

RESULTS AT 31 MARCH 2018

Disclaimer

This Interim Reporting at 31 March 2018 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document

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Group results and financial position

Key performance indicators ("KPI")

	March 2018	March 2017 restated	Change	2017 restated
New orders	2,164	2,647	(18.2%)	11,595
Order backlog	33,360	35,189	(5.2%)	33,637
Revenue	2,451	2,361	3.8%	11,734
EBITDA	251	298	(15.8%)	1,602
EBITA	153	155	(1.3%)	1,077
ROS	6.2%	6.6%	(0.4) p.p.	9.2%
EBIT	121	123	(1.6%)	844
EBIT Margin	4.9%	5.2%	(0.3) p.p.	7.2%
Net Result before extraordinary transactions	50	49	2.0%	279
Net result	50	49	2.0%	279
Group Net Debt	3,595	3,254	10.5%	2,579
FOCF	(1,057)	(427)	(147.5%)	537
ROI	8.4%	8.5%	(0.1) p.p.	15.4%
ROE	4.8%	4.6%	0.2 p.p.	6.5%
Workforce	45,606	45,407	0.4%	45,134

The data at 31 March 2017 have been restated to take account of the effects arising from the application of IFRS 15 to revenue. Likewise, the data for the 2017 financial year have been preliminarily restated according to IFRS 15. Finally, the data at 30 March 2018 reflect the adoption of the new IFRS 9 "Financial Instruments". For an analysis of the effects arising from the adoption of the two new accounting standards, reference should be made to Annex 3.

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

The results for the first quarter were substantially in line with those recorded in the same period of the previous year, as restated to take account of the application of the new accounting standard on revenue (IFRS 15) from 1 January 2018. In financial terms, the first quarter of 2018 showed a slight increase in revenue (+4%) – mainly due to the growth reported in the *Helicopters* sector, whose 2017 data (restated according to IFRS 15) had been affected by a lower number of deliveries made in the *civil aircraft* segment –, with the Group's profits in line with 2017. New orders showed a decline of 18%, mainly attributable to major contracts gained in 2017 in the *Aeronautics* sector for activities in support to the EFA aircraft fleet for the period from 2017 to 2021. Finally, the performance in the *Aeronautics* sector also provides reasons for the difference recorded in cash-flows, which had benefitted from a substantial amount collected for the second advance payment on the EFA Kuwait contract in 2017.

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

	31 March 2018				
	New orders	Order backlog	Revenues	EBITA	ROS
Helicopters	611	9,649	750	53	7.1%
Electronics, Defence & Security Systems	965	11,863	1,149	73	6.4%
Aeronautics	723	12,595	639	47	7.4%
Space	-	-	-	7	n.a.
Other activities	20	186	81	(27)	(33.3%)
<i>Eliminations</i>	<i>(155)</i>	<i>(933)</i>	<i>(168)</i>	-	<i>n.a.</i>
Total	2,164	33,360	2,451	153	6.2%

	31 March 2017 restated				
	New orders	Order backlog at 31 Dec. 2017 restated	Revenues	EBITA	ROS
Helicopters	459	9,766	587	34	5.8%
Electronics, Defence & Security Systems	1,039	12,040	1,156	88	7.6%
Aeronautics	1,237	12,525	656	46	7.0%
Space	-	-	-	12	n.a.
Other activities	25	199	79	(25)	(31.6%)
<i>Eliminations</i>	<i>(113)</i>	<i>(893)</i>	<i>(117)</i>	-	<i>n.a.</i>
Total	2,647	33,637	2,361	155	6.6%

	Change %				
	New orders	Order backlog	Revenues	EBITA	ROS
Helicopters	33.1%	(1.2%)	27.8%	55.9%	1.3 p.p.
Electronics, Defence & Security Systems	(7.1%)	(1.5%)	(0.6%)	(17.0%)	(1.2) p.p.
Aeronautics	(41.6%)	0.6%	(2.6%)	2.2%	0.4 p.p.
Space	n.a.	n.a.	n.a.	(41.7%)	n.a.
Other activities	(20.0%)	(6.5%)	2.5%	(8.0%)	(1.7) p.p.
<i>Eliminations</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Total	(18.2%)	(0.8%)	3.8%	(1.3%)	(0.4) p.p.

