submitted by 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 17 June 2015 the judge responsible for preliminary investigations reversed the previous ruling (with the related declarations of claim preclusion and removal from the lawsuit) and recorded the case on the docket once again for discussion. Before being reversed, the order for dropping a party from action had been challenged before the Naples Court of Appeal by GMR and, on a cross-appeal basis, by Leonardo and AnsaldoBreda. On 16 June 2017 the Court declared, in the light of the reversal referred to above, that both appeals were inadmissible, due to the subsequent lack of interest. On 18 January 2018 Leonardo and AnsaldoBreda submitted an appeal against this order, which was rejected by the Supreme Court with the aforesaid judgment. The proceedings brought by Firema under extraordinary management had been suspended pending the ruling of the Supreme Court.

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

With reference to the aforesaid proceedings, it should be noted that in February 2011 GMR, as the sole shareholder of Firema Trasporti, summoned Leonardo and AnsaldoBreda before the Court of Santa Maria Capua...
Vetere. These proceedings were concluded with the declaration of lack of jurisdiction in favour of the Court of Naples. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits prescribed by law. On 23 June 2015, GMR then served a new writ of summons before the Court of Naples, whereby it once again submitted the same claims as those brought in the previous proceedings. More specifically, according to the plaintiff company, during the period in which Leonardo held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of the company itself and in the sole interest of the Leonardo Group. Moreover, even after the sale of the investment by Leonardo, Firema Trasporti was allegedly de facto subjected to an abuse of economic dependence from the abovementioned Group in performing the various agreements existing with AnsaldoBreda. Leonardo and AnsaldoBreda appeared before the court requesting that, on the merits, the plaintiff’s claims be dismissed as clearly groundless, as a result of the non-fulfilment of any and all conditions required by law as requirements to bring an action against directors pursuant to Article 2497 of the Italian Civil Code. Moreover, the aforesaid companies also asked the Court to preliminarily hand down a ruling based on the principle of *lis alibi pendens* (i.e. the suit was pending elsewhere and then the claim was precluded) within these new proceedings with respect to the pending proceedings, between the same parties, before the Naples Court of Appeal, which are described below;

> the proceedings brought by Mr Pio Deiana before the Rome Court of Appeal – which were discontinued due to his subsequent death – have been resumed by one of the heirs within the prescribed time limits. The next hearing to be held for specifying the conclusions has been scheduled on 12 October 2021. It should be noted that on 4 March 2013 Mr Pio Deiana, on his own account and in his capacity as Director of Janua Dei Srl and of Società Progetto Cina Srl, brought proceedings, before the Court of Rome, against Leonardo in order to ask the Court to rule the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (a company which was a subsidiary of Leonardo until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built. As stated by the plaintiff in the writ of summons, the 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 also submitted against Leonardo, on the basis of the latter’s alleged general liability in the capacity as the parent company of Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. On 25 September 2013 Leonardo appeared before the Court, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court rejects the plaintiff’s claims as they are entirely groundless in fact and in law. A minority shareholder of Società 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. By a judgment dated 31 May 2018, the Court rejected the plaintiff’s claim. On 10 August 2018 the opposing party filed an appeal against the abovementioned judgment.

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

In particular, it should be noted that, under the contract for the design and construction of Al Bayt Stadium in Al Khor City (Qatar), on 22 September 2016 the GSIC JV (set up by Galfar Misnad Engineering & Contracting WLL, Salini - Impregilo SpA and Cimolai SpA), as Prime Contractor, awarded the work to the unincorporated Joint Venture set up by Leonardo SpA and PSC SpA (L&P JV) for the procurement, delivery, installation and testing & commissioning of the entire package of electronic and mechanical components of the stadium infrastructure. It should be noted that, from the beginning, the regular progress of the work was strongly conditioned by a number of delays not attributable to the L&P JV, as well as by the introduction of numerous additions and changes to the initial project, which was found to be incomplete during the execution of the order. The above circumstances led to considerable extra costs for the L&P JV, which the Prime Contractor did not intend to pay. For this reason, on 25 October 2019 the L&P JP brought arbitration proceedings within which it requested, in addition to the payment of some activities envisaged as per contract and regularly performed, compensation for damage suffered as a result of the abovementioned circumstances, which allegedly amounted to a total of € 258 million. The GSIC JV appeared in court according to formal procedures and, in addition to asking the Court to reject the plaintiff’s claims, also submitted a counterclaim seeking for compensation for damage it had allegedly suffered as a result of an alleged instance of non-compliance on the part of the L&P JV, which amounted to approximately €mil. 176. The arbitration proceedings are still in progress.

23. Employee benefit obligations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severance pay provision</td>
<td>289</td>
<td>272</td>
</tr>
<tr>
<td>Defined-contribution plans</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>315</strong></td>
<td><strong>298</strong></td>
</tr>
</tbody>
</table>

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

The amount of the costs related to employee benefit obligations, which was recognised during the year under financial expenses, is equal to €mil. 3 (€mil. 3 compared to 31 December 2018).
Below are the changes in the severance pay provision:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opening balance</strong></td>
<td>317</td>
<td>289</td>
</tr>
<tr>
<td>Net interest expenses</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Remeasurement</td>
<td>(3)</td>
<td>1</td>
</tr>
<tr>
<td>Actuarial losses/(gains) through equity - financial assumptions</td>
<td>(3)</td>
<td>1</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(27)</td>
<td>(20)</td>
</tr>
<tr>
<td>Other changes</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td>289</td>
<td>272</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (annual)</td>
<td>1.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>1.5%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.25%</td>
<td>+0.25%</td>
</tr>
<tr>
<td>Discount rate (annual)</td>
<td>5</td>
<td>(5)</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>(4)</td>
<td>4</td>
</tr>
</tbody>
</table>

The average duration of the severance pay is 6.5 years.
24. Other current and non-current liabilities

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-current</td>
<td>Current</td>
</tr>
<tr>
<td>Employee obligations</td>
<td>47</td>
<td>252</td>
</tr>
<tr>
<td>Deferred income</td>
<td>102</td>
<td>36</td>
</tr>
<tr>
<td>Amounts due to social security institutions</td>
<td>-</td>
<td>155</td>
</tr>
<tr>
<td>Payables to MED (Law 808/1985)</td>
<td>204</td>
<td>52</td>
</tr>
<tr>
<td>Payables to MED for royalties (Law 808/1985)</td>
<td>179</td>
<td>19</td>
</tr>
<tr>
<td>Indirect tax liabilities</td>
<td>-</td>
<td>70</td>
</tr>
<tr>
<td>Derivatives</td>
<td>-</td>
<td>185</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>161</td>
<td>289</td>
</tr>
<tr>
<td>Other payables to related parties (Note 34)</td>
<td>-</td>
<td>270</td>
</tr>
<tr>
<td></td>
<td><strong>693</strong></td>
<td><strong>1,328</strong></td>
</tr>
</tbody>
</table>

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

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

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

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

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

25. Trade payables

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>1,913</td>
<td>2,280</td>
</tr>
<tr>
<td>Trade payables to related parties (Note 34)</td>
<td>629</td>
<td>777</td>
</tr>
<tr>
<td></td>
<td><strong>2,542</strong></td>
<td><strong>3,057</strong></td>
</tr>
</tbody>
</table>
26. Guarantees

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

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

Specifically, the main guarantees issued consist of:

> bank and insurance sureties in favour of third-party companies for an amount of €mil. 8,263 (€mil. 8,524 at 31 December 2018);

> bank and insurance counter-guarantees issued in the interest of related parties for €mil. 1,024 (€mil. 981 at 31 December 2018) and in the interest of third-party companies for €mil. 3 (€mil. 3 at 31 December 2018);

> direct commitments issued by the Company in favour of tax authorities, customers and co-suppliers (Parent Company Guarantee) for €mil. 2,253 (€mil. 2,314 at 31 December 2018), in favour of related parties for €mil. 3,408 (€mil. 3,399 at 31 December 2018) and in favour of other companies for €mil. 4 (€mil. 189 at 31 December 2018).

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

27. Revenues

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from contracts with customers</td>
<td>5,820</td>
<td>5,958</td>
</tr>
<tr>
<td>Change in contract assets</td>
<td>48</td>
<td>684</td>
</tr>
<tr>
<td>Revenues from related parties (Note 34)</td>
<td>2,211</td>
<td>2,368</td>
</tr>
<tr>
<td></td>
<td><strong>8,079</strong></td>
<td><strong>9,010</strong></td>
</tr>
</tbody>
</table>

Below is the breakdown of revenues by timing of reporting:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues recognised at point in time</td>
<td>1,942</td>
<td>1,977</td>
</tr>
<tr>
<td>Revenues recognised over time</td>
<td>6,137</td>
<td>7,033</td>
</tr>
<tr>
<td></td>
<td><strong>8,079</strong></td>
<td><strong>9,010</strong></td>
</tr>
</tbody>
</table>

Revenues were realised in the following geographical areas:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>1,729</td>
<td>2,038</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>396</td>
<td>397</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>2,652</td>
<td>2,749</td>
</tr>
<tr>
<td>United States</td>
<td>1,103</td>
<td>1,326</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>2,199</td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td><strong>8,079</strong></td>
<td><strong>9,010</strong></td>
</tr>
</tbody>
</table>
### 28. Other operating income/(expenses)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th></th>
<th>2019</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Expenses</td>
<td>Net</td>
<td>Income</td>
</tr>
<tr>
<td>Grants for research and</td>
<td>25</td>
<td>-</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>development costs (*)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other operating grants</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Gains/(Losses) on sales of</td>
<td>11</td>
<td>-</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td>intangible asset, property,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>plant and equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reversals/(Accruals) to</td>
<td>173</td>
<td>(200)</td>
<td>(27)</td>
<td>226</td>
</tr>
<tr>
<td>provisions for risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exchange-rate differences</td>
<td>123</td>
<td>(129)</td>
<td>(6)</td>
<td>64</td>
</tr>
<tr>
<td>on operating items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance reimbursements</td>
<td>5</td>
<td>-</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>-</td>
<td>(17)</td>
<td>(17)</td>
<td>-</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>-</td>
<td>(13)</td>
<td>(13)</td>
<td>-</td>
</tr>
<tr>
<td>Other operating income/(expenses)</td>
<td>96</td>
<td>(29)</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>Other operating income/(expenses) from related parties (Note 34)</td>
<td>14</td>
<td>(1)</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>449</strong></td>
<td><strong>(389)</strong></td>
<td><strong>60</strong></td>
<td><strong>394</strong></td>
</tr>
</tbody>
</table>

