LEONARDO

Integrated Annual Report 2020

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Guide to the document

Leonardo's first Integrated Annual Report aims to offer in a single document a complete, measurable and transparent view of the value generated by the company, connecting financial performance with environmental, social and governance information.

A representation of the development strategies and performances achieved, of the way in which the company creates innovative solutions with its supply chain partners and the scientific research ecosystem, of the way in which it operates responsibly in the countries where it is present, of the use it makes of all its capitals, both financial and non-financial.

In this manner, Leonardo strengthens its focus on sustainability within the vision of the next decade, expressed by the "Be Tomorrow - Leonardo 2030" Strategic Plan, which outlines the strategic priorities underlying the path to innovation and sustainable development.

The letter to stakeholders, jointly signed by the Chairman and the Chief Executive Officer, is an introduction to the Report on Operations, which is the cornerstone of the Integrated Annual Report.

The first three chapters provide an overview of:

> the current **Profile** of the company, an international player in the Aerospace, Defence and Security sector, and the business model through which the company operates and creates value for its stakeholders;

> **Strategy and outlook** for a sustainable development, the guidelines of which are expressed by the "Be Tomorrow - Leonardo 2030" Strategic Plan and the Sustainability Plan;

> **Group's results** in terms of financial performance and Environmental, Social and Governance (ESG) metrics, in an unprecedented and out of the ordinary year.

The following chapters detail the **Results and outlook** of the single sectors, with particular attention to the economic and financial performance and R&D activities, the **Alternative performance indicators** and the **Industrial and financial transactions**.

With reference to ESG information, Leonardo has followed the guidelines of the World Economic Forum's White Paper *Measuring Stakeholder Capitalism: towards Common Metrics and Consistent Reporting of Sustainable Value Creation*[1]. In this perspective, new KPIs and information have been added in order to account for pre-financial variables, that is to say the corporate phenomena regarding the social and environmental sphere that could have financial impacts in the future.

1 The International Business Council (IBC), the World Economic Forum, Deloitte, EY, KPMG and PwC have collaborated in establishing a set of material and universal ESG metrics that can be incorporated in companies' annual reports, regardless of geography and sector. The metrics and disclosures that have been established (21 core and 34 expanded) are the result of a consultation procedure that has involved more than 200 companies, investors and other important players and were presented in 2020.

The contents have been put under the four pillars named in the White Paper, in their turn aligned to the Sustainable Development Goals:

> **Governance** - reliability and quality of processes for a responsible business conduct, integrity, management of risks and opportunities, which evolve together with the Leonardo's purpose and mission and changes in the reference context in which the company operates;

> **People** - from enhancing human capital to developing skills for the future, with the commitment to create the conditions for people to develop their full potential while respecting the principles of dignity, equality, health and safety;

> **Planet** - with the ambition to protect it by means of the sustainable management of natural resources in the operations, actions and technological solutions to counter climate change and mitigate its effects to the benefit of present and future generations;

> **Prosperity** - innovation and technological solutions, supply chain value, relations with customers, territories and the community to contribute to economic, social and technological progress, in harmony with the environment.

The information required by Legislative Decree 254/2016 is contained in the document. For more details, reference should be made to the correlation table of the Non-Financial Statement (NFS) provided in this document.

In addition to the Report on Operations, the consolidated financial statements, the Leonardo SpA financial statements and the methodology note to the NFS form an integral part of this document.

Letter to stakeholders

THE CHAIRMAN
Luciano Carta

THE CHIEF EXECUTIVE OFFICER
Alessandro Profumo

The year 2020 recently ended was a great challenge for all of us. The COVID-19 pandemic and the swiftness with which it spread among the populations of all the countries in the world led to a health and socio-economic crisis at both local and global level that directly and indirectly affected healthcare and economic organisations, both public and private.
In fact, on one hand the necessary restrictions on the movement of persons imposed by the governments all over the world had severe repercussions on industrial and commercial operations of businesses and on the other reduced demand for goods and services in most economic sectors, particularly that of civil aviation. The effect was a substantial fall in the production volumes of all the operators engaged in the sector.
Leonardo responded to this challenge acting bravely, decisively and rapidly in taking the decisions necessary to cope with the economic and financial fall-out from the pandemic, at the same time strongly committing itself to its efforts, aware of the role Leonardo plays in the countries in which it is present and of its duty to all those it interacts with.
Leonardo confirmed, as the action it took show, its commitment to its purpose: contributing to economic, social, environmental progress and safety through its technologies.
The diversified and balanced portfolio of products and services and our widespread presence all over the world allowed us to put in place a strategy for limiting the inevitable financial repercussions of the pandemic resulting from the crisis in civil aviation, focusing our resources on the defence and security sectors while at the same time allaying the adverse consequences on the economic and financial performance and supporting the economies of the countries in which we operate.
Thanks to the solid commercial performance and the cost containment measures implemented, we have protected employment, keeping the workforce at full capacity, with great attention to the use of health protection instruments, avoiding recourse to social shock absorbers through the adoption of "solidarity" mechanisms in the dual conviction of having to meet the contractual obligations with our customers and to ensure adequate levels of productivity in our sectors less affected by the pandemic effects.
We promptly started using all the instruments necessary for protecting health and carrying out the maximum amount of work from home, adapting our processes and quickly providing the necessary IT equipment in compliance with the latest internal control system standards.
Likewise, to preserve sustainable partnerships, we kept the entire supply chain both active and solid, ensuring that suppliers of products and services maintained satisfactory production levels while at the same time mitigating the consequences of the pandemic on the social fabric in which we operate.
Even more directly, we supported government organisations by transporting goods that served to cope with the emergency. Our aircraft and helicopters flew day and night carrying sick people and healthcare materials during the most critical period of the health crisis.
Creativity and digital technology were also the main goals of the crowdfunding project proposed to our employees in order to provide less fortunate students and schools in greater difficulty with IT equipment. Our employees, again, created webinars and tutorials to familiarise young people with innovation and STEM (Science, Technology, Engineering and Mathematics) disciplines in a year in which traditional events and scientific citizenship initiatives were impossible to arrange face-to-face.

The experience we have been living through makes us even more conscious and proud of our role as an Aerospace, Defence and Security company and as a key player in supporting the development and technological evolution of the countries in which we operate.
We can enhance the value of infrastructures that exist or that need to be strengthened thanks to our ability to work with civil and military partners exploiting our competencies and knowledge. The new projects we are working on, based on the application of Leonardo technologies, are confirmation of these ambitions: technological projects for smart cities, to reduce connectivity gaps, for security and to make services more available to all.

Looking at 2020, we are very pleased with our strategy and the results we have obtained, which demonstrate our resilience and adaptability to the constant abrupt effects of the pandemic in particular on the civil sector of the aerospace and defence.
Leonardo has a clear view of long-term goals and clear strategic path focused on three pillars:

- Strengthen our Core;
- Transform to Grow;
- Master the New, accelerating innovation.

Thanks to our portfolio of products and solutions, which enables us to respond to the performance and quality specifications required of us by the market – which acknowledges our capacity to do so – to the vast and widespread commercial presence in the world, and to the actions we have taken to support commercial relations and promotion and marketing activities, we reached a number of new orders in 2020 equal to €bil. 13.8, substantially in line with that of the previous year. This was also thanks to the support to domestic customers in the government-military sector, confirming resilience against the still ongoing emergency. Order intake has been significant over the last three years, reaching a cumulative value of around €bil. 45, despite the difficulties of the pandemic, reflecting the appreciation by our customers.
This was a significant result that allowed us to keep a solid order backlog at pre-COVID levels, made up of a balanced mix of Group's businesses and also by remarkable international programmes, such as Eurofighter and NH-90, ensuring Leonardo a long-term visibility in terms of future revenues.

The latter prove Leonardo's capacity to make up for the effects of the crisis in the civil aviation sector that our main customers have had to face after the sudden fall in demand for aircraft on the part of all the main operators in the market.
Actions taken to contain the effects of government travel restrictions and health protection measures, together with the increase in production volumes on defence sector programmes both in the Aircraft segment and in the Helicopters and Electronics sectors, resulted in revenues of €bil. 13.4, in line with the 2019 figure.

We are confident that, albeit slow, the recovery of the civil market will take place in the medium-long term.
Industrial performance and profitability, while benefiting from the initiatives undertaken to ensure the recovery of the business full operation and cost control, were partly affected by the slowdowns recorded in the first phase of the emergency and the impacts generated by lower demand in the civil aeronautics sector. EBITA for the year, amounting to €mil. 938, was hit by the effects of COVID-19, also reflected in the results of the strategic joint ventures, in particular GIE ATR.
Furthermore the FOCF, although reflecting lower levels of profitability and the slowdown induced by the pandemic, was positive by €mil. 40, benefiting from the actions taken to achieve the significant cash in expected on the programmes during the fourth quarter.

The results obtained testify to the solidity of the Group's fundamentals, despite the difficulties of the current macro-economic context, and guarantee the sustainability of the business in the long term, to the benefit of the creation of value for all our stakeholders.

A special thank-you goes to all our employees who have continued to work diligently despite the current difficulties, supporting our customers and maintaining the highest professional standards. Without their commitment it would not have been possible to achieve such brilliant results also during this difficult year.

Finally, a remembrance and a special mention of the colleagues who, affected by the virus, during this dramatic year had to take leave of Leonardo and their families. We most sincerely thank them from the bottom of our hearts for the years they spent in our big family.

For the Board of Directors

The Chairman
(Luciano Carta)

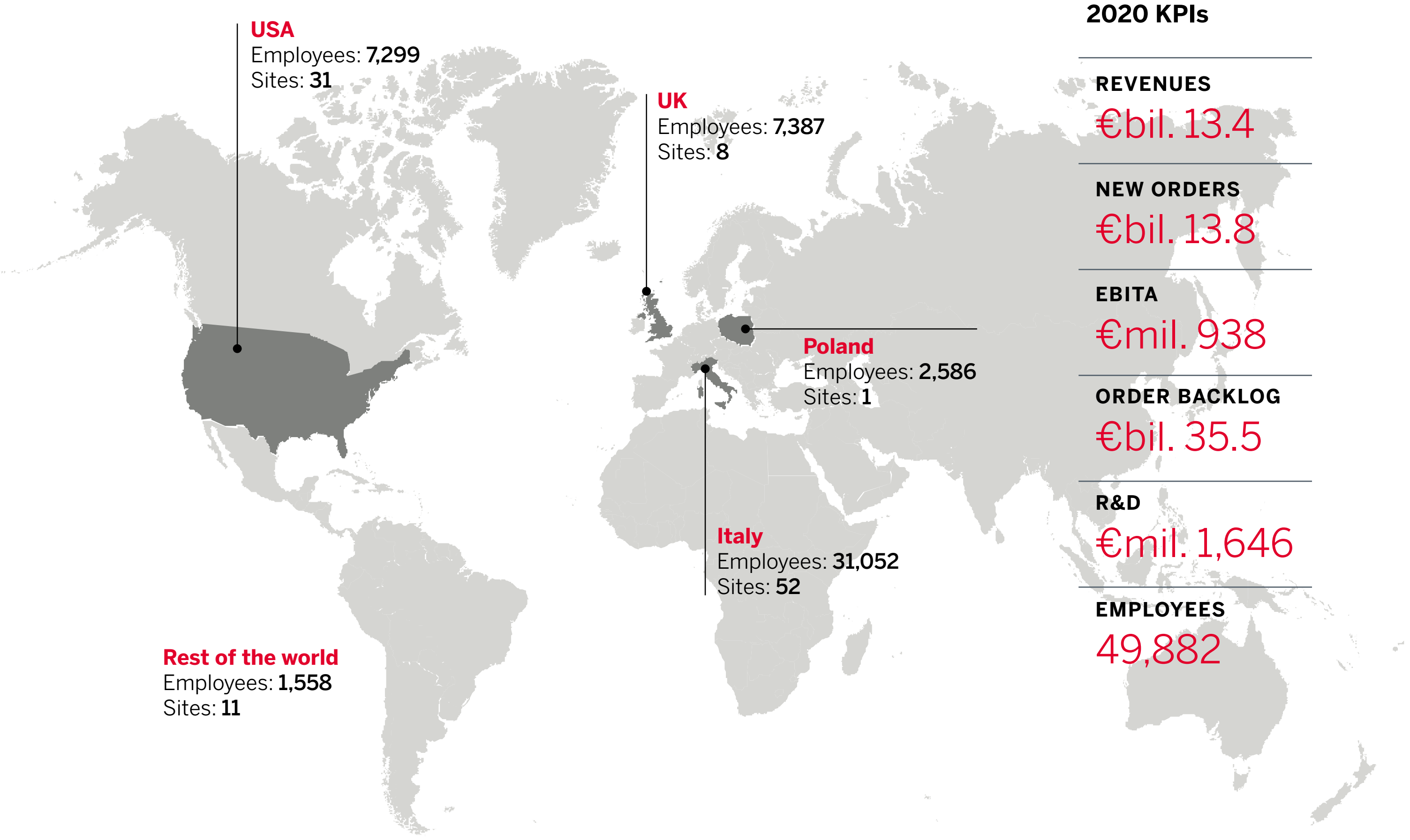
The Chief Executive Officer
(Alessandro Profumo)

Report on Operations at 31 December 2020

Group's profile

Profile

Leonardo is a global leader in the **Aerospace**, **Defence and Security** sector with a balanced and geographically distributed order backlog.



2020 KPIs

REVENUES
€bil. 13.4

NEW ORDERS
€bil. 13.8

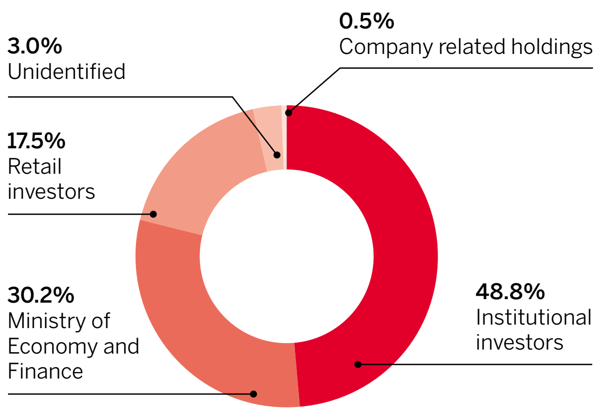
EBITA
€mil. 938

ORDER BACKLOG
€bil. 35.5

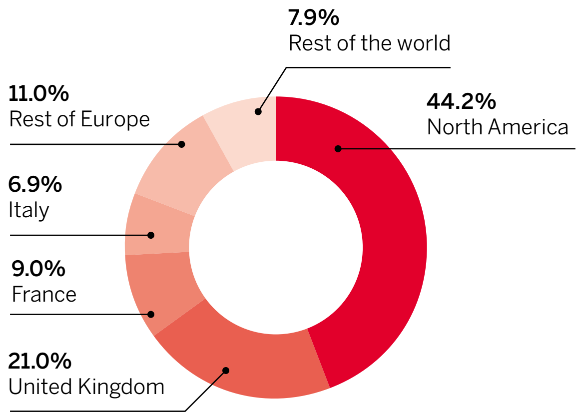
R&D
€mil. 1,646

EMPLOYEES
49,882

SHAREHOLDER COMPOSITION



INSTITUTIONAL SHAREHOLDERS BY GEOGRAPHICAL AREA

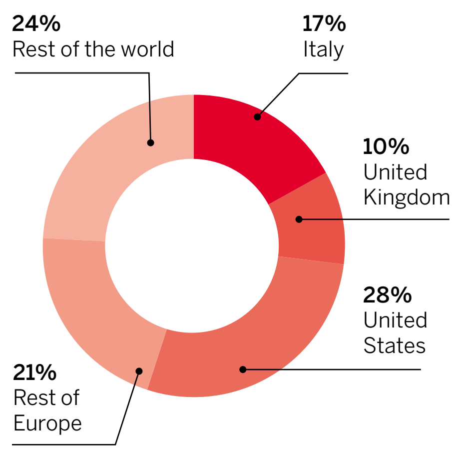


SUSTAINABILITY ACHIEVEMENTS

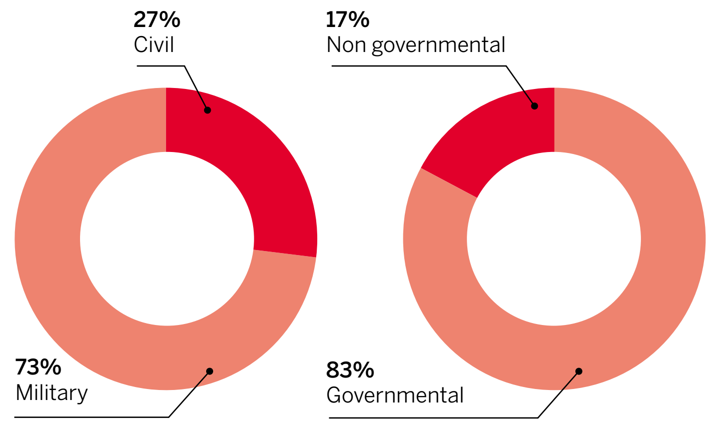
- Aerospace and Defence **Industry Leader** in the **Dow Jones Sustainability Indices** for the second year running, included in the indices since 11 years ago.
- In the **CDP 2020 Climate-A List**, among 8 Italian companies and 2 in the A&D sector.
- Ranked in **A band** in the Defence Companies Index on Anti-Corruption and Corporate Transparency (DCI) of **Transparency International**.
- Announced as **UN Global Compact LEAD** for its commitment to the biggest sustainability organisation in the world.
- Obtained the **SEAL (Sustainability, Environmental Achievement and Leadership) Business Award** honouring the 50 most sustainable companies in the world.
- Included in the Bloomberg **Gender-Equality Index**.

Leonardo operates in **150 countries** in the world offering customised solutions and innovative value-added post-sale support services in order to be a **trusted partner for its customers**.

REVENUES BY GEOGRAPHICAL AREA



SALES BY MARKET



BUSINESS SECTORS

Sector	NEW ORDERS	ORDER BACKLOG	DIVISIONS / *Main legal entities*	MAIN COUNTRIES
Helicopters	€bil. 4.5	€bil. 12.4	Helicopters Division *- Leonardo SpA* *- Leonardo MW Ltd* *- PZL-Świdnik SA* *- AgustaWestland Philadelphia Co.* *- Kopter Group AG*	Italy United Kingdom Poland United States Switzerland
	REVENUES €bil. 4.0	EBITA €bil. 0.4		
Defence Electronics and Security	€bil. 7.4	€bil. 13.4	Electronics Division *- Leonardo SpA* *- Leonardo MW Ltd* Cyber Security Division *- Leonardo SpA* *- Leonardo MW Ltd* *- Leonardo DRS* *MBDA (*)*	Italy United Kingdom United States France
	REVENUES €bil. 6.5	EBITA €bil. 0.5		
Aeronautics	€bil. 2.6	€bil. 10.7	Aircraft Division *- Leonardo SpA* Aerostructures Division *- Leonardo SpA* *GIE ATR (*)*	Italy France
	REVENUES €bil. 3.4	EBITA €bil. 0.2		
Space		EBITA €mil. 23	*Main legal entities* *Telespazio (*)* *Thales Alenia Space (*)*	Italy France

(*) Joint venture.
Other main subsidiaries and investee: Leonardo Global Solutions, Avio, Elettronica, NHIndustries, Orizzonte Sistemi Navali.

Business model

Purpose

Contribute to the world's progress and safety through our innovative technological solutions

PROGRESS AND SAFETY

The world is changing and progress is built on adaptability, flexibility and responsiveness. Our vision for a hospitable future

TECHNOLOGY SOLUTIONS

Appropriate answers hinged on reliability, competence and technology. We seek the best solution to the problem

INNOVATIVE SOLUTIONS

Anticipate the future to find solutions to problems we don't know about is the key to our success

Mission

To be the international Aerospace, Defence and Security company that best enables its customers' success, by thinking creatively and working with passion

BE GLOBAL

There are many worlds to protect: Air, Land, Sea, Space and Cyberspace. Leonardo comes into action with its team without geographical or operational scenario boundaries

CUSTOMERS' SUCCESS

Every day our customers are faced with the complexity of the world. Their needs and success are the true drivers of our technological excellence

CREATIVITY AND PASSION

Imagining new solutions, combining different knowledge and thoughts, opening up to innovation. Our name is imprinted with the genius of Leonardo da Vinci and every day we passionately explore new horizons

Research & Development

Innovation, technology and sustainability are the factors underlying Leonardo's strategy which are integrated with each other and on which its competitiveness and future growth are founded. In line with the "Be Tomorrow - Leonardo 2030" Strategic Plan, the company's objective is to become a driver of innovation at a "systemic" level, through the creation of an ecosystem centred on the research for product development and on technological research.

8,800 people and **€bil. 1.6 in R&D**. Collaborations with 70 universities and research centres in the world.

Business sectors

Leonardo is a resilient group founding its strategy on three big markets characterised by different trends, with innovative solutions, products and technologies.

Global leader in the *Helicopters* sector and **10th in the world ranking** of *Aerospace, Defence and Security* manufacturers.

Solutions and customer support

Leonardo business model aims at offering customised solutions and innovative value-added post-sale support services in order to be a trusted partner for its customers: from the offer of integrated services to the ongoing update of hardware and software, whereby it ensures its customers a long-lasting performance, to training programmes necessary to keep a direct contact with end-users and feed long-term strategic relationships.

More than **26,000 training hours** through flight simulators.

More than **9,800 pilots and operators** of helicopters and aircraft trained.

1st in the ProPilot's 2020 ranking for quality of **after-sales support**.