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Commercial performance: The first quarter showed an increase (+33% compared to the first quarter of 2017) in *Helicopters* as regards the business lines AW109/AW119, AW169 and AW189, against the abovementioned decrease recorded in *Aeronautics* attributable to the particularly positive performance reported during the comparative period.

Business performance. The table below shows the income statement compared to the data restated as a result of the application of IFRS 15.

(<i>€ millions</i>)	For the three months ended 31 March		Change	% Change
	2018	2017 restated		
Revenues	2,451	2,361	-	3.8%
Purchases and personnel expenses	(2,223)	(2,084)		
Other net operating income/(expenses)	4	(1)		
Equity-accounted strategic JVs	19	22		
Amortisation, depreciation and impairment losses	(98)	(143)		
EBITA	153	155	(2)	(1.3%)
ROS	6.2%	6.6%	(0.4) p.p.	
Restructuring costs	(8)	(7)		
Amortisation of intangible assets acquired as part of business combinations	(24)	(25)		
EBIT	121	123	(2)	(1.6%)
EBIT Margin	4.9%	5.2%	(0.3) p.p.	
Net financial income/(expenses)	(66)	(68)		
Income taxes	(5)	(6)		
Net Result before extraordinary transactions	50	49	1	2.0%
Net result related to discontinued operations and extraordinary transactions	-	-		
Net profit/(loss) for the period attributable to:	50	49	1	2.0%
- owners of the parent	50	49		
- non-controlling interests	-	-		

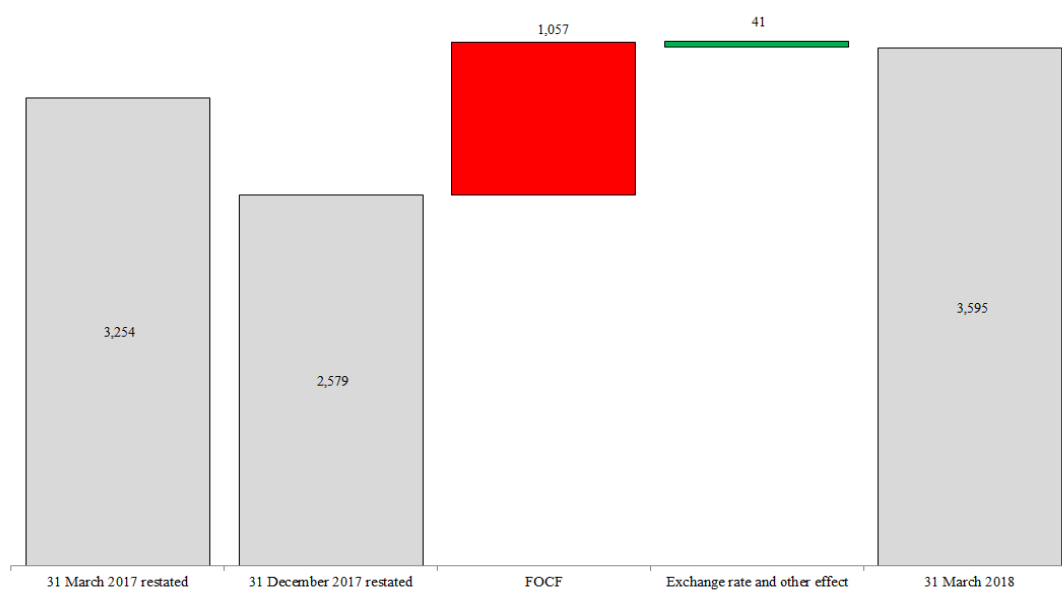
The increase in **revenues** was attributable to lower deliveries made during the first quarter of 2017 in the *civil aircraft* segment of the *Helicopters*. The data of deliveries also impacted on **EBITA** for the sector, which showed an improvement of 56%, offset by a reduction in the *Electronics* and *Space* sectors. **EBIT** and **Net Result** remained in line with 2017.

Financial performance. Cash-flows posted a negative value for €mil. 1,057, in line with the Group's normal trend to record considerable cash outflows during the first quarters, while the value for the first quarter of 2017 had benefitted from the substantial contribution given by the EFA Kuwait contract, as a result of the collection of the second advance payment during the quarter.