(*) To which assessments of “Non-recurring costs pending under Law 808/1985” (Note 12) are added equal to €mil. 60 (€mil. 78 at 31 December 2018).
29. Purchases and personnel expenses

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

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

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

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

Below is the breakdown of workforce by category:

<table>
<thead>
<tr>
<th></th>
<th>Average workforce</th>
<th>Total workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2018</td>
<td>31 December 2019</td>
</tr>
<tr>
<td></td>
<td>Change</td>
<td>Change</td>
</tr>
<tr>
<td>Senior managers (*)</td>
<td>752</td>
<td>784</td>
</tr>
<tr>
<td>Middle managers</td>
<td>3,275</td>
<td>3,308</td>
</tr>
<tr>
<td>Clerical employees</td>
<td>16,499</td>
<td>16,728</td>
</tr>
<tr>
<td>Manual labourers (**)</td>
<td>7,173</td>
<td>7,472</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,699</strong></td>
<td><strong>28,292</strong></td>
</tr>
</tbody>
</table>

(*) Includes pilots.
(**) Includes senior manual labourers.
30. Amortisation, depreciation and financial assets value adjustments

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

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

31. Financial income and expenses

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Expenses</td>
</tr>
<tr>
<td>Interest to/from banks</td>
<td>1</td>
<td>(5)</td>
</tr>
<tr>
<td>Interest on lease liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest and other charges on bonds</td>
<td>-</td>
<td>(152)</td>
</tr>
<tr>
<td>Commissions</td>
<td>1</td>
<td>(22)</td>
</tr>
<tr>
<td>Dividends</td>
<td>386</td>
<td>-</td>
</tr>
<tr>
<td>Premiums (paid)/received on IRS</td>
<td>6</td>
<td>(6)</td>
</tr>
<tr>
<td>Premiums (paid)/received on forwards</td>
<td>37</td>
<td>(57)</td>
</tr>
<tr>
<td>Income/(Expenses) from equity investments and securities</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Value adjustments on equity investments</td>
<td>-</td>
<td>(60)</td>
</tr>
<tr>
<td>Fair-value gains/(losses) through profit or loss</td>
<td>21</td>
<td>(15)</td>
</tr>
<tr>
<td>Exchange-rate differences</td>
<td>12</td>
<td>(11)</td>
</tr>
<tr>
<td>Financial income/(expenses) - related parties (Note 34)</td>
<td>27</td>
<td>(9)</td>
</tr>
<tr>
<td>Other financial income and expenses</td>
<td>18</td>
<td>(56)</td>
</tr>
<tr>
<td></td>
<td>509</td>
<td>(394)</td>
</tr>
</tbody>
</table>

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

Income from equity investments, equal to €mil. 12, related to the transfer of the entire interest held in Eurotech SpA, as described in Note 11.
Fair value results through profit or loss are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Income</td>
<td>Expenses</td>
</tr>
<tr>
<td>Exchange-rate swaps</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>Interest-rate swaps</td>
<td>-</td>
<td>(1)</td>
</tr>
<tr>
<td>Ineffective portion of hedging swaps</td>
<td>19</td>
<td>(13)</td>
</tr>
<tr>
<td>Gains/(Charges) on FVTPL</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>(15)</strong></td>
</tr>
</tbody>
</table>

### 32. Income taxes

Income taxes can be broken down as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRES</td>
<td>(32)</td>
<td>(54)</td>
</tr>
<tr>
<td>IRAP</td>
<td>(23)</td>
<td>(26)</td>
</tr>
<tr>
<td>Tax related to previous periods</td>
<td>-</td>
<td>21</td>
</tr>
<tr>
<td>Provisions for tax disputes</td>
<td>(20)</td>
<td>(5)</td>
</tr>
<tr>
<td>Deferred tax - net</td>
<td>28</td>
<td>(27)</td>
</tr>
<tr>
<td>Other taxes</td>
<td>-</td>
<td>(5)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(47)</strong></td>
<td><strong>(96)</strong></td>
</tr>
</tbody>
</table>

Below is an analysis of the composition of the theoretical and effective tax rates for 2019 and 2018:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(Loss) before income taxes</td>
<td>331</td>
<td>486</td>
</tr>
<tr>
<td>Tax rate</td>
<td>(14.2%)</td>
<td>(19.8%)</td>
</tr>
<tr>
<td>Theoretical tax</td>
<td>(79)</td>
<td>(117)</td>
</tr>
<tr>
<td>Permanent differences</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Timing differences</td>
<td>23</td>
<td>(1)</td>
</tr>
<tr>
<td>Dividends</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>Impairment of equity investments</td>
<td>(33)</td>
<td>(5)</td>
</tr>
<tr>
<td>IRAP tax</td>
<td>(23)</td>
<td>(26)</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>6</td>
<td>28</td>
</tr>
<tr>
<td>Tax provision</td>
<td>(20)</td>
<td>(5)</td>
</tr>
<tr>
<td>Other taxes</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total tax through profit or loss</strong></td>
<td><strong>(47)</strong></td>
<td><strong>(96)</strong></td>
</tr>
<tr>
<td>Theoretical tax</td>
<td>(24.0%)</td>
<td>(24.0%)</td>
</tr>
<tr>
<td>Permanent differences</td>
<td>0.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Timing differences</td>
<td>6.9%</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>Dividends</td>
<td>23.6%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Impairment of equity investments</td>
<td>(10.0%)</td>
<td>(1.0%)</td>
</tr>
<tr>
<td>IRAP tax</td>
<td>(6.9%)</td>
<td>(5.3%)</td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>1.8%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Tax provision</td>
<td>(6.0%)</td>
<td>(1.0%)</td>
</tr>
<tr>
<td>Other taxes</td>
<td>n.a.</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Total tax</strong></td>
<td>(14.2%)</td>
<td>(19.8%)</td>
</tr>
</tbody>
</table>
The effective tax rate went from 14.2% in 2018 to 19.8% in 2019.

It should be noted that a portion of deferred tax assets relates to tax losses measured on the basis of taxable income forecast in the Company’s plans, with reference to which a remaining amount of about €mil. 43 is reported for the Company in relation to losses that have not been measured.

Deferred taxes and related receivables and payables at 31 December 2019 were the result of the following differences:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets on tax losses</td>
<td>(18)</td>
<td>44</td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>11</td>
<td>(9)</td>
</tr>
<tr>
<td>Provisions for risks and impairment</td>
<td>48</td>
<td>(32)</td>
</tr>
<tr>
<td>Other</td>
<td>(13)</td>
<td>(30)</td>
</tr>
<tr>
<td><strong>Deferred taxes recognised through profit or loss</strong></td>
<td><strong>28</strong></td>
<td><strong>(27)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>Liabilities</td>
<td>Net</td>
</tr>
<tr>
<td>Deferred tax assets on tax losses</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>29</td>
<td>(62)</td>
</tr>
<tr>
<td>Severance pay and retirement benefits</td>
<td>4</td>
<td>(4)</td>
</tr>
<tr>
<td>Provisions for risks and impairment</td>
<td>537</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>135</td>
<td>(22)</td>
</tr>
<tr>
<td><strong>Deferred taxes recognised through balance sheet</strong></td>
<td><strong>735</strong></td>
<td><strong>(88)</strong></td>
</tr>
<tr>
<td>On cash-flow hedge derivatives</td>
<td>29</td>
<td>(2)</td>
</tr>
<tr>
<td>On actuarial gains and losses</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td><strong>Deferred taxes recognised through equity</strong></td>
<td><strong>35</strong></td>
<td><strong>(2)</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>770</strong></td>
<td><strong>(90)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>Liabilities</td>
<td>Net</td>
</tr>
<tr>
<td>Deferred tax assets on tax losses</td>
<td>74</td>
<td>-</td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>19</td>
<td>(62)</td>
</tr>
<tr>
<td>Severance pay and retirement benefits</td>
<td>4</td>
<td>(4)</td>
</tr>
<tr>
<td>Provisions for risks and impairment</td>
<td>505</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>98</td>
<td>(16)</td>
</tr>
<tr>
<td><strong>Deferred taxes recognised through balance sheet</strong></td>
<td><strong>696</strong></td>
<td><strong>(77)</strong></td>
</tr>
<tr>
<td>On cash-flow hedge derivatives</td>
<td>25</td>
<td>(1)</td>
</tr>
<tr>
<td>On actuarial gains and losses</td>
<td>11</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Deferred taxes recognised through equity</strong></td>
<td><strong>36</strong></td>
<td><strong>(5)</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>732</strong></td>
<td><strong>(82)</strong></td>
</tr>
</tbody>
</table>
### 33. Gross cash flows from operating activities

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net result</td>
<td>284</td>
<td>390</td>
</tr>
<tr>
<td>Amortisation, depreciation and financial assets value adjustments</td>
<td>369</td>
<td>481</td>
</tr>
<tr>
<td>Income taxes</td>
<td>47</td>
<td>96</td>
</tr>
<tr>
<td>Net allocations to the provisions for risks and inventory write-downs</td>
<td>380</td>
<td>58</td>
</tr>
<tr>
<td>Net financial expenses/(income)</td>
<td>(115)</td>
<td>53</td>
</tr>
<tr>
<td>Other non-monetary items</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td><strong>987</strong></td>
<td><strong>1,113</strong></td>
</tr>
</tbody>
</table>

The changes in working capital are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>(774)</td>
<td>(180)</td>
</tr>
<tr>
<td>Contract assets and liabilities</td>
<td>867</td>
<td>(520)</td>
</tr>
<tr>
<td>Trade receivables and payables</td>
<td>(158)</td>
<td>106</td>
</tr>
<tr>
<td></td>
<td><strong>(65)</strong></td>
<td><strong>(594)</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of pension plans</td>
<td>(28)</td>
<td>(22)</td>
</tr>
<tr>
<td>Changes in provisions for risks and other operating items</td>
<td>(298)</td>
<td>(353)</td>
</tr>
<tr>
<td></td>
<td><strong>(326)</strong></td>
<td><strong>(375)</strong></td>
</tr>
</tbody>
</table>
## 34. Related-party transactions

