

# RESULTS AT 30 SEPTEMBER 2017

*Disclaimer*

*This Interim Reporting at 30 September 2017 has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the sole official document*



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## Group results and financial position

### Key performance indicators ("KPI")

	September 2017	September 2016	Change	2016
New orders	7,945	15,504	(48.8%)	19,951
Order backlog	33,931	34,589	(1.9%)	34,798
Revenue	7,984	8,034	(0.6%)	12,002
EBITDA	1,115	1,193	(6.5%)	1,907
EBITA	703	746	(5.8%)	1,252
ROS	8.8%	9.3%	(0.5) p.p.	10.4%
EBIT	571	631	(9.5%)	982
EBIT Margin	7.2%	7.9%	(0.7) p.p.	8.2%
Net Result before extraordinary transactions	272	343	(20.7%)	545
Net result	272	353	(23.0%)	507
Group Net Debt	4,004	3,890	2.9%	2,845
FOCF	(972)	(388)	(150.5%)	706
ROI	12.0%	12.8%	(0.8) p.p.	16.9%
ROE	8.2%	10.9%	(2.7) p.p.	12.6%
Workforce	45,737	46,316	(1.3%)	45,631

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

The first nine months of 2017 highlighted an increase in new orders (excluding the non-recurring effect of the acquisition of the EFA Kuwait contract in 2016), while as far as earnings are concerned, revenue was stable but there was a decrease in profitability due to the critical issues, which characterized the *Helicopters* sector. Specifically, the first nine months of the financial year showed the following:

- new orders equal to almost €bil. 8. The figure for the first nine months of 2016 included the non-recurring effect of the acquisition of the EFA Kuwait contract for an amount of €bil. 7.95, net of which the amount of orders showed an increase exceeding 5% in 2017, despite the negative effect of exchange rates;
- a drop in profitability, with a ROS that decreased from 9.3% to 8.8%, affected by the trend in the *Helicopters* sector;
- a decreased net result before extraordinary transactions compared to the first nine months of 2016, as a result of the decrease in EBITA and of the exchange differences and income from fair value measurements which financial expenses benefitted from in the comparative period;
- a worsening of the cash-flow figures, compared to 2016 that benefitted to a greater extent from the contribution of the EFA Kuwait contract;

## Results at 30 September 2017

- a slight worsening (3%) of the Group Net Debt compared to 30 September 2016, as a result of the outlay arising from the acquisition of Daylight Solutions and of the additional stakes in Avio (for an overall amount of €mil. 168) as well as of the payment of dividends (€mil. 81).

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.

	30 September 2017				
	New orders	Order backlog	Revenues	EBITA	ROS
Helicopters	1,710	9,539	2,355	238	10.1%
Electronics, Defence & Security Systems	4,400	12,215	3,660	275	7.5%
Aeronautics	1,963	12,837	2,187	207	9.5%
Space	-	-	-	37	n.a.
Other activities	197	228	283	(54)	(19.1%)
<i>Eliminations</i>	<i>(325)</i>	<i>(888)</i>	<i>(501)</i>	-	<i>n.a.</i>
<b>Total</b>	<b>7,945</b>	<b>33,931</b>	<b>7,984</b>	<b>703</b>	<b>8.8%</b>

	30 September 2016				
	New orders	Order backlog at 31 Dec. 2016	Revenues	EBITA	ROS
Helicopters	1,538	10,622	2,565	285	11.1%
Electronics, Defence & Security Systems	4,239	11,840	3,567	269	7.5%
Aeronautics	9,790	13,107	2,060	198	9.6%
Space	-	-	-	43	n.a.
Other activities	24	174	223	(49)	(22.0%)
<i>Eliminations</i>	<i>(87)</i>	<i>(945)</i>	<i>(381)</i>	-	<i>n.a.</i>
<b>Total</b>	<b>15,504</b>	<b>34,798</b>	<b>8,034</b>	<b>746</b>	<b>9.3%</b>

	Change %					0
	New orders	Order backlog	Revenues	EBITA	ROS	
Helicopters	11.2%	(10.2%)	(8.2%)	(16.5%)	(1.0) p.p.	
Electronics, Defence & Security Systems	3.8%	3.2%	2.6%	2.2%	0.0 p.p.	
Aeronautics	(79.9%)	(2.1%)	6.2%	4.5%	(0.1) p.p.	
Space	n.a.	n.a.	n.a.	(14.0%)	n.a.	
Other activities	720.8%	31.0%	26.9%	(10.2%)	2.9 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>	
<b>Total</b>	<b>(48.8%)</b>	<b>(2.5%)</b>	<b>(0.6%)</b>	<b>(5.8%)</b>	<b>(0.5) p.p.</b>	

## Results at 30 September 2017

### Commercial performance

**New orders** acquired in the first nine months of 2017, net of the abovementioned EFA Kuwait supply contract gained during June 2016, highlight a 5% growth, despite the negative effect of the GBP/€ exchange rate. Such improvement is especially attributable to *Helicopters* (+ 11% compared to the very negative figure posted during the first nine months of 2016, specifically due to higher new orders for AW139), *Aeronautics* (+7% thanks to the new orders for the support services for the EFA and the B787 aircraft in the *Aerostructures*) and *Electronics* (by virtue of significant acquisitions by the *Land and Naval Defence Electronics* Division).