Main trends

Geopolitical tensions
Defence and security budgets are growing or stable in most countries

Digital and environmental transition
Commitment to climate neutrality by 2050 and EU budget in support of digital and environmental transition

Big data and security
Social inequalities, management of borders and data, including clinical and health data

Technological sovereignty
Technologies, particularly digital ones, for the institutional, corporate and individual prosperity

Sustainable finance
Growing ESG inclusion in the financial strategies and in the investment choices

Capitals

PEOPLE AND SKILLS
- **49,882** employees
- **4** domestic countries
- **~8,800** people in R&D and engineering

FINANCIAL RESOURCES
- **€bil 8.9** in purchase of goods and services
- **€bil. 3.4** in personnel cost
- **€bil. 8.5** in net invested capital

TECHNOLOGIES AND INTELLECTUAL PROPERTY
- **6.1** petaflop of computing power
- **27.1** petabyte of storage capacity
- **9** Leonardo Labs

INDUSTRIAL ASSETS
- **103** main sites and plants
- **~€mil. 300** in investments in tangible assets

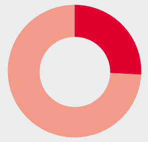
RELATIONS AND COLLABORATIONS
- **~70** universities and research centres
- **~11,000** suppliers

ENERGY AND NATURAL RESOURCES
- **100%** of electricity from renewable sources in Italy and in the United Kingdom
- **52%** of waste recovered

Business model

R&D
€bil. 1.6
in R&D Masterplan for Innovation

Operations
Investments on people and competencies
Energy and industrial efficiency
Sustainable supply chain

Solutions and customer support

REVENUES
€bil. 13.4

26%
of revenues from Customer Support, Service and Training

Business sectors

Business sectors	ROS	Order backlog
Helicopters	9.6%	34%
Defence Electronics & Security	8.2%	37%
Aeronautics	5.9%	29%


ORDER BACKLOG
€bil. 35.5

Strategic vision: Be Tomorrow - Leonardo 2030

Solid
Investment grade
Profitable
Solid cash conversion capacity

Global
Global leader in Helicopters and in Simulation and Training solutions
European leader in Defence Electronics and autonomous systems
A key player in collaborative international Aviation programmes
A partner to institutions for safety and security

Driver of innovation
100%-digitalised in processes, production and offering
Engine of an innovative eco-system on transversal technology
Point of reference for green innovation

BE TOMORROW Leonardo 2030

Impacts

People
- **3,222** new hires, **43%** hold a STEM degree, **41%** under 30 and **23%** women
- **~800,000** hours of training delivered to employees
- **~780** training opportunities activated with the educational system including internship, apprenticeship, traineeship and school-to-work alternation programmes
- **-41%** reduction of injury rate

4 QUALITY EDUCATION · 5 GENDER EQUALITY · 8 DECENT WORK AND ECONOMIC GROWTH

Planet
- **-8%** intensity of water withdrawals
- **-8%** intensity of waste produced
- **-3%** intensity of energy consumption
- **28,770** tons of CO_2 avoided through the use of virtual training systems

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE · 12 RESPONSIBLE CONSUMPTION AND PRODUCTION · 13 CLIMATE ACTION · 15 LIFE ON LAND

Prosperity
- **~50%** SDG-aligned investments
- **82%** of purchases related to domestic markets
- **26%** of share capital held by shareholders that are signatories to the Principles for Responsible Investment
- **150** countries use Leonardo's products and services
- **1st** company in Italy for grants received within Horizon 2020
- **~250** operators use Leonardo helicopters for emergency medical services

8 DECENT WORK AND ECONOMIC GROWTH · 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE · 11 SUSTAINABLE CITIES AND COMMUNITIES · 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

2020 data.

Strategy and outlook

Trend and vision to 2030

The markets in which Leonardo operates, both nationally and internationally, are characterised by highly complex ongoing transformation processes and an ever-increasing level of competition.

The recent health and economic crisis linked to the COVID-19 pandemic, in the uncertainty of an international framework that is still evolving, has profoundly altered the pre-existing balances, leading to an epochal paradigm shift at a technological, cultural, social and economic level, in a perspective in which the consequences will continue for a long time to come.

In this scenario, there is a need to continue and give new impetus to the improvement path in terms of competitive positioning on international markets, through choices and

Main trends

Geopolitical tensions - Geopolitical tensions have deepened, sometimes aggravated by internal tensions in many nations. Defence and security budgets are growing or stable in most countries.

- In 2019 the world military spending reached USDbil. 1,901, up by 1.1% compared to 2018 and by 6.6% compared to 2010[2].
- In 2019 there were: at least 32 active armed conflicts; 21 peace agreements and 61 multilateral peace operations[3].

Digital and environmental transition - Post-pandemic economic recovery will be driven by a digital and environmental transition, speeded up by urgency and extraordinary funding that could be the driver of a new technological development, with positive implications for the Aerospace, Defence and Security (AD&S) sector.

- Over the period 2021-2027, the EU budget amounts to more than €bil. 1,800, with a particular focus on research and innovation and climate and digital transitions[4].
- In order to achieve the European Union's climate neutrality in terms of emissions by 2050, total investments are estimated for €bil. 7,000[5].

Big data and security - The social scenario has been characterised by increasing inequalities and a renewed focus on the management of borders, citizen and traveller information, clinical and health data. Security and big data technologies will be increasingly important to manage risks, flows and sensitive information.

- In 2020, the Internet of Things connections recorded were 35 billion, in 2024 they will increase up to 83 billion[6].
- The healthcare sector generated over 2 ZB of data[7] in 2020, generating interests on illegal markets.

Technological sovereignty - Technologies, particularly digital ones, have been the protagonists of institutional, corporate and individual resilience. Lockdowns and the closure of national borders have brought to light the criticalities associated with global supply chains, cyber security systems and connectivity gaps.

- 83% of multinational company executives consider re-shoring or near-shoring[8].
- Since the start of the pandemic, the Federal Bureau of Investigation (FBI) has reported a 300% increase in cybercrimes[9].
- Google reported blocking more than 18 million fraudulent COVID emails out of 100 million phishing emails daily[10].

Sustainable finance - There is an unprecedented awareness of and commitment to environmental and sustainability issues, with respect to which large companies are being called upon to direct their strategies. This will also increasingly regard the AD&S sector.

- As at 2020, the investors that are signatories of the Principles for Responsible Investment supported by the United Nations manage assets under management for more than USDbil. 100,000 according to the ESG criteria[11].
- With the Destination 2050 initiative, the five major European aviation associations committed to achieve "net zero CO_2 emissions" in the European civil aviation sector within 2050[12].

2 Source: Jane's Defence Budgets worldwide.
3 Source: Sipri.
4 Budget at 2018 prices. Source: https://ec.europa.eu/info/strategy/recovery-plan-europe_it.
5 Source: Goldman Sachs.
6 Source: Juniper Research.
7 Source: Statista.
8 Source: "The Economist", 16 December 2020.

investments that will allow the achievement of the objectives set.

With "Be Tomorrow - Leonardo 2030", Leonardo has a clear vision of the strategic path to follow: strengthening and transforming the business in order to grow, accelerate innovation and increase long-term competitiveness in a sustainability perspective.

Leonardo has set the **key priorities** of sustainability underlying this path to innovation and growth:

> **contribute to digital independence and autonomy in a pan-European light**;

> **support technological sovereignty** as a vital condition for the growth of the countries in which it operates in addition to that of the company itself;

> **promote a new approach to sustainability** in terms of **technological and process innovation**, inspired by the Sustainable Development Goals of the United Nations' 2030 Agenda and the recent guidelines of the European Green Deal;

Leonardo's response

Leonardo's strategic vision for the next ten years is expressed in the "Be Tomorrow - Leonardo 2030" Strategic Plan, which is based on three pillars.

Strengthen our Core - Further strengthen the core business and operations, including through a more focused and homogeneous portfolio of activities:

- evolve from being a product supplier to a global partner;
- further strengthen the international commercial network with a "ONE Voice" approach;
- optimise the portfolio of its activities around its core capabilities in order to gain leadership positions in all the segments in which it is present.

Transform to Grow - Make the organisation more modern and flexible and adopt innovative and more effective business models to meet the customers' needs:

- promote the development of a "ONE Company" culture, invest in people and competencies to be able to support business ambitions;
- become a company that is 100% digitalised in all key processes;
- promote the development of its supply chain, leveraging a transparent and sustainable partnership to create an innovative, integrated and resilient eco-system;
- pay constant heed to customers by spreading a service-based offer model, measuring customer satisfaction on an ongoing basis and excellence in Simulation & Training solutions and systems.

Master the New - Innovate and create new technologies and new high-tech markets:

- accelerate innovation, increasing investment in research, aligning it with the top peers in the sector, in order to enter new markets and develop new products;
- leverage Leonardo Labs for the development of inter-divisional programmes with high innovative content on the following enabling technologies: HPC Design & Simulation, Big Data, Artificial Intelligence and Autonomous Intelligent Systems (AIS), Quantum technologies and Cryptography, Electric Mobility, Innovative materials;
- put a new policy for the promotion, management and enhancement of intellectual property at the centre of its activities, taking an open approach to the market (technology M&A and patent marketing) and innovative start-ups;
- set up a high-tech fund to enhance the IP produced by Leonardo Labs and, at the same time, invest in innovative start-ups;
- focus on Autonomous Intelligent Systems (AIS) to gain leadership in Remote Piloted Aircraft Systems (RPAS), artificial intelligence applications/products and advanced sensing in Europe;
- enhance the positioning of the Space sector as an application domain of new technology (e.g. robotics) and key assets to strengthen the offer of value-added services (e.g. Earth observation, territory monitoring, precision agriculture, security and navigation).

9 Source: Internet Crime Complaint Center (IC3), reported by "The Hill", 16 April 2020.
10 Source: Google cloud: 17 April 2020.
11 Source: https://www.unpri.org/.
12 https://www.destination2050.eu/.

- develop new capabilities, both in civil and military sectors, in order to **respond to the challenges posed by the complexity of the digital era**: interdependence, interrelationship and speed of evolution.

Key priorities that Leonardo intends to pursue with commitments and actions set out in the Strategic Plan and in the Sustainability Plan in order to be a company that is solid, global and a driver of innovation in 2030.

Leonardo in 2030

Solid

- Investment grade
- Profitable
- Solid cash conversion capacity

Global

- Global leader in Helicopters and in Simulation and Training solutions
- European leader in Defence Electronics and autonomous systems
- A key player in collaborative international Aviation programmes
- A partner to institutions for safety and security

Driver of innovation

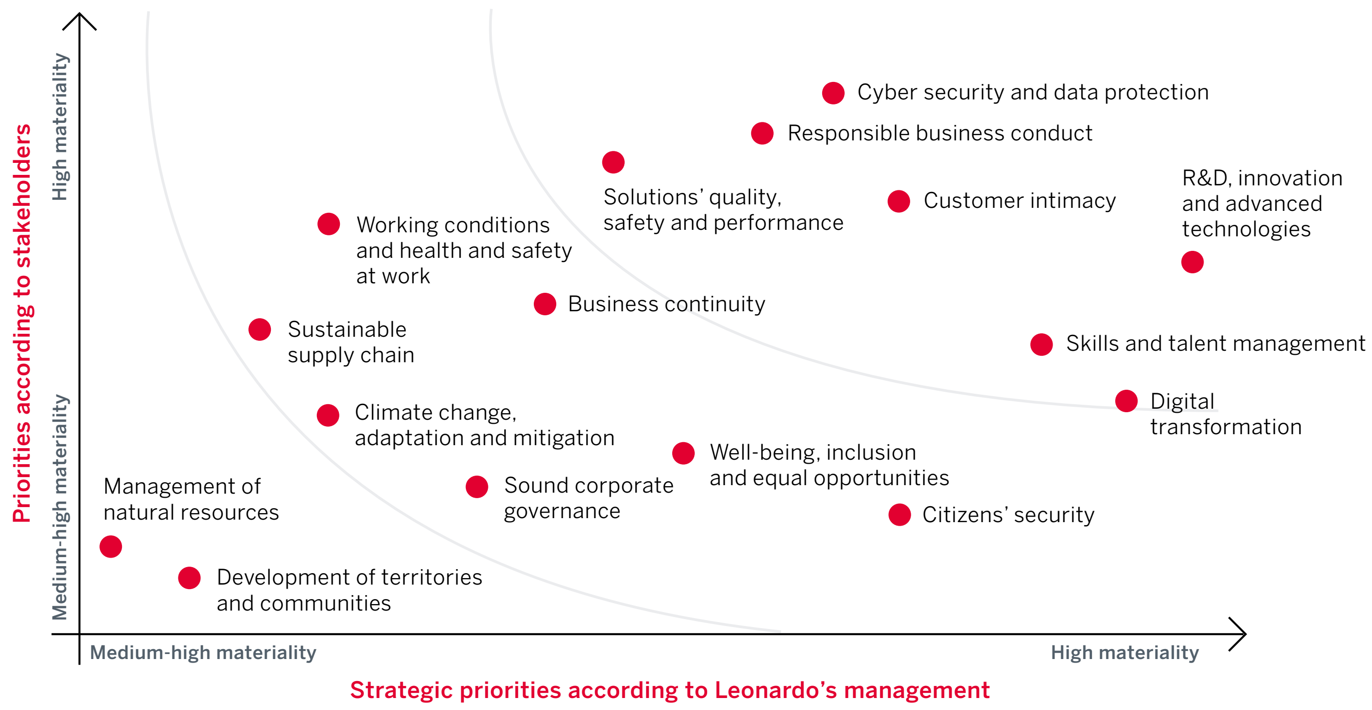
- 100%-digitalised in processes, production and offering
- Engine of an innovative eco-system on transversal technology
- Point of reference for green innovation

Materiality analysis

Vision, competitive positioning, sector scenario, role in society: Leonardo's strategy responds and adjusts itself vigorously to the themes that are priorities for the Group and its stakeholders, which are those issues that can influence the organisation's ability to create value in a substantial manner and protect it in the short, medium and long term. The purposes of the analysis of these priorities (materiality analysis) are to identify and assess the themes that are most important for its stakeholders, weighed on the basis of their relevance, and to compare them with the Group's priorities, taking the impacts they generate and any misalignments into account. The result of such analysis is represented in the priority matrix and supports the identification and definition of the key topics and targets.

Updating the priority matrix is the outcome of an analysis, which was started in 2020 and completed in 2021, concerning the regulations, best practices and priorities in the sector and public opinion on economic and financial, environmental, social and corporate governance issues. Leonardo has also involved its stakeholders through an online questionnaire. Issues such as cyber security, quality, safety and performance of solutions, proximity to the customer and responsible business management are of particular importance to our stakeholders and represent key elements of the "Be Tomorrow - Leonardo 2030" Strategic Plan[13].

Priority matrix



1,613	21	6,565	96
national and international regulations analysed	companies in the sector used in the benchmark analysis	press articles analysed	stakeholders from 11 countries have responded to the online survey

13 For details on the description of material issues, please see the Methodology note of the Non-Financial Statement.

Sustainability Plan

Consistently with the "Be Tomorrow - Leonardo 2030" Strategic Plan and with the priorities resulting from the materiality analysis, Leonardo has drawn up a Sustainability Plan aimed at covering the entire value chain: from research and technological innovation to operations and the development of new solutions and new business models. The Plan sets out eight thematic areas (clusters) on which to act in order to accelerate transition to sustainability, thus strengthening the business and the ability to create shared value with a view to the Sustainable Development Goals (SDGs) and the European Green Deal.

These clusters have been identified according to an approach oriented towards co-benefits and the improvement of the company's performance on ESG (Environmental, Social and Governance) issues, with impacts on all stakeholders. The actions of each cluster, in their turn, are identified and selected on the basis of the measurability of their social impact, their connection with our business and the challenges posed by the local area in which Leonardo operates and by alignment with SDGs.

Under the Sustainability Plan, in fact, Leonardo aims to direct the actions it performs along the entire value chain towards a collective effort to meet SDGs, in the awareness that impacts can be multiplied and enhanced by means of the Group's technological innovation capacity, above all in areas such as, for example: development of competencies (SDG 4), creation of decent work and growth of partners (SDG 8), support to innovation and digital transformation (SDG 9), development of solutions for the security of people, infrastructures and territories (SDG 11) and climate action (SDG 13), adding sustainable production models (SDG 12) to its business activity.

Leonardo has set objectives and related actions to be implemented, which have been defined by the top management of the various corporate structures in order to direct and strengthen its strategy of sustainability and creation of shared value. The commitment of the top management and the entire management staff is also described in the remuneration policy that takes account of the achievement of ESG objectives.

Sustainability Plan - Integration into Leonardo value chain

VALUE CHAIN

	Clusters	Actions
R&D	Research and innovation	• Implementation of Leonardo Labs as sustainability drivers in R&I
Operations	Industrial and energy efficiency	• Optimisation of productivity by accelerating digitalisation • Energy efficiency
Operations	Environmental management and circular economy	• Decarbonisation • Reduction of water withdrawals; reduction and recovery of waste • Reduction of plastic and paper use
Operations	Sustainable supply chain and circular economy	• Support for the sustainable development of SMEs • Increased digitalisation of procurement processes • Definition of measures to prevent ESG risks in the supply chain
Solutions and customer support	Earth observation and emergency management	• Advanced solutions in space industry for agriculture and forestry, resilience and risk reduction, environmental protection and emergency response
Solutions and customer support	Mobility solutions and security systems	• Solutions for transportation sector to reduce the environmental impact • Solutions for surveillance
Social impacts	Business integrity and human rights	• Trade control and governance • Strengthening of assessment and control over human rights
Social impacts	Social commitment and scientific citizenship	• Improvement of gender equality within the Group • Development of cross-national STEM programmes

SDGs

CORE

Sustainability targets

Pillar	Scope	Objectives	Target year	Impacts
Governance	**Promote a responsible business model**	Issue of a Trade Compliance Guideline including Human Rights Impact Assessment (HRIA) and development of country risk assessment tools for Leonardo SpA	2021	Target 16.5, 16.6
		Extending Trade Compliance Directive to the Group	2022	
		Renewal/maintenance of the ISO 37001:2016 "Anti-Bribery Management System" certification standard	2023	
		Expanding the business compliance training to other types of third parties (distributors/resellers), making it a mandatory prerequisite for the completion of the engagement	2022	
People	**Attract and promote talent**	More than 100 training hours per employee in the period 2018-2022	2022	Target 4.3, 4.4 Target 5.1, 5.5, 5.b
		Under 30 equal to at least 40% of total new hires	2022	
	Promote an inclusive environment	Women equal to at least 32% of total new hires	2022	
		Women equal to 30% of total new hires in STEM areas	2025	
		20% female representation at management levels	2025	
Planet	**Reduce energy consumption and CO_2 emissions**	10% reduction in electricity consumption*	2025	Target 8.4 Target 9.4 Target 12.2, 12.5 Target 13.1, 13.3
		4% reduction in Scope I + Scope II emissions (location-based)*	2025	
		40% reduction in Scope I + Scope II emissions (market-based)**	2030	
	Reduce environmental impacts	10% reduction in water withdrawals*	2025	
		10% reduction in the amount of waste produced*	2025	
Prosperity	**Develop the supply chain**	Implement supply chain development programmes and medium/long-term partnerships, focused on SMEs, to improve business sustainability	2023	Target 8.2, 8.3 Target 9.4, 9.5 Target 12.2, 12.5 Target 13.1
		Manage more than 75% of the value of orders placed by Leonardo Divisions with digital collaboration platforms***	2022	
		Raise awareness of/deliver training on SDGs and supporting tools for reporting to more than 80% of key suppliers (over 500 suppliers)	2023	
		100% of LEAP2020 partners with set targets and plans on green energy, CO_2 emission reduction, waste recycling, water consumption	2023	
	Strengthen digitalisation and processing capacity	Increasing computing power by 40% per capita****	2025	
		Increasing storage capacity by 40% per capita****	2025	

* Calculated in relation to revenues. 2019 year baseline.
** Reduction in absolute value. 2019 year baseline.
*** Includes recurring suppliers. Leonardo DRS is not included in the scope.
**** Calculated as the number of flops (floating point operations per second) and bytes in relation to employees in Italy. 2020 year baseline.

2021 outlook

The pandemic continues to lead to a high level of volatility in the global context.

Although the situation is expected to improve gradually over the course of the year, the macro-economic and health outlook remain uncertain in the short term.

2021 expected performance confirms the Group resilience, underlined by the ability to react to the new context, with a return to our path of sustainable growth and increased profitability. Our civil business is expected to still be heavily affected by the effects of the pandemic, with, in particular, a further contraction of production volumes in Aerostructures and GIE ATR expected deliveries still far below the pre-COVID-19 levels.

Our Guidance for 2021 assumes a progressive improvement in the global health situation through the year with consequent normalisation of operating/market conditions. This is expected to deliver:

- high levels of new orders (approx. €bil. 14), reflecting a strong positioning of the Group's products and solutions and effective commercial penetration in key markets;
- revenues of €bil. 13.8-14.3, up compared to 2020 based on the expected contribution of new orders and the delivery of activities in backlog on military/government programmes, in particular EFA Kuwait;
- increasing profitability, with EBITA of €mil. 1,075-1,125, driven by the expected growth in volumes and continued solid industrial profitability of the main business areas, offsetting mix effect of programmes under development and growing shares of prime contractor revenues; the estimate reflects also continued pressure in the civil sector, in particular Aerostructures and GIE ATR;
- FOCF of approx. €mil. 100, assuming a solid performance from the main Divisions, a significant cash absorption by the Aerostructures of around €mil. 350÷400, and a "normalisation" of the levels of net investments and operating expenses compared to the extraordinary measures implemented in 2020;
- Group net debt of approx. €bil. 3.2 assuming no dividend payable for 2020 results.

The estimates for the year 2021 are summarised below.

	FY 2020	FY 2021 Guidance
New orders (€bil.)	13.8	approx. 14
Revenues (€bil.)	13.4	13.8-14.3
EBITA (€mil.)	938	1,075-1,125
FOCF (€mil.)	40	approx. 100
Group net debt (€bil.)	3.3	approx. 3.2

Assuming forex exchange rate €/USD at 1.18 and €/GBP at 0.90.

Group's results and financial position

2020 performance and financial results

The year 2020 saw the Leonardo Group cope with the effects of the pandemic in a scenario that was out of the ordinary and unprecedented, thanks to the strength and diversification of its portfolio of products and solutions and its widespread presence all over the world.

Even if the COVID-19[14] pandemic has affected the financial position and performance in 2020, the business fundamentals and prospects in the medium to long term remain unchanged.

In spite of the serious crisis that struck the civil aviation sector and its main global players, Leonardo gave further proof of its resilience in that its sales performance was at the same level as the previous year, while benefitting from orders gained from domestic customers in government and military sectors.

Even with regard to revenues, the actions taken to limit the effects of government measures restricting movement and the steps taken for the protection of health, in addition to higher production volumes on the programmes in the defence sector, both in the Aircraft Division and in the Helicopters and Defence Electronics and Security sectors, were responsible for a result that was practically the same as in 2019, thus also offsetting a substantial decline in production rates imposed by the main aviation customers Boeing, Airbus and ATR.

While benefiting from the actions taken to bring the business back to full operation and ensure cost reduction, industrial performance and profitability were impacted by the slowdowns recorded during the first phase of the emergency and by a lower demand in the civil aviation sector that affected in particular the Aerostructures Division, helicopters in the civil sector and the ATR JV, which were heavily hit by the drop in demand from the operators in the sector.

Finally, cash flow, while being affected by lower revenues and the slowdowns caused by the pandemic, posted a slightly positive value thanks to an exceptionally high level of proceeds recorded during the last quarter. The Group's net debt remained stable at pre-COVID 2019 levels, after excluding the effects of dividends paid, strategic M&A transactions and the recognition of financial liabilities deriving from new leases.

14 For the effects due to COVID-19 on the results of operations, reference is made to Note 6 of the consolidated financial statements.