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<i>(€ millions)</i>	<i>For the three months ended 31 March</i>		<i>Change</i>	<i>% Change</i>
	<i>2018</i>	<i>2017 restated</i>		
Cash flows used in operating activities	(1,017)	(449)		
Dividends received	125	174		
Cash flows from ordinary investing activities	(165)	(152)		
Free Operating Cash Flow (FOCF)	(1,057)	(427)	(630)	(147.5%)
Strategic investments	(10)	(43)		
Change in other investing activities	(5)	1		
Net change in loans and borrowings	10	59		
Net increase (decrease) in cash and cash equivalents	(1,062)	(410)		
Cash and cash equivalents at 1 January	1,893	2,167		
Exchange rate differences and other changes	(6)	(5)		
Cash and cash equivalents at 31 March	825	1,752		

Below are the changes that were recorded in the Group's Net Debt mainly as a result of cash outflows for the period:



Net capital invested rose compared with the figure for 31 December 2017 due to the increase in net working capital, resulting from the seasonal fluctuation in cash flows.

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	31 March 2018	31 December 2017 restated	31 March 2017 restated
<i>(€ millions)</i>			
Non-current assets	11,559	11,714	11,911
Non-current liabilities	(2,714)	(2,837)	(3,020)
Capital assets	8,845	8,877	8,891
Inventories	5,127	4,747	4,794
Trade receivables	5,513	5,390	5,403
Trade payables	(10,233)	(10,443)	(10,091)
Working capital	407	(306)	106
Provisions for short-term risks and charges	(753)	(783)	(751)
Other net current assets (liabilities)	(724)	(996)	(856)
Net working capital	(1,070)	(2,085)	(1,501)
Net invested capital	7,775	6,792	7,390
Equity attributable to the Owners of the Parent	4,165	4,199	4,135
Equity attributable to non-controlling interests	15	16	15
Equity	4,180	4,215	4,150
Group Net Debt	3,595	2,579	3,254
Net (assets)/liabilities held for sale	-	(2)	(14)

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Below are the key performance indicators by sector:

Helicopters

The performance in the first quarter of 2018 showed the first positive signs of recovery in the Division's business, putting it on the right path to growth, and recorded an improvement in all indicators compared to the same period in the previous year, which had been affected by a performance that was not particularly excellent in manufacturing terms.

New orders. The increase was due to higher new orders gained for lines AW109/AW119, AW169 and AW189, for a total of 24 helicopters. The quarter also confirmed a good level of new orders for AW139.

Revenues. The rise was mainly due to an increase in deliveries of new helicopters compared to the same period of the previous year, which had been marked by the postponement of the delivery of various units to the second quarter. 29 new units were delivered in the first quarter (compared to 12 in the first quarter of 2017), mainly relating to the lines AW139 and AW189/AW149.

EBITA. The increase was due to the effect of higher revenues and profits, which mainly benefitted from an improved mix associated with higher deliveries on AW139.

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Electronics, Defence & Security Systems

The first quarter of 2018 was characterised by revenue volumes in line with the value posted during the same period of 2017 and by lower profits, mainly as a result of a different mix of business developed in the period.

New Orders: These showed a decline compared to the same period of the previous year, mainly as a result of the adverse effect of the USD/€ exchange rate. Among the major orders obtained in the period was the contract gained by DRS for the supply of computers and hardware within a wider Technology Insertion hardware programme for the U.S. Navy in the Naval Electronics business segment, as well as the order for the supply of a parcel sorting centre in Germany in the Security & Information Systems Division.

Revenues. They remained substantially in line with the same period of the previous year, despite the adverse effect of the USD/€ exchange rate.

EBITA. The decline compared to the same period of the previous year was due to the effect of a different mix of activities developed in the period which reported, in addition to the expected lower contribution given by highly profitable programmes, some slowdowns on new productions and reflected a higher contribution from lower-profit development programmes, which entailed costs for participation in the tender for the US trainer and the adverse effect of the USD/€ exchange rate at DRS.