The book-to-bill ratio is equal to 1, showing an improvement (net of the effect of the EFA Kuwait contract) compared to 0.94 in 2016. The order backlog ensures almost three years of production.

\* \* \* \* \*

### Business performance.

(€ millions)	For the nine months ended 30 September		Change	% Change
	2017	2016		
Revenues	7,984	8,034	(50)	(0.6%)
Purchases and personnel expenses	(6,977)	(7,059)		
Other net operating income/(expenses)	(26)	66		
Equity-accounted strategic JVs	134	152		
Amortisation, depreciation and impairment losses	(412)	(447)		
<b>EBITA</b>	<b>703</b>	<b>746</b>	<b>(43)</b>	<b>(5.8%)</b>
ROS	8.8%	9.3%	(0.5) p.p.	
Non-recurring income/(expenses)	(14)	(5)		
Restructuring costs	(46)	(38)		
Amortisation of intangible assets acquired as part of business combinations	(72)	(72)		
<b>EBIT</b>	<b>571</b>	<b>631</b>	<b>(60)</b>	<b>(9.5%)</b>
EBIT Margin	7.2%	7.9%	(0.7) p.p.	
Net financial income/(expenses)	(237)	(180)		
Income taxes	(62)	(108)		
<b>Net Result before extraordinary transactions</b>	<b>272</b>	<b>343</b>	<b>(71)</b>	<b>(20.7%)</b>
Net result related to discontinued operations and extraordinary transactions	-	10		
<b>Net profit/(loss) for the period attributable to:</b>	<b>272</b>	<b>353</b>	<b>(81)</b>	<b>(22.9%)</b>
- owners of the parent	271	352		
- non-controlling interests	1	1		

**Revenues** for the first nine months of 2017 are substantially in line with the corresponding period in 2016, despite the negative exchange rate effect deriving from the conversion of revenues in GBP.

## Results at 30 September 2017

Specifically, compared to a reduction in the *Helicopters* sector, which continues to be affected by the delays in production concerning some product lines, the *Aeronautics* sector started to benefit from revenues from the EFA Kuwait programme.

**EBITA**, down by 5.8% compared to 30 September 2016 (with a ROS decreasing by 0.5 p.p.), is significantly affected by the drop in volumes and profitability of the *Helicopters* sector, against improved results of *Aeronautics* and *Electronics, Defence and Security Systems*.

The **Net Result before extraordinary transactions** decreased compared to the first nine months of 2016 due to the trend of EBITA and also to the higher non-recurring and restructuring costs in addition to greater borrowing costs (in 2016 these benefitted from positive foreign exchange differences, which were also reflected in the fair value of derivatives, with a delta of + €mil. 48 compared to 2017). The **Net Result** for the period is equal to the net result before extraordinary transactions on account of the absence of extraordinary transactions (in contrast, the first nine months of 2016 benefitted from the capital gain arising from the disposal of Fata, equal to €mil. 10).