Key performance indicators (KPIs)

The KPIs for the period and the main changes in the Group's performance compared to 2019 are shown below. Comments are reported below for each business sector.

€ millions	2019	2020	Change
New orders	14,105	13,754	(2.5%)
Order backlog	36,513	35,516	(2.7%)
Revenues	13,784	13,410	(2.7%)
EBITDA	1,817	1,458	(19.8%)
EBITA	1,251	938	(25.0%)
ROS	9.1%	7.0%	(2.1) p.p.
EBIT	1,153	517	(55.2%)
EBIT margin	8.4%	3.9%	(4.5) p.p.
Net result before extraordinary transactions	722	241	(66.6%)
Net result	822	243	(70.4%)
Group net debt	2,847	3.318	16.5%
FOCF	241	40	(83.4%)
ROI	16.7%	11.3%	(5.4) p.p.

Please refer to the paragraph on "'Non-GAAP' alternative performance indicators" for definitions.

The Group data do not include the contribution given by the joint ventures (JVs) invested in by the Group (which mainly include GIE ATR in the Aeronautics sector, MBDA in the Defence Electronics and Security sector and JVs in the Space sector). The Group's business conducted through the JVs and their strategic and financial importance remain unchanged, while for reporting purposes the JVs' 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 2020 the main Group's JVs recorded total revenues of €bil. 2.1 (€bil. 2.8 in 2019) as concerns Leonardo's share: as a result, the Group's aggregate pro-forma revenues come to about €bil. 15.5 (€bil. 16.6 in 2019).

December 2019 € millions	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	4,641	12,551	4,025	431	10.7%
Defence Electronics and Security	7,022	12,848	6,701	613	9.1%
Aeronautics	2,788	11,640	3,390	362	10.7%
Space	-	-	-	39	n.a.
Other activities	234	372	463	(194)	(41.9%)
Eliminations	*(580)*	*(898)*	*(759)*	-	*n.a.*
Total	**14,105**	**36,513**	**13,784**	**1,251**	**9.1%**

December 2020 € millions	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	4,494	12,377	3,972	383	9.6%
Defence Electronics and Security	7,374	13,449	6,525	537	8.2%
Aeronautics	2,552	10,696	3,393	200	5.9%
Space	-	-	-	23	n.a.
Other activities	103	87	407	(205)	(50.4%)
Eliminations	*(769)*	*(1,093)*	*(887)*	-	*n.a.*
Total	**13,754**	**35,516**	**13,410**	**938**	**7.0%**

Change %	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	(3.2%)	(1.4%)	(1.3%)	(11.1%)	(1.1) p.p.
Defence Electronics and Security	5.0%	4.7%	(2.6%)	(12.4%)	(0.9) p.p.
Aeronautics	(8.5%)	(8.1%)	0.1%	(44.8%)	(4.8) p.p.
Space	n.a.	n.a.	n.a.	(41.0%)	n.a.
Other activities	(56.0%)	(76.6%)	(12.1%)	(5.7%)	(8.5) p.p.
Eliminations	*(32.6%)*	*(21.7%)*	*(11.6%)*	*n.a.*	*n.a.*
Total	**(2.5%)**	**(2.7%)**	**(2.7%)**	**(25.0%)**	**(2.1) p.p.**

The main changes in the Group's performance compared to the previous year are shown below. A more detailed analysis by business is provided in the specific section dedicated to the trends in each sector of operation, "Sector results and outlook".

Commercial performance

New orders for the period came to €bil. 13.8, thus limiting to just 2.5% the expected downturn for the effects caused by the pandemic compared to the previous year. This occurred thanks to major orders gained from domestic customers in the military and government sectors and in general to a solid performance in all sectors, which confirmed the good positioning of the Group's products and solutions in the target markets, capable of mitigating the effects of a fall in demand in the civil aeronautics sector and of the delays in the completion of export campaigns following the restrictions on sales activities due to the pandemic.

The major new orders are described in the section concerning the performance in each sector.

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 (€bil. 13.4) were substantially in line with the 2019 figure. The reduction in production volumes on civil aviation programmes was offset by the growth resulting from the ramp-up of operations on some contracts in the military sector (in particular EFA Kuwait), while the slowdowns caused by the pandemic actually slackened the expected increase in the Group's revenues.

EBITA, equal to €mil. 938 (ROS of 7%), showed, compared to the previous year, a decrease of €mil. 313, mainly due to the abovementioned effects of the COVID-19 outbreak, which have also hit the results achieved by the strategic joint ventures, in particular GIE ATR, which alone represents about 40% of the abovementioned decrease.

EBIT, equal to €mil. 517, showed, compared to 2019 (€mil. 1,153), a reduction of €mil. 636 (-55%), which was mainly due, in addition to a decrease in EBITA, to:

> the necessary one-off update of the valuation of tangible and intangible assets in the civil aviation segment (€mil. 248);

> the recognition of one-off costs incurred to comply with the government's guidelines on the COVID-19 pandemic-related measures, including for the protection of workers' health and the support to government bodies in the management of the emergency (€mil. 55).

The **net result before extraordinary transactions** (€mil. 241) was affected by a reduction in EBIT, net of the tax benefit associated with a lower tax base and the recognition of tax income from previous years, beside a lower impact of financial costs.

The **net result** (€mil. 243) included the effects of the space business of Vitrociset, which is classified among discontinued operations. The comparative figure benefited from the effects of the transaction with Hitachi concerning the guarantees given upon the sale of the transport business of AnsaldoBreda SpA.

Reclassified income statement

€ millions	Notes	2019	2020	Change	Change %
Revenues		13,784	13,410	(374)	(2.7%)
Purchase and personnel expenses	(*)	(12,104)	(11,973)		
Other net operating income/(expenses)	(**)	(23)	(2)		
Equity-accounted strategic JVs	(***)	160	23		
Amortisation, depreciation and write-offs	(****)	(566)	(520)		
EBITA		**1,251**	**938**	**(313)**	**(25.0%)**
ROS		*9.1%*	*7.0%*	*(2.1) p.p.*	
Non-recurring income/(costs)		(43)	(333)		
Restructuring costs		(28)	(61)		
Amortisation of intangible assets acquired as part of business combinations		(27)	(27)		
EBIT		**1,153**	**517**	**(636)**	**(55.2%)**
EBIT margin		*8.4%*	*3.9%*	*(4.5) p.p.*	
Net financial income/(expenses)	(*****)	(284)	(264)		
Income taxes		(147)	(12)		
Net result before extraordinary transactions		**722**	**241**	**(481)**	**(66.6%)**
Net result related to discontinued operations and extraordinary transactions	(******)	100	2		
Net result		**822**	**243**	**(579)**	**(70.4%)**

Notes to the reconciliation between the reclassified income statement and the statutory income statement (for more details, reference should be made to the paragraph on "'Non-GAAP' alternative performance indicators").

(*) Includes "purchase and personnel expenses" (excluding restructuring costs and non-recurring costs) and "accruals/(reversals) for onerous contracts (final losses on orders)".
(**) 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 (final losses on orders)).
(***) 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 value adjustments to financial assets", 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 "share of profits/(losses) of equity-accounted investees" (net of the results of strategic joint ventures).
(******) Includes "profit/(loss) from discontinued operations" and gains and losses relating to extraordinary transactions (key acquisitions and disposals).

Reclassified cash flow statement

€ millions	Notes	2019	2020	Change	Change %
Cash flows from operating activities	(*)	773	275	(498)	(64.4%)
Dividends received		174	58		
Cash flows from ordinary investing activities	(**)	(706)	(293)		
Free Operating Cash Flow (FOCF)		**241**	**40**	**(201)**	**(83.4%)**
Strategic transactions	(***)	(44)	(200)		
Change in other investing activities	(****)	(18)	(3)		
Net change in borrowings		(181)	541		
Dividends paid		(81)	(81)		
Net increase/(decrease) in cash and cash equivalents		**(83)**	**297**		
Cash and cash equivalents at 1 January		2,049	1,962		
Exchange rate differences and other changes		2	(46)		
Net increase/(decrease) in cash of discontinued operations		(6)	-		
Cash and cash equivalents at 31 December		**1,962**	**2,213**		

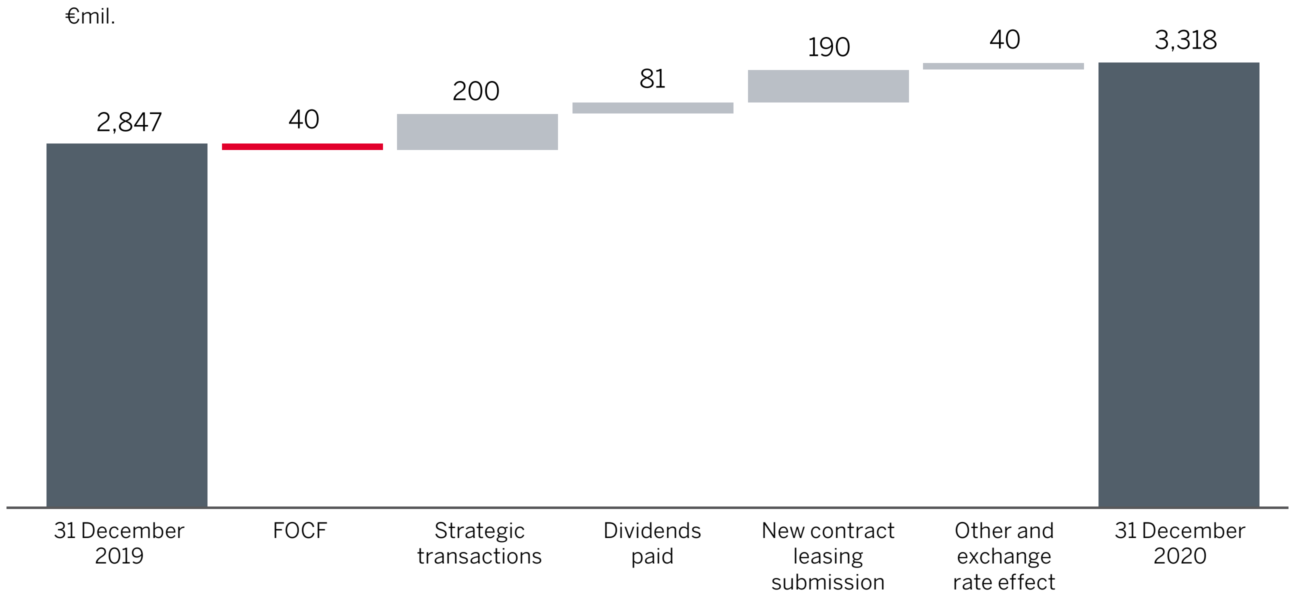
Notes to the reconciliation between the reclassified cash flow and the statutory cash flow statement.
(*) Includes "cash flows generated from/(used in) operating activities", excluding debt payments pursuant to Law 808/1985.
(**) Includes "cash flows generated from/(used in) investing activities", including debt payments pursuant to Law 808/1985 and net of dividends collected.
(***) Includes "other investing activities" classified as "strategic transactions".
(****) Includes "other investing activities", excluding dividends collected and the effect of operations classified as "strategic transactions".

FOCF posted a positive value of €mil. 40 (€mil. 241 in 2019). The figure confirms the updated cash generation forecasts communicated to the Group's stakeholders during the year, although it was significantly affected by the ongoing pandemic emergency that makes it difficult to compare the figure to the value posted in the previous year.

The **Group net debt**, equal to €mil. 3,318, showed an increase, compared to 31 December 2019 (€mil. 2,847), mainly as a result of the following events, net of FOCF for the period:

- acquisition of Kopter Group AG in April 2020, with an impact of €mil. 198 on the net financial position;
- recognition of liabilities for new lease agreements entered into in the year for €mil. 190;
- payment of dividends of €mil. 81 in May;
- acquisition of an additional amount of shares in Avio for €mil. 14 in June.

Below is the breakdown of the Group net debt compared to 31 December 2019:



Reclassified statement of financial position

€ millions	Notes	31 December 2019	31 December 2020
Non-current assets		12,336	11,883
Non-current liabilities		(2,243)	(1,996)
Capital assets	(*)	**10,093**	**9,887**
Inventories	(**)	947	1,164
Trade receivables		2,995	3,033
Trade payables		(3,791)	(3,619)
Working capital		**151**	**578**
Provisions for short-term risks and charges		(1,164)	(1,318)
Other net current assets/(liabilities)	(***)	(968)	(598)
Net working capital		**(1,981)**	**(1,338)**
Net invested capital		**8,112**	**8,549**
Equity attributable to the Owners of the Parent		5,323	5,267
Equity attributable to non-controlling interests		11	11
Equity		**5,334**	**5,278**
Group net debt		**2,847**	**3,318**
Net (assets)/liabilities held for sale	(****)	**(69)**	**(47)**

Notes to the reconciliation between the reclassified and the statutory statements of financial position (for more details, reference should be made to the paragraph on "'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".

Group net financial debt

€ millions	31 December 2019	*Of which current*	31 December 2020	*Of which current*
Bonds	2,741	*94*	3,220	*835*
Bank debt	983	*85*	896	*48*
Cash and cash equivalents	(1,962)	*(1,962)*	(2,213)	*(2,213)*
Net bank debt and bonds	**1,762**		**1,903**	
Current loans and receivables from related parties	(161)	*(161)*	(149)	*(149)*
Other current loans and receivables	(36)	*(36)*	(18)	*(18)*
Current loans and receivables and securities	**(197)**		**(167)**	
Forex derivatives covering debt items	-	-	(6)	*(6)*
Related party lease liabilities	36	*3*	30	*3*
Other related party borrowings	727	*727*	881	*781*
Lease liabilities	415	*61*	525	*72*
Other borrowings	104	*61*	152	*85*
Group net debt	**2,847**		**3,318**	

The reconciliation with the net financial position required by CONSOB communication DEM/6064293 of 28 July 2006 is provided in Note 21 of the consolidated financial statements.

As detailed in the section "Industrial and financial transactions", to which reference should be made, "bonds" showed an increase as a result of the bond issue of €mil. 500.

As at 31 December 2020 Leonardo had credit facilities available for a total of about €mil. 3,940 to meet the financing needs of the Group's recurring operations, broken down as follows: two Revolving Credit Facilities totalling €mil. 3,050, additional unconfirmed short-term lines of credit of about €mil. 640 (all the aforesaid lines of credit were entirely unused at 31 December 2020), a Term Loan for the remaining amount of about €mil. 250, which was cancelled at the beginning of 2021.

Furthermore, the subsidiary Leonardo US Holding has short-term revocable lines of credit in dollars, guaranteed by Leonardo SpA, for a total counter-value of €mil. 228 (they were entirely unused at 31 December 2020).

Finally, Leonardo has unconfirmed unsecured bank lines of credit for a total of €mil. 10,749, an amount of €mil. 3,375 of which was available at 31 December 2020.

ESG performance indicators

	2019	2020	Change
Workforce (no.)	49,530	49,882	0.7%
Employees under 30 on total employees (%)	10.1	10.3	0.2 p.p.
Women in managerial positions on total managers and middle managers (%)	16.8	17.3	0.5 p.p.
Average hours of training per employee (no.)	18.8	16.2	(13.8%)
Injury rate (no. of injuries per 1,000,000 worked hours)	4.41	2.60	(41.0%)
Employees at OHSAS 18001 or ISO 45001 certified sites on total employees (%)	74	75	1 p.p.
Total R&D expenses (€ millions)	1,525	1,646	7.9%
of which self-funded	*553*	*559*	*1.1%*
Computing power per capita (Gigaflops on no. of Italian employees)	n.a.	198	n.a.
Data storage capacity per capita (Gigabyte on no. of Italian employees)	n.a.	874	n.a.
Energy consumption intensity on revenues (MJ/€)	0.423	0.410	(3.3%)
Water withdrawals intensity on revenues (l/€)	0.427	0.394	(7.7%)
Waste produced intensity on revenues (g/€)	2.79	2.57	(8.0%)
Scope I and II CO_2 emissions intensity on revenues (g/€) - location-based	43.55	45.39	4.2%

The reported indicators are part of the Consolidated Non-Financial Statement.

In 2020, the workforce showed a slight increase, mainly due to the acquisition of Kopter Group AG, confirming the growing trend of recent years.

Recruitment of employees under 30 years of age continues to stand at over 40% of total hires, contributing to the steady increase in employees under 30 on total employees, from 8.2% in 2017 to 10.3% in 2020.

Thanks to the growing attention to gender diversity, the presence of female managers is increasing, reaching 17.3% of the total number of managers and middle managers compared to 15.1% in 2017.

Remote working influences the injury rate, which is reduced by 41% compared to 2019. The company continues to extend the sites certified with health and safety management system, where 75% of employees work, compared to 56% in 2017.
The volume of training hours per capita (around 3 hours less compared to 2019) also suffered from the impact of remote working, due to the almost total impossibility of holding classroom lessons.

R&D expenses amounted to approximately 12% of revenues, allowing the Group to continue investing in internal research and external collaborations to fuel the current and future development of the product portfolio and their competitiveness. Of particular strategic importance is the investment made in the davinci-1 supercomputer, which has increased computing power and data storage capacity, metrics that from 2020 have been monitored with special indicators.

The increase in CO_2 emissions (Scope I and Scope II - location-based[15]), in absolute and relative terms, is mainly related to the use of gaseous substances within the helicopter production in a specific manufacturing process.

15 The location-based method reflects the average GHG emissions intensity of grids on which energy consumption occurs, using mostly grid-average emission factor data.

The other environmental and energy efficiency indicators are also influenced by the remote working, while confirming the company's commitment to reducing impacts and associated costs, a commitment reflected in the goals set for the coming years.

In order to provide a complete view of the sustainable development path undertaken, the evolution of some ESG metrics in the period 2017-2020 is summarised below. In 2017, for the first time, the sustainability strategy was integrated within Leonardo's Industrial Plan and the areas and related actions to be implemented were defined. The new sustainability goals broaden the scope of these areas of intervention, with a horizon ranging from 2021 to 2030. Further details are reported in the "Strategy and outlook", "People" and "Planet" chapters.

Areas	Performance in the period 2017-2020	Impacts
Attract and promote talent	› Over 6,400 people under 30 hired › Employees under 30 from 8.2% to 10.3% of workforce (+1,455 employees under 30) › Over 3,200 training opportunities activated with the educational system	
Promote an inclusive environment	› Over 3,400 women hired › Women managers from 15.1% to 17.3% of total managers and middle managers (+269 women managers among employees)	
Extend the adoption of certified environmental, health and safety management systems	› 75% of employees work in sites with certified health and safety management system (56% in 2017) › 76% of employees work in sites with certified environmental management systems (66% in 2017)	
Reduce energy consumption and CO_2 emissions	› 16% reduction in intensity of energy consumption › 1% reduction in Scope I and II CO_2 emissions intensity (location-based)	
Reduce environmental impacts	› 7% reduction in intensity of waste produced › About 73,000 tons of waste recovered › 23% reduction of intensity of water withdrawals	

Sector results and outlook

Key performance indicators by sector

The business sectors are commented on below in terms of competitive position, financial performance, total market[16] and research and development. 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.

€ millions	December 2019	December 2020	Change	Change %
1. HELICOPTERS				
New orders	4,641	4,494	(147)	(3.2%)
Order backlog	12,551	12,377	(174)	(1.4%)
Revenues	4,025	3,972	(53)	(1.3%)
EBITA	431	383	(48)	(11.1%)
ROS %	10.7%	9.6%		(1.1) p.p.
2. DEFENCE ELECTRONICS AND SECURITY				
New orders	7,022	7,374	352	5.0%
Order backlog	12,848	13,449	601	4.7%
Revenues	6,701	6,525	(176)	(2.6%)
EBITA	613	537	(76)	(12.4%)
ROS %	9.1%	8.2%		(0.9) p.p.
3. AERONAUTICS				
New orders	2,788	2,552	(236)	(8.5%)
Order backlog	11,640	10,696	(944)	(8.1%)
Revenues	3,390	3,393	3	0.1%
EBITA	362	200	(162)	(44.8%)
ROS %	10.7%	5.9%		(4.8) p.p.
4. SPACE				
EBITA	39	23	(16)	(41.0%)

16 Information processed by Leonardo on the basis of Jane's data.

1 Helicopters

Helicopters

Leonardo is one of the leading groups in the Helicopters sector, delivering excellence in products worldwide. In the defence sector, the Group has recognised expertise in combat, naval, Search and Rescue (SAR) and Law Enforcement applications, while its leadership remains on a sound footing in various applications such as utility, transport and Emergency Medical Services (EMS) missions in the civil market. On this last front Leonardo relies on its well-established expertise gained over the years, in particular thanks to the AW109 models in the past and, more recently, AW139 and AW169. Leonardo's EMS helicopters have also contributed to coping with the pandemic by transporting medical materials, equipment and patients.

While impacted by the effects of the pandemic, the results achieved in 2020 confirmed the strength of the sector's fundamentals, which recorded a good sales performance and revenue volumes in line with 2019. Profitability, albeit in decline, benefitted from actions taken to limit the effects of the COVID-19 emergency. 111 new helicopters were delivered in 2020 (156 in 2019).

New orders. Particularly significant, confirming the positioning of Leonardo's Helicopters sector in the related market, were the orders acquired in the government sector, which offset the demand reduction in the civil sector. Among the main acquisitions for the period note:

- the contract falling within the scope of the IMOS (Integrated Merlin Operational Support) programme concerning the provision of logistic support and maintenance services for the fleet of AW101 Merlin helicopters to the UK Ministry of Defence;
- orders for the Italian Army for development activities relating to the NEES (New Exploration and Escort Helicopter - *Nuovo Elicottero da Esplorazione e Scorta*) programme, the supply of 15 AW169 helicopters and the provision of logistic support and training services as part of the LUH (Light Utility Helicopter) programme;
- the first order for 32 TH-73A (AW119) helicopters for the US Navy;
- the contract concerning the supply of 31 multipurpose naval NH90 helicopters for the German Armed Forces.

Revenues. They were in line with 2019. The expected reduction in volumes on certain programmes nearing completion was offset by increased work on the NH90 Qatar programme and the start-up of the TH-73A US programme. The expected growth in revenues suffers from the slowdowns caused by the COVID-19 emergency, which adversely affected in particular the number of deliveries during the year.

EBITA. The result is only partially affected by the lower efficiency reported in the period due to the COVID-19, as well as to a less favourable mix of activities performed, thanks to the efficacy of the actions aimed at recovering productivity and containing costs. It should also be noted that the comparative period had benefited from a review of the terms and conditions of the UK pension scheme.