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

	<u>New orders</u>	<u>Revenues</u>	<u>EBITA</u>	<u>ROS</u>
DRS (\$mil.) March 2018	424	455	21	4.6%
DRS (\$mil.) March 2017 restated	401	395	25	6.3%
DRS (€mil.) March 2018	345	370	18	4.6%
DRS (€mil.) March 2017 restated	377	371	24	6.3%

Average €/USD exchange rate: 1.2295 (first quarter of 2018) and 1.0647 (first quarter of 2017)

Aeronautics

From a commercial point of view, some major orders were gained, during the first quarter of 2018, both in the *Aircraft* Division, including the contract for the supply of 4 additional M346 Advanced Jet Trainers to the Polish Ministry of Defence, to which must be added the 8 aircraft already in service with the Polish Air Force, and in the *Aerostructures* Division, which received orders for the supply of 100 fuselage sections for the B787 aircraft and 21 fuselages for the ATR aircraft.

During the first quarter of 2018, from a production point of view, deliveries were made for 35 fuselage sections and 22 stabilisers for the B787 programme (35 fuselage sections and 20 stabilisers delivered in the first quarter of 2017) and 20 ATR fuselages (10 delivered in the first quarter of 2017). As regards the production of the C-27J programme, there was the completion of 1 aircraft intended for the Slovak Air Force.

New orders. They recorded a decrease compared to the first quarter of 2017, which had benefitted from the major order gained for the provision of support to the EFA aircraft fleet for the period from 2017 to 2021. Among the major orders gained in the first quarter of 2018 were those already mentioned for M346, B787 and ATR aircraft, as well as the orders in the *Aerostructures* Division for the A380 and A321 programmes, and in the *Aircraft* Division received from Lockheed Martin for the F-35 programme and from various customers for logistic support activities for the C27J aircraft.

Revenues. Overall, business volumes were in line with the result recorded in the first quarter of 2017; the increase related to the activities for the EFA-Kuwait contract in the *Aircraft* Division offset the expected decline in revenues recorded by the *Aerostructures* Division.

EBITA. The result was in line with the first quarter of 2017, thus confirming the good levels of profitability in the *Aircraft* Division, while the industrial performance in the *Aerostructures* Division continued to be affected by the critical issues reported during the previous year.

Space

The lower result posted in the quarter compared to the corresponding period of 2017 is due to higher costs for research and development activities recorded in the period, related in particular to new-generation satellite platforms.

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Outlook

In consideration of the results achieved in the first quarter of 2018 and of the expectations for the following ones, we confirm the guidance for the entire year that was made at the time of the preparation of the financial statements at 31 December 2017.

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Main transactions in the first three months of 2018 and post-period events

Industrial transactions. In the period no significant transactions were carried out. It should be noted that in April 2018, in implementation of a memorandum of intent signed with national trade unions relating to early retirements in accordance with Article 4 of Italian Employment Law 92/2012 (also known as the "Fornero Law") - a trade-union agreement was signed involving up to 1,100 employees who will be eligible for retirement in the four years following the scheduled 2018-2019 two-year period, while defining the specific eligibility requirements. A similar arrangement was subsequently signed with the trade unions of executives, up to a number of 65 executives. The effects of these arrangements will be reflected in the half-year financial report at 30 June 2018

Financial transactions. It should be noted that in February 2018 Leonardo entered into a new Revolving Credit Facility (RCF) line with a pool of 26 Italian and foreign banks. The new RCF provides for the payment of a 75 bp spread over EURIBOR, lower by 25 bps than the 100 bp margin of the previous transaction completed in July 2015, with consequent lower financial costs. Furthermore, there was a reduction in the line to €bil. 1.8 from the €bil. 2 of the previous line, in order to align it to the Group's cash requirements, and the extension of the expiry date to February 2023, i.e. the year for which no repayment commitments are currently envisaged on financial markets. On 18 April 2018 Leonardo renewed the EMTN programme for a further 12 months, keeping unchanged the maximum amount of €bil. 4.

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

This interim reporting, approved by the Board of Directors on 8 May 2018, was not subject to any statutory review.