\* \* \* \* \*

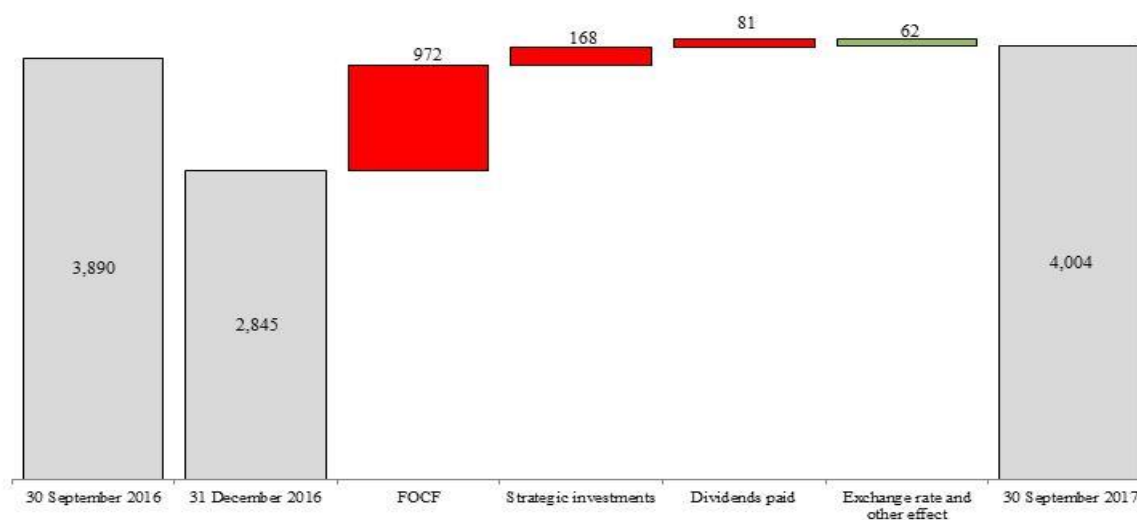
### *Financial performance*

<i>(€ millions)</i>	<b>For the nine months ended 30 September</b>		<b>Change</b>	<b>% Change</b>
	<b>2017</b>	<b>2016</b>		
Cash flows used in operating activities	(850)	(257)		
Dividends received	267	234		
Cash flows from ordinary investing activities	(389)	(365)		
<b>Free Operating Cash Flow (FOCF)</b>	<b>(972)</b>	<b>(388)</b>	<b>(584)</b>	<b>(150.5%)</b>
Strategic investments	(168)	-		
Change in other investing activities	9	-		
Net change in loans and borrowings	659	(315)		
Dividends paid	(81)	-		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(553)</b>	<b>(703)</b>		
Cash and cash equivalents at 1 January	2,167	1,771		
Exchange rate differences and other changes	(40)	(28)		
<b>Cash and cash equivalents at 30 September</b>	<b>1,574</b>	<b>1,040</b>		

In the first nine months of 2017 the cash flow performance posted a negative value of €mil. 972, in line with the usual trend in the Group's performance to report considerable cash absorptions in the first quarters, and worsening compared to 2016 which benefitted to a greater extent from the contribution of the EFA Kuwait contract.

The Net Debt is basically in line with that recorded at 30 September 2016 (+3%). Compared to 31 December 2016, the changes were essentially affected by the abovementioned cash absorption, as well as by the cash-out for the acquisition of Daylight Solutions (€mil. 123), the additional stakes in Avio (€mil. 45) and the payment of dividends for €mil. 81.

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**Net invested capital** rose compared with the figure for 31 December 2016 due to the increase in net working capital, resulting from the seasonal fluctuation in cash flows, with capital assets slightly decreasing mainly as a result of the effect of exchange rates on the items expressed in foreign currencies.

	<u>30 September 2017</u>	<u>31 December 2016</u>	<u>30 September 2016</u>
<i>(€ millions)</i>			
Non-current assets	11,621	12,119	11,855
Non-current liabilities	(3,091)	(3,373)	(3,511)
<b>Capital assets</b>	<b>8,530</b>	<b>8,746</b>	<b>8,344</b>
Inventories	4,363	4,014	4,359
Trade receivables	6,799	5,965	6,303
Trade payables	(9,618)	(9,295)	(9,466)
<b>Working capital</b>	<b>1,544</b>	<b>684</b>	<b>1,196</b>
Provisions for short-term risks and charges	(738)	(792)	(584)
Other net current assets (liabilities)	(886)	(1,434)	(1,019)
<b>Net working capital</b>	<b>(80)</b>	<b>(1,542)</b>	<b>(407)</b>
<b>Net invested capital</b>	<b>8,450</b>	<b>7,204</b>	<b>7,937</b>
Equity attributable to the Owners of the Parent	4,444	4,357	4,043
Equity attributable to non-controlling interests	16	16	19
<b>Equity</b>	<b>4,460</b>	<b>4,373</b>	<b>4,062</b>
<b>Group Net Debt</b>	<b>4,004</b>	<b>2,845</b>	<b>3,890</b>
<b>Net (assets)/liabilities held for sale</b>	<b>(14)</b>	<b>(14)</b>	<b>(15)</b>

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Below are the key performance indicators by sector:

### Helicopters

Even against an environment still characterised by uncertainties and difficulties in a number of end-markets, new orders at September 2017 increased compared to the same period of the prior year. Operating results were affected by slowdowns in the production progress, with a profitability that is decreasing, although maintaining a double-digit figure.

New orders. The increase was mainly due to higher orders of AW139 helicopters acquired for governmental and commercial use.