Total market of the sector and 2021 outlook

Market (*) 2020-2029	CAGR 2020-2029	Impact on the businesses in which Leonardo operates
€bil. 156	2.0%	**Civil sector**: growth in the EMS (Emergency Medical Services), SAR (Search and Rescue) and Law Enforcement applications, including due to the COVID-19 emergency. There was a significant decline in the Oil & Gas segment, which was only partially offset by platforms supporting alternative energy sources. **Defence**: deferment of some programmes due to COVID-19.

(*) Deliveries of new helicopters only.

In 2021, revenue volumes are expected to grow, driven by the development of backlog activities on military/governmental programmes and a good flow of new orders, although in a context still characterised by the effects of the pandemic, particularly in the civil market. Profitability remained at good levels, also thanks to the initiatives to optimise industrial processes and improve the competitiveness of the main products, even though it was affected by a production mix characterised by growing activities on contracts acquired as prime contractor.

Research, development and product engineering

Research into the field of helicopters is increasingly oriented towards sustainability, in line with the European Green Deal, which sets out a roadmap for environmental objectives for 2050. In taking part in European programmes such as Clean Sky 2 and SESAR (Single European Sky ATM Research) 2020, and in the near future Clean Aviation and SESAR 3, Leonardo has developed and will develop technologies and solutions to drastically reduce emissions into the atmosphere. Aircraft electrification and digitalisation are the other areas in research in this sector that will have favourable impacts in terms of security, sustainability, growth and profitability.

The race to digitalisation is a further key aspect in all the product's life cycle: from design, with the introduction of digital certification criteria (Certification-by-Simulation), to advanced manufacturing systems (Digital Factory), autonomous flight operations and customer support, with the application of advanced Big Data & Analytics algorithms for diagnostics and predictive maintenance. Furthermore, other digital instruments have been developed for the training of pilots and to ease the work of maintenance workers and fleet managers using enhanced reality instruments for remote maintenance operations.

Developments in 2020

Next Generation Civil Tiltrotor - The project, within the European Clean Sky 2 programme, aims at the construction of a flight demonstrator for the next-generation tiltrotor and related enabling technologies, which will allow emissions into the atmosphere to be drastically reduced (up to 50% less CO_2) compared to past technologies. In 2020 the project review was completed to start the construction of the aircraft and the system test and integration benches.

New Exploration and Escort Helicopter - In the military field, Leonardo is continuing to develop a new generation of helicopters, including the AW249 NEES (New Exploration and Escort Helicopter) for the Italian Army Aviation.

Aircraft electrification - Research projects for the introduction of new power generation and distribution systems for primary functions, such as in-flight power control, and in critical systems, such as rotor anti-icing systems, will allow greater operational flexibility, efficiency and cost reduction to be obtained, all in accordance with the most stringent safety requirements.

Clean Aviation - Leonardo will participate in the future European programme to continue the development of the most eco-friendly technologies, in particular on the front of innovative propulsion.

SESAR 2020 - Within the European programme, Leonardo is developing technology enablers, such as digital avionics for multi-constellation satellite navigation. This will allow the introduction of take-off and approach procedures in complex, traffic-intensive airspaces dedicated to helicopters, with the aim of providing greater operational flexibility, including a reduction of in-flight emissions.

Horizon Europe - Under the SESAR 3 programme, which follows SESAR 2020 within the new European Framework Programme 2021-2027, Leonardo will focus its research and development activities on low-altitude operations in urban environments, for which technology enablers and flight rules in airspace will have to be developed, as well as on the containment of emissions and noise through specific flight procedures and trajectories.

2

Defence Electronics and Security

Defence Electronics and Security

Leonardo designs, develops and manufactures a wide range of products and systems for defence and security applications, in service with national and international Armed Forces and public entities and private customers. It also provides complex integrated systems, subsystems, equipment and components, ranging from "Tier 1" (complete systems) to "Tier 4" (apparatuses), for applications in the land, naval, aircraft, space and security domain.

In particular, among the applications in the **land** domain, Leonardo's portfolio includes battlefield command and control systems, air and border defence and air traffic management and control systems, advanced weapon and ammunitions systems.

In the **naval** domain integrated systems are particularly important for combat and maritime surveillance, installed both on board naval ships and in the command and control centres, and weapon and protection systems for naval ships, completed by simulation and training solutions.

Leonardo creates advanced avionic solutions in the **aircraft and space** areas for surveillance and combat, the latest generation of manned and unmanned aircraft, including the platforms made by the company, and components for satellites or interplanetary probes.

As far as **security** is concerned, areas of greatest interest are focused on solutions for the protection of cities, territories, borders, major events and critical infrastructure, based on advanced information analysis systems and secure communications. Cyber security and cyber resilience solutions are also increasingly important as a result of the increase in digitalisation.

The 2020 results showed a solid sales and industrial performance, thus confirming the good positioning of the sector's products and solutions in target markets. Profitability is still affected by the expected revenue mix characterised by programmes under development.

Key performance indicators for the sector

December 2019 € millions	New orders	Revenues	EBITA	ROS %
DES Europe	4,444	4,289	427	10.0%
Leonardo DRS	2,611	2,438	186	7.6%
Eliminations	*(33)*	*(26)*	-	*n.a.*
Total	**7,022**	**6,701**	**613**	**9.1%**

December 2020 € millions	New orders	Revenues	EBITA	ROS %
DES Europe	4,710	4,147	360	8.7%
Leonardo DRS	2,674	2,414	177	7.3%
Eliminations	*(10)*	*(36)*	-	*n.a.*
Total	**7,374**	**6,525**	**537**	**8.2%**

Change %	New orders	Revenues	EBITA	ROS %
DES Europe	6.0%	(3.3%)	(15.7%)	(1.3) p.p.
Leonardo DRS	2.4%	(1.0%)	(4.8%)	(0.3) p.p.
Eliminations	*69.7%*	*(38.5%)*	*n.a.*	*n.a.*
Total	**5.0%**	**(2.6%)**	**(12.4%)**	**(0.9) p.p.**

Leonardo DRS data in USD

	New orders	Revenues	EBITA	ROS %
DRS (USDmil.) 2019	2,923	2,729	208	7.6%
DRS (USDmil.) 2020	3,054	2,757	202	7.3%

New orders. They were on the rise compared to 2019, due in particular to an excellent sales performance recorded in Electronics in Europe during the last quarter, despite delays in the completion of certain export campaigns caused by the COVID-19 emergency and the adverse impact of the USD/€ and GBP/€ exchange rate.
The major orders gained for **Electronics in Europe** included the contract for the equipment of Blindo Centauro 2 vehicles intended for line cavalry regiments of the Italian Army and the contract for the supply of four Vulcano systems for the frigates of the Dutch Navy and, in the United Kingdom, the contract for the development of next-generation radars (AESA, Active Electronically Scanned Array) for the Royal Air Force's Eurofighter Typhoons and the order under the IMOS (Integrated Merlin Operational Support) contract for logistics support and maintenance services for the fleet of AW101 Merlin helicopters, in addition to the supplemental order for the "Safe Soldier" project, providing for a full renewal of individual equipment for the components "Protection" "C4Istar" (Command, Control, Communications, Computers, Information/Intelligence, Surveillance, Targeting Acquisition and Reconnaissance) and "Night mobility" the Italian Army is equipped with.
In the **Cyber** area note an order for the supply of a Cyber Range Training system to assess the resilience of systems to cyber-attacks for the Qatar Computing Research Institute.
With regard to **DRS**, which confirmed its growth trend of the last few years, note additional orders for the production of the new generation of IT systems, known as Mounted Family of Computer Systems (MFoCS) for mission commands of the US Army and the contract for the supply of equipment, switchboards and propulsion controls for the CVN 80 and CVN 81 ships for the US Navy.

Revenues. They were substantially in line with the prior year. The production activities of the European component showed a slight decrease, in particular in the last quarter, being affected by delays in the finalisation of part of new orders caused by the COVID-19 emergency in the first nine months. As regards DRS, the excellent trend of the last few years was confirmed with revenues showing an increase considering that 2019 was marked by the peak of operations for the deliveries under the APS contract within the JUON (Joint Urgent Operational Need) programme.

EBITA. The result was affected by the revenue mix characterised by programmes under development, which were instrumental to the renewal of the offer portfolio, and by a lower contribution of highly profitable orders, as well as of higher costs recorded on certain programmes, in the Automation businesses. The COVID-19 effects on production were neutralised thanks to actions aimed at recovering efficiency and containing costs.

Total market of the sector and 2021 outlook

Market 2020-2029	CAGR 2020-2029	Impact on the businesses in which Leonardo operates
€bil. 3,234	6.4%	**Civil sector**: demand driven by trends in sustainability (mobility and energy), digitalisation (public sector), security (borders and cities), cyber protection and resilience (institutions and critical infrastructure). **Defence**: › in the **air** domain, note the growth in the avionics segment, driven by demand for multifunctional radars for combat aircraft; › in the **land** domain, note the growth in demand for Command & Control systems and wheeled vehicles driven by battlefield digitalisation and mobility and protection requirements for Armed Forces; › in the **naval** domain, note the growth in demand to meet the need for upgrading of naval combat systems and, for the underwater segment, for new torpedoes and sonars.

In 2021, the slowdown recorded in 2020 due to the pandemic is expected to be recovered, with revenue volumes growing, supported in particular by programmes in portfolio, which was further strengthened during 2020. Profitability improved as a result of the continued focus on programme execution and cost containment, although a mix of activities is still characterised by programmes under development and increasing shares of "pass-through" revenues.

Research, development and product engineering

A fundamentally important challenge for the sector is to gain the utmost benefit from research and the latest technological innovations, many of which have come into being in commercial and civil contexts. To this effect, artificial intelligence, quantum security, big data analytics, 5G and 6G communications, new materials, robotics, blockchain will be the technologies that are most important to integrate in operations, platforms and the present Defence systems, together with the development of technologies that enable product sizes, weights and power (SWaP) to be reduced.

In response to requirements for system transformation, digitalisation and cyber security will be essential elements for technological development and in order to remain competitive. Leonardo is working not only to provide its customers with these services, but also to insert these technologies in its products in an increasingly efficient manner, to meet a growing need for security and resilience, in synergy with the Group's Sustainability Plan.

In developing new products, great importance is attached to national and international defence programmes, including the Eurofighter Typhoon, Forza NEC (Network Enabled Capabilities) for the modernisation of the Italian Armed Forces, the "Naval Law" for the Italian Navy's Multipurpose Offshore Patrol Vessels (PPA, *Pattugliatori Polivalenti d'Altura*) and the sixth-generation Tempest fighter aircraft, as well as the requirements of the Armed Forces in the United States. The development of Software Defined Radio systems, sensors, terminals and networks (narrowband and broadband on LTE - Long-

Term Evolution/5G networks), network computing, as well as the evolution of receiver products within the scope of the Galileo programme of PRS (Public Regulated Service) geo-localisation, are the main areas of research in the field of professional communications systems and secure satellite communications, with applications for public security and defence.

Investments in research and improvements in technology are also directed at other types of products and services: avionic and ground radar systems, unmanned systems in the three domains of air, land and sea, guided ammunition, development of ground, naval and underwater weapon and defence systems, integrated mission systems (including anti-drone technology), products for baggage and parcel handling and logistics 4.0 for the Air Force and other Armed Forces, SCADA (Supervisory Control And Data Acquisition) solutions for road and rail mobility (buses, trains and undergrounds), including all the necessary technological components, integrated physical security solutions for critical infrastructure with command and control platform, and in the United States, through subsidiary Leonardo DRS, electric propulsion systems in the naval sector.

In the field of cyber security and intelligence services, Leonardo is continuing to invest to expand its professional consulting solutions such as the risk assessment, professional services to third parties for the design and development of cyber security solutions and systems, the management of security services delivered through proprietary infrastructure for monitoring (SOC - Security Operations Centre), response (CERT - Cyber Emergency Readiness Team) and identification of threats (Threat Intelligence) and training (Cyber Trainer and Cyber Range).

Developments in 2020

Falco Xplorer - This is the latest generation of the Falco family, the new largest remotely piloted system manufactured by Leonardo. With the ability to fly for more than 24 hours and with a load of up to 350 kg, the aircraft meets the needs and mission requirements of customers in the military and civil sectors. The suite of sensors made by Leonardo includes surveillance radars, electronic intelligence systems, automatic identification device for maritime missions, electro-optical turret, hyperspectral sensor for maritime and environmental monitoring, in addition to an open architecture to integrate third party sensors. It can also be used as a service managed and operated by Leonardo.

Team Tempest - In the United Kingdom Leonardo is engaged in the development of future technologies, knowledge, capability and know-how for the sixth-generation fighter aircraft, which will operate in the scenarios of 2040 and later. The vital technologies that will provide the next generation of sensors and communication systems are being developed, in addition to open system architectures that will enable these technologies to be inserted in a digital platform.

Digitalisation of businesses and public bodies - Also as a result of the COVID-19 emergency, work intensified on supporting the digitalisation of public authorities and businesses, including innovative solutions for large companies based on tailor-made services and the development and management of IT infrastructure. In the fields of technological research there is a growing commitment to developing advanced digital systems and solutions to improve efficiency and performance of new products, including technologies that enable sizes, weights and power (SWaP) to be reduced for various products, mainly in the avionics segment. At the level of technologies the focus is on big data analytics, blockchain, artificial intelligence, multi-sensor and data processing.

3

Aeronautics

Aeronautics

The aeronautics market is divided into two segments, civil and military, characterised by different dynamics. On one hand among the effects of the pandemic was a sharp fall in the civil aviation segment, especially for airliners; this area was already experiencing a phase of profound change, driven by the search for solutions increasingly based on sustainability in a Green Deal perspective. On the other hand, there was a rise in demand in the military aviation segment, in particular for combat aircraft, driven by international tensions and the technological evolution of platforms.

In the field of military aircraft, Leonardo confirms itself as a major player, active in all generations of air platforms, from the Typhoon, which remains, with 500 units produced, one of the most appreciated 6th+ generation multi-role fighters, to the 5th-generation F-35A and F-35B multi-role fighters for Italy and Holland, and to the new 6th-generation fighter, which is better defined as a "system", the Tempest, on which it is working together with other partners in the United Kingdom and Sweden. In the field of civil aircraft, Leonardo strengthens its market leadership in the regional transport segment with ATR, while in the segment of aerostructures, it plays a significant role in the supply of large structural components both in traditional materials (aluminium alloys) and in advanced materials (composites and hybrids), for the commercial aviation programmes of the main OEMs (Boeing and Airbus), for aircraft such as 787, 767, A321 and A220.

The Aeronautics sector was significantly impacted by the effects of the COVID-19 pandemic, which particularly affected the industrial performance of Aerostructures and the ability to carry out scheduled deliveries on the part of GIE ATR.

From a production point of view:

> for the military programmes of the Aircraft Division 37 wings were delivered to Lockheed Martin under the F-35 programme (41 in 2019);

> for the Aerostructures Division 105 fuselage sections and 72 stabilisers were delivered under the B787 programme (164 fuselages and 92 stabilisers were delivered in 2019) and 26 fuselages were delivered under the ATR programme (68 in 2019).

Key performance indicators for the sector

December 2019 € millions	New orders	Revenues	EBITA	ROS %
Aircraft	1,904	2,329	320	13.7%
Aerostructures	948	1,125	(11)	(1.0%)
GIE ATR	-	-	53	n.a.
Eliminations	*(64)*	*(64)*	-	*n.a.*
Total	**2,788**	**3,390**	**362**	**10.7%**

December 2020 € millions	New orders	Revenues	EBITA	ROS %
Aircraft	2,031	2,634	355	13.5%
Aerostructures	581	819	(86)	(10.5%)
GIE ATR	-	-	(69)	n.a.
Eliminations	*(60)*	*(60)*	-	*n.a.*
Total	**2,552**	**3,393**	**200**	**5.9%**

Change %	New orders	Revenues	EBITA	ROS %
Aircraft	6.7%	13.1%	10.9%	(0.2) p.p.
Aerostructures	(38.7%)	(27.2%)	(681.8%)	(9.5) p.p.
GIE ATR	n.a.	n.a.	(230.2%)	n.a.
Eliminations	*6.3%*	*6.3%*	*n.a.*	*n.a.*
Total	**(8.5%)**	**0.1%**	**(44.8%)**	**(4.8) p.p.**

New orders. Of particular significance is the performance of the Aircraft Division which, despite some delays in the completion of major export campaigns, reported orders that were higher than in 2019 owing to orders for the modernisation of the German Air Force's Eurofighter Typhoon fleet, as well as orders from Lockheed Martin for the F-35 programme and those for logistic support services for the Italian Air Force's C-27J and EFA aircraft.

Orders from customers were affected on the whole by the reduction in new orders recorded by the Aerostructures Division as a result of the downturn in the commercial aviation market. In particular, the Aerostructures Division was affected by lower requests from the GIE consortium for the ATR programme (14 aircraft in 2020 compared to 60 aircraft in 2019) and from Boeing for the B787 (80 fuselages in 2020 compared to 154 in 2019).

Revenues. Total business volumes were in line with 2019, although they were adversely affected by production slowdowns due to COVID-19, particularly in March and April characterised by stringent government restrictions. The Aircraft Division showed a significant performance (+13.1%) which benefitted from the expected ramp-up of production on the EFA Kuwait programme more than offsetting the production slowdowns caused by the pandemic, while the Aerostructures Division was affected by the reduction in the production rates of the B787 and ATR programmes requested by customers.

EBITA. The result of the Aircraft Division benefitted from the abovementioned increase in production on the EFA Kuwait programme. The actions taken to recover productivity and contain costs more than offset the slowdowns caused by the COVID-19 emergency with a profitability in line with the prior year.

For the Aerostructures Division, COVID-19's effects on business volumes and industrial efficiency were only partially offset by cost reduction actions and the income associated with the agreement reached with Airbus on the stop of work of the A380 aircraft. Moreover, the GIE ATR consortium was affected by lower deliveries in the period (10 deliveries in the period compared to 68 deliveries in the comparative period), thus recording a marked deterioration in results compared to 2019, which absorbs about 70% of the lower result of the Division.

Total market of the sector and 2021 outlook

Market (*) 2020-2029	CAGR 2020-2029	Impact on the businesses in which Leonardo operates
Civil €bil. 2,080	2.8%	**Civil sector**: demand for new civil aircraft, both for the supply of aero-structures or structural parts and for regional aircraft. The Airbus and Boeing programmes, and to a lesser extent those of ATR, were affected by a sharp drop in demand due to COVID-19, slowing down the upgrade of platforms over a medium-term period.
Defence €bil. 815	4.4%	**Defence**: more than half of the world's demand for military aircraft – manned and unmanned – will be concentrated in the United States and Europe, with demand for combat systems dominating the market, driven by next-generation platforms such as F-35, Tempest and FCAS (Future Combat Air System). Together with the growth in demand for combat aircraft, demand for trainer aircraft and new training platforms will also grow, driven by the significant progress towards the sixth generation and the introduction of multi-aircraft systems, which will result in a substantial evolution in flight operations and therefore in pilot training.

(*) The "Civil" market includes commercial aircraft, aerostructures and components, MRO and UAS services.
The "Defence" market includes manned and unmanned aircraft, with logistic support services.

- For the civil sector, the trend in 2021 will still be heavily conditioned by the effects of the pandemic, with repercussions on production activities associated with the drop in customer demand. This will lead to a further reduction in the production volumes of the Aerostructures Division, which is particularly exposed to the drop in rates communicated by Boeing, as well as forecasts of deliveries still well below pre-COVID-19 levels by the GIE ATR.
- For the Aircraft Division, revenue volumes are expected to increase further with first deliveries of EFA Kuwait aircraft, the solid contribution of the F-35 programme and the growth of the activities on proprietary products, specifically M-346 and M-345.

Research, development and product engineering

The next generation of aviation products and systems must be able to satisfy even more stringent requirements in terms of product quality, responsiveness to customers and the sustainability of the entire production cycle, including through an increasing use in the digitalisation of processes. Vast areas of R&D are devoted to the implementation of methodologies and the use of new materials, processes and technology solutions

for the development of products and services in the aeronautics sector, which assist in reducing environmental impacts and in applying circular economy systems. Among the effects of the pandemic is an abrupt fall in the civil aviation, which was starting to make substantial investments in research into the technology necessary for the development of low environmental impact solutions in line with the Green Deal principles. Leonardo, which is a member of the Clean Sky initiative, has picked up the challenge of making ever more eco-compatible aircraft and in this context investments are made for the development of green technologies for the future generation of regional aircraft.

Among the research and innovation projects in the Sustainability Plan in the Aeronautics sector is the construction of lighter aerostructures to reduce consumption and emissions, designed taking an eco-design approach supported by advanced digital simulation systems that exploit the high calculation capacity of the new super calculator of Leonardo. New low energy consumption processes are being studied for the manufacture of these components, which use innovative, easily recyclable materials. In the field of sustainable mobility solutions, the new hybrid and electric propulsion solutions, the innovative air traffic management systems and the optimisation of air routes will enable consumption and environmental impact to be further reduced. The development of increasingly performing virtual pilot training systems and the use of virtual product tests in their development phase will be another contribution to the reduction of emissions and the use of materials, in addition to enhancing the safety of those engaged in the sector.

Developments in 2020

M-345 HET to the Italian Air Force - Trainer aircraft were certified and delivered for primary and basic/advanced phases of the training syllabus for military pilots, which will support the process of growth and internationalisation of the training offer launched by Leonardo in partnership with the Air Force.

Next Generation C-27J - The qualification was completed for the new version of the C-27J Spartan, with further improvements in the performance and reliability of the aircraft, which will be equipped with upgraded state-of-the-art avionics and wingtip winglets to further enhance its performance.

Enhanced RPAS Automation - Work was completed on the research project, funded by the European Defence Agency (EDA), which has allowed the maturation of technologies related to the autonomy of Remotely Piloted Aircraft Systems (RPAS) that enable their use for civil and military applications in the European non-segregated airspace. In this manner conditions were created for integration of unmanned aircraft in airport operations. Under this project, technologies and functionalities related to Automatic Take-off and Landing (ATOL) have been developed and demonstrated, which will allow RPAS to be operated with greater flexibility and safety in different operational and environmental conditions.

Engineered materials and advanced manufacturing processes - Development of materials and composites for extreme conditions and high performance, and research programmes in the field of manufacturing processes that enable efficiency improvement and a lower environmental impact through the use of robotics and Industry 4.0 solutions.