1. FINANCIAL INCOME AND EXPENSES

	For the three months ended 31 March	
	2018	2017 restated
Interest	(45)	(63)
Commissions	(10)	(3)
Fair value gains (losses) through profit or loss	(4)	(3)
Premiums (paid) received on forwards	(2)	(1)
Exchange rate differences	(2)	5
Other financial income and expenses	(10)	(7)
Share of profits/(losses) of equity-accounted investees	7	4
	(66)	(68)

2. LOANS AND BORROWINGS

The Group Net Debt breaks down as follows:

(€ millions)	31 March 2018	of which current	31 December 2017 restated	of which current	31 March 2017 restated	of which current
Bonds	3,576	541	3,647	599	4,297	572
Bank debt	270	82	246	59	293	69
Cash and cash equivalents	(825)	(825)	(1,893)	(1,893)	(1,752)	(1,752)
Net bank debt and bonds	3,021		2,000		2,838	
<i>Fair value</i> of the residual portion in portfolio of						
Ansaldo Energia	-	-	-	-	(139)	-
Securities	(3)	-	(3)	-	-	-
Current loans and receivables from related parties	(83)	(83)	(110)	(110)	(7)	(7)
Other current loans and receivables	(42)	(42)	(47)	(47)	(48)	(48)
Current loans and receivables and securities	(128)		(160)		(194)	
Non current financial receivables from Superjet	(48)	-	(48)	-	(65)	-
Hedging derivatives in respect of debt items	(4)	(4)	(2)	(2)	21	21
Related-party loans and borrowings	679	679	701	701	542	542
Other loans and borrowings	75	46	88	58	112	78
Group Net Debt	3,595		2,579		3,254	

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

3. CONTINGENT LIABILITIES

For details reference should be made to the information already provided in the Annual Financial Report at 31 December 2017.

For the Board of Directors

The Chairman

Giovanni De Gennaro

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Annex 1: Scope of consolidation

Below are the changes in the scope of consolidation at 31 March 2018 in comparison with 31 March 2017:

COMPANY	EVENT	MONTH
<u>Companies which entered the scope of consolidation:</u>		
Daylight Group	purchase	June 2017
Leonardo Aerospace Defense & Security India Private Ltd	incorporation	October 2017
Leonardo Futureplanner (Trustee) Limited	incorporation	January 2018
<u>Companies which left the scope of consolidation:</u>		
Eurofighter International Ltd (in liq.)	deconsolidated	May 2017
Telespazio Hungary Satellite Telecommunications Ltd (in liq.)	deconsolidated	June 2017
Atitech Spa	sold	October 2017
Atitech Manufacturing Srl	sold	October 2017
Abu Dhabi Systems Integration LLC	sold	November 2017
<u>Companies which changed their name:</u>		
DRS Technologies Inc	<u>New name:</u> Leonardo DRS Inc	July 2017
SELEX ES for Trading of Machinery Equipment and Devices WLL	Leonardo for Trading of Machinery Equipment and Devices WLL	February 2018

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Annex 2: "Non-GAAP" performance indicators

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

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

- **New orders:** this includes sales contracts signed with customers, which provide for the counterparties' obligation to comply therewith.
- **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 and depreciation (net of those relating to intangible assets arising from business combinations) and impairment losses.
- **EBITA:** it is arrived at by eliminating from EBIT, as defined below, the following items:
 - any impairment in goodwill;

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- amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;
- restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.);
- other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

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

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

<i>(€ millions)</i>	For the three months ended 31	
	March	
	2018	2017 restated
Income before tax and financial expenses	102	101
Equity-accounted strategic JVs	19	22
EBIT	121	123
Amortisation of intangible assets acquired as part of business combinations	24	25
Restructuring costs	8	7
EBITA	153	155

- **Return on Sales (ROS):** this is calculated as the ratio of EBITA to revenue.
- **EBIT:** this is obtained by adding to EBIT (defined as earnings before “financial income and expense”, “share of profit (loss) of equity-accounted investees”, “income taxes” and “result from discontinued operations”) the Group’s share of profit in the results of its strategic Joint Ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the “share of profits (losses) of equity-accounted investees.
- **Net result before extraordinary transactions:** this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (acquisitions and disposals).
- **Group Net Debt:** this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items, as well as the main non-current receivables. In particular, the Group Net Debt included the financial receivable (backed by bank guarantees) from SuperJet – that starting from 2016 was recorded within non-current receivables– which will be repaid in 3 years based on the arrangements for the rescheduling of the Group’s participation in this programme.