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

### Receivables at 31 December 2018

<table>
<thead>
<tr>
<th></th>
<th>Non-current receivables</th>
<th>Current loans</th>
<th>Trade receivables</th>
<th>Receivables from consolidated tax mechanism</th>
<th>Other current receivables</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidiaries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AgustaWestland Philadelphia Co.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>91</td>
</tr>
<tr>
<td>AgustaWestland SpA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>AgustaWestland Malaysia SDN BHD</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Sistemi Dinamici SpA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Leonardo MW Ltd</td>
<td>117</td>
<td>166</td>
<td></td>
<td></td>
<td></td>
<td>283</td>
</tr>
<tr>
<td>Leonardo Global Solutions SpA</td>
<td>47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>57</td>
</tr>
<tr>
<td>Leonardo International SpA</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>SOGEPA - Società Generale di Partecipazioni SpA</td>
<td>155</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>155</td>
</tr>
<tr>
<td>Other with unit amount lower than €mil.</td>
<td>9</td>
<td>11</td>
<td>84</td>
<td>2</td>
<td>3</td>
<td>109</td>
</tr>
<tr>
<td><strong>Associates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NHIndustries SAS</td>
<td></td>
<td>139</td>
<td></td>
<td></td>
<td></td>
<td>139</td>
</tr>
<tr>
<td>Eurofighter Jagdflugzeug GmbH</td>
<td></td>
<td>67</td>
<td></td>
<td></td>
<td></td>
<td>67</td>
</tr>
<tr>
<td>Iveco - OTO Melara Scarl</td>
<td></td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>AgustaWestland Aviation Services LLC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Macchi Hurel Dubois SAS</td>
<td></td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Other with unit amount lower than €mil.</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>17</td>
</tr>
<tr>
<td><strong>Joint ventures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GIE-ATR</td>
<td></td>
<td>60</td>
<td></td>
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% against total for the period: 82.3% 87.3% 34.4% 11.2% 4.0%
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## Payables at 31 December 2018

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289
## Payables at 31 December 2019

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<th>Current and non-current loans and borrowings</th>
<th>Trade payables</th>
<th>Payables from consolidated tax mechanism</th>
<th>Other current payables</th>
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<th>Guarantees</th>
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<td>25.4%</td>
<td>5.0%</td>
<td>6.5%</td>
<td>29.6%</td>
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As regards the most important transactions we note that:

- the increase in loans and borrowings from related parties was affected by the adoption of the new IFRS 16 (€mil. 573 at 31 December 2019), governing the treatment of leases. Furthermore, this item includes the payable of €mil. 651 (€mil. 612 at 31 December 2018) to the MBDA joint ventures and other current loans and borrowings arising from net cash inflows realised by the Group companies during the year, converged on Leonardo as a result of the centralisation of the Group treasury resources;

- current financial receivables of €mil. 263 (€mil. 193 at 31 December 2018) arise from financing activities conducted by Leonardo in favour of the Group companies, as a result of the abovementioned centralisation of treasury resources;

- other receivables and payables (equal to €mil. 26 and €mil. 131, respectively) including amounts deriving from the Group tax consolidation mechanism, are recognised by Leonardo SpA, the party having a legal relationship with the tax authorities, against payables and receivables recognised by the companies that adopt the national tax consolidation and the Group VAT;

- trade receivables equal to €mil. 954 (€mil. 828 at 31 December 2018) include receivables related to services rendered in the interests and in favour of the Group companies.

The changes during the year and the composition of assets and liabilities by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5, 6, 8, 9 and 10 to these notes.

Below are all income statement transactions with the Leonardo’s related parties for the years 2019 and 2018.
### Income statement transactions at 31 December 2018

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<tr>
<th>Subsidiaries</th>
<th>Revenues</th>
<th>Other operating revenues and expenses</th>
<th>Purchases and service expenses</th>
<th>Financial income</th>
<th>Financial expenses</th>
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</table>

| Total | 2,211 | 13 | 1,374 | 27 | 9 |

| % against total for the period | 27.4% | n.a. | 18.2% | 5.3% | 2.3% |
### Income statement transactions at 31 December 2019

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<th>Subsidiaries</th>
<th>Revenues</th>
<th>Other operating revenues and expenses</th>
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<td>20</td>
<td></td>
</tr>
<tr>
<td>Joint Stock Company Helivert</td>
<td>10</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
<td>3</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consortiums</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GEIE Eurotorp</td>
<td>14</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies subject to the control or considerable influence of the MEF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enel SpA</td>
<td>7</td>
<td></td>
<td>69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fintecna SpA</td>
<td>118</td>
<td></td>
<td>(2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENAV SpA</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poste Italiane SpA</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 10</td>
<td>5</td>
<td></td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other related parties</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,368</td>
<td>8</td>
<td>1,440</td>
<td>23</td>
<td>24</td>
</tr>
</tbody>
</table>

| % against total for the period | 26.3% | n.a. | 17.9% | 6.9% | 51.1% |
“Financial income/(expenses)” relate to interest on financial receivables and payables and commissions which mainly arise from the centralisation of the management of Group treasury resources within Leonardo. In carrying out its treasury management functions, the Company acts as the main counterparty, always at arm’s length, for the financial assets and liabilities of the subsidiaries within the scope of such centralisation.

35. Financial risk management

Leonardo 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 is the main information related to the abovementioned risks. However, for further details reference is made to the section “Financial risk management” of the consolidated financial statements.

**Interest-rate risk**

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

To that regard and with reference to loans and borrowings equal to €mil. 5,972 at 31 December 2019, the fixed-rate percentage amounted to around 63%, while the floating-rate percentage is around 37%.

At 31 December 2019 the transactions were the following:

- **options for €mil. 200** (CAP at 4.20% and Knock out at 5.60% in relation to the 6-month Euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost, it is currently
deemed appropriate not to settle the transaction, in order to use it in the event of the Group’s strategy providing for a return to the floating rate and of the levels of said rate becoming unfavourable;

> **floating/fixed rate interest-rate swap for €mil. 300** relating to the EIB loan in an equal amount, which guarantees a fixed rate of 0.82% in addition to the spread applied to the loan.

The detail of the main interest-rate swaps at 31 December 2019 is as follows:

<table>
<thead>
<tr>
<th>Notional</th>
<th>Underlying (maturity)</th>
<th>Fair value 1 January 2018</th>
<th>Changes</th>
<th>CFH reserve</th>
<th>Fair value 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- IRS fixed/floating/fixed: 200 Bond 2018 1 - (1) - -
- Options: 200 200 Bond 2025 (3) - - - (3)
- IRS fixed/floating: - 300 EIB 2025 - - - (3) (3)

**Total notional**: 400 500 (2) - (1) (3) (6)

<table>
<thead>
<tr>
<th>Notional</th>
<th>Underlying (maturity)</th>
<th>Fair value 1 January 2019</th>
<th>Changes</th>
<th>CFH reserve</th>
<th>Fair value 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Options: 200 200 Bond 2025 (3) 1 - - (2)
- IRS floating/fixed: 300 300 EIB 2025 (3) - - (14) (17)

**Total notional**: 500 500 (6) 1 - (14) (19)

The table below shows the effects of the sensitivity analysis for 2019 and 2018 on IRS at 31 December 2019 deriving from the 50-basis-point shift in the interest-rate curve:

<table>
<thead>
<tr>
<th>Effect of shift of interest-rate curve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>31 December 2018</strong></td>
</tr>
<tr>
<td>Increase of 50 bps</td>
</tr>
<tr>
<td>Net result</td>
</tr>
<tr>
<td>Equity (*), defined as sum of earnings and cash-flow hedge reserve</td>
</tr>
<tr>
<td>(4)</td>
</tr>
</tbody>
</table>

Exchange-rate risk

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

The Company hedges the risks related to short-term financial payables and receivables denominated in currencies other than the euro and enters into foreign exchange transactions in the interest of other Group companies totalling €mil. 6,573 (notional amount), as detailed in the following table:
As a result of the financial centralisation, the cash flows of the Group’s foreign companies were recharged to Leonardo through intercompany transactions mainly denominated in pound sterling and US dollars. This risks is hedged using mirror transactions of payables/receivables to/from third parties in the currency of intercompany items or through specific exchange-rate derivatives, classified as fair-value hedges. The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

<table>
<thead>
<tr>
<th>Notional 2018</th>
<th>Notional 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>Purchases</td>
</tr>
<tr>
<td>Swap and forward transactions</td>
<td>2,373</td>
</tr>
</tbody>
</table>

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the pound sterling and the US dollar, assuming a +/-5% change in the euro/pound sterling exchange rate and in the euro/US dollar exchange rate compared with the reference rates at 31 December 2019 (0.8508 and 1.1234, respectively) and at 31 December 2018 (0.8945 and 1.1450, respectively).

<table>
<thead>
<tr>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notional receipts</td>
<td>Notional payments</td>
</tr>
<tr>
<td>USD</td>
<td>GBP</td>
</tr>
<tr>
<td>Cash-flow and fair-value hedges</td>
<td></td>
</tr>
<tr>
<td>Within 1 year</td>
<td>606</td>
</tr>
<tr>
<td>2 to 3 years</td>
<td>418</td>
</tr>
<tr>
<td>4 to 9 years</td>
<td>377</td>
</tr>
<tr>
<td>Total</td>
<td>1,401</td>
</tr>
<tr>
<td>Hedging transactions which cannot be classified as hedging transactions</td>
<td>224</td>
</tr>
<tr>
<td>Total transactions</td>
<td>1,625</td>
</tr>
</tbody>
</table>

(*) Defined as sum of earnings and cash-flow hedge reserve.
Liquidity risk
Leonardo is exposed to liquidity risk, i.e. the risk of not being able to finance the prospective requirements arising from usual business and investment operations, as well as those connected with the volatility of the relevant markets in relation to commercial contracts at risk of renegotiation or cancellation. Furthermore, we must consider the effects of the reorganisation plan, specifically with regard to the financial outlays relating to efficiency-improvement processes. Finally, there is the risk of not being able to repay or refinance debts at the expiry dates.

In order to face the series of abovementioned risks, Leonardo has adopted a series of instruments aimed at optimizing the management of financial resources by resorting to bank and bond transactions.

Leonardo has an EMTN (Euro Medium Term Notes) programme in place, for a total amount of €bil. 4. This programme was renewed in May for an additional period of 12 months, leaving the available maximum amount unchanged.

Furthermore, Leonardo has a Revolving Credit Facility amounting to €mil. 1,800 expiring in 2023, to meet its requirements for the financing of the Group's core business operations.

Furthermore, an additional agreement was signed in 2019 for a loan of €mil. 300 granted by the European Investment Bank (EIB), which had been executed in November 2018 in order to support the investment projects envisaged in the Group's Industrial Plan.

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

Credit risk
The Company is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties.