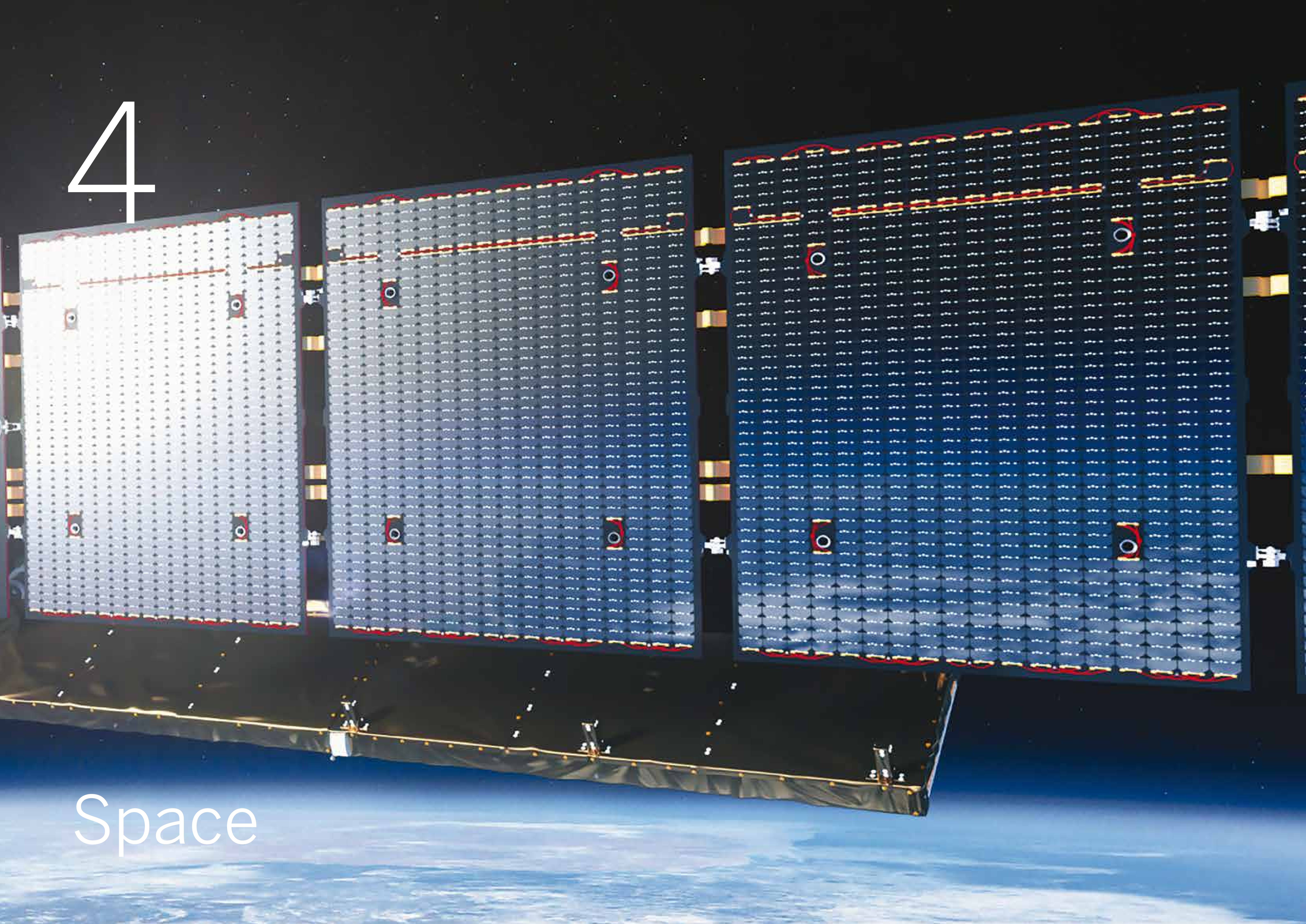
Thermoplastic materials - Leonardo has developed, including through projects funded by the European Commission within the scope of the Horizon 2020 framework programme, processes for the production of thermoplastic materials with innovative features in the formulation of the hybrid-amorphous material, in the production phases with positive impacts on costs and lower energy consumption through out-of-autoclave polymerization and in the press molding that allows manufacturing times to be reduced and savings of materials.

Injection molding - Injection molding techniques are used to manufacture structural components with greater flexibility and lower energy consumption.

Recyclable materials - Projects related to recycling and repairability of materials (in particular composites).

4

Space



Space

The Space sector, which is of supreme importance in the civil segment, but also now acknowledged in its own right as the fourth domain of military operations, continues to play an important role in monitoring the environment: it keeps various types of risk under control, from geological to anthropic and biological. Activity in the space market is equally divided between manufacturing satellites and launching systems on one hand and services on the other.

Leonardo is present in this market in the framework of the Space Alliance, through its subsidiaries Thales Alenia Space and Telespazio. Specifically, Telespazio offers a complete series of services – from communications to navigation, from observation to radar scanning – for purposes ranging from supporting healthcare institutions to logistics, from monitoring vehicle fleets to monitoring critical infrastructure and dangerous sites, from precision agriculture to civil protection, from the prevention of hydrogeological instability and support in caring for architectural sites to monitoring natural resources and pollution. These applications, which are at the centre of Leonardo's Sustainability Plan, have a key role in everyday life, in the protection of the environment and in managing emergencies caused by climate change, also thanks to their capacity to combine big volumes of satellite data and very high resolution images with data from land-based sensors or sensors in aeroplanes, helicopters or drones and with archives and social media.

Leonardo also manufactures essential components of space systems, such as satellite navigation systems or for space exploration probes and special components for probes engaged in planetary or celestial body exploration (e.g. Rosetta, ExoMars, LISA Pathfinder, BepiColombo).

Key performance indicators of the sector (EBITA)

€ millions	December 2019	December 2020	Change %
Thales Alenia Space	17	1	(94.1%)
Telespazio	22	22	-
Total	**39**	**23**	**(41.0%)**

In 2020, the sector was affected by the COVID-19 pandemic, which affected its sales performance, with some slippage in new orders for satellites in the fields of both telecommunications and Earth observation, and production volumes in the manufacturing segment, which recorded a 13% decrease compared to 2019, particularly for observation, exploration and navigation satellites, against substantial stability in the segment of services, which actually grew slightly, particularly in geoinformation.

The results of operations showed a decline due to the effect of the aforementioned decrease in revenues and a deterioration of profitability in the manufacturing segment that was hit by the effects of COVID-19 and higher costs on telecommunications programmes, which were only partly mitigated by the effects of efficiency improvement actions and lower restructuring costs compared to 2019. The results achieved in the satellite services segment were substantially in line with the value posted in 2019, recording a solid operational performance as a result of a favourable mix of activities and cost reduction actions taken to cope with the effects of the COVID-19 emergency.

From an operational point of view, 2020 was marked by the launch of the EUTELSAT KONNECT satellite in January and by its subsequent entry into commercial service in November. Built by Thales Alenia Space, the satellite will provide strategic resources for broadband services, setting a new benchmark for the flexibility of High Throughput satellites. This mission, which uses the all-electric Spacebus Neo platform of Thales Alenia Space for the first time, also sees the involvement of Leonardo through Telespazio for ground-based activities for the control of operations. Furthermore, note the launch of the FalconEye Earth observation satellite in December, which has been jointly developed by Thales Alenia Space and Airbus Defence and Space for the United Arab Emirates.

Total market of the sector and 2021 outlook

Market 2020-2029	CAGR 2020-2029	Impact on the businesses in which Leonardo operates
€bil. 1,312	4.3%	**Manufacturing**: demand growth driven by increasing demand for constellations made up of smaller, more efficient and less complex satellites. **Services**: Space is and will continue to be an area of increasing development with steady growth for players providing communication and observation services.

2021 is characterised by growing business volumes and improving profitability as a result of the gradual recovery of the manufacturing segment, which was particularly penalised in 2020 by the effects of COVID-19 and difficulties on development programmes, while confirming a solid operating performance in the satellite service segment.

Research, development and product engineering

The close link between space and the environment has also often been referred to by the United Nations, which has emphasised that space infrastructure and technology are an enabling factor, through new services and applications, for the attainment of each of the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda. The various geo-information applications and services that Leonardo is able to provide, in fact, have a strong environmental and social impact. The fact that there is such a variety of possible applications shows that space is, and will continue to be, an area of steadily increasing development with a continuous increase in players and services, with civil and military applications, borne witness to by the rapidly growing numbers of private firms operating in all segments of space and which also develop launching or transport technologies that were the prerogative of governments for years, now starting to show their greater and greater business potential. At the same time, governments focus their attention on exploration and the possible exploitation of extraplanetary resources.

Solutions that add satellite navigation to hybrid satellite communications and geoinformation, were, in 2020, and will continue to be, in the near future, the main elements in telemedicine (digital health) projects and in the support of smart mobility, where service continuity is vital for carrying out missions, but also for drones, while also integrating positioning and satellite navigation technologies, which are invested in by Leonardo. In the near future, these solutions will also enable 5G technology and related protocols to be included transparently.

Developments in 2020

HERMES - This is the acronym for Healthcare Emergency support system for the distributed Response and Monitoring of Epidemics in the Society, which is an ecosystem of services capable of supporting screening, prevention, monitoring and healthcare logistics in response to major emergencies such as COVID-19. In full respect of privacy, HERMES is able to provide geo-referenced information capable of monitoring the statistical distribution of coronavirus infection cases in pre-triage and screening centres, to support hospitals and first aid units.

ECO4CO - Earth Cognitive system 4 COVID-19, the platform proposed by Telespazio and e-GEOS, aims to integrate, using artificial intelligence systems, data from Earth observation and positioning satellites with non-satellite information generated by the web and social networks. In this way – also using predictive analysis and autonomous satellite data acquisition systems, in addition to tracking and data learning capabilities – ECO4CO supports surveillance activities over areas in which crowds tend to form (parks, markets, stadiums), to isolate new clusters of the epidemic and to detect gatherings. The project received an award by the United Nations' Industrial Development Organisation in the Health Emergency category for its support in combating COVID-19.

Space Awareness - Telespazio has invested in the Northstar constellation in order to take advantage of data directly acquired from space and thus to be able to offer new services for defence and commercial purposes, for the protection of critical infrastructure and assets. The investment is part of a Space Domain Management system on which Telespazio is working, which combines the existing solutions in terms of Space Situation Awareness, Space Surveillance and Tracking and Space Weather to have full knowledge of the space domain and to deliver value-added Space Intelligence services.

Integrated geoinformation technology - The EASE (Equal-Area Scalable Earth) suite for managing the land segment and for controlling the satellite, together with the CLEOS platform (user side segment and infrastructure to provide services), allows to obtain the data for added value processing and to support the preparation and execution of geoinformation applications, with the support of algorithms of big data analysis and artificial intelligence. The aim is to provide the end user with the information needed to make decisions in areas such as crisis management, digital health and infrastructure monitoring.

"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 non-recurring or unusual costs or income, i.e. connected to particularly significant or exceptional events that are not related to the ordinary performance of the business. The item includes charges incurred during M&A transactions, charges linked to disposed businesses and/or products and systems, and the recognition of losses on contracts that have become onerous as a result of non-operating events.

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 (the reconciliation by segment is reported in Note 8 to the consolidated financial statements):

€ millions	2019	2020
Income before tax and financial expenses	993	494
Equity-accounted strategic JVs	160	23
EBIT	**1,153**	**517**
Amortisation of intangible assets acquired as part of business combinations	27	27
Restructuring costs	28	61
Non-recurring (income)/costs	43	333
EBITA	**1,251**	**938**

Non-recurring costs include (i) impairments and the recognition of losses on onerous contracts linked to cases of particular significance related to the effects of the industrial assets' failure in the Aerostructures Division, (ii) costs incurred to be in line with the instructions given by the government on COVID-19 to support the governmental functions in managing the emergency, and (iii) external costs incurred due to the impossibility to discontinue certain specific services during lockdown periods.

Restructuring costs for the year mainly relate to the reorganisation of the DRS activities in the Defence Electronics and Security and to the Aeronautics sectors.

- ***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:

€ millions	2019	2020
Net result	**822**	**243**
Net result of discontinued operations	(100)	(2)
Net result before extraordinary transactions	**722**	**241**

- ***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 foreign exchange derivatives covering financial debt items, as well as the main non-current receivables. The reconciliation with the net financial position required by the CONSOB communication 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's 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.
- ***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.
- ***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.
- ***Net interest***: this is calculated as the sum of the items "interest", "premiums (paid)/received on IRSs" and "commissions on borrowings" (see the Note on "Financial income and expenses" of the Notes to 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 to the consolidated financial statements:

€ millions	Scheme	PPA amortis.	Restructuring and non-recurring costs	Strategic JVs	Onereous contracts (losses at completion)	Reclassified scheme
Revenues	13,410	-	-	-	-	13,410
Purchase and personnel expenses	(11,984)	-	106	-	(95)	(11,973)
Other net operating income/(expenses)	(137)	-	40	-	95	(2)
Equity-accounted strategic JVs	-	-	-	23	-	23
Amortisation, depreciation and write-offs	(795)	27	248	-	-	(520)
EBITA	**-**	**-**	**-**	**-**	**-**	**938**
Non-recurring income/(costs)	-	-	(333)	-	-	(333)
Restructuring costs	-	-	(61)	-	-	(61)
Amortisation of intangible assets acquired as part of business combinations	-	(27)	-	-	-	(27)
EBIT	**-**	**-**	**-**	**-**	**-**	**517**
Net financial income/(expenses)	(241)	-	-	(23)	-	(264)
Income taxes	(12)	-	-	-	-	(12)
Net result before extraordinary transactions	**-**	**-**	**-**	**-**	**-**	**241**
Net result related to discontinued operations and extraordinary transactions	2	-	-	-	-	2
Net result	**243**	**-**	**-**	**-**	**-**	**243**

€ millions	Scheme	Financial receivables and cash	Financial payables	Hedging derivatives on debt items	Reclassified scheme
Non-current assets	11,883	-	-	-	11,883
Non-current liabilities	(5,876)	-	3,880	-	(1,996)
Capital assets	**-**	**-**	**-**	**-**	**9,887**
Current assets	15,118	(2,380)	-	(7)	12,731
Current liabilities	(15,894)	-	1,824	1	(14,069)
Net working capital	**-**	**-**	**-**	**-**	**(1,338)**
Total equity	**5,278**	**-**	**-**	**-**	**5,278**
Group net debt	**-**	**(2,380)**	**5,704**	**(6)**	**3,318**
Net (assets)/liabilities held for sale	**(47)**	**-**	**-**	**-**	**(47)**

€ millions	Scheme	Dividends received	Cash out from Law 808/1985 payables	Strategic transactions	Reclassified scheme
Cash flows generated from/(used in) operating activities	**275**	**-**	**-**	**-**	**275**
Dividends received	-	58	-	-	58
Investments in property, plant and equipment and intangible assets	(311)	-	-	-	-
Sales of property, plant and equipment and intangible assets	18	-	-	-	-
Cash flows from ordinary investing activities	(293)	-	-	-	(293)
Free Operating Cash Flow (FOCF)	**-**	**-**	**-**	**-**	**40**
Strategic transactions	-	-	-	(200)	(200)
Other investing activities	(145)	(58)	-	200	(3)
Cash flows generated from/(used in) investing activities	**(438)**	**-**	**-**	**-**	**-**
Bond issue	492	-	-	-	-
EIB subscription and CDP loan	100				
Net change in other borrowings	(51)	-	-	-	-
Net change in borrowings	541	-	-	-	541
Dividends paid	(81)	-	-	-	(81)
Cash flows generated from/(used in) financing activities	**(460)**	**-**	**-**	**-**	**-**
Net increase/(decrease) in cash and cash equivalents	297	-	-	-	297
Exchange rate differences and other changes	(46)	-	-	-	(46)
Cash and cash equivalents at 1 January	1,962	-	-	-	1,962
Cash and cash equivalents at 31 December	**2,213**	**-**	**-**	**-**	**2,213**

Industrial and financial transactions

Industrial transactions. The major transactions that took place in 2020 are described below.

- **Merger of Sistemi Dinamici SpA by incorporation into Leonardo SpA**. On 1 January 2020 the merger of Sistemi Dinamici SpA by incorporation into Leonardo SpA became effective, which was approved by the Board of Directors on 27 June 2019.
- **Acquisition of Kopter Group AG (Kopter)**. On 28 January 2020 Leonardo signed a contract with Lynwood (Schweiz) AG to acquire 100% of the Swiss helicopter company 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 hybrid/electric propulsion solutions to be speed up. The acquisition replaces 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 and in close coordination with the Leonardo Helicopters Division. The transaction was completed on 8 April 2020 and entailed an outlay of €mil. 185 (with an effect of €mil. 198 on the net financial position). The analyses carried out after the outbreak of the pandemic confirmed the validity of the Business Case.
- **Joint venture agreement with Codemar**. On 12 February 2020, Leonardo (through its subsidiary Leonardo International) and Codemar (Companhia de Desenvolvimento de Maricá) set up a new joint venture, named Leonardo&Codemar SA, which will operate as the main partner of the Municipality of Maricá for the development of proposals concerning urban security, resilience, critical infrastructure management and helicopter services that will be a key lever for its economic and sustainable development.
- **Acquisition of Precision Aviation Services**. On 20 December 2019, Leonardo signed the contract for the acquisition of Precision Aviation Services (PAS) with the aim of strengthening its local service capabilities and, therefore, improving support for Leonardo's helicopter fleet operating in the territories of the Sub-Saharan Africa region (in particular South Africa), which has approximately 120 aircraft. The closing of the transaction took place on 30 April 2020 and entailed an outlay of around €mil. 2.
- **Increased investment in Avio with further consolidation of its position in the Space sector**. On 15 June 2020, Leonardo announced the completion of the transactions aimed at acquiring 988,475 shares of Avio. Following these transactions, which were concluded on 29 May 2020 with an outlay of €mil. 14, Leonardo's investment increased by 3.75%, and is now equal to 29.63% of the company's share capital.

In addition to these industrial transactions, there are numerous joint venture and partnership agreements, in line with the principles of the "Be Tomorrow - Leonardo 2030" Strategic Plan.

Financial transactions. During the 2020 financial year Leonardo completed major capital market transactions. In particular:

- on 29 January 2020 Leonardo took out a loan with Cassa Depositi e Prestiti (CDP) for an amount of €mil. 100, which was drawn down in full in the following February, to support investment in research, development and innovation. The loan, with a term of 6 years and a rate equal to 6-month Euribor +118 bps with zero floor on the final rate, is aimed at co-financing some investment projects included in the Industrial Plan that have been already 50% financed by the European Investment Bank (EIB);
- in May 2020, in view of the COVID-19 health emergency and the consequent need to strengthen its liquidity position, Leonardo entered into two new credit facility agreements with a pool of international banks for a total of €mil. 2,000 with maturities of up to 24 months. These facilities, which do not provide for financial covenants, were taken out according to different technical procedures: the first is a Revolving Credit Facility (for €mil. 1,250), while the second is a Term Loan (for €mil. 750). The latter facility agreement provided, among other things, for the obligation to cancel the loan if Leonardo issued bonds during the term of the facility, for an amount equal to the proceeds derived from the new issues;
- on 1 July 2020, Leonardo placed on the Euromarket new bonds listed on the Luxembourg Stock Exchange with a 5.5 year maturity for a nominal amount of €mil. 500, with an annual coupon of 2.375%. The transaction, which was carried out under the EMTN programme renewed in May 2020, is part of the financial strategy of the company that decided to take advantage of the favourable market conditions to meet its refinancing requirements, lengthen the average life of the debt and reduce its average cost. The issue was reserved for Italian and international institutional investors only. The finalisation of the transaction led to a reduction in the amount of the abovementioned Term Loan from €mil. 750 to approximately €mil. 250;
- in December 2020, Leonardo took out an additional loan of €mil. 200 with the EIB, aimed at supporting the investment projects envisaged in the Group's Industrial Plan, while ensuring, in a general context of emergency caused by COVID-19, more support on the part of the EIB for the investments included in the draft loan agreement entered into on 29 November 2018, thus increasing the financed amount from €mil. 300 to €mil. 500. The amortising loan, with a term of 12 years and a grace period of 4 years, had been entirely unused at 31 December 2020.

As mentioned earlier, at the end of December 2020, Leonardo requested – and obtained with effect from 18 January 2021 – the cancellation of the remaining amount of the abovementioned Term Loan (equal to about €mil. 250). In addition, the remaining portion (€mil. 739) of the bond issue launched for an initial amount of €mil. 950 in January 2015, which had reached its natural maturity, was repaid in January 2021.

In addition to being the issuer of all the bonds in euros placed on the market under the EMTN programme, Leonardo acts as a guarantor for the bond issues launched by Leonardo US Holding Inc. on the US market. The Group's issues 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 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, as from July 2006, the establishment of assets for the use indicated in Article 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.

On the other hand, it should be noted that financial covenants are included in the Revolving Credit Facility of €mil. 1,800 and require Leonardo to comply with two financial ratios (the ratio of 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 on annual consolidated data. These covenants are also included in the loan agreement with CDP, which is described above, and in the Term Loan of €mil. 500; furthermore, in accordance with contractual provisions providing for this option, these covenants have also been extended to all the EIB loans in place (used for a total amount of €mil. 393 at 31 December 2020), as well as to certain loans granted in past years to Leonardo DRS by US banks.

In relation to this Integrated Annual Report, there was full compliance with the covenants (the two ratios are 1.5 and 8.2, 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. In view of the possibility that Leonardo's financial position and performance may be put under pressure as a result of the COVID-19 pandemic, Standard & Poor's revised Leonardo's outlook from positive to stable in April 2020; subsequently, Fitch also revised the outlook from stable to negative in May 2020. On the reporting date, Leonardo's credit ratings, compared to those preceding the last change, were as follows:

Agency	Last update	Previous		Updated	
		Credit rating	Outlook	Credit rating	Outlook
Moody's	October 2018	Ba1	positive	Ba1	stable
Standard & Poor's	April 2020	BB+	positive	BB+	stable
Fitch	May 2020	BBB-	stable	BBB-	negative

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 interest rates. 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.

Governance

Principles of governance

Leonardo's corporate governance is aimed at protecting and maximising the long-term value of the company, via the optimal management of resources with respect to strategic objectives, effective company risk control, utmost market transparency and integrity of decision-making processes, in the interest of all stakeholders.

Priority issues

- Sound corporate governance
- Responsible business conduct
- Cyber security and data protection
- Business continuity
- Citizens' security

SDGs

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Impact indicators

26%

of share capital held by shareholders that are signatories to the **Principles for Responsible Investment (PRI)** promoted by the United Nations

42%

of women sitting on the Board of Directors

Together with more than

1,000

CEOs

Leonardo's CEO has signed the **Statement from Business Leaders for Renewed Global Cooperation** promoted by the United Nations Global Compact

A BAND IN THE TRANSPARENCY INTERNATIONAL'S ASSESSMENT OF DEFENCE COMPANIES

Leonardo has reached the highest level in the Transparency International's Defence Companies Index on Anti-Corruption and Corporate Transparency (DCI), having been ranked in Band A. After a painstaking process of analysing the world's leading Defence companies over a period of about two years, the non-governmental organisation acknowledged and rewarded the measures that Leonardo has taken, from the adoption of more stringent anti-corruption policies to a significant increase in the level of transparency. The assessment is only based on the analysis of public information available to all stakeholders, and has considered 134 companies in the sector from 38 countries. Only two companies have been placed in Band A. Recognition that is the outcome of an efficient responsible business conduct model and a governance and management system that is suitable to prevent any possible risk, while promoting and developing an ethical business culture.