The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is reported below:

	31 March	31 December
	2018	2017 restated
Net financial debt com. CONSOB no. DEM/6064293	3,647	2,629
Hedging derivatives in respect of debt items	(4)	(2)
Non current financial receivables from Superjet	(48)	(48)
Group net debt (KPI)	3,595	2,579

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

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	31 March 2018	<i>of which with related parties</i>	31 December 2017 <i>restated</i>	<i>of which with related parties</i>
Cash and cash equivalents	(825)		(1,893)	
Securities held for trading	(3)		(3)	
Liquidity	(828)		(1,896)	
Current loans and receivables	(125)	(83)	(157)	(110)
Current bank loans and borrowings	82		60	
Current portion of non-current loans and borrowings	541		599	
Other current loans and borrowings	724	679	758	701
Current financial debt	1,347		1,417	
Net current financial debt (funds)	394		(636)	
Non-current bank loans and borrowings	188		186	
Bonds issued	3,035		3,048	
Other non-current loans and borrowings	30	-	31	-
Non-current financial debt	3,253		3,265	
Net financial debt	3,647		2,629	

- **Free Operating Cash-Flow (FOCF):** this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Group Net Debt), the cash flows generated by (used in) ordinary investing activities (investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered “strategic investments”) and dividends received. The calculation of FOCF is presented in the reclassified statement of cash flows shown in the section “Group results and financial position”.
- **Return on Investments (ROI):** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.
- **Return on Equity (ROE):** this is calculated as the ratio of the Net Result before extraordinary transactions for the financial period to the average value of equity in the two comparative periods.
- **Workforce:** the number of employees recorded in the register on the last day of the period.

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Annex 3: Application of the new accounting standards IFRS 15 (“Revenue from Contracts with Customers”) and IFRS 9 (“Financial Instruments”)

With effect from 1 January 2018 the Group adopted accounting standards IFRS 15 “Revenue From Contracts with Customers” and IFRS 9 “Financial Instruments”.

IFRS 15 sets out new rules to recognise revenues, as well as to provide additional disclosures in the notes to the financial statements. In general the new model provides for revenues to be recognised when control over goods or services is transferred to customers, in lieu of the previous analysis based on “risks and rewards”. The Group applied the standard from 1 January 2018, restating the 2017 accounting positions for comparative purposes. The main impact areas deriving from the application of the new standard are:

- introduction of new criteria for revenue recognition during the execution of the contract; if those criteria are not met, then revenue is recognised solely at the completion of the contract. This required a review of contracts, which are normally medium/long-term. Such analysis highlighted the necessity to change the margin recognition methods in relation to certain contracts (passing from the previous recognition of the margins of certain contracts “over time” to “at a point in time” and vice versa);
- new specific requirements to establish if goods and services included in mass-supply have to be recognised as a single performance obligation or as a separate performance obligation. In respect of certain contracts entered into by the Group it was necessary to unbundle the contracts into two or more performance obligations, with consequent effects on the remeasurement of margins;
- new criteria on contract cost recognition;
- more defined criteria to be applied to mass productions with the consequent remeasurement of the margins of this kind of productions.

The effects arising from the application of IFRS 15 on the comparative periods are detailed below by item of financial statements. The application of the new standard has also entailed changes in the Order Backlog to take account of any adjustment made to those revenues that were recognised until the date of application of the new standard (these adjustments impact on the amount still to be worked, accounted for by the Backlog), as well as to exclude those orders that do not meet the requirements set out in IFRS 15.

IFRS 9 significantly amends the accounting treatment of financial instruments, introducing a new classification based on the characteristics of the entity’s business model and cash flows and provides for the application of a structured impairment model for financial assets based on lifetime expected losses. Finally, it also introduces new general hedge accounting criteria which enable a more flexible and integrated approach to risk management. Considering the type of financial assets and liabilities of the Group, no particular criticalities arise from the new classification model of financial instruments, while the main impact area has been the definition of a new loan impairment model, to take account of the specific cases of the Group’s target customers. For this purpose the simplified impairment model has been adopted, according to which the value of financial assets also reflects the probability of the counterparty’s default (“Probability of Default”, “PD”) and the ability to recover the asset in the event that this default occurs (“Loss Given Default”, “LGD”). Finally, a simplified

Results at 31 March 2018

approach has been adopted for some clusters of customers, which are characterised by a higher degree of segmentation, which is based on a “provision matrix” that reports a breakdown of loans into homogenous sub-sets by nature and maturity.