Regarding commercial transactions, the most significant programmes are made with public sector contractors or contractors belonging to public institutions, mainly in the Euro area, in the United Kingdom, the United States and the Middle East. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to mitigate insolvency risks, if any. While solvency is guaranteed with public-entity customers, collection times are longer (in some countries they are significantly longer) than for other business sectors, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. When possible, the Company hedges against potential defaults of its customers by entering into insurance policies with leading Export Credit Agencies (ECAs) internationally and with major Italian agencies (e.g. SACE).
The types of contracts entered into provide for sizeable retention money withheld by customers, as well as back-to-back clauses in case of sub-supplies. These cases inherently extend the times for collection of outstanding receivables.

Furthermore, the Company operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2019, we note the following relations with countries exposed to credit risk according to the international institutions (SACE):

<table>
<thead>
<tr>
<th></th>
<th>Libya</th>
<th>Zambia</th>
<th>Pakistan</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>1</td>
<td>3</td>
<td>51</td>
<td>21</td>
<td>76</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(20)</td>
<td>(14)</td>
<td>(16)</td>
<td>(9)</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>Net exposure</strong></td>
<td>(19)</td>
<td>(11)</td>
<td>35</td>
<td>12</td>
<td>17</td>
</tr>
</tbody>
</table>

Finally the receivables related to these agreements might not be paid, renegotiated or written off.

The table below summarises trade receivables at 31 December 2019 and 2018 (values in €bil.):

<table>
<thead>
<tr>
<th>€ billions</th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portion due</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>- of which: for more than 12 months</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Portion not yet due</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total trade receivables</strong></td>
<td>2.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>

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

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

**Classification of financial assets and liabilities**

The table below shows the fair-value hierarchy of financial assets and liabilities of Leonardo SpA measured at fair value. The fair value of derivatives (classified in other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called “Level 2”). In particular, the inputs used for the fair-value measurement are the foreign exchange rate and interest rate observable on the market (spot exchange rates and forwards) and, exclusively in relation to options, the volatility of these inputs.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 2</td>
<td>Level 3</td>
</tr>
<tr>
<td>Other current assets</td>
<td>185</td>
<td>-</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>90</td>
<td>-</td>
</tr>
</tbody>
</table>
36. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA amounted to €mil. 9 (€mil. 11 at 31 December 2018). The decrease compared to the value for the comparative period was due to the lower impact of incentives paid to top management who left the Company.

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 2 (€mil. 2 in 2018). This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

37. Share-based payments

In order to implement an incentive and retention system for the Group’s employees and associates, starting from 2015 Leonardo adopted incentive plans which provide for the assignment of Leonardo shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the Company. The cost recognised in the income statement for the share incentive plans amounted in 2019 to €mil. 9 (€mil. 9 in 2018).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group net debt for 25% and ROS for 25%) was equal to €13.12 for the first plan (namely the value of Leonardo shares at the grant date of 31 July 2015) with reference to the first three-year cycle (2015-2017), to €9.83 (the value of Leonardo shares at the grant date of 31 July 2016) with reference to the second three-year cycle (2016-2018) and to €14.76 (the value of Leonardo shares at the grant date of 31 July 2017) with reference to the third three-year cycle (2017-2019); it was equal to €10.25 for the second plan (the value of Leonardo shares at the grant date of 31 July 2018) with reference to the first three-year cycle (2018-2020) and to €11.04 (the value of Leonardo shares at the grant date of 31 July 2019) with reference to the second three-year cycle (2019-2021).

Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90, for the first plan, with reference to the first three-year cycle (2015-2017), to €3.88 with reference to the second three-year cycle (2016-2018) and to €8.55 with reference to the third three-year cycle (2017-2019), while for the second plan it was equal to €3.51 with reference to the first three-year cycle (2018-2020) and to €6.72 with reference to the second three-year cycle (2019-2021).
The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;
- the expected volatility of the price of Leonardo shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;
- correlation coefficients between Leonardo and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis.

With reference to the co-investment plan, during 2019, in respect of the bonus shares ("matching shares") the requirements for the award of the rights have been fulfilled in relation to the first cycle (162,733 shares delivered).
Proposal to the Shareholders’ Meeting

Dear Shareholders,

The 2019 financial statements, which we submit for your approval, close with a net profit of €389,777,585.94. In light of the foregoing, we submit the following proposed resolution for your approval:

“The Ordinary Shareholders’ Meeting of Leonardo - Società per azioni:

> considering the Report of the Board of Directors;
> considering the Report of the Board of Statutory Auditors;
> having examined the financial statements at 31 December 2019;
> having acknowledged the report of KPMG SpA;

resolves

> to approve the Directors’ Report on Operations and the financial statements of Leonardo - Società per azioni at 31 December 2019;
> to approve the proposal posed by the Board of Directors of allocating the 2019 net profit of €389,777,585.94 as follows:
  › €19,488,879.30 equal to 5% of the net profit, to legal reserve;
  › €0.14 as the dividend to be paid - before tax, if any - starting from 24 June 2020, with the ex-dividend date of coupon no. 11 falling on 22 June 2020 and the record date (i.e., the date in which shareholders are entitled to receive the dividend payment, pursuant to Article 83-terdecies of Legislative Decree 58 of 24 February 1998 and Article 2.6.6, paragraph 2, of the Market Rules organised and managed by Borsa Italiana SpA) falling on 23 June 2020; the foregoing is with reference to each ordinary share held and outstanding at the ex-dividend date, excluding own shares held in portfolio at that date, without prejudice to the regime of those actually assigned in the current financial year based on the incentive plans in force;
  › the residual as retained earnings.”
Attachment: Disclosure under Law 124/2017

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

Grants received

Worth noting are the provisions of Law 124/2017 imposing disclosure obligations on those entities carrying out the activity referred to in Article 2195 of the Italian Civil Code in relation to sums which are not of a general nature and do not consist of fees, remuneration or compensation received from public administrations or similar entities.

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

Leonardo SpA has not received grants falling within the framework of those referred to in Article 1, paragraph 125, of Law 124/2017.

It should also be noted that the transparency of State aid and De Minimis aid for which there is a publication obligation is protected by their publication in the National Register of State Aids referred to in Article 52 of Law 234 of 24 December 2012, as provided for in Article 125-quinquies of Law 124/2017.

Grants made

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

There are no grants disbursed by Leonardo SpA in the form of donations or disbursements that do not consist of a consideration for services received, not even in the form of a return in terms of image.
## Appendix no. 1 (€mil.) - EQUITY INVESTMENTS

<table>
<thead>
<tr>
<th>% Equity investments in subsidiaries</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>Cost</td>
</tr>
<tr>
<td>---</td>
<td>------</td>
</tr>
<tr>
<td>100 AGUSTAWESTLAND HOLDINGS LTD</td>
<td>58</td>
</tr>
<tr>
<td>100 AGUSTAWESTLAND PHILADELPHIA CO.</td>
<td>217</td>
</tr>
<tr>
<td>100 ANSALDOBREDA SPA</td>
<td>509</td>
</tr>
<tr>
<td>60 LARIMART SPA</td>
<td>14</td>
</tr>
<tr>
<td>100 LEONARDO GLOBAL SOLUTIONS SPA</td>
<td>570</td>
</tr>
<tr>
<td>100 LEONARDO INTERNATIONAL SPA</td>
<td>142</td>
</tr>
<tr>
<td>100 LEONARDO MW LTD</td>
<td>2,804</td>
</tr>
<tr>
<td>100 LEONARDO US HOLDING INC.</td>
<td>3,234</td>
</tr>
<tr>
<td>100 SELEX ES INTERNATIONAL LTD</td>
<td>109</td>
</tr>
<tr>
<td>100 SOGEPA - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA</td>
<td>50</td>
</tr>
<tr>
<td>67 TELESPIAZIO SPA (*)</td>
<td>171</td>
</tr>
<tr>
<td>100 VITROCISET SPA</td>
<td>-</td>
</tr>
<tr>
<td>67 UTM SYSTEMS &amp; SERVICES SRL</td>
<td>-</td>
</tr>
<tr>
<td>99 W.S.K. PZL-ŚWIDNIK SA</td>
<td>142</td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 1</td>
<td>-</td>
</tr>
<tr>
<td>% Equity investments in associates</td>
<td>31 December 2018</td>
</tr>
<tr>
<td>%</td>
<td>Cost</td>
</tr>
<tr>
<td>---</td>
<td>------</td>
</tr>
<tr>
<td>30 AGUSTAWESTLAND AVIATION SERVICES LLC</td>
<td>4</td>
</tr>
<tr>
<td>50 AMSH BV (*)</td>
<td>873</td>
</tr>
<tr>
<td>26 AVIO SPA (***)</td>
<td>102</td>
</tr>
<tr>
<td>50 GIE-ATR</td>
<td>232</td>
</tr>
<tr>
<td>31 ELETTRONICA SPA</td>
<td>54</td>
</tr>
<tr>
<td>21 EUROFIGHTER JAGDFLUGZEUG GMBH</td>
<td>9</td>
</tr>
<tr>
<td>24 EUROFIGHTER SIMULATION SYSTEMS GMBH</td>
<td>2</td>
</tr>
<tr>
<td>11 EUROTECH SPA</td>
<td>18</td>
</tr>
<tr>
<td>30 INDUSTRIA ITALIANA AUTOBUS SPA</td>
<td>2</td>
</tr>
<tr>
<td>40 JIANGXI CHANGHE AGUSTA HELICOPTERS CO.</td>
<td>2</td>
</tr>
<tr>
<td>39 LEONARDO HELICOPTERES ALGERIE SPA</td>
<td>-</td>
</tr>
<tr>
<td>25 LIBYAN ITALIAN ADVANCED TECH. CO.</td>
<td>2</td>
</tr>
<tr>
<td>32 NHINDUSTRIES SAS</td>
<td>1</td>
</tr>
<tr>
<td>49 ORIZZONTE SISTEMI NAVALI SPA</td>
<td>16</td>
</tr>
<tr>
<td>50 ROTORSIM SRL</td>
<td>28</td>
</tr>
<tr>
<td>33 THALES ALENIA SPACE SAS (*)</td>
<td>546</td>
</tr>
<tr>
<td>Other with unit amount lower than €mil. 1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>1,892</td>
</tr>
</tbody>
</table>

(*) Joint control.  
(**) Company name changed from “OTO - Melara Ibérica SAU” to “Leonardo Hispania SAU”.
### Equity Investments

**31 December 2019**

<table>
<thead>
<tr>
<th>Transfers/ Acquisition of business unit</th>
<th>Acquis./ Subscriptions/ Payments of capital</th>
<th>Disposal</th>
<th>Reclass. Stock grant</th>
<th>Financial revalut./ Impairment</th>
<th>Capital replenishment</th>
<th>Other changes</th>
<th>Cost</th>
<th>Impairment</th>
<th>Carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
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**Notes:**
- (*) Joint control.
- (**) Company name changed from "OTO - Melara Ibérica SAU" to "Leonardo Hispania SAU".