Revenues. These showed a decline attributable to slowdowns in the progress of some product lines and a negative exchange rate effect for those companies with a currency other than the Euro, along with the expected completion of programmes on the AW159/Lynx lines and of the CH47 programme for the Italian Army and to lower contributions from the Product Support. Such events were partly offset by the increase in revenues from AW189 and the T129 Atak Turkey programme.

EBITA. The reduction was mainly due to the effect of lower revenues with a profitability that continues to be affected by difficulties in achieving the expected margins on some product lines.

### Electronics, Defence & Security Systems

The first nine months of the year showed a good commercial performance confirming the positive economic trend recorded during 2016.

New orders. These were higher compared to the same period of 2016 despite the negative GBP/€ exchange rate effect. Among the main acquisitions for the period we highlight the supply of combat systems and related logistic support for 7 naval units for the Qatar Navy within *Land&Naval Defence Electronics*, the Mode-5 contract awarded by the UK Ministry of Defence for the upgrading of the identification systems (Identification Friend or Foe - IFF) for more than 350 British air, land and naval platforms in the *Airborn & Space Systems* Division and, as regards DRS, the further activities in the context of the MFoCS (*Mounted Family of Computing Systems*) contract related to the supply of computers and portable electronic devices for the Army of the United States.

Revenues. These were higher compared to the same period of the prior year despite negative GBP/€ exchange rate effect. The higher volumes of production related to the activities within the optronics and Naval Electronics of DRS and the increasing contribution from the activities associated with the programmes acquired in previous years by the *Land&Naval Defence Electronics* and *Security & Information Systems* Divisions, more than offset the drop in the *Defence Systems* Division, which was affected by the postponement of activities on some programmes.



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**EBITA.** This was slightly higher compared to the same period of 2016 mainly as a result of the steady recovery in the industrial profitability of DRS and within the *Security & Information Systems* Division. Such improvements largely offset the negative effect of the GBP/€ exchange rate and of the lower volumes within the *Defence Systems* Division.

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

	<b>New orders</b>	<b>Revenues</b>	<b>EBITA</b>	<b>ROS</b>
DRS (\$mil.) September 2017	1,541	1,298	81	6.2%
DRS (\$mil.) September 2016	1,484	1,170	63	5.4%
DRS (€mil.) September 2017	1,384	1,166	74	6.2%
DRS (€mil.) September 2016	1,330	1,049	56	5.4%

Average €/USD exchange rate: 1.1132 (1<sup>st</sup> nine months of 2017) and 1.1157 (1<sup>st</sup> nine months of 2016)

### Aeronautics

The first nine months of 2017 recorded a good commercial performance both for the *Aircraft* and for the *Aerostructures* Divisions, with new orders higher than those reported in the corresponding period of the previous year, excluding the impact of the major ca. €bil. 8 EFA Kuwait contract acquired in June 2016.

From a production point of view, in the third quarter of 2017, deliveries were made for 35 fuselage sections and 20 stabilisers for the B787 programme (compared to 32 fuselage sections and 19 stabilisers delivered in the third quarter of 2016), and 16 fuselages for the ATR programme (21 delivered in the third quarter of 2016), due to the reduced production rates and by some delays in testing operations. For M-346 productions, during the third quarter 3 aircraft were completed, one of which was intended for the Italian Air Force and 2 for the Polish Air Force.

**New orders.** Excluding the abovementioned EFA Kuwait contract, the increase was mainly attributable to the orders received from the Eurofighter Consortium for the capability maintenance and the supply of support engineering services for the EFA aircraft for the 2017-2021 period, as well as, in the *Aerostructures* Division, to those received from Boeing for the supply of 200 B787 fuselage sections. Among the other major orders acquired at 30 September 2017 we highlight:

- for the *Aerostructures* Division those for the ATR programme related to the supply of 44 fuselages and those for the B767, A380 and A321;
- for the *Aircraft* Division, the order received from the Italian Air Force for the first 5 units of the new M-345 trainer aircraft, from Lockheed Martin for the F-35 programme and from various customers for logistic support activities for the C27J, C130J and B707 Awacs aircraft.

## Results at 30 September 2017

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**Revenues.** Business volumes showed an increase compared to the final result recorded in the first nine months of 2016, for the increase recorded by the *Aircraft* Division, in particular on the activities for the EFA-Kuwait contract which largely offset the decline in revenues recorded by the *Aerostructures* Division, due to lower foreign pass-through supplies concerning the B787 programme and to the reduction in the production rates of the ATR and A380 programmes.

**EBITA.** There was an increase that was attributable to an improvement in the performance of both the *Aircraft* Division, mainly in respect of the abovementioned greater volumes of operations for the EFA programme, and the *Aerostructures* Division, due to the effects of the cost reductions, which also offset the drop in the results of the GIE-ATR Consortium that were affected by lower deliveries.