Corporate governance

Leonardo's corporate governance model, based on a traditional organisational structure, complies with the Corporate Governance Code for Listed Companies (approved by the Corporate Governance Committee and promoted by, among others, the Italian Stock Exchange) and with the international best practices for diversity on corporate boards.

As part of this model, the Board of Directors (BoD) is the main body entrusted with the power to define business strategy and organisational structures in coherence with the company's management and control activities. The BoD is responsible, through the Sustainability and Innovation Committee in agreement with the Control and Risks Committee, for assessing the pursuit of the sustainability targets in line with the Industrial Plan. During its term, the BoD may draw on support from the Board internal committees that make proposals and provide advice; the Board is also supported by the Coordination and Consultation Body for the prevention of corruption, which coordinates the bodies in charge of checking the Group's rules of conduct.

The current BoD was appointed by the Shareholders' Meeting held on 20 May 2020 for the three-year period from 2020 to 2022, in compliance with the criteria for gender, age, skills and experience balance set in the policies on diversity included in the 2021 Corporate Governance Report. Following its appointment, the Board set up four committees from among its members, with functions in the areas of Control and Risks, Remuneration, Nomination and Governance, Sustainability and Innovation.

Corporate governance model

SHAREHOLDERS' MEETING

Board of Directors
(for the 2020-2022 three-year period)

LUCIANO CARTA
Chairman

ALESSANDRO PROFUMO
Chief Executive Officer

CARMINE AMERICA
Director (C,D)

PIERFRANCESCO BARLETTA
Director (A,C)

ELENA COMPARATO
Director (B,C)

DARIO FRIGERIO
Chairman (A)
Director (A,C)
Lead Independent Director

PAOLA GIANNETAKIS
Director (A,D)

FEDERICA GUIDI
Director (B,C)

PATRIZIA MICHELA GIANGUALANO
Chairperson (B)
Director (B,D)

MAURIZIO PINNARÒ
Chairman (C)
Director (A,C)

FERRUCCIO RESTA
Chairman (D)
Director (B,D)

MARINA RUBINI
Director (A,B)

A) Control and Risks Committee
B) Remuneration Committee
C) Nomination and Governance Committee
D) Sustainability and Innovation Committee

Board of Statutory Auditors
(for the 2018-2020 three-year period)

Regular Statutory Auditors
LUCA ROSSI
Chairman

SARA FORNASIERO
FRANCESCO PERRINI
LEONARDO QUAGLIATA
DANIELA SAVI

Alternate Statutory Auditors
MARINA MONASSI
GIUSEPPE CERATI

Independent legal auditors
(for the 2018-2020 three-year period)

KPMG SpA

Coordination and Consultation Body for the prevention of corruption*

*Made up of Leonardo's Chairman and of the Chairmen of the Control and Risks Committee, of the Board of Statutory Auditors and of the Surveillance Body

Chief Audit Executive

MARCO DI CAPUA

Officer in charge of financial reporting

ALESSANDRA GENCO

Surveillance Body
(for the 2020-2022 three-year period)

RAFFAELE SQUITIERI
Chairman

GIORGIO BENI
External member

CHIARA MANCINI
External member

CLAUDIA TEDESCHI
External member

MARCO DI CAPUA
Chief Audit Executive

ANDREA PARRELLA
Group General Counsel

Features of the BoD[17]

	Leonardo	Average FTSE-MIB
Number of Directors	12	12.2
Number of Directors appointed by minority shareholders	4	1.9
Number of independent Directors	9	7.3
Number of women Directors	5	4.5
Average age	55	57.9
Average tenure (years)	1.9	4.7
Meetings held in 2020	12	12.9
Attendance rate (%)	98	96
Meetings held by independent Directors	2	1.4

Board committees

a) Control and Risks

- Directors: 5
- % independent: 100%
- Meetings held in 2020: 7
- Attendance rate: 100%

b) Remuneration

- Directors: 5
- % independent: 80%
- Meetings held in 2020: 4
- Attendance rate: 100%

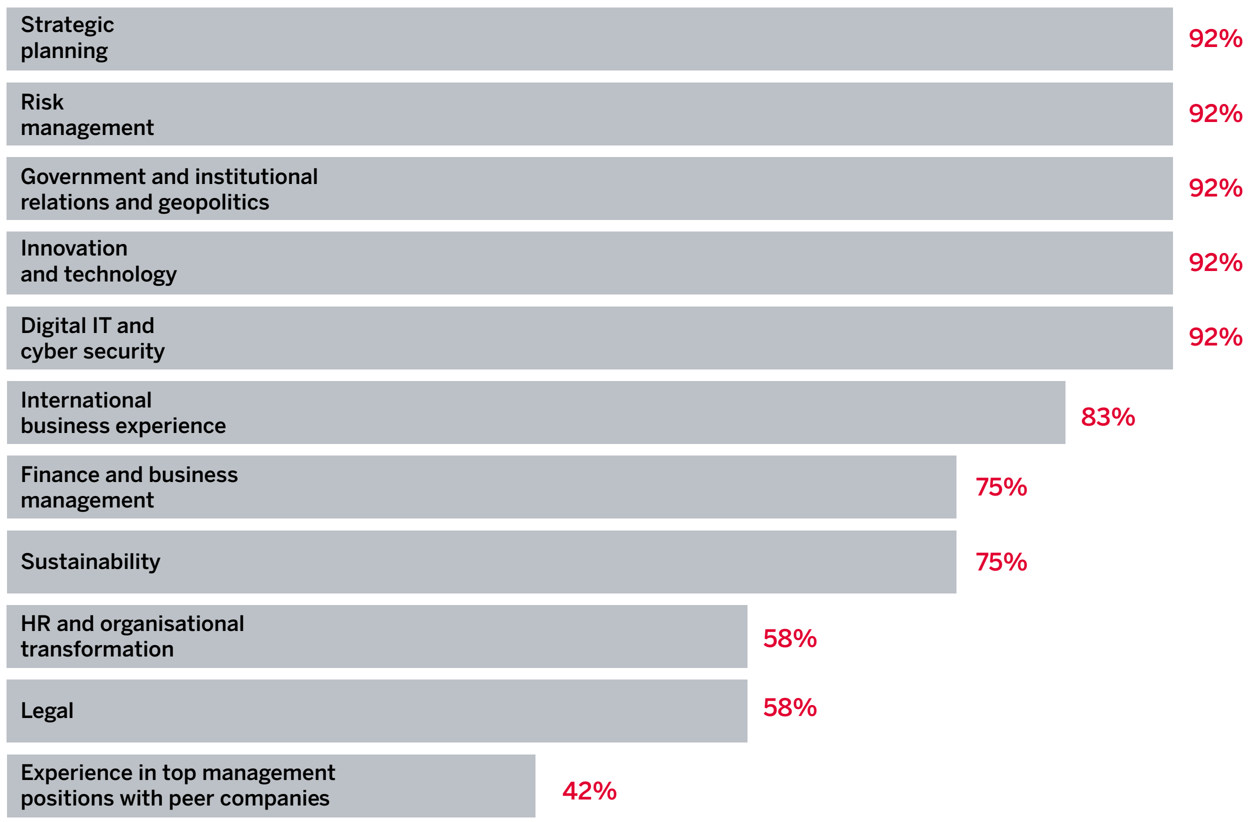
c) Nomination and Governance

- Directors: 6
- % independent: 83%
- Meetings held in 2020: 5
- Attendance rate: 90%

d) Sustainability and Innovation

- Directors: 4
- % independent: 100%
- Meetings held in 2020: 4
- Attendance rate: 100%

Skills of Directors



17 The indicators are related to the BoD appointed on 20 May 2020, except for the value referred to the number of meetings held. The attendance rate is calculated as the number of events attended/number of meetings convened. The source of the FTSE-MIB data is the 2020 Notes and Studies publication of Assonime on the application of the Corporate Governance Code in Italy.

Remuneration policy

The objective of the remuneration and incentive policy in 2020 was to attract and motivate people with the professional skills to carry out assignments and fulfil responsibilities assigned to them, in line with the management's interests and with the priority objective of creating value in the medium to long term. To this end, the policy has been designed in order to ensure a balance between the variable component of remuneration and the fixed one, while also establishing a balance between short- and long-term incentives, and an alignment of the remuneration and incentive system with the pursuit of long-term interests (in terms of both economic-financial performance and ESG), ensuring that the variable component of remuneration is connected with the results achieved and paying great attention to the objectivity of metrics used to measure performance[18].

97%

favourable votes cast by the 2020 Shareholders' Meeting on remuneration policy

30

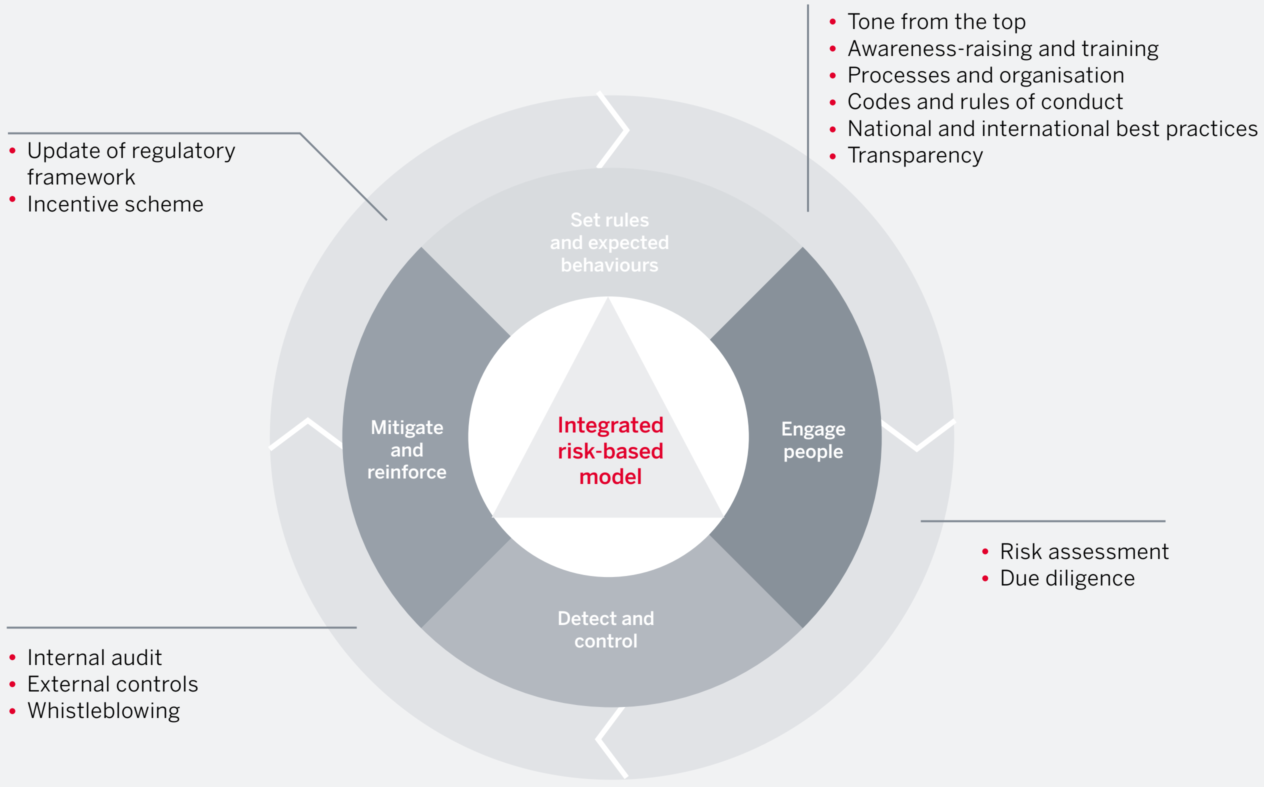
ratio of total CEO remuneration (both fixed and short-term variable) to average employee remuneration[19]

Responsible business conduct

Leonardo acts with integrity and transparency in compliance with regulations and with zero tolerance for any type of corruption to ensure the most proper management of the business and to establish relationships of trust and collaboration with employees, customers, suppliers and all other counterparties, asked to accept and apply the principles and values stated in the Charter of Values, Code of Ethics and other codes of conduct[20]. In conducting its business, Leonardo confirms its commitment to respecting and promoting the Ten Principles of the United Nations Global Compact related to human rights, labour, the environment and anti-corruption. Leonardo's model for the responsible conduct of business, inspired by national and international best practices, is based on company codes of conduct and a system of clear rules, periodically updated, that guide compliant and responsible behaviour. Constantly raising the awareness and training of employees and third parties, due diligence tools and internal audits, risk assessment methods, in addition to the adoption of an increasingly transparent approach on corporate information and processes, help to strengthen a governance and management system capable of preventing any possible risk, promoting and developing an ethical business culture. Leonardo has also adopted the Common Industry Standards of the AeroSpace and Defence Industries Association of Europe (ASD) and the Global Principles of Business Ethics for the Aerospace and Defence Industry of the International Forum on Business Ethical Conduct (IFBEC), and collaborates with TRACE International.

18 For more details, reference should be made to the Remuneration Report.
19 The figure relates to the Remuneration Report approved in May 2020.
20 Including the Anti-Corruption Code, the Whistleblowing Management Guidelines, Organisational, Management and Control models and Compliance Programmes developed in accordance with the applicable regulations of each country in which the company operates (Leonardo SpA adopted an Organisational, Management and Control Model pursuant to Legislative Decree 231/2001).

Responsible business conduct model



Set rules and expected behaviours

Guidelines and procedures - main updates

- Guidelines have been updated for managing reports, including anonymous reports, sent by anyone who becomes aware of acts contrary to law or to company rules. In line with Directive (EU) 2019/1937, particular attention has been given to the protection of the whistleblower (no retaliation) and the person reported (protection against slander).
- The 231/2001 Model has been updated.
- Regulatory schemes and pay conditions have been harmonised for expatriates, ensuring quality of processes and compliance with tax and social security law.
- Guidelines have been prepared for the management of TULPS (Consolidated Act on Public Security Laws) requirements.

Engage people

Continuous training

- More than 33,000 hours of business compliance training delivered to about 14,000 people.
- More than 22,400 hours of training on national and international trade compliance regulations delivered to more than 9,400 people from various departments and external suppliers and providers.
- Approximately 1,600 hours of training and webinars on Project and Enterprise Risk Management delivered to over 490 people.
- More than 25,300 people trained in anti-corruption.
- More than 26,000 hours of training on cyber security and data protection delivered to over 16,600 people.
- Introductory Course on Business Continuity made available to the entire company population.

Detect and control

Risk assessment

- Around 2,000 people involved in risk analysis activities related to business processes, investment projects and projects in the bidding and execution phase.
- Risk assessment activities have been carried out for anti-corruption purposes involving 280 people.
- 15% of revenues achieved in 2020 from countries classified in bands E and F of the Government Defence Anti-Corruption Index of Transparency International, more than half of which refers to the EFA Kuwait contract.

Third party due diligence

- 127 due diligence audits on sales promoters, commercial advisors and lobbyists. The necessary action has been taken to remedy the issues marked with a red flag and only one has led to the impossibility of awarding the assignment[21].
- 413 due diligence audits carried out before payment to sales promoters, commercial advisors and lobbyists.
- 287 due diligence audits on potential customers, service centres and business partners.
- 231 reputational risk analyses: 9 suppliers and final beneficiaries highlighted crimes or adverse media events.

Whistleblowing

- 59 reports were received, concerning both Leonardo SpA and direct and/or indirect subsidiaries in Italy and abroad. Net of 15 reports archived by the various Surveillance Bodies to which the reports were sent and by the Whistleblowing Committee, 55% of the reports examined provided evidence, some of which was partial. The checks carried out on three reports, whose contents can be related to the Group's Policy on Human Rights, did not lead to find items of evidence.

Security

- No data breach was detected in 2020 which impacted or originated from company systems. Data breaches were detected on third party systems (not directly managed by Leonardo) with potential impacts on employees' personal data. These events were carefully monitored to follow up on the management of the events.
- No notifications were received in 2020 regarding breaches of customer privacy or loss of data.

Mitigate and reinforce

Certifications

- The annual surveillance audit has been performed to confirm certification of Leonardo SpA's ISO 37001 anti-bribery management system by the certification body.
- ISO 27001 certification of the information security management system at Group level. This certification has also been obtained for the Cyber & Information Security perimeter.
- FIRST and Trusted Introducer certification of Leonardo's CERT (Cyber Emergency Readiness Team), as well as recognition from Carnegie Mellon University.
- ISO 22301 certification has been obtained for Leonardo SpA's Business Continuity Management System and ISO 22301 certifications have been renewed for the Genoa and Chieti Data Centres.
- Quality certification has been maintained for Internal Audit activities and 10 quality reviews have been conducted.

Whistleblowing

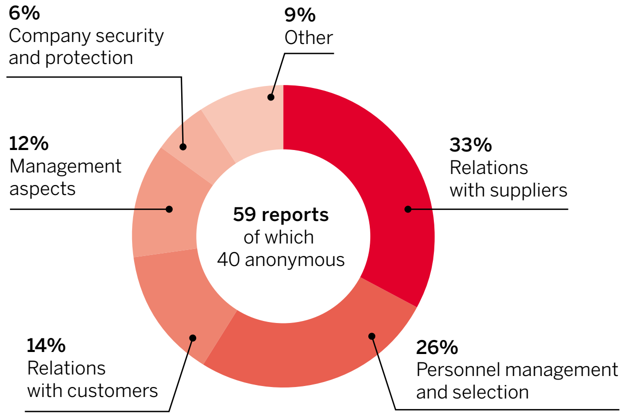
- The new Group whistleblowing platform has been launched for more effective management of reports[22].
- The Whistleblowing Committee has examined the results of the audits carried out on four reports of alleged corruption which would have also involved employees and has forwarded them to the Anti-Corruption Unit. Only one of these has been found to provide items of evidence, which have been forwarded to the competent Judicial Authority.

Security

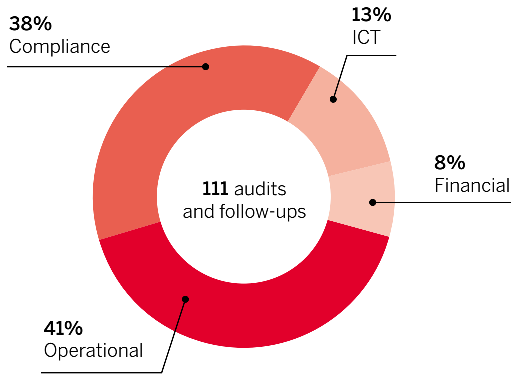
- More than 60 projects were launched in order to raise the security level of classified areas (Prime Minister's Decree 3/2017) and sites subject to a TULPS (Consolidated Act on Public Security Laws) license.
- The Information Security Risk Management method has been updated.
- Strengthening security risk analysis capabilities with Leonardo's suppliers.

21 The red flag constitutes a risk factor. For more details, please see the website https://www.leonardocompany.com/it/about-us/ethics-compliance.
22 The platform for reports can be accessed from the website https://whistleblowing.leonardocompany.com/.

Scope of reports received



Scope of audits and follow-ups



Anti-corruption, business compliance and third party risk management

Leonardo has implemented a process for the vetting of counterparties that includes ethical-reputational analyses and an in-depth assessment of the risks related to each specific engagement in accordance with company rules and in full compliance with applicable regulations. Due diligence audits are also carried out on counterparties under industrial offset agreements.

145

counterparties including sales promoters, commercial advisors and lobbyists, with contracts in place, 9 of which for offset support

1,058

due diligence and reputational risk analyses carried out on counterparties and potential commercial partners

216

hours of training delivered to sales promoters, commercial advisors and lobbyists through online courses

Leonardo carries out activities aimed at institutions to support its business strategy, present the company's position on specific issues and seize potential future business opportunities. These activities, which are carried out in compliance with current regulations, as well as with the principles and standards of conduct set out in Leonardo's Code of Ethics, Anti-Corruption Code and other company rules, mainly consist of monitoring specific regulatory developments and organising meetings with government and parliamentary representatives on matters of interest. Leonardo's representatives who carry out these activities are enrolled in special public registers.

Among the main areas for which the Group made use of the support from external lobbyists in 2020 are those involving the development of technologies for infrastructure and transport, the purchase and/or upgrade of aircraft on the part of government

agencies, including aircraft for firefighting, search and rescue missions, research and development programmes for submarine systems, naval systems, ground-based and satellite communication systems.

Cyber security and data protection

Leonardo guarantees the security of data, sensitive information and intellectual property by managing the entire cycle from detection of threats to establishing the countermeasures to take in response to attacks that have taken place. The cyber defence system provides for specific organisational measures – in compliance with regulations and standards that set out specific requirements and time limits for reporting incidents or data breaches –, as well as continuous training of operators and operational tools, concentrated in Italy and in the United Kingdom, which are updated on an ongoing basis. Leonardo also fosters a cyber risk prevention culture both inside the company and towards the outside world through the participation in working groups at national and international level, with collaborations involving institutional and governmental players and sectors such as telecommunications, banking/finance, energy, manufacturing and services.

Cyber and physical security

Protection of classified information - Leonardo collaborates with key institutional stakeholders to ensure the protection of information. With about 800 classified open contracts, Leonardo in 2020 handled about 8,700 provisional personal security and facility security clearances and prepared the related security plans.

Vulnerability analysis - Leonardo wages various types of simulated attacks including exercises with certified and International Cyber Defence specialists, simulated phishing campaigns on employees, penetration tests on specific environments and parts of the company infrastructure. Courses are given and actions are taken in social engineering and spear phishing periodically, including through the Security Portal accessible from employees.

Secure Roadmap - 2020 saw the completion of the project which made it possible to raise Leonardo's security level at both perimeter and internal levels, to consolidate essential services such as internet navigation and remote access into a single infrastructure, as well as to digitally renew the security infrastructure.

PSOC (Physical Security Operation Centre) - In 2020 the infrastructure for centralised physical security management of all Leonardo sites was released, based on the Cyber Security Division's SC2 (Safe City Security Centre) platform, and the first 10 sites were connected. A state-of-the-art centre to handle centrally all video surveillance system alarms and images, providing operational support to the sites 24/7.

Collaborations

European Centre for Cybersecurity in Aviation (ECCSA) - Leonardo, as a founder, has belonged to the EASA since it was created for the creation of a European Centre for Cybersecurity in Aviation (ECCSA). ECCSA is a cooperative and voluntary partnership in the aviation community that aims to raise understanding of cyber risks and provide collective support during the management of incidents, weaknesses and unauthorised interactions, which could have an impact on the resilience and safety of the sector. Airlines and airport infrastructures, as well as air traffic control bodies at European and national level are also taking part in the initiative.