### Other Investments

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<th>Transfers/ Acquisition of business unit</th>
<th>Acquis./ Subscriptions/ Payments of capital</th>
<th>Disposal</th>
<th>Reclass. Stock grant</th>
<th>Financial revalut./ Impairment</th>
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### Appendix no. 1 (€mil.) - EQUITY INVESTMENTS

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### Subsidiaries

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<th>Other companies</th>
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### Appendix no. 1 (€mil.) - EQUITY INVESTMENTS

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<tr>
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<td>(2,551)</td>
</tr>
<tr>
<td><strong>Carrying amount</strong></td>
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#### Transfers/ Acquisition of business unit
- Acquis./ Subscriptions/ Payments of capital
- Disposal
- Reclass. Stock grant
- Financial revalut./ Impairment
- Capital replenishment
- Other changes

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**TOTAL EQUITY INVESTMENTS**

281       63       (6)      -     -      (23)    -     1     10,248  (2,551)    7,697
## Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

### Equity investments in subsidiaries

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<tr>
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<td>LEONARDO INTERNATIONAL SPA</td>
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<td>Wilmington (USA)</td>
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<td>VITROCISET SPA</td>
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### Equity investments in associates

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

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<td>Campi Bisenzio (Italy)</td>
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**TOTAL EQUITY INVESTMENTS**

7,697
## Appendix no. 2 (€mil.) - LIST OF EQUITY INVESTMENTS

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<th>Total liabilities</th>
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**TOTAL EQUITY INVESTMENTS:** 7,697
### Appendix no. 3 (€mil.) - NON-CURRENT RECEIVABLES

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<td>Residual nominal amount</td>
<td>Impairment Carrying amount</td>
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<tr>
<td>Receivables</td>
<td>71</td>
<td>-</td>
</tr>
<tr>
<td>Receivables from subsidiaries</td>
<td>329</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total receivables</strong></td>
<td><strong>400</strong></td>
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</table>

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

<table>
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<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amounts due</td>
<td>Amounts due</td>
</tr>
<tr>
<td></td>
<td>from 2nd to 5th subsequent year</td>
<td>beyond 5th year</td>
</tr>
<tr>
<td>Receivables</td>
<td>37</td>
<td>9</td>
</tr>
<tr>
<td>Other non-current receivables from related parties</td>
<td>24</td>
<td>23</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Non-current loans and receivables from related parties</td>
<td>282</td>
<td>-</td>
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<tr>
<td>Other non-current assets</td>
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<td>79</td>
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<tr>
<td><strong>Total receivables and non-current assets</strong></td>
<td><strong>510</strong></td>
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### Appendix no. 5 (€mil.) - FOREIGN CURRENCY ASSETS

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<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In foreign currency</td>
<td>In euro</td>
</tr>
<tr>
<td>Receivables</td>
<td>-</td>
<td>46</td>
</tr>
<tr>
<td>Other non-current receivables from related parties</td>
<td>-</td>
<td>47</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td>Non-current loans and receivables from related parties</td>
<td>117</td>
<td>165</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>-</td>
<td>221</td>
</tr>
<tr>
<td>Total receivables and other non-current assets</td>
<td>117</td>
<td>504</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>-</td>
<td>769</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>117</td>
<td>1,273</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>-</td>
<td>28</td>
</tr>
<tr>
<td>Loans and receivables form related parties</td>
<td>12</td>
<td>181</td>
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<td>Trade receivables</td>
<td>481</td>
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<td>Trade receivables from related parties</td>
<td>283</td>
<td>545</td>
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<td>Total current assets</td>
<td>764</td>
<td>1,643</td>
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<tr>
<td>Other assets</td>
<td>22</td>
<td>296</td>
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<td>Other receivables from related parties</td>
<td>1</td>
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<td>Income tax receivables</td>
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<td>Cash and cash equivalents</td>
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<td>3,733</td>
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## Appendix no. 6 (€mil.) - ASSETS BY GEOGRAPHICAL AREA

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<th>31 December 2019</th>
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<tr>
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<td>North America</td>
<td>Rest of the world</td>
<td>Total</td>
<td>Italy</td>
<td>Rest of Europe</td>
<td>North America</td>
<td>Rest of the world</td>
<td>Total</td>
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<tr>
<td>Receivables</td>
<td>46</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>71</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>71</td>
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<tr>
<td>Other non-current receivables from related parties</td>
<td>47</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>47</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loans and receivables</td>
<td>25</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-current loans and receivables from related parties</td>
<td>165</td>
<td>117</td>
<td>-</td>
<td>-</td>
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<td>202</td>
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<td>138</td>
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<td>-</td>
<td>-</td>
<td>221</td>
<td>154</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>154</td>
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<td><strong>Total receivables and other non-current assets</strong></td>
<td><strong>504</strong></td>
<td><strong>117</strong></td>
<td>-</td>
<td>-</td>
<td><strong>621</strong></td>
<td><strong>427</strong></td>
<td><strong>70</strong></td>
<td><strong>138</strong></td>
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<td><strong>635</strong></td>
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<td>-</td>
<td>769</td>
<td>732</td>
<td>-</td>
<td>-</td>
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<td><strong>Total non-current assets</strong></td>
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<td><strong>117</strong></td>
<td>-</td>
<td>-</td>
<td><strong>1,390</strong></td>
<td><strong>1,159</strong></td>
<td><strong>70</strong></td>
<td><strong>138</strong></td>
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<td>-</td>
<td>3</td>
<td>28</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26</td>
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<tr>
<td>Loans and receivables from related parties</td>
<td>40</td>
<td>145</td>
<td>2</td>
<td>6</td>
<td>193</td>
<td>106</td>
<td>155</td>
<td>2</td>
<td>-</td>
<td>263</td>
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<tr>
<td></td>
<td><strong>65</strong></td>
<td><strong>145</strong></td>
<td>2</td>
<td><strong>9</strong></td>
<td><strong>221</strong></td>
<td><strong>132</strong></td>
<td><strong>155</strong></td>
<td>2</td>
<td>-</td>
<td><strong>289</strong></td>
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<tr>
<td>Trade receivables</td>
<td>296</td>
<td>426</td>
<td>213</td>
<td>643</td>
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<td>383</td>
<td>284</td>
<td>193</td>
<td>884</td>
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<td>553</td>
<td>100</td>
<td>50</td>
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<td>589</td>
<td>151</td>
<td>73</td>
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<td></td>
<td><strong>421</strong></td>
<td><strong>979</strong></td>
<td><strong>312</strong></td>
<td><strong>693</strong></td>
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<td><strong>524</strong></td>
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<td><strong>344</strong></td>
<td><strong>957</strong></td>
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<td>24</td>
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<td>276</td>
<td>29</td>
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<td>6</td>
<td>318</td>
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<tr>
<td>Other receivables from related parties</td>
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<td>-</td>
<td>57</td>
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<td>-</td>
<td>1</td>
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<td>26</td>
</tr>
<tr>
<td></td>
<td><strong>325</strong></td>
<td><strong>24</strong></td>
<td><strong>1</strong></td>
<td><strong>25</strong></td>
<td><strong>375</strong></td>
<td><strong>301</strong></td>
<td><strong>29</strong></td>
<td><strong>8</strong></td>
<td><strong>6</strong></td>
<td><strong>344</strong></td>
</tr>
<tr>
<td>Income tax receivables</td>
<td>42</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42</td>
<td>52</td>
<td>-</td>
<td>2</td>
<td>8</td>
<td>62</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
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<td>-</td>
<td>44</td>
<td>1,621</td>
<td>1,284</td>
<td>20</td>
<td>86</td>
<td>17</td>
<td>1,407</td>
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<tr>
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<td><strong>1,149</strong></td>
<td><strong>315</strong></td>
<td><strong>771</strong></td>
<td><strong>4,664</strong></td>
<td><strong>2,293</strong></td>
<td><strong>1,077</strong></td>
<td><strong>442</strong></td>
<td><strong>988</strong></td>
<td><strong>4,800</strong></td>
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### Appendix no. 7 (€mil.) - AVAILABLE AND DISTRIBUTABLE RESERVES

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<tr>
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<th>Amount</th>
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<th>Distributable portion</th>
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<tr>
<td><strong>Revenue reserves</strong></td>
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<tr>
<td>Legal reserve</td>
<td>299</td>
<td>B</td>
<td></td>
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<tr>
<td>Extraordinary reserve</td>
<td>392</td>
<td>A,B,C</td>
<td>392</td>
</tr>
<tr>
<td>Reserve for actuarial gains/(losses) in equity</td>
<td>(60)</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Cash-flow hedge reserve</td>
<td>(76)</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Stock-grant reserve</td>
<td>25</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Reserve for merger and demerger surplus</td>
<td>723</td>
<td>A,B,C</td>
<td>723</td>
</tr>
<tr>
<td>Retained earnings and other reserves</td>
<td>1,831</td>
<td>A,B,C</td>
<td>1,686</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,630</td>
<td></td>
<td>2,801</td>
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<tr>
<td><strong>Net profit/(loss) for the period</strong></td>
<td>390</td>
<td>A,B,C</td>
<td>370</td>
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<tr>
<td><strong>Constraint under Article 2426 paragraph 1 no. 5 Civil Code</strong></td>
<td></td>
<td></td>
<td>(2,076)</td>
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</table>

**Total equity**

| Amount | 6,020 | 1,095 |

(*) Less treasury shares for €mil. 29 and cost for capital increase for €mil. 19.