The Group adopted the standard from 1 January 2018 (excluding hedge accounting provisions which may be applied at a later time). Upon first-time adoption, the effects of the adoption of the new accounting standard on impairment issues were reported in the equity at 1 January 2018, in consideration of the complexity of remeasuring comparative values without reflecting any information that can be gathered afterwards. The preliminary effects on equity arising from the adoption of the new standard reported in the situation at 31 March 2018 are negative for an amount of €mil. 81.

Below are the effects arising from the application of IFRS 15 on the comparative statements reported:

	<u>Reported 31 December 2017</u>	<u>restatement</u>	<u>31 December 2017 restated</u>
<i>(€mil.)</i>			
Non-current assets	11,694	20	11,714
Non-current liabilities	(2,972)	135	(2,837)
Capital assets	8,722	155	8,877
Inventories	4,381	366	4,747
Trade receivables	6,072	(682)	5,390
Trade payables	(10,169)	(274)	(10,443)
Working capital	284	(590)	(306)
Provisions for short-term risks and charges	(793)	10	(783)
Other net current assets (liabilities)	(1,152)	156	(996)
Net working capital	(1,661)	(424)	(2,085)
Net invested capital	7,061	(269)	6,792
Equity attributable to the Owners of the Parent	4,468	(269)	4,199
Equity attributable to non-controlling interests	16	-	16
Equity	4,484	(269)	4,215
Group Net Debt	2,579	-	2,579
Net (assets)/liabilities held for sale	(2)	-	(2)

	<u>For the three months ended 31 March</u>		
	<u>2017 reported</u>	<u>restatement</u>	<u>2017 restated</u>
Revenues	2,476	(115)	2,361
Purchases and personnel expenses	(2,158)	74	(2,084)
Other net operating income/(expenses)	(4)	3	(1)
Equity-accounted strategic JVs	16	6	22
Amortisation, depreciation and impairment losses	(143)	-	(143)
EBITA	187	(32)	155
ROS	7.6%	(1.0%)	6.6%
Restructuring costs	(7)	-	(7)
Amortisation of intangible assets acquired as part of business combinations	(25)	-	(25)
EBIT	155	(32)	123
EBIT Margin	6.3%	(1.1%)	5.2%
Net financial income/(expenses)	(68)	-	(68)
Income taxes	(9)	3	(6)
Net Result before extraordinary transactions	78	(29)	49
Net result related to discontinued operations and extraordinary transactions	-	-	-
Net result	78	(29)	49

Results at 31 March 2018

	<u>Reported 31 March 2017</u>	<u>restatement</u>	<u>31 March 2017 restated</u>
<i>(€mil.)</i>			
Non-current assets	11,852	59	11,911
Non-current liabilities	(3,178)	158	(3,020)
Capital assets	8,674	217	8,891
Inventories	4,179	615	4,794
Trade receivables	6,472	(1,069)	5,403
Trade payables	(9,874)	(217)	(10,091)
Working capital	777	(671)	106
Provisions for short-term risks and charges	(763)	12	(751)
Other net current assets (liabilities)	(996)	140	(856)
Net working capital	(982)	(519)	(1,501)
Net invested capital	7,692	(302)	7,390
Equity attributable to the Owners of the Parent	4,437	(302)	4,135
Equity attributable to non-controlling interests	15	-	15
Equity	4,452	(302)	4,150
Group Net Debt	3,254	-	3,254
Net (assets)/liabilities held for sale	(14)	-	(14)

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

In accordance with the provisions of article 154-bis, paragraph 2 of Legislative Decree no. 58/1998 and subsequent amendments and integrations, the undersigned, Alessandra Genco, the officer in charge of financial reporting of Leonardo Società per azioni certifies that this interim reporting at 31 March 2018 corresponds to the related accounting records, books and supporting documentation.

Rome, 8 May 2018

Officer in charge of Financial
Reporting
(Alessandra Genco)