TAPA - In participating in the Transport Asset Protection Association, which brings together a network of experts in the field, Leonardo has obtained significant information for the development of the logistics security criteria required to analyse the risk of its supply chain security.

Public and private dialogue - Leonardo has arranged a training day on cyber threats for about 90 officials, executives and civil and military operators of the Prefecture of Chieti, as well as representatives of other law enforcement authorities operating in the provincial bodies, including the Police Headquarters, Carabinieri Corps and Finance Police.

In the area of personal data protection, Leonardo takes technical and organisational measures to respect fundamental rights and freedoms. To this end, Leonardo has put processes and procedures in place to provide the strongest possible protection of the data of employees, collaborators, guests, customers, suppliers and any natural person whose personal data it processes, periodically checking that they conform in full to the highest standards of protection. The organisational structures and technologies used allow security threats and breaches to be detected in an accurate and timely manner.

Thanks to training and to the many reporting channels and supporting tools, all employees and collaborators are in possession of the instructions necessary for reporting any situations or episodes that endanger personal data to the competent functions immediately and are completely equipped to take such action in order to adopt remedial and risk mitigation measures in accordance with the law, according to the methods and the time schedule described in the data breach and incident management procedures. If requests are received for the exercise of personal data protection rights, Leonardo has put in place specific organisational processes and information flows that make it possible to provide information on data processing in a transparent and easily accessible form. Furthermore, Leonardo only avails itself of the services of suppliers that give adequate guarantees that they will be able to meet the requirements of any applicable privacy regulations.

Business continuity

Leonardo guarantees its business continuity and resilience through effective responses and reactions, in order to safeguard the sustainability of its business, as well as the reputation and integrity of its organisation, in addition to the interests of its stakeholders. The business continuity management system, which is certified ISO 22301 for the perimeter of Leonardo SpA and for the Genoa and Chieti Data Centres, supports the definition, implementation and handling of procedures that ensure continuity of its company processes necessary for priority activities.

Leonardo also has in place procedures to respond to incidents, which are tested annually in order to identify possible improvements and measure their effectiveness and efficiency, and a real-time reporting system aimed at making incident response actions increasingly effective.

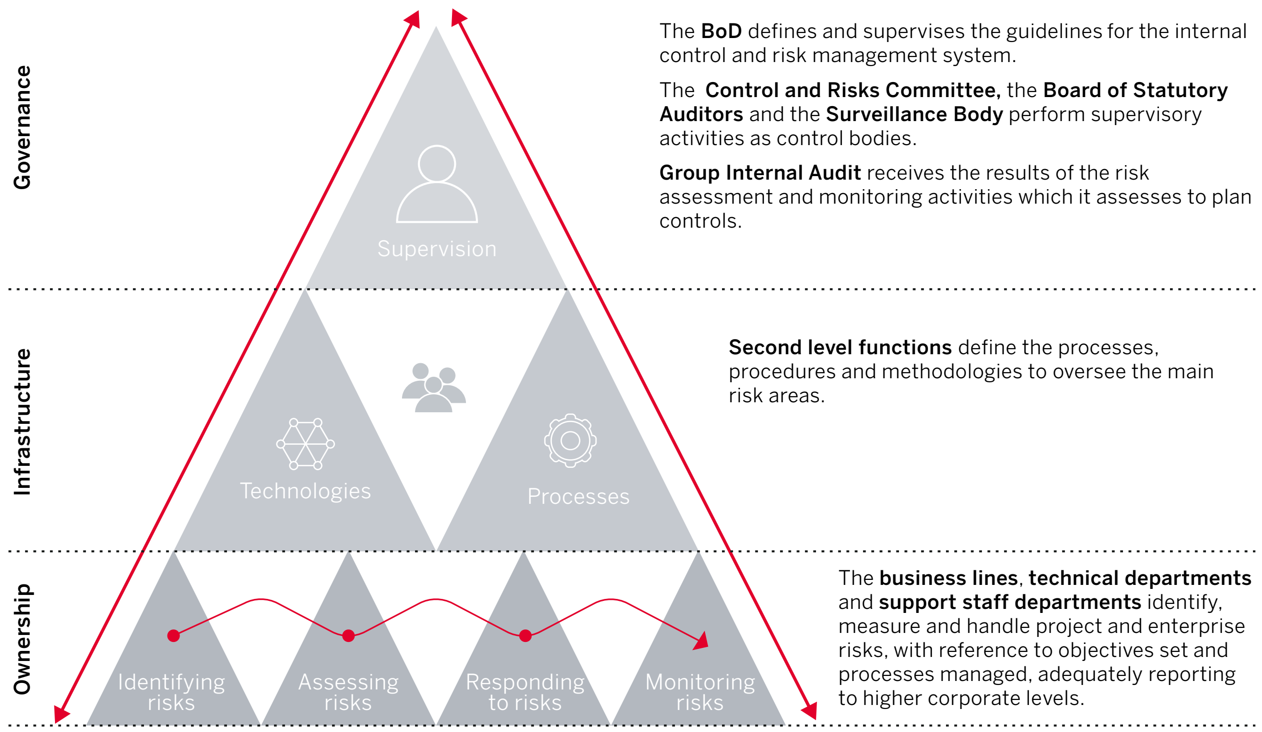
In 2020, a Group and Local Crisis Committee was set up, along with related sub-committees, to deal with specific issues, in order to find any possible management and protection solution.

With a view to continuous improvement, the entire business continuity management system is in the process of being reviewed in accordance with the guidelines of the Business Continuity Institute (BCI), the global reference body on the subject.

Risk management

The risk governance model is in line with national and international standards and best practices[23] and is compliant with the Corporate Governance Code for Listed Companies, the Organisational, Management and Control Model and the Group's Anti-Corruption Code. It has three levels, provides for clear-cut roles and responsibilities for the various departments and ensures a suitable exchange of information flows, to guarantee effectiveness.

Risk governance model



The operating risk management, which involves the entire organisation, is based on the identification, assessment and monitoring of the enterprise and project risks and the related mitigation plans. It is supported by specific methodologies, instruments and metrics for the related analysis and management. The processes underlying Project Risk Management and Enterprise Risk Management are regularly improved, with the aim of innovating and spreading an effective risk-based organisational culture.

Risks for the Group

The Group is subject to a number of risks that may affect the achievement of its objectives and results. Therefore, risk analysis and management processes are implemented systematically, including any related treatment action, with specific methodologies and practices that consider the probability of occurrence and related impacts in accordance with international regulations and standards. The examination of risks and consequent actions reported below is supplemented by the more detailed information provided in Note 37 of the consolidated financial statements for the component of merely financial risks.

23 Main references: ISO 31000:2018 - Risk Management - Principles and guidelines; PMI - Practice Standard for Project Risk Management; Enterprise Risk Management Integrated Framework - CoSO ERM; ISO 37001:2016 - Anti-corruption management system; ISO/IEC 27005:2018 Information Security Risk Management.

MAIN RISKS		ACTIONS
Variability of effects related to pandemic events	The occurrence of a pandemic can undermine personal health to such a point as to endanger the endurance of the health and socio-economic systems of the countries involved. The duration and magnitude of a pandemic depends, among other things, on the promptness of measures to protect health taken at global level. In relation to COVID-19, Leonardo Group's performance may be affected by the impact arising from the downturn in the civil aviation sector, as well as by volatility of some risk factors, including: market instability and the economic recovery trend, the customers' and suppliers' capacity to fulfil the contractual obligations they have entered into and assume others; customers' revision of procurement strategies; restrictions deriving from measures taken to protect personal health, with repercussions on the Group's commercial and industrial operations.	In addition to making all possible efforts to preserve its people's health and safety in full compliance with the relevant rules, Leonardo has put special plans of action in place to limit the possible repercussions of risk factors associated with the COVID-19 pandemic. The plans of action concern, among other things: constructive management of relations with customers, whether institutional or not, thanks to a widespread presence all over the world, balanced with the application of tools that virtualise promotion and marketing; the adoption of satisfactory financial solutions and an even more selective approach to expenditure in order to maintain financial flexibility in support of both current operations and development actions; the prompt reorganisation of production lines together with carrying out certain technical functions on a remote basis and ongoing oversight of the company's supply chain.

MAIN RISKS		ACTIONS
The change in the level of expenditure of national governments and public institutions may affect business performance	The major customers of the Group are national governments or public institutions. Moreover, the Group takes part in numerous national and international programmes funded by the European Union, governments or multinational collaborations. Therefore, it is affected by geopolitical and economic factors, the expense policies of the public Institutions, also for research and development programmes funding, in addition to the medium/long-term plans of the governments.	The Group pursues an international diversification strategy, placing it in its main markets, as well as in emerging markets marked by significant growth rates, in the aerospace, defence and security markets.

MAIN RISKS		ACTIONS
The Group operates in civil sectors that are highly exposed to growing levels of competition	In the civil sectors, customers' diminished spending capacity not only give rise to delays in obtaining new orders or falls in the numbers of orders themselves, but also affect their economic and financial conditions. These sectors are also characterised by the entry and success of competitors even from other fields of activity, mostly with the help of anti-cyclical M&A transactions carried out by international investment funds. The market positioning of these players could have an impact on the Group's volumes, results and debt.	In addition to balancing its customer portfolio suitably between government and non-government entities, the Group systematically pursues its objectives in order to increase 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 ensures highly qualitative and innovative product standards, and an integrated value proposition aimed at maintaining its technological edge, including thanks to open innovation and the interaction with innovative startups and SMEs.

MAIN RISKS		ACTIONS
The capacity for innovation and growth depends on the strategic planning and management of skills	Incessant 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. Any shortage of special expertise and the obsolescence of certain competencies and professional skills could have impacts on the full achievement of short- and medium/long-term business 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 monitors and manages competencies and professional skills by means of plans of action directed at attracting, retaining and motivating its human resources, managing talents, providing ongoing specialist training and reskilling/upskilling, insourcing core competencies and defining succession plans, with the gradual adoption of state-of-the-art tools of People Analytics and new Lifelong Learning development and training platforms for all personnel, particularly in the STEM (Science, Technology, Engineering & Mathematics) area.

MAIN RISKS		ACTIONS
The Group operates in some business segments through partnerships or joint ventures	The 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 both strategic positioning and management risks and uncertainties. Divergences can arise between partners about the identification and achievement of operational and strategic objectives, as well as core business operations.	The Group systematically carries out due diligence activities before and after 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.

MAIN RISKS		ACTIONS
The Group is exposed to the risk of fraud or illegal activities on the part of employees and third parties	The Group adopts and updates its organisational, control, procedural and training system to ensure compliance with any and all anti-corruption laws applicable in the domestic and foreign markets in which it operates. The possibility cannot be ruled out of employees or third parties behaving in an ethically incorrect or not fully compliant manner, nor can Leonardo 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.	The Group has set out a model of responsible business conduct aimed at preventing, identifying and responding to the risk of corruption. Thanks to its model, Leonardo SpA has reached the highest level of Transparency International's Defence Companies Index on Anti-Corruption and Corporate Transparency (DCI), in addition to having its ISO 37001 certification, the first international standard on anti-corruption management system, confirmed in 2020. Leonardo was the first company in the world's top ten in Aerospace, Defence and Security to obtain this certification. The model also provides for the responsible management of the supply chain, through the qualification, selection and management of suppliers, as well as the adoption of a risk analysis tool within the scope of due diligence audits within the process of engagement assignation to sales promoters, commercial advisor and lobbyists.

MAIN RISKS		ACTIONS
The settlement of legal disputes can be extremely complex and might require a considerable period of time	The Group is party to judicial, civil and administrative proceedings; for some of these, the Group has established specific provisions for risks and charges in the consolidated financial statements to cover any potential liabilities that could derive. Some of these proceedings in which the Group is involved – for which a negative outcome is unlikely or that cannot be quantified – are not covered by the provisions referred to above. Further developments of judicial proceedings, presently unforeseeable and indefinable, together with the possible consequential impact on Leonardo's reputation, could also have a significant impact on its relationships with customers.	The Group regularly monitors potential and existing disputes, taking the necessary corrective actions and adjusting its provisions for risks on a quarterly basis.

MAIN RISKS		ACTIONS
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 is strictly regulated and is subject to prior authorisation, based on specific national and foreign regulations (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 to customs formalities. 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 and of its Policy of respect for human rights. The Group has promptly made arrangements to carry out the changes necessary as a result of Britain's exit from the European Union and is continuing to follow developments in customs regulations in order to carry out the necessary modifications immediately.

MAIN RISKS		ACTIONS
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 Group's activities are also 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 chemical or hazardous substances (e.g. REACH Regulation and RoHS Directive) and waste management and disposal.	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, which take account of injury frequency and severity rates and related improvement objectives, 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 extend 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.

MAIN RISKS		ACTIONS
Climate change, the protection of the environment and consequent new developments in the scenario concerned may require action to be taken on certain types of processes and products	The Group's activities may be subject to transition and physical 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.	The Group pursues an industrial strategy aimed at 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, it develops low environmental impact technological solutions which are functional to the fight against climate change. The Group puts measures in place against any possible acute or chronic physical risks and has specific insurance cover against the possible consequences of disastrous climatic or natural events.

MAIN RISKS		ACTIONS
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 ceaseless evolutions in cyber threats and the increase in their attack surfaces, also as a result of increasing digitalisation and the greater number of persons working for their companies from home. Computer incidents, including any in the supply chain, stoppages, leaks of personal data and the loss of information that may also be of strategic importance may endanger business and even the Group's image, above all in the event of the theft of third party data kept in the Group's archives.	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, gained on the market through the competent business Division. In addition to a continuous improvement in the methods of managing permissions of access to information, Leonardo continues to take any action to extend data and information protection and processing methods and processes to its own suppliers.

MAIN RISKS		ACTIONS
The Group could encounter difficulties in protecting its intellectual property	Leonardo's success and results also depend on the company's ability to protect the innovations resulting from its R&D activities through intellectual property. In this respect, the Group mainly uses industrial secrets, patents, copyrights. Nevertheless, the possibility cannot be ruled out that the activity of a "disloyal" employee, an improper action on the part of a supplier or a legal but aggressive act on the part of a third party may lead to repercussions on the company's intellectual property. Furthermore, there is a greater risk of counterfeiting in highly technological environments such as that in which Leonardo operates, given the high number of patents held by third parties.	The Group is committed to the continuous improvement of its intellectual property protection processes, from the approval of research and development investments, through the definition and implementation of measures to protect technical information and proprietary know-how. Appropriate monitoring and surveillance action is taken to detect any infringements by suppliers, partners or competitors. The creation of the internal IP Correspondent networks, and their expansion and penetration, have been particularly effective in the Divisions.

MAIN RISKS		ACTIONS
The Group provides highly complex products, systems and services, including under long-term fixed-price contracts	The Group supplies products, systems and services that are particularly complex due to their advanced technological content, including under long-term contracts at a fixed all-inclusive price. Terms and conditions of contracts generally include challenging requirements and rigorous completion times, the failure to honour which may entail the payment of penalties, in addition to warranty liability and claims for damage that are not covered in full by insurance policies. Furthermore, an unforeseen rise in the costs incurred in the performance of a contract, which may also be the result of the occurrence of chance events, could lead to a lower profit.	From the commercial offer phase and at regular intervals during the performance of the contract, Leonardo considers the projects' main economic and financial parameters in order to assess their performance and manage risks throughout the entire life cycle 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 supported by dedicated Risk Managers in project teams. The Group is committed to the continuous improvement of its industrial efficiency and its ability to meet customer specifications.

MAIN RISKS		ACTIONS
The risks of performance of contracts, associated with the liability to customers or third parties, also depend on the supply and sub-supply chain	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, 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.	Leonardo has been pursuing its policy of strengthening and improving the supply chain for some years, leveraging a transparent and sustainable partnership relationship with the excellences in its supply chain, to give rise to a more innovative, integrated and resilient industrial eco-system. In addition to the programmes already in place (LEAP2020, ELITE Leonardo Lounge), the company has defined a set of principles and rules for the assessment of key suppliers, specifically oriented towards the development and growth of the supply chain with a view to long-term sustainability (Leonardo Assessment and Development for Sustainability).

MAIN RISKS		ACTIONS
The Group is required to fulfil direct or indirect offset obligations in certain countries	In the Aerospace and Defence sector, some international institutional customers require the application of some types of industrial offset related to the award of contracts, sometimes with rigorous requirements, linked to the development policy of each country. Therefore, the Group may undertake offset obligations that require procurement or manufacturing support at local level, technology transfer and investments in industrial projects in the customer's country. Failure to meet offset obligations may result in the application of penalties and, in certain cases, might prevent the Group from participating in contract award procedures in the countries concerned.	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. A due diligence is performed before dealing with a third party under an offset agreement, which is conducted according to the relevant international best practices. Leonardo has also set up a dedicated central organisational unit to guide and supervise offset activities.

MAIN RISKS		ACTIONS
Critical raw materials available on the market	Critical raw materials are of great importance for industrial applications, especially for high-tech applications and, in particular, for components (sensors, actuators, highly miniaturised microprocessors). In some cases, critical raw materials are a decisive enabler for both the initiatives underpinning the European Green Deal and the technologies of certain production sectors. Most of the critical raw materials relevant to the Aerospace and Defence sector are not directly available in Europe, but rather in other mainly non-NATO/EU countries. Availability and production of materials are sometimes concentrated in a single country, which may therefore be in a position to sway the balance between global supply and demand, with impacts on market prices, in particular in scenarios marked by critical geopolitical issues.	Leonardo, in addition to monitoring the prospective requirements of its supplies, takes part in international working groups, such as those at European and NATO level, which reconcile the interests of both States (supporting the definition of recommendations for Member States) and the companies and supply chains involved, in order to encourage the identification of common strategies for mitigating risks. Leonardo also engages in activities having the purpose of enhancing the efficiency of the use of resources (for example fostering circularity mechanisms) as soon as the product technological research and sustainable design phases start.

MAIN RISKS		ACTIONS
A substantial amount of consolidated assets is attributable to intangible assets, goodwill in particular	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 are reflected in impairment tests.

MAIN RISKS		ACTIONS
The Group's debt could have an impact on its strategies	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.	In assuring a solid and balanced structure between sources of funds and investments, 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.

MAIN RISKS		ACTIONS
The Group's credit rating is also linked to the opinions of the credit rating agencies	All Group bond issues are given a medium-term financial credit rating by the international agencies Moody's Investors Service, Standard&Poor's and Fitch Ratings. 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 confirmed by the Industrial Plan. The Group's financial policies and 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.

MAIN RISKS		ACTIONS
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	The Group reports a significant portion of revenues and costs in currencies other than euro (mainly in US dollars and pound sterling). Accordingly, any negative changes in the reference exchange rate might have negative effects (transaction risk). Moreover, the Group has made significant investments in the United Kingdom, in Poland and in the United States: this might have a negative impact on the Group's results of operations, financial position and cash flows due to the translation of the financial statements of foreign investees (translation risk).	The Group continuously applies an organised systematic hedge policy to combat transaction risk for all contracts in its portfolio by 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.

MAIN RISKS		ACTIONS
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	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.	The Group monitors pension funds' investment plans and strategies on an ongoing basis and takes immediate deficit corrective action when necessary.

Stakeholder engagement

Leonardo is part of a system that includes companies, political and economic institutions, the scientific world and local communities. In order to maintain effective dialogue with all stakeholders, starting with its employees, Leonardo regularly involves them through its organisational units and the most effective methods, in order to understand their interests and points of view.
All opportunities for stakeholder engagement – from Shareholders' Meetings to trade association meetings, from collaborations within the scope of technology R&D programmes to support projects at local level and digital events – contribute to strengthening its bond with the industrial, economic and social context and to improving its business management practices.

Main dialogue activities with stakeholders

UNIVERSITIES AND RESEARCH CENTRES
- Collaborations
- Research projects
- Hackathons and contests

MEDIA
- Communication through traditional and digital media
- Collaboration for events and preparation of editorials

GOVERNMENTS AND INSTITUTIONS
- Dialogue with supranational, national and regional institutions
- Collaboration in public -private working groups for the development of initiatives, plans and policies
- Support to security and digitalisation

EMPLOYEES
- Annual performance appraisal
- Periodical surveys on the corporate climate and focus on mobility and smart working
- Work-life balance support

FUTURE GENERATIONS
- Projects to promote technical and scientific subjects (STEM)
- Lecturing at technical schools
- Support to scientific citizenship initiatives

BUSINESS PARTNERS AND OTHER COMPANIES
- Participation in national and international research projects
- Collaboration in multi-sector working and consultation groups

FINANCIAL COMMUNITY
- Events and quarterly conference calls
- Regular communication with analysts and current and potential investors on financial and ESG topics
- Attendance at conferences

CUSTOMERS
- User groups and ad-hoc conferences
- Customer satisfaction surveys
- Exhibitions and digital events

LOCAL COMMUNITIES
- Support and organisation of local initiatives and digital events
- Company sites and museums open to communities
- Internal promotion of employees' volunteering initiatives

TRADE UNIONS
- Continuous dialogue with trade unions
- Participation in observatories on specific topics

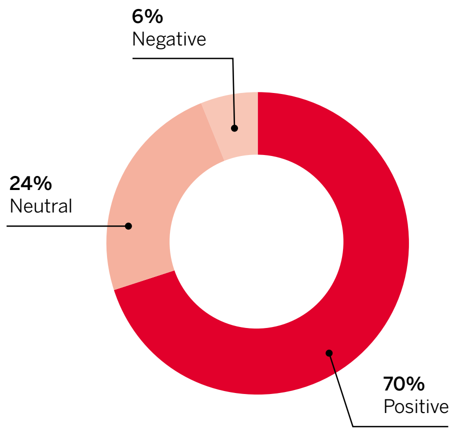
TRADE ASSOCIATIONS
- Participation in round table meetings on technology, social and environmental topics, governance/policy

SUPPLIERS
- Assessment of performance, social and environmental aspects
- Involvement in initiatives of capacity building, training and growth

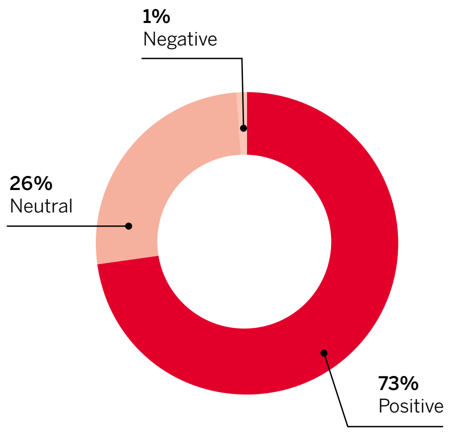
Reputational analysis

Positioning in the media is one of the key indicators for the measurement of the perception of the company and its activities on the part of different categories of stakeholders, from financial market to customers, from national and international institutions to local communities. An analysis of almost 14,000 articles in the general and specialist press of 36 countries in 2020 confirms a favourable image of Leonardo in both Italian and international media, with 70% and 73% of articles characterised by a positive sentiment.
This widespread positive sentiment is mainly related to its solidity, resilience and sustainability in the conduct of its business, while unfavourable perceptions are mainly due to the impact of the COVID-19 emergency on the entire AD&S sector, with particular reference to the civil aviation sector. In the four domestic countries, more than 1,100 articles have been published by the local media focusing on the operations of Leonardo's plants and the benefits for local areas, for example paying attention to the support of institutions, customers and citizens during the pandemic.