Keys:
A: for capital increase
B: for loss coverage
C: for distribution to shareholders

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

<table>
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<tr>
<th></th>
<th>31 December 2018</th>
<th>31 December 2019</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Amounts due</td>
<td>Amounts due</td>
</tr>
<tr>
<td></td>
<td>from 2nd to 5th subsequent year</td>
<td>beyond 5th year</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>475</td>
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<tr>
<td>Loans and borrowings (non-current)</td>
<td>1,963</td>
<td>1,093</td>
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<td>Non-current loans and borrowings to related parties</td>
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<td>-</td>
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<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>2,438</strong></td>
<td><strong>1,325</strong></td>
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### Appendix no. 9 (€mil.) - FOREIGN CURRENCY LIABILITIES

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<tr>
<td></td>
<td>In foreign currency</td>
<td>In euro</td>
</tr>
<tr>
<td>Loans and borrowings (non-current)</td>
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<tr>
<td>Non-current loans and borrowings to related parties</td>
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<td>-</td>
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<tr>
<td></td>
<td>-</td>
<td>3,056</td>
</tr>
<tr>
<td>Deferred tax assets</td>
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<td>91</td>
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<tr>
<td>Other non-current liabilities</td>
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<td>707</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>-</td>
<td>3,854</td>
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<tr>
<td>Loans and borrowings</td>
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<td>173</td>
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<tr>
<td>Related-party loans and borrowings</td>
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<td>730</td>
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<td></td>
<td>1,006</td>
<td>903</td>
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<td>Trade payables</td>
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<td>1,585</td>
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<tr>
<td>Trade payables to related parties</td>
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<td></td>
<td>685</td>
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<tr>
<td>Other liabilities</td>
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<td>1,007</td>
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<td>Other payables to related parties</td>
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<tr>
<td>Income tax payables</td>
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<td>Total current liabilities</td>
<td>1,815</td>
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### Appendix no. 10 (€mil.) - LIABILITIES BY GEOGRAPHICAL AREA

<table>
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<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Italy</td>
<td>Rest of Europe</td>
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<tr>
<td>Loans and borrowings (non-current)</td>
<td>2,917</td>
<td>139</td>
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<tr>
<td>Non-current loans and borrowings to related parties</td>
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<td>-</td>
</tr>
<tr>
<td></td>
<td>2,917</td>
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</tr>
<tr>
<td>Deferred tax assets</td>
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<td>-</td>
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<tr>
<td>Other non-current liabilities</td>
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<td>Total non-current liabilities</td>
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<td>Loans and borrowings</td>
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<tr>
<td>Related-party loans and borrowings</td>
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<td>586</td>
<td>1,323</td>
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<td>Trade payables</td>
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<td>659</td>
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<tr>
<td>Trade payables to related parties</td>
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<tr>
<td></td>
<td>1,046</td>
<td>892</td>
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<td>Other liabilities</td>
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<tr>
<td>Other payables to related parties</td>
<td>170</td>
<td>93</td>
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<tr>
<td></td>
<td>1,107</td>
<td>131</td>
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<td>Income tax payables</td>
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<td>-</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2,751</td>
<td>2,346</td>
</tr>
</tbody>
</table>

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 Alessandro Profumo, as the Chief Executive Officer, and Alessandra Genco, 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 2019.

2. In this respect it is noted that no significant matters arose.

3. It is also certified that:

   3.1 the separate financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-ter of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation;

   3.2 the Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This statement also is made pursuant to and for the purposes of Article 154-bis, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 12 March 2020

The Chief Executive Officer  
(Alessandro Profumo)  

The Officer in charge of financial reporting  
(Alessandra Genco)
Independent auditors’ report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of Leonardo S.p.a.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Leonardo S.p.a. (the “company”), which comprise the statement of financial position as at 31 December 2019, the separate income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Leonardo S.p.a. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the separate financial statements” section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
Recognised of long-term contract revenue and losses

Notes to the separate financial statements: notes 3 “Accounting principles”, 14 “Contract assets and liabilities”, 22 “Provisions for risks and charges and contingent liabilities” and 27 “Revenue”

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>Audit procedures addressing the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>A significant portion of the company’s revenue from long-term contracts is recognised using the percentage of completion method based on the cost-to-cost model, if the IFRS 15 requirements for recognition over time are met. Estimating the total expected contract costs, which is necessary to calculate the stage of completion, is, by its very nature, complex. It also entails a high degree of uncertainty as it may be affected by many factors, including the products’ design complexity and the company’s ability to duly meet the technical specifications of its customers and the working time contractually agreed. Moreover, any failure to comply with the contractual provisions, such as, for example, those relating to delivery times and products’ and services’ compliance with the customers’ specific requests, may give rise to material penalties and extra-costs which shall be considered in estimating total contract costs. Therefore, this estimate requires a high degree of judgement by directors, which may significantly affect the recognition of contract revenue and losses. Accordingly, we believe that the recognition of long-term contract revenue and losses is a key audit matter.</td>
<td></td>
</tr>
<tr>
<td>Our audit procedures included:</td>
<td></td>
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<tr>
<td>– updating our understanding of the process for the recognition of contract revenue and losses;</td>
<td></td>
</tr>
<tr>
<td>– assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;</td>
<td></td>
</tr>
<tr>
<td>– for a sample of contracts deemed material for the purposes of our audit:</td>
<td></td>
</tr>
<tr>
<td>– examining the contracts signed with the customers in order to check whether their main provisions had been duly considered in management estimates;</td>
<td></td>
</tr>
<tr>
<td>– assessing the assumptions underlying the estimated contract costs, based on (i) discussions with the relevant internal departments and (ii) any communications with customers;</td>
<td></td>
</tr>
<tr>
<td>– analysing the most significant discrepancies between past years’ estimates and actual figures, in order to assess the accuracy of the forecasting process;</td>
<td></td>
</tr>
<tr>
<td>– agreeing the costs incurred during the year and their allocation to contract work in progress;</td>
<td></td>
</tr>
<tr>
<td>– for certain types of production, obtaining evidence of the physical stage of completion through a physical count;</td>
<td></td>
</tr>
<tr>
<td>– assessing the accuracy of the calculation of the percentage of completion and the related recognition of contract revenue and expected losses, if any;</td>
<td></td>
</tr>
<tr>
<td>– inquiring at the company’s legal department on long-term contracts disputes;</td>
<td></td>
</tr>
<tr>
<td>– requesting external confirmations from legal advisors, if involved in the above disputes;</td>
<td></td>
</tr>
</tbody>
</table>
Leonardo S.p.a.

Independent auditors’ report
31 December 2019

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**Recoverability of equity investments and goodwill**

*Notes to the separate financial statements: notes 3 “Accounting principles”, n. 8 “Intangible assets” and 11 “Equity investments”*

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>Audit procedures addressing the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>The separate financial statements at 31 December 2019 include equity investments of €7,697 million and goodwill of €707 million.</td>
<td>Our audit procedures included:</td>
</tr>
<tr>
<td>The directors tested equity investments and goodwill for impairment estimating the recoverable amount of the cash-generating units (CGU) to which they relate. The estimated recoverable amount is based on value in use, that is the present value of the future expected cash flows (discounted cash flows method).</td>
<td>— updating our understanding of the impairment testing procedure approved by the company’s board of directors on 25 February 2020;</td>
</tr>
<tr>
<td>This method is characterised by a high degree of complexity and the use of estimates which are by their very nature, uncertain and subjective, about:</td>
<td>— updating our understanding of the process used to draft the company’s business plan;</td>
</tr>
<tr>
<td>— the expected cash flows, determined on the basis of the general and sector trends, the actual cash flows for recent years and the projected growth rates;</td>
<td>— analysing the criteria used to identify the CGU and tracing the amount of the CGU assets and liabilities to the relevant carrying amounts in the separate financial statements;</td>
</tr>
<tr>
<td>— the financial parameters used to calculate the discount rate.</td>
<td>— comparing the cash flows used for impairment testing to the cash flows included in the business plan;</td>
</tr>
<tr>
<td>The 2020-2024 business plan (the “business plan”) that the company’s directors approved on 12 March 2020 which is the basis for the cash flow estimates is not only affected by the uncertainties inherent in forecasting, but also by the spending programmes of governments and public agencies, which are subject to delays, changes when work is in progress or cancellations.</td>
<td>— analysing the main assumptions used by the directors in drafting the business plan for reasonableness;</td>
</tr>
<tr>
<td>For the above reasons, we believe that the recoverability of equity investments and goodwill is a key audit matter.</td>
<td>— considering the most significant discrepancies between the data included in the past years’ plans and actual figures, in order to assess the accuracy of the forecasting process;</td>
</tr>
</tbody>
</table>

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– assessing the appropriateness of the presentation and adequacy of disclosures about contract revenue and expected contract losses in the separate financial statements.
Recognition and measurement of non-recurring costs and development costs

Notes to the separate financial statements: notes 3 “Accounting principles” and 8 “Intangible assets”

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>Audit procedures addressing the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>In its separate financial statements at 31 December 2019, the company has</td>
<td>Our audit procedures included:</td>
</tr>
<tr>
<td>recognised non-recurring costs and development costs relating to the design,</td>
<td>— updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs;</td>
</tr>
<tr>
<td>prototyping, start-up and technical and functional specification adjustments of</td>
<td>— assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;</td>
</tr>
<tr>
<td>its products totalling €2,076 million under intangible assets.</td>
<td>— for a sample of development projects deemed material for the purposes of our audit:</td>
</tr>
<tr>
<td>The initial recognition and subsequent measurement of their recoverability through impairment test requires complex estimates with a high degree of uncertainty, since they are affected by many factors, including the horizon of the product business plans and management’s ability to forecast the commercial success of new technologies. Accordingly, these estimates require a significant level of judgement by directors. For the above reasons, we believe that the recognition and measurement of non-recurring costs and development costs are a key audit matter.</td>
<td>— examining the main internal and external cost items recognised during the year on the basis, inter alia, of inquiries of the relevant internal departments and documentary evidence provided by management;</td>
</tr>
<tr>
<td>— challenging the reasonableness of the assumptions underlying the product business plans;</td>
<td>— involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information;</td>
</tr>
<tr>
<td>— assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the separate financial statements.</td>
<td>— assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the separate financial statements.</td>
</tr>
</tbody>
</table>
Responsibilities of the company’s directors and board of statutory auditors (“Collegio Sindacale”) for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company’s ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, the company’s financial reporting process.

Auditors’ responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on
the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the company to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors’ report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 16 May 2012, the company’s shareholders engaged us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2012 to 31 December 2020.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The company’s directors are responsible for the preparation of the a directors’ report and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors’ report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company’s separate financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.
In our opinion, the directors’ report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the company’s separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, 13 March 2020

KPMG S.p.A.

(signed on the original)

Marcella Balistreri
Director
REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS’ MEETING
PURSUANT TO ART. 153 OF LEGISLATIVE DECREE NO. 58/1998

To the Shareholders’ Meeting of the company Leonardo S.p.a.