### Space

The trend of the first nine months confirmed the good performance of the manufacturing segment, which recorded operational and profitability volumes substantially in line with those posted in the corresponding period of the previous year. The satellite service segment recorded an increase in revenues specifically as a result of the launch, occurred in August, of the high resolution optical satellite Opsat 3000 for the Italian Ministry of Defence, for which Telespazio, as the prime contractor of the programme, created the control centre, in addition to the supply of the satellite and launch services. Among the other significant events of this quarter, we highlight the beginning of the execution phase of the new contract for the operating management of Galileo, the European navigation satellite system. Within the Galileo programme, the creation of the global data distribution network was completed in July 2017.

The lower profitability recorded in satellite services, together with a higher impact of taxes on the manufacturing segment, resulted in a decreased operating result compared to that of 2016.

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### Outlook

The Group's financial results achieved in the first nine months of 2017 reflect the ongoing challenges that the Helicopter business is facing. In particular this segment is still suffering from unfavorable market conditions coupled with delays in achieving adequate profitability in specific products and industrial performance below expectations.

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For this reason, the Board of Directors concluded to revise the Group Guidance for the full year 2017 as follows:

	Exchange rate assumptions: €/USD 1,15 and €/GBP 0,85	
	<u>Guidance</u>	<u>Revised guidance</u>
New Orders (€bn.)	12.0 – 12.5	ca 12.0 <sup>(*)</sup>
Revenues (€bn)	ca. 12	11.5 – 12.0
EBITA (€mln)	1,250 – 1,300	1,050 – 1,100
FOCF (€mln)	500 – 600	500 – 600 <sup>(**)</sup>
Group Net Debt (€bn)	ca. 2.5	ca 2.5

<sup>(\*)</sup> Assuming finalization of C27J export contracts

<sup>(\*\*)</sup> Assuming cash-in of EFA Kuwait payments related to 2017 milestones

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## Main transactions of the first nine months of 2017

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

- **Completion of the closing of Avio.** 31 March 2017 marked the closing of the acquisition by Space2, Leonardo and In Orbit (a company held by certain managers of Avio) of the entire share capital of Avio not yet owned by Leonardo, with the subsequent merger into Space2 and concurrent listing of Avio on the MTA/Star Segment of the Italian Stock Exchange which was finalised last 10 April. As a result of this transaction Leonardo now holds about 26% in the company in respect of a payment of approximately € 45 million;
- **Completion of the acquisition of Daylight Solutions.** On 23 June 2017 Leonardo completed, through the US subsidiary DRS, the acquisition of Daylight Solutions Inc., a leading company in the development of Quantum Cascade Laser products. The acquisition agreement, which was signed on 7 March 2017, was approved by the shareholders of Daylight Solutions, and obtained any necessary regulatory authorisation, including the approval on the part of the US competition authorities and Foreign Investment Committee. The payment for the purchase of the shares was equal to USDmil. 140 for the entire share capital of Daylight Solutions. In addition, the purchase contract envisages an earn-out mechanism by virtue of which the payment can increase by a further USDmil. 15 upon the achievement of certain financial and operating targets for the year 2017. This acquisition enabled the expansion of DRS' offer within the advanced solutions for the civil and military market.
- **Put option exercised on Ansaldo Energia.** During July Leonardo exercised the put option on 15% of the interest in Ansaldo Energia, which was the remaining stake still held by the Group after the sale to Cassa Depositi e Prestiti which ended in 2013. Exercising such option allowed

## Results at 30 September 2017

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Leonardo to collect €mil. 144 from CDP Equity. Such transaction did not affect the Group Net Debt, since the measurement of the put&call rights related to the residual portion of interest in Ansaldo Energia was already considered for the calculation of such indicator.

**Financial transactions.** On 7 June 2017, within the EMTN (Euro Medium Term Notes) programme, which was renewed in April 2017, Leonardo placed new 7-year listed bonds, while leaving the maximum amount of €bil. 4 unchanged, on the Luxembourg Stock Exchange on the Euromarket in an amount of €mil. 600, with an annual coupon of 1.50%. In accordance with its financial strategy regulated and aimed at being upgraded to the Investment Grade Credit Rating, the Company has deemed it appropriate to take advantage of particularly favourable market conditions, thus reducing its refinancing requirements in the next financial years, while also benefitting from a lower average cost of its own debt. The issue was reserved for Italian and international institutional investors only. Furthermore, in June Leonardo repurchased on the market a nominal amount of GBPmil. 30 in relation to the bond issue launched in 2009, due 2019 (a coupon of 8%) thus reducing the remaining nominal amount to GBPmil. 288.