Shareholders,

the Board of Statutory Auditors (hereinafter also referred to as “the Board”) of the company Leonardo S.p.a. (hereinafter also referred to as “the Company”) hereby submits its report pursuant to Article 153 of Legislative Decree No. 58/1998 (“T.U.F.” - Testo Unico della Finanza, Consolidated Law on Financial Intermediation) to report on the activity performed.

The Board of Statutory Auditors was appointed by the Shareholders’ Meeting on 15 May 2018 and therefore terminates its mandate with the next Shareholders’ Meeting called to approve the Financial Statements as at 31 December 2020.

The independent audit activity was entrusted, pursuant to Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010, to the independent auditing company KPMG S.p.A. (hereinafter referred to as the “Independent Auditing Firm”). The task was granted by the Shareholders’ Meeting of 16 May 2012 for the period from 2012 to 2020.

During the financial year ended on 31 December 2019, the Board of Statutory Auditors carried out checks and other supervisory activities in compliance with the provisions of laws and regulations in force on the subject, as well as the Corporate Governance Code for companies listed at the Italian Stock Exchange, of the Rules of behaviour of the Board of Statutory Auditors of the listed companies issued by the National Board of Chartered Accountants and Accounting Experts and of the Communications issued by CONSOB concerning the company checks and the activities of the Board of Statutory Auditors. This report has been drafted in accordance with the indications provided by CONSOB with Notice DEM/1025564 of 6 April 2001 as amended and supplemented.

The Board met regularly in 2019, taking minutes of the supervisory activities carried out.

The Board also provided for the self-assessment of the independence of its members, whose outcome confirmed the existence of the requirements required by law and by the above-mentioned Corporate Governance Code. It is hereby acknowledged that no Statutory Auditor has had any interests, on his/her own or on behalf of third parties, in any transaction of the Company during the financial year and that the members of the Board of Statutory Auditors have complied with the accumulation of offices required by art. 144-terdecies of the Issuer Regulation.
The Board also positively assessed the criteria used by the Board of Directors to evaluate the permanence of the independence requirements provided for by the Corporate Governance Code and those required by the T.U.F. for the non-executive Directors qualified as independent.

The Board also carried out a self-assessment process in 2019, following the same method as in the previous year, with particular focus on the activities carried out by it as an Internal Control and Audit Committee (pursuant to art. 19 of Legislative Decree No. 39/2010), also with reference to the activities carried out for the selection of the statutory auditor for the 2021-2029 financial years, which will be specified in greater detail below. This process is aimed at gathering the opinions of the members of the Board of Statutory Auditors regarding both the work and the composition of the Board itself - taking into account the entire three-year mandate of the Body in charge, in line with the provisions of the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by the National Board of Chartered Accountants and Accounting Experts. The results, the assessments carried out and the final indications of the Board were jointly discussed and subsequently collected in the "Final Report of Self-assessment of the Board", as well as reported by the Company within the Annual Report on Corporate Governance and Ownership Structure.

For the first time, Leonardo’s Board of Statutory Auditors approved, during the meeting held on 10 March 2020, their own Rules, which were made known to the Company’s Nomination, Governance and Sustainability Committee and Board of Directors. The Rules govern the role, organisation and methods of functioning of the Board of Statutory Auditors in line with the main organisational aspects of Leonardo’s corporate governance model, in the light of the principles and rules laid down by the Corporate Governance Code and by the Rules of behaviour of the Board of Statutory Auditors of the listed companies issued.

* * *

As part of the activities and tasks assigned to the Board of Statutory Auditors while implementing the relevant regulation, the Board during 2019:

a) held eighteen meetings, carried out audits and gathered information from the heads of the different corporate functions, periodically meeting the top management for an exchange of information on the performance of the corporate transactions, thus acquiring the knowledge necessary to monitor, pursuant to art. 149 of TUF, the compliance with the law and the deed of incorporation, the compliance with the principles of correct management and the adequacy of the organizational structure, the internal control system, the administrative-accounting system, also with reference to art. 2086 of the Italian Civil Code, as well as the implementation of the corporate governance rules provided by the codes of conduct and the adequacy of the instructions given to the subsidiaries, without any remark; relations with the Company’s personnel were inspired by mutual collaboration in compliance with the subjective roles and
areas of competence and each body or function of the Company has fulfilled the information obligations provided for by the applicable standards;

b) attended the General Shareholder’ meetings held on 16 May 2019 in its Ordinary and Extraordinary sessions;

c) attended all the ten meetings held by the Board of Directors, during which it was informed on the activities done and on the main economic, patrimonial and financial transactions carried out by the Company and its subsidiaries, thus obtaining adequate and timely information on their performance;

d) attended all the nine meetings held by the Control and Risks Committee, the seven meetings held by the Remuneration Committee and the four meetings held by the Appointment, Governance and Sustainability Committee, thus acknowledging that they have acted in compliance with the provisions of the Corporate Governance Code and its own Regulations. In addition, it attended the four meetings of the International Scenarios Analysis Committee set up by the Company on a voluntary basis.

The collaboration with the Control and Risk Committee, also through the organization of joint meetings on topics of common interest, has been fruitful and effective and has, among other things, allowed to complete the analysis process of the Board of Statutory Auditors on risk control and management, thus acquiring further information with respect to that obtained autonomously through the constant contacts with the Chief Audit Executive (“CAE”) and the Risk Manager of the Company, as well as with the other parties involved in various capacities in the internal control and risk management system including the Group General Counsel.

The Board of Statutory Auditors, in particular, acknowledges that during the meetings of the Control and Risk Committee, checks were carried out, as established by the Corporate Governance Code and the Committee's Rules, regularly presented to the Board of Statutory Auditors as Audit Committee. In particular, the Board monitored the adequacy and effectiveness of the internal control and risk management system, with respect to the characteristics of the company and the risk profile taken, of the Work Plan prepared by CAE, the adequacy of the resources assigned to it, as well as its organizational effectiveness and efficiency. Furthermore, the Board of Statutory Auditors acknowledged that the Control and Risk Committee expressed its favourable opinion on 11 March 2020 on the annual assessment of the adequacy of the Internal Control and Risk Management System.

e) as part of the periodic meetings with the CAE, it noted that, for the 2019 year, the Chief People Organization and Transformation Office organizational unit has completed, both in Italy and abroad, the “recruiting” plan for the progressive strengthening of the staff of the Group Internal Audit (“GIA”) organizational unit, aimed at maintaining a qualitative level of human resources adequate to the size of the Group and the variety and complexity of the issues to be addressed, also following the “One Company” Model. The GIA organizational unit completed the “Quality Assurance and Improvement” plan prepared to monitor and improve the
effectiveness, efficiency and quality of the Internal Audit activities for 2019; the results showed, for 9 out of the 10 sampled audits, a “general compliance” with international standards and best practices or “maximum positive evaluation” envisaged by the Institute of Internal Auditors. For the remaining audit, which ended with a partial compliance assessment, a follow-up was planned in 2020. These results were analysed by the Control and Risk Committee at the meeting of 24 February 2020 and were explained on the same date to the Board of Directors;

f) periodically met with the Manager charged with preparing a company’s financial reports;

g) periodically met the Supervisory Body pursuant to Legislative Decree No. 231/2001;

h) was informed, during meetings of the Board of Directors, on the updating of the Organizational, Management and Control Model pursuant to Legislative Decree 231/2001, made taking into account some internal organizational changes and regulatory changes that occurred;

i) also participated, through the Chairman, to the meeting of the Coordination and Consultation Body for the Prevention of Corruption, chaired by the Chairman of the Board of Directors and composed of the Chairman of the Control and Risks Committee, the Chairman of the Supervisory Body and the Chairman of the Board of Statutory Auditors; it was also informed of the activity carried out by the same Body within the framework of the reports that it periodically makes to the Board;

j) was informed of the activities carried out by the “Anticorruption” organizational unit, thus acknowledging the achievement of the ISO 37001 certification (Anticorruption Management System);

k) was periodically updated regarding the main disputes of the Company and the Group, thus monitoring their performance during the financial year;

l) periodically met with the representatives of the independent Auditing Firm who explained the Board the audit strategy, the areas of attention, the checks performed and the related outcomes, as well as the essential issues encountered in carrying out the activity, also in relation to the provisions of art. 19 of Legislative Decree 39/2010 and art. 11 of EU Regulation No. 537/2014;

m) verified the full observance of the obligations regarding information regulated, privileged or required by the Supervisory Authorities;

n) received from the Company, through the Legal, Corporate Affairs, Compliance, Criminal Law and Anticorruption organizational unit, a six-monthly information policy on the Transactions with Related Parties initiated or concluded during the period, including those transactions falling within the exemption cases provided for by the Consob Regulation No. 17221/2010 and the Leonardo S.p.a. procedure, as well as the half-yearly information policy on the exercise of the proxies;
Leonardo Annual Financial Report 2019

o) verified the timeliness of the information flows between the Parent Company and the other companies of the Group and the adequacy of the instructions given to the subsidiaries, pursuant to Art. 114, paragraph 2, of the T.U.F.;
p) received adequate information, with reference to the provisions of the articles 15 and subsequent ones of the Market Regulation (as amended by CONSOB Resolution no. 20249 of 28 December 2017), relating to the subsidiary companies established and regulated by the laws of non-EU countries, by CAE on 11 March 2010, brought to the attention also of the Risk Control Committee, showing, for the companies that are significant in terms of the criteria set by the Issuers Regulation, the existence of an administrative-accounting system that presides over the preparation of the Financial Reporting, suitable and substantially adequate to the requirements envisaged in the mentioned art. 15. Therefore, the preparation of a specific adjustment plan is not required;
q) verified, as responsible of the selection procedure of the independent auditing firm pursuant to paragraph 1, subpara. f), of Art. 19 of Legislative Decree No. 39/2010, the correctness of the selection process of the proposals for the assignment of the independent audit of Leonardo S.p.a. for the 2021-2029 period;
r) with reference to the merger by incorporation of Sistemi Dinamici S.p.A. into Leonardo S.p.A., effective since 1 January 2020, supervised the compliance by the Board of Directors with the applicable laws and Articles of Association;
s) verified that the Report on Corporate Governance and Ownership Structure contains all the information required by art. 123-bis of T.U.F. as well as other information provided in compliance with the standards governing issuers listed on regulated markets;
t) verified that the Report on the policy regarding remuneration and the fees paid contains all the information required by art. 123 ter of T.U.F. as well as other information provided in compliance with the standards governing issuers listed on regulated markets;
u) was informed of changes in the organizational structure, thus monitoring the existence, the updating and the actual dissemination of the company directives and procedures;
v) verified the adequacy of the administrative accounting system and its suitability to correctly represent the management facts;
w) took note of the corporate plans for the succession of the Top Management and the performance management and development projects of the company resources;
x) met with the Boards of Statutory Auditors of the main subsidiaries in order to acquire information in particular regarding the operation of the company activity, the reliability of the internal control system and the company organization, the relevant dispute - as required by art. 151 of T.U.F. - and compliance with internal procedures issued by the parent company. In particular, the audits were aimed at acquiring information and assessments regarding the management and control systems of the subsidiary companies: on these profiles, the Boards of Statutory Auditors of the Group companies did not find critical issues worthy of reporting.
All the Boards of Statutory Auditors involved also expressed a positive opinion regarding the adequacy of the organizational, administrative and accounting system of the respective companies; no violations of procedures qualifying as significant or significant emerged, nor any gaps or inadequacies in the internal control systems; for foreign companies controlled directly by Leonardo S.p.a. the supervisory activity of the Board developed with the collaboration of the Group Internal Audit organizational unit;
y) received periodic reports prepared by the Reports Committee, on the basis of the provisions of the "Whistleblowing Management Guidelines" by virtue of which the Board of Statutory Auditors is informed by the Supervisory Board together with the members of the Reports Committee about the reports received by the Company that the Body itself considers true;
z) actively participated in all the meetings organized by the Company or by the Independent Directors as part of the "Induction" program proposed to the Corporate Bodies, in compliance with the Corporate Governance Code, in order to increase the skills and knowledge of the business sectors in which the Company works and to investigate news introduced by the standards and regulations that have a direct impact on the supervisory role of the Board;
aa) received, on a quarterly basis, an update by the Chief Executive Officer regarding the exercise of the powers granted by the Board of Directors and the implementation of the Board’s resolutions.

The Board, also in compliance with the recommendations of the CONSOB Resolution DEM/1025564 of 6 April 2001, reports that it has not found any critical issues regarding the main transactions of major economic, financial and equity importance, carried out during the reference financial year, including through subsidiaries, which are summarized in the draft financial statements to which you must expressly refer.

With particular regard to transactions of greater significance having an impact on the overall model of the Company’s operation, the Board of Statutory Auditors monitored, in close collaboration with the independent directors (and in particular with the Control and Risk Committee), a series of organizational changes issued the Company during the year necessary for the implementation and monitoring of the initiatives envisaged in the Business Plan.

The Board did not detect any atypical and/or unusual transactions that, due to their significance or relevance, the nature of the counterparties, the object of the transaction, the methods for determining the transfer price and the timing of the event, could give rise to doubts regarding the correctness/completeness of the information in the financial statements, conflict of interests, safeguarding of corporate assets, protection of minority shareholders.

Furthermore, the Board, in the course of the activities carried out:

a) find no omissions or reprehensible facts;
b) acknowledged that no complaints have been submitted by the Shareholders pursuant to art. 2408 of the Italian Civil Code;

c) expressed its opinion in all the cases provided for by the law and by the Corporate Governance Code for Listed Companies and, in particular, with regard to the correct application of the criteria for assessing the independence of directors, the remuneration of the CEO and CAE, the adequacy of the resources of the GIA o.u. for fulfilling its responsibilities;

d) verified the methods of concrete implementation of the corporate governance rules provided for in the Corporate Governance Code of listed companies on the Italian stock exchange, to which the Company adhered;

e) also supervised the corporate documents and information on the market, in particular:

- noted that the Report on Operations for the financial year 2019 contains adequate information on transactions with related parties and has verified, pursuant to Art. 4, sixth paragraph, of the Regulation approved by CONSOB with resolution 17221 of 12 March 2010 as amended, the compliance of the "Procedure for Transactions with Related Parties", implemented by the Company, with the principles listed in the same Regulation, as well as full compliance with this procedure for individual transactions with related parties entered into during the financial year;

- supervised communications to the market, thus monitoring the adequacy of the related procedures;

f) acknowledges that, in compliance with the joint recommendations of the Banca d'Italia-CONSOB-ISVAP document No. 4 of 3 March 2010, the Impairment Test procedure governed by IAS 36 received the favourable opinion of the Control and Risk Committee on 24 February 2020 and was approved by the Board of Directors on 25 February 2020; in this regard, the Board monitored the substantive and formal legitimacy of the impairment process;

g) verified that the Company has fulfilled the obligations provided by the Legislative Decree No. 254/2016 (supplemented by the Budget Law 2019) and that, in particular, prepared the consolidated Declaration of a non-financial nature - prepared and approved by the Board of Directors - in accordance with the provisions of articles 3 and 4 of the same decree; in particular, it verified that the above-mentioned Declaration was accompanied by the report of the Independent Auditors pursuant to art. 3, paragraph 10, of Legislative Decree 254/2016 that confirmed the preparation by the directors of the non-financial declaration, in a separate form from the Report on Operations, through the 2019 Sustainability and Innovation Report, by virtue of a task specifically assigned; the Independent Auditing Firm released, on 17 March 2020, a "Limited Assurance" certificate, without remark, regarding the compliance of the information provided in the Non-Financial Statement, with respect to what is required by the aforementioned decree and with respect to the principles, methods and modes of preparation, as well as art. 5 of the CONSOB Regulation adopted by resolution No. 20267 of 18 January 2018.
The Independent Auditing Firm released the reports pursuant to Art. 14 of Legislative Decree No. 39 of 27 January 27, 2010 and of the EU Regulation no. 537/2014, paragraph 10 and 11; the aforementioned reports show that there are no findings or recalls of information, nor statements issued pursuant to subparas. e) and f) of Art. 14, second paragraph of Legislative Decree 39/2010.

More specifically, the Board examined the Independent Auditors' Report on the financial statements for the year ended on 31 December 2019 issued, pursuant to art. 14 of Legislative Decree No. 39/2010 and Art. 10 of the EU Reg. No. 537/2014 of 17 March 2020 and with which the auditor certified that:

- the separate financial statements of the Company and the consolidated financial statements of the Group as at 31 December 2019 provide a true and fair view of the financial and economic situation as at 31 December 2019, the economic result and the cash flows for the financial year ended on that date in compliance with the International Financial Reporting Standards implemented by the European Union as well as the provisions issued in implementation of Art. 9 of Legislative Decree No. 38/2005;
- the Report on Operations and some specific information contained in the Report on Corporate Governance and Ownership Structure indicated in art. 123-bis, 4th paragraph, of Legislative Decree No. 58/1998 are consistent with the separate financial statements of the Company and with the consolidated financial statements of the Group and drafted in compliance with the law;
- pursuant to Art. 123-ter, paragraph 8-bis, of the T.U.F., the preparation by the directors of the second section of the Report on the Remuneration Policy and the Fees Paid;
- the opinion on the separate and consolidated financial statements expressed in the aforementioned Reports is in line with what is shown in the Additional Report prepared pursuant to art. 11 of EU Regulation No. 537/2014.

The Board also examined the contents of the Additional Report pursuant to art. 11 of EU Regulation No. 537/2014, which is sent to the Board of Directors, whose examination shows no aspects that need to be highlighted in this report.

The Board, pursuant to art. 19 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016, had a constant exchange of information with the Independent Auditors and in particular:

- monitored the observance of the Company's procedure and directive for the assignment of tasks to the Group Independent Auditing Company, which envisages specific information and authorization flows and procedures for the assignment of such appointments aimed at allowing the Board of Statutory Auditors to carry out
its supervision activities properly. From the set of information flows implemented, which are deemed appropriate by the Board, no reports of criticality or anomalies emerged that could affect the opinions expressed on the financial statements and the consolidated financial statements of the Company;
- verified that the Independent Auditors, in relation to the "non-audit" services provided to Leonardo S.p.a. and its subsidiaries in the last three financial years, has complied with the limits set by art. 4, paragraph 2, of EU Regulation No. 537/2014;
- declares that the fees for the aforementioned offices amount to a total of EUR 646,000 and are reported, pursuant to art. 149-decies of the Issuers Regulations, in the summary table attached to the Financial Statements.

Taking into account the declarations of independence issued by KPMG S.p.A. and the transparency report issued by the Independent Auditors pursuant to art. 18 of Legislative Decree No. 39/2010, as well as the tasks assigned to it and to the companies belonging to its network by Leonardo S.p.a. and by its subsidiaries, the Board believes that there are no critical aspects to report on the independence of the Independent Auditing Firm.

During the supervisory activity performed by the Board of Statutory Auditors in accordance with the methods described above, on the basis of the information and data acquired, no facts emerged from which to infer that the law and the deed of establishment were not complied with or justified the reports to the Supervisory Authority or the mention in this report.

*   *   *

With regard to the result for the 2019 financial year, which recorded an operating profit of € 389.8 million, the Board of Directors set out in detail the formation of the result and the events that generated it in the Report on Operations and in the Explanatory Notes.

On the basis of the supervisory activities carried out up to today, taking into account the above and within its competence, the Board of Statutory Auditors, pursuant to Article 153, paragraph 2, of the T.U.F. Finds no grounds for impeding the proposal to approve the financial statements for the year ended on 31 December 2019, nor the proposal for the allocation of the relevant operating profit as requested by the Board of Directors.

13 March 2020

ON BEHALF OF THE BOARD OF STATUTORY AUDITORS
The Chairman Mr. Luca Rossi
Information pursuant to Article 149-duodecies of the Issuers’ Regulations

The following statement reports the fees for the year 2019 for auditing and certification services and for tax and other services provided by the same auditing firm and entities belonging to the auditing firm’s network.

<table>
<thead>
<tr>
<th>Entity providing the services</th>
<th>To</th>
<th>Fees for the year 2019 (€ thousands)</th>
</tr>
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<tbody>
<tr>
<td>Auditing services</td>
<td>KPMG SpA</td>
<td>Parent Company</td>
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<tr>
<td></td>
<td>KPMG SpA</td>
<td>Subsidiaries</td>
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<td></td>
<td>KPMG network</td>
<td>Subsidiaries</td>
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<tr>
<td>Assurance services</td>
<td>KPMG SpA</td>
<td>Parent Company</td>
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<td></td>
<td>KPMG SpA</td>
<td>Subsidiaries</td>
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<tr>
<td></td>
<td>KPMG network</td>
<td>Subsidiaries</td>
</tr>
<tr>
<td>Other services</td>
<td>KPMG SpA</td>
<td>Parent Company</td>
</tr>
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<td></td>
<td>KPMG SpA</td>
<td>Subsidiaries</td>
</tr>
<tr>
<td></td>
<td>KPMG network</td>
<td>Subsidiaries</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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