During the first half of 2017, Moody's upgraded the outlook assigned to Leonardo, bringing it from "stable" to "positive" and in October Fitch upgraded the credit rating to BBB-.

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## Results at 30 September 2017

### The results of the third quarter

#### Condensed consolidated separate income statement

<i>(€ millions)</i>	<i>For the three months ended 30 September</i>	
	<i>2017</i>	<i>2016</i>
Revenues	2,658	2,621
Purchases and personnel expenses	(2,340)	(2,328)
Other net operating income/(expenses)	(5)	54
Equity-accounted strategic JVs	43	60
Amortisation, depreciation and impairment losses	(135)	(133)
<b>EBITA</b>	<b>221</b>	<b>274</b>
	8.3%	10.5%
Non-recurring income/(expenses)	(14)	(2)
Restructuring costs	(14)	(16)
Amortisation of intangible assets acquired as part of business combinations	(22)	(24)
<b>EBIT</b>	<b>171</b>	<b>232</b>
	6.4%	8.9%
Net financial income/(expenses)	(82)	(59)
Income taxes	(11)	(30)
<b>Net Result before extraordinary transactions</b>	<b>78</b>	<b>143</b>
Net result related to discontinued operations and extraordinary transactions	-	-
<b>Net result</b>	<b>78</b>	<b>143</b>

Below is the breakdown of the ratios for the third quarter by segment:

<b>Third quarter 2017</b>	<b>New orders</b>	<b>Revenues</b>	<b>EBITA</b>	<b>ROS</b>
Helicopters	568	757	64	8.5%
Electronics, Defence & Security Systems	2,040	1,204	75	6.2%
Aeronautics	183	739	75	10.1%
Space	-	-	10	n.a.
Other activities	163	124	(3)	(2.4%)
Eliminations	(70)	(166)	-	n.a.
<b>Total</b>	<b>2,884</b>	<b>2,658</b>	<b>221</b>	<b>8.3%</b>
<b>Third quarter 2016</b>	<b>New orders</b>	<b>Revenues</b>	<b>EBITA</b>	<b>ROS</b>
Helicopters	580	857	83	9.7%
Electronics, Defence & Security Systems	1,749	1,130	92	8.1%
Aeronautics	305	681	83	12.2%
Space	-	-	14	n.a.
Other activities	14	71	2	2.8%
Eliminations	(11)	(118)	-	n.a.
<b>Total</b>	<b>2,637</b>	<b>2,621</b>	<b>274</b>	<b>10.5%</b>
<b>Change %</b>	<b>New orders</b>	<b>Revenues</b>	<b>EBITA</b>	<b>ROS</b>
Helicopters	(2.1%)	(11.7%)	(22.9%)	(1.2) p.p.
Electronics, Defence & Security Systems	16.6%	6.5%	(18.5%)	(1.9) p.p.
Aeronautics	(40.0%)	8.5%	(9.6%)	(2.1) p.p.
Space	n.a.	n.a.	n.a.	n.a.
Other activities	1,064.3%	74.6%	(250.0%)	(5.2) p.p.
Eliminations	n.a.	n.a.	n.a.	n.a.
<b>Total</b>	<b>9.4%</b>	<b>1.4%</b>	<b>(19.3%)</b>	<b>(2.2) p.p.</b>

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## Results at 30 September 2017

### Explanatory notes

This interim reporting that has been approved today by the Board of Directors, was made available to the public with the registered office, with Borsa Italiana S.p.A., on the Company website ([www.leonardocompany.com](http://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](http://www.emarketstorage.com)).

The accounting policies, measurement criteria and consolidation methods used for this interim reporting at 30 September 2017 which should be read in conjunction with the 2016 annual consolidated financial statements, are unchanged from those of the 2016 annual consolidated financial statements (except for those specifically applicable to interim financial reports) and the interim reporting at 30 September 2016.

This interim reporting, approved by the Board of Directors on 9 November 2017, was not subject to any statutory review.

### 1. FINANCIAL INCOME AND EXPENSES

	For the nine months ended 30 September	
	2017	2016
Interest	(190)	(196)
Commissions	(11)	(14)
Fair value gains (losses) through profit or loss	11	36
Premiums (paid) received on forwards	(8)	2
Exchange rate differences	(9)	14
Other financial income and expenses	(37)	(32)
Share of profits/(losses) of equity-accounted investees	7	10
	<b>(237)</b>	<b>(180)</b>

### 2. LOANS AND BORROWINGS

The Group Net Debt breaks down as follows:

(€ millions)	30 September 2017	of which current	31 December 2016	of which current	30 September 2016	of which current
Bonds	4,816	644	4,375	638	4,316	123
Bank debt	283	96	297	59	325	86
Cash and cash equivalents	(1,574)	(1,574)	(2,167)	(2,167)	(1,040)	(1,040)
<b>Net bank debt and bonds</b>	<b>3,525</b>		<b>2,505</b>		<b>3,601</b>	
Fair value of the residual portion in portfolio of Ansaldo Energia	-		(138)		(136)	
Current loans and receivables from related parties	(86)	(86)	(40)	(40)	(152)	(152)
Other current loans and receivables	(48)	(48)	(58)	(58)	(41)	(41)
<b>Current loans and receivables and securities</b>	<b>(134)</b>		<b>(236)</b>		<b>(329)</b>	
Non current financial receivables from Superjet	(58)	-	(65)	-	-	-
Hedging derivatives in respect of debt items	(10)	(10)	35	35	74	74
Related-party loans and borrowings	579	579	502	502	459	458
Other loans and borrowings	102	72	104	68	85	58
<b>Group Net Debt</b>	<b>4,004</b>		<b>2,845</b>		<b>3,890</b>	

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

## Results at 30 September 2017

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The item “Bonds” increased as a result of the issued loan, for a nominal value of €mil. 600, which was placed in June 2017. Loans and receivables and current securities decreased due to the collection deriving from the put option exercised by Leonardo on the residual portion of the interest in Ansaldo Energia.

Furthermore, to meet the financing needs for ordinary Group activities, Leonardo obtained a revolving credit facility for a total of €mil. 2,000 with a pool of Italian and international banks as described in more detail in the 2016 Annual Report. At 30 September 2017 this credit facility was entirely unused. The Group also has additional unconfirmed short-term lines of credit for a total of €mil. 725, which were entirely unused at 30 September 2017. Leonardo has also unsecured lines of credit, as well as unconfirmed, of approximately €mil. 3,823.

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

### **3. CONTINGENT LIABILITIES**

Compared to the situation at 30 June 2017, commented on in the Half-year Financial Report to which reference is made, we highlight that, with reference to the supply contracts of 12 helicopters entered into in 2010 between the Indian Ministry of Defence and AgustaWestland International Ltd, the latter filed its Statement of Claim within 29 September 2017. The Ministry of Defence, in its turn, will have 45 days to file its statement of defence.

With reference to criminal proceedings pending against some Group companies or Leonardo, and some former directors, as well as executives for actions committed in the performance of their duties at Group companies or at Leonardo, we highlight the following update: with reference to the proceedings brought by the Rome Public Prosecutor’s Office against Leonardo as to the administrative unlawful act under Article 25 of Legislative Decree 231/2001 – for the crimes under Articles 321 and 322-*bis* of the Italian Criminal Code attributed to the then Sales Manager of the Company in relation to the supply contracts concluded with the Panama Government in 2010, the Preliminary Hearing Judge of the Court of Rome, during the hearing of 21 September 2017, handed down the dismissal of charge pursuant to Article 425 of the Code of Criminal Procedure.

For the Board of Directors  
The Chairman  
Giovanni De Gennaro

## Results at 30 September 2017

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### Annex 1: Scope of consolidation

Below are the changes in the scope of consolidation at 30 September 2017 in comparison with 30 September 2016:

COMPANY	EVENT	MONTH
<b><u>Companies which entered the scope of consolidation:</u></b>		
Sistemi Dinamici Spa	change of consolidation method	December 2016
Partech Systems PTY LTD	purchase	March 2017
Gruppo Daylight	purchase	June 2017
<b><u>Companies which left the scope of consolidation:</u></b>		
SELES ES Electro Optics (Overseas) Ltd	deconsolidated	October 2016
Sirio Panel Inc.	deconsolidated	October 2016
AgustaWestland Espana SL (in liq.)	deconsolidated	October 2016
AgustaWestland Properties Ltd	deconsolidated	November 2016
Superjet International Spa	amendment to shareholders' agreement	December 2016
Joint Stock Company Sukhoi Civil Aircraft	sold	December 2016
Ed Contact Srl	sold	February 2017
Electron Italia Srl	sold	March 2017
Wing Ned BV.	sold	March 2017
Eurofighter International Ltd (in liq.)	deconsolidated	May 2017
Telespazio Hungary Satellite Telecommunications Ltd (in liq.)	deconsolidated	June 2017
<b><u>Merged companies:</u></b>		
Sirio Panel SpA	<b><u>Merging company:</u></b> Leonardo SpA	January 2017
<b><u>Companies which changed their name:</u></b>		
SELEX Systems Integration Ltd	<b><u>New name:</u></b> SELEX ES Ltd	October 2016
SELEX Pension Scheme (Trustee) Limited	Leonardo Electronics Pension Scheme (Trustee) Limited	December 2016
AgustaWestland UK Pension Scheme (Trustee) Limited	Leonardo Helicopters Pension Scheme (Trustee) Limited	January 2017
Alenia Aermacchi North America Inc.	Leonardo US Aircraft Inc.	March 2017
Meccanica Holdings USA Inc.	Leonardo US Holding Inc.	March 2017
Finmeccanica Do Brasil LTDA	Leonardo Do Brasil LTDA	March 2017
DRS Technologies Inc	Leonardo DRS Inc	July 2017



### Annex 2: "Non-GAAP" 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 signed with customers during the period that satisfy the contractual requirements for being recorded in the order book.
- **Order backlog:** this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.
- **EBITDA:** this is given by EBITA, as defined below, before amortisation, depreciation and impairment losses (net of those relating to goodwill or classified among "non-recurring costs").
- **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 expense, EBIT and EBITA is shown below:

<i>(€ millions)</i>	<b>For the nine months ended 30 September</b>	
	<b>2017</b>	<b>2016</b>
<b>Income before tax and financial expenses</b>	437	479
Equity-accounted strategic JVs	134	152
<b>EBIT</b>	<b>571</b>	<b>631</b>
Amortisation of intangible assets acquired as part of business combinations	72	72
Restructuring costs	46	38
Non-recurring (income) expense	14	5
<b>EBITA</b>	<b>703</b>	<b>746</b>

- **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 profits (losses) of equity-accounted investees", "income taxes" and "result from discontinued operations") the Group's share of profit in the results of its strategic Joint Ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the "share of profits (losses) of equity-accounted investees".
- **Net Result before extraordinary transactions:** this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (acquisitions and disposals). Below is the reconciliation:

## Results at 30 September 2017

<i>(€ millions)</i>	For the Nine months ended 30 September	
	2017	2016
Net result	272	353
Effect of extraordinary transactions	-	(10)
<b>Net result before extraordinary transactions</b>	<b>272</b>	<b>343</b>

- Group Net Debt:** this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items, as well as the main non-current receivables. In particular, the Group Net Debt included the financial receivable (backed by bank guarantees) from SuperJet – that starting from 31 December 2016 was recorded within non-current receivables– which will be repaid in 4 years based on the arrangements for the rescheduling of the Group’s participation in this programme. This indicator also includes, for 31 December 2016, the measurement of the residual interest in Ansaldo Energia – of the put & call rights. In July 2017, Leonardo exercised such option with the following collection of €mil. 144 from CDP Equity. Starting from 31 December 2016 the remaining portion has been classified among current assets considering that the expiry date is nearing. The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is provided below:

	30 September 2017	31 December 2016
Net financial debt com. CONSOB no. DEM/6064293	4,072	3,013
Fair value of the residual portion in portfolio of Ansaldo Energia	-	(138)
Hedging derivatives in respect of debt items	(10)	35
Non current financial receivables from Superjet	(58)	(65)
<b>Group net debt (KPI)</b>	<b>4,004</b>	<b>2,845</b>

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

	30 September 2017	<i>of which with related parties</i>	31 December 2016	<i>of which with related parties</i>
<b>Liquidity</b>	<b>(1,574)</b>		<b>(2,167)</b>	
<b>Current loans and receivables</b>	<b>(134)</b>	(86)	<b>(98)</b>	(40)
Current bank loans and borrowings	96		59	
Current portion of non-current loans and borrowings	644		638	
Other current loans and borrowings	651	579	570	502
<b>Current financial debt</b>	<b>1,391</b>		<b>1,267</b>	
<b>Net current financial debt (funds)</b>	<b>(317)</b>		<b>(998)</b>	
Non-current bank loans and borrowings	187		238	
Bonds issued	4,172		3,737	
Other non-current loans and borrowings	30	-	36	-
<b>Non-current financial debt</b>	<b>4,389</b>		<b>4,011</b>	
<b>Net financial debt</b>	<b>4,072</b>		<b>3,013</b>	

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

## Results at 30 September 2017

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

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

In accordance with the provisions of article 154-bis, paragraph 2 of Legislative Decree no. 58/1998 and subsequent amendments and integrations, the undersigned, Gian Piero Cutillo, the officer in charge of financial reporting of Leonardo Società per azioni certifies that this interim reporting at 30 September 2017 corresponds to the related accounting records, books and supporting documentation.

Rome, 9 November 2017

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Officer in charge of Financial  
Reporting  
(Gian Piero Cutillo)