Sentiment on Italian media



Sentiment on international media



In the area of web communication, Leonardo has strengthened the transparency of information and improved the ability to engage stakeholders, including through news, stories and digital events. On social media, Leonardo has strengthened its presence on Twitter, LinkedIn and Instagram, with an increase in impressions and engagement rate.

Web communication and social media

Over
650,000

followers on Twitter, LinkedIn and Instagram
(+79% compared to 2019)

Over
26 million

of impressions
(+8% compared to 2019)
with an engagement rate equal to 3.72%
(+2.76% compared to 2019)

Top Ten
in Webranking classification
(+1 position compared to 2019)

Silver Class
in .trust classification

Digital outreach

~ 60

digital events with more than
2,500 participants
4.2 average satisfaction
of users on a scale of 1 to 5

Over
100

speakers including managers, local, regional and national institutions, representatives of universities, military authorities and associations

People

People

It is fundamental for Leonardo to invest in people and their development, training and well-being in order to sustain business growth in the long term, to compete successfully in global markets and, at the same time, to create value in the regions in which it operates. The company culture is based on listening and dialogue, merit and respect for the principles laid down in the Code of Ethics, the Charter of Values and the Group's Leadership Framework to give everyone opportunities for growth and promote an inclusive work environment.

Priority issues

- Digital transformation
- Skills and talent management
- Well-being, inclusion and equal opportunities
- Business continuity
- Working conditions and health and safety

SDGs

Impact indicators[24]

Over
6,400
people hired under 30
Period from 2017 to 2020

Over
3,400
women hired
Period from 2017 to 2020

Over
3,200
training opportunities activated with the educational system[25]
Period from 2017 to 2020

LOVE FOR LEARNING - INVESTING IN SKILLS

Leonardo has rethought its training offering to enable all personnel to keep their professional skills updated and enrich them at their discretion, adopting an approach that is much more focused on individuals and on many of their training needs. With the Love For Learning programme, launched in July 2020, Leonardo was the first Italian company to extend the very wide range of training courses offered by Coursera, the leading global MOOC (Massive Open Online Courses) platform, to all members of its staff worldwide. The approximately 4,500 courses, accessible from home and office, from desktop or mobile, are delivered by the best universities in the world and most of them are focused on STEM subjects and topics and new technologies, including artificial intelligence, data science, cloud computing, machine learning, cyber security. The level of the university courses allows all participants to obtain the related certifications, which can be recognised in the field of modern social media tools and directly improve the level of employability, both inside and outside the company. The effectiveness of the programme has been measured on the basis of a benchmark on multinational companies of comparable size that have adopted a similar model for the use of the Coursera platform: Leonardo has ranked above average of the sample with about 71,000 hours of training provided in 6 months and 5,600 people enrolled in the programme.

24 As cumulative values from 2017 to 2020.
25 Internships, apprenticeship programmes, school-to-work alternation.

Human capital enhancement

Leonardo employs 49,882 people, 97% of whom are located in Italy, the United Kingdom, the United States and Poland. This human capital is mainly composed of staff specialising in STEM subjects, characterised by a generational diversity that fosters the exchange of experiences and skills.

Gender diversity is one of the areas in which Leonardo invests, while also taking account of the peculiar features of the countries in which it operates, with projects to promote inclusion and offer equal opportunities, and setting out governance models and measurable objectives.

Among the actions planned for 2021 are training courses for a specific target population, training on cognitive biases and distortions linked to gender equality to enhance the work of women in professional areas such as engineering, manufacturing and project management, e-coaching aimed in particular at mothers and fathers returning from maternity and parental leave, cross-national mentoring and coaching programmes to support the professional development and career progression of women in the company.

Employees worldwide

Italy	United Kingdom	United States	Poland	Rest of the world
31,052	7,387	7,299	2,586	1,558
62%	15%	15%	5%	3%

Employees by professional category, gender and age group

	women %	men %	< 30 years	30-50 years	> 50 years
Total workforce	**18%**	**82%**	**10.3%**	**52.4%**	**37.3%**
Managers	12%	88%	0%	34.9%	65.1%
Middle managers	18%	82%	0.5%	42.0%	57.5%
White collars	23%	77%	10.7%	54.2%	35.1%
Blue collars	9%	91%	14.8%	54.7%	30.5%

Human capital evolution indicators (2020 data compared to 2017)

+11%
growth of workforce
(+4,748 employees)

Employees under 30
from 8.2% to 10.3%
of workforce
(+1,455 employees under 30)

Women managers
from 15.1% to 17.3%
of total managers and middle managers (+269 women managers among employees)

Industrial relations in the management of COVID-19

Since the beginning of the pandemic, Leonardo and the trade unions have been engaged in a continuous dialogue to find shared solutions aimed at safeguarding the health and safety of employees, managing a gradual resumption of industrial operations in full and monitoring the continuity and economic sustainability of the business, while supporting any collective and individual needs arising during the emergency period.

COVID-19 Protocol - First industrial company in Italy to sign an internal protocol with the trade unions, immediately following the national Protocol worked out between the government and social partners.

Manufacturing continuity - Production lines continued to operate, albeit with a reduced number of employees and by putting in place all the measures for the safety and protection of operators on an ongoing basis. Shifts were rescheduled and new schemes were introduced for those people whose work cannot be performed remotely, and 19,000 employees were enabled to work from home (smart working).

Crisis Units - These were activated from the beginning of the emergency, at a central and divisional level, to analyse health risks, plan organisational solutions aimed at eliminating them and update models to work in safety. In addition, bilateral committees have been set up to operate continuously at all production sites.

Work-life balance

Flexible benefits - Leonardo's company recreational clubs provide employees and their families with leisure, recreational and cultural activities, as well as with grants paid by the company for the purchase of textbooks, passes for public services, furniture and accessories for working from home. In Italy, a total of €mil. 11.2 of flexible benefits were paid out in 2019 and 2020.

Parenting - Grants for nurseries, scholarships and (in some territories) summer camps for employees' children.

Flexible working - Custom working is the programme launched in the United Kingdom, which allows employees, together with their managers, team and customers, to decide where and when to work. Flexible management of working hours makes it possible to reconcile work requirements with personal and family life, while maintaining focus on the customer and their needs.

Educational activities for employees' children - As a sponsor of the Museo del Novecento and the Accademia Nazionale di Santa Cecilia, Leonardo has transformed discounted benefits into training activities for employees' children, educational activities and contamination and content creation projects under the broader banner of STEAM (Science, Technology, Engineering, Arts and Mathematics) disciplines.

Protection of the most affected businesses

Leonardo has shared a mix of management, regulatory and contractual tools with the trade unions in order to manage the temporary reduction in the production volumes of the Aerostructures Division and Fata Logistic Systems due to the global economic crisis as a result of the pandemic.

Local schemes for mandatory placement - Voluntary secondments/transfers between plants of the same Division and of different Divisions/companies of the Group, taking account of compatibility in terms of skills, both already available and achievable under reskilling and upskilling programmes, geographical distances and personal and family circumstances.

New skills fund - This is a national fund dedicated to the protection of employability to deliver training courses in view of the resumption of production, with particular attention to the development of digital skills, the dissemination and strengthening of skills on new processes linked to investments and industrial projects to relaunch and modernise production lines.

Vacation and permits Solidarity Fund - This fund has been created to support employees who have used up all of their vacation days and permits to cover emergency-related absences and was initially set up by the company with around 29,000 days and fed by donations of untaken holidays on the part of the Group's employees, on a voluntary basis. The fund has been also used to support "fragile" categories and parents with school-age children.

Employee engagement

Survey on smart working in Italy - More than 13,000 employees responded to the survey in order to deepen key thematic areas in the context of the emergency and move the company's organisation towards a new way of working. The results collected showed that, in the perception of its employees, Leonardo coped with the COVID-19 emergency in an effective way, ensuring safety, communication and working solutions and allowing those who worked remotely to oversee operations and services to customers in an efficient manner. Among the results are motivation, pride and a sense of belonging.

Survey on COVID-19 management in the United States - More than 2,000 Leonardo DRS employees responded to the survey on how the company handled the health emergency and remote working. 89% of people considered that the employees' health and well-being were a priority for the company, and 83% considered that their leadership teams' management during the pandemic was very or extremely effective. 87% of people were satisfied with the quality and frequency of company communications and initiatives, including webinars and virtual meetings.

Internal communication - There was an ongoing dialogue with employees to update them promptly on the evolution of the health emergency, as well as on regulations, tools and measures put in place to support them in both their working and private lives, with over 60,000 views of the section dedicated to COVID-19 on the Group intranet. Again on the internal portal, Leonardo has created a dedicated space where it is possible to attend – live and on demand – conferences, seminars, fairs and celebrations, normally in person. This method has expanded the possibility of participation and sharing knowledge and information within the company. Quizzes, vlogs, challenges, Q&A between colleagues and STEM games were also launched in order to keep employees "connected" during the most difficult months.

SpeakYourMind - Following the survey conducted in 2019, in which more than 31,300 employees participated, 164 improvement projects were implemented in 2020 to address the priorities for action that emerged and follow-up on the listening phase.

Diversity and inclusion (D&I)

D&I Governance - In the United Kingdom, Leonardo MW has a People and Inclusion committee within the BoD, dedicated to inclusion and diversity. In Italy, the Joint Committee, composed of company and union representatives, was set up in 2020 with the aim of analysing, promoting and sharing company initiatives and projects for equal opportunities and diversity, as was a cross-functional working group for setting targets to 2030 and preparing a 2021 Action Plan for the promotion of a gender equality-oriented culture. In the United States, a Diversity Advisory Group (DAG) and a DAG Team operate which promote D&I culture to support the company's organisational climate, talent management, recruiting and engagement initiatives.

Network group - Employee groups have been created in the United Kingdom to raise awareness and promote D&I strategy: Pride (LGBTQ+) to provide advice and promote awareness of LGBTQ issues in the workplace; Equalise to offer support to employees on gender equality; Carers to support employees with special care needs such as for elderly parents, partners or children; Enable focused on neurodiversity and disability.

Recruiting - A software and artificial intelligence system has been launched in the United Kingdom to identify and remove cognitive bias in job descriptions, ensuring the use of inclusive language in the phase of recruitment. Targeted activities have been carried out for colleges and universities with high African American student populations in the United States (Historically Black Colleges & Universities - HBCUs).

STEM Returners - A programme has been launched to attract individuals who have left the labour market for reasons related to personal or family life and provide them with career opportunities.

Best employer of Choice among the top 20 companies in Italy

Investors in People (IiP), **Investors in Young People** (IiYP) and **We Invest in WellBeing** of IiP in the United Kingdom

Military Friendly Employer and **Best for Vets Award** in the United States

Among the companies included in Bloomberg's **Gender Equality Index**

Skills for the future and digital transformation

Leonardo's industrial strategy aims to attract and manage the job profiles and skills needed to meet the new challenges posed by the market, including the risk of their obsolescence.

The company's skill management and enhancement schemes support people throughout their career in the company, stimulating lifelong learning and activating upskilling and reskilling processes.

The use of innovative technology tools in the various areas of people management and development is a key factor for change and radical improvement in the Group's overall performance. In particular, the most recent initiatives for the development of new skills aim to align the competencies of our human resources with the needs of the future, design training programmes and reduce outsourcing and recourse to the market, leveraging a digital approach that combines data mining, artificial intelligence and Massive Open Online Courses (MOOC) training platforms.

62%
of employees hold a **STEM** degree

43%
of new hires in 2020 hold a **STEM** degree

About **800,000**
hours of training delivered

Leonardo takes part in strategic initiatives focused on skill development at a European level too. In particular, the ASSETs+ (Alliance for Strategic Skills addressing Emerging Technologies in Defence) project was started in 2020, based on programmes launched with the European Commission such as the Blueprint for Sectoral Cooperation on Skills and involving about 30 European partners (industrial, academic, etc.); the project aims to create a system of observation and management of critical skills for Defence and a mechanism through which universities can bridge the gap of misalignment on identified skills through new pedagogical approaches and training courses. Leonardo has also adhered to the Pact For Skills, which is one of the 12 actions required to implement the Skills Agenda for Europe. The purpose of the programme is to mobilise stakeholders involved in the target sectors in order to create better upskilling and reskilling opportunities for students and workers in Europe, sharing specific commitments. This Pact will also help foster the transition to digital and automation, accelerate post-COVID recovery and increase the competitiveness in our continent. A working group dedicated to skills in the AeroSpace and Defence Industries Association of Europe (ASD) sector has been formed to provide further support within the sector[26].

26 For more details on Leonardo's commitment to developing skills for the future, please also see the paragraph "Education and scientific citizenship".

Performance measurement

Performance appraisal - More than 28,000 people have been evaluated based on their performance, of which 22% were women. The annual Performance and Development Management process puts the person at the centre to promote a culture of results, learn about mutual expectations, and strengthen dialogue and the relationship of trust with the manager. The analysis of evaluations over time allows for the best possible orientation of training, development and internal mobility programmes through new dashboard and reporting functions integrated into the platform. In 2020, a dual job evaluation scheme was introduced for people working in integrated teams, on the part of both their manager and the team leader.

Mapping of skills, attitudes and motivations - New evaluation and professional development tools have been adopted for mapping skills, attitudes and motivations, according to the company's specific needs, to be used in the main phases of people management: selection, orientation, job role fit, assessment of potential, succession and career plans, team effectiveness. 75 Leonardo HR professionals have obtained certification to use the new tools and 540 resources have already been involved in evaluation programmes to prepare individual development plans with a view to "self-development".

People analytics - Leonardo has adopted analysis and data mining tools to identify and develop new skills, map the job profiles present in its organisation and monitor the evolution and trends of the market, as well as the activities of its main competitors. The fact of identifying in advance any emerging role or roles affected by significant changes does in fact allow the company to take actions for the recruitment of new profiles or training of resources in order to acquire or strengthen specific skills in a targeted manner, including with a view to up/reskilling. On the basis of the analyses carried out, the use of the Coursera platform also makes it possible to select the best courses or the most suitable certifications. This approach that combines artificial intelligence, big data and MOOCs has already been used for the launch of a project in the engineering areas and its use will become increasingly widespread across the Group.

Human capital training and development

MOOC - More than 5,600 people have followed university courses delivered on the Massive Open Online Courses Coursera platform for a total of about 71,500 hours used and 3,495 certificates obtained in six months. The approximately 4,500 courses delivered on the platform are provided by the world's best universities and part of these is focused on STEM subjects and new technologies. In addition, more than 3,500 licenses have been activated on LinkedIn Learning for a total of nearly 10,600 hours.

Education & Training - The courses offered are updated on an ongoing basis with respect to the mapping of skills and new management models, such as the Leonardo Production System and the Towards Customer Centricity programme.

Managerial training catalogue - With 91 editions that have engaged around 1,300 participants for a total of more than 16,000 hours of training, the training sessions have involved managers from various Divisions and functions, who are also different in terms of roles and gender, in order to encourage sharing and cross-sector integration.

Accelerate - This is the international training and development programme targeted at the Group's Future Leaders, which aims to activate talent and spread cultural change throughout the company, with a focus on the Leadership Model, while accelerating the processes of integration, innovation and knowledge sharing. Three editions were completed in the period from 2018 to 2020, involving 183 employees from all over the world.

Internal mobility - 382 positions filled with internal candidates, including through the use of job posting and new digital monitoring tools.

International mobility - Leonardo intends to encourage the rotation of people involved in international mobility as a strategic lever for the business and an opportunity for development, training and professional and personal growth, including through the review of the relevant guidelines that provide for a structured selection process and guarantee physical safety and health security, transparency, fairness and compliance.

Succession plans - Over 1,200 key resources have been involved in the process of preparing succession plans for 249 positions in order to ensure Leonardo's business continuity through an adequate turnover of 2nd and 3rd organisational level management. Women account for 22% of the group comprising those who hold the positions analysed and their potential successors.

Training models serving the business

Towards Customer Centricity

The Customer Support, Services & Training transformation programme is focused on people, processes and technologies to share the vision and objectives of the "Be Tomorrow - Leonardo 2030" Strategic Plan, including that of improving customer satisfaction. The training courses launched in 2020 aimed to develop a customer centricity-oriented culture and distinctive soft and technical-specialist skills, as well as to support digitalisation processes. Around 220 people took part in the first edition of the MOVE (Mindset, Objectives, Vision, Enhancement) training programme to spread the cultural change within the Customer Support, Services & Training professional family, with activities aimed at enhancing soft skills in relations with customers from inside and outside our Group. In an environment in which the application of digital technologies is increasingly a critical success factor, the adoption and dissemination of a digital mindset also help to create and strengthen skills, motivations and values that contribute to the achievement of more sustainable and long-term business objectives. The Data Driven Mindset pilot course, launched in 2020, aims to allow data management to pervade the entire organisation in order to generate added value for our customers.

Over
2,800
people in the Customer Support, Services & Training all over the world

220
people involved in the first edition of the MOVE (Mindset, Objectives, Vision, Enhancement) course

900
people involved in the Data Driven Mindset pilot course

Leonardo Production System

The agile production system inspired by the World Class Manufacturing method aims to optimise efficiency and productivity through an approach oriented to continuous improvement in the management of processes and programmes, which is capable of ensuring more and more quality and safety. The Leonardo Production System (LPS) addresses both technical and managerial issues with solid governance in place. People are stimulated to make the best use of their experience in order to adopt good practices that are already in place and, above all, to take improvement actions in the work areas, with reference to 10 technical pillars. The driving force behind the programme is the continuous learning on the part of Pillar Leaders, aimed at strengthening the skills to be passed on to the various teams in the field. In particular, Pillar Leaders focused on the people development Pillar have the key task of mapping the skills possessed by teams of engineers and operators and selecting those to be acquired or strengthened. After launching the programme in early 2019, LPS involved 13 manufacturing plants in Italy and has resulted in a reduction of injuries in the application areas by about 90% and an average increase in productivity of about 30%.

Approximately
1,200
people involved in 13 manufacturing plants

-90%
of injuries in the model areas of the plants that have implemented the LPS

+30%
of productivity in the model areas of the plants that have implemented the LPS

ESG training for procurement and supply chain

In line with the objective set in 2018, Leonardo has put in place several training programmes on ESG issues targeted at people involved in the area of procurement and supply chain across the Group. A dedicated roadshow involved the Divisions to increase awareness of social, environmental and governance issues. Sustainability, seen as a distinctive element in our supply chain management, was also included in the convention agenda of the professional family concerned and dealt with by the procurement councils, the decision-making bodies in the area of supply chain management, including with a view to establishing a mechanism that rewards sustainability in tender award processes. Online courses and webinars introducing sustainability were provided and access to the knowledge management platform was enabled for Procurement Leaders, with specific focus on modern slavery in the United Kingdom and human trafficking in the United States.

Health and safety

Among the objectives of Leonardo's Health, Safety and Environment Policy[27] are those of ensuring safe working environments and operating conditions, preventing risks to the health and safety of its employees and of anyone who has access to the Group's sites, raising awareness and providing continuous training to personnel on health and safety issues, in compliance with the laws in force in the countries in which it operates, voluntary standards and stakeholder expectations, with a view to continuous improvement. Among the tools used to ensure compliance with adequate standards are health and safety audits, both internal and external, which are mainly aimed at maintaining Management System certifications, as well as at compliance, safety and hygiene audits.

Welfare is a key lever to build a system that protects and facilitates people's lives and the ecosystem around them, respecting environment, diversity, lifestyle and interests of each of them.

75%

of employees work at sites with OHSAS 18001 or ISO 45001 certified Health and Safety Management System (56% in 2017)

2.6

injuries per million of hours worked (-41% compared to 2019)

1,897

audits conducted on health and safety, of which 1,792 internal and 105 external

Employee health and protection

Health insurance infection - An extraordinary insurance policy for cases of COVID-19 infection was taken out for all employees worldwide; furthermore, training courses were launched and agreements were reserved for employees and their family members to take swabs and carry out serological tests. Influenza vaccines were provided during the pandemic in some countries to protect the most vulnerable employees.

Move4health - 20,000 employees were involved in the two-year programme, which was completed in 2020, to promote a healthy lifestyle and efficient use of food resources by offering monthly meetings with nutrition experts.

Supplementary Health Care - Health coverage schemes were put in place for employees and their entire households in Italy. In the United Kingdom insurance coverage is on a contributory and voluntary basis.

Raising awareness and prevention - Campaigns were launched to promote a healthy and sustainable lifestyle, inform about the impacts of incorrect habits and encourage prevention, while also providing medical assistance and information on health and well-being.

Training - More than 133,000 hours were delivered on specialist health and safety training courses.

Mental health - Tools were provided in the United Kingdom to help employees manage stress and anxiety during the pandemic, as well as protect their mental health or receive support. In addition, 274 senior managers and line managers were trained to support colleagues on these issues, fostering inclusive teams.

Employee assistance programmes - These schemes offer support through a third party provider to employees in need of legal and financial advice and counselling on domestic abuse and bereavement issues.

Expatriates - Expatriate employees receive assistance throughout the period of their secondment abroad and since before their departure, including as regards physical safety and health security through insurance policies and dedicated services.

27 For more details on environmental safety, please also see the paragraph " Natural resources management in industrial processes".

Respect for human rights

In the performance of its activities and in each environment in which it operates, Leonardo is committed to upholding the human rights recognised in the Group's Code of Ethics and Charter of Values, based on the principles laid down in the United Nations' Universal Declaration of Human Rights, the International Labour Organisation (ILO) Conventions, the OECD (Organisation for Economic Co-operation and Development) guidelines, the Charter of Fundamental Rights of the European Union and other relevant regulations.

Leonardo's commitment to the protection of human rights includes three areas: people management, relationships with suppliers and issues relating to sale and distribution of products, considering the features of the business. These three areas, which are presented in the Group's Policy on Human Rights, were identified by means of a specific analysis performed between 2017 and 2018 based on the ISO 26000 guidelines: it identified the Group's business areas that are potentially exposed to the risk of violations of human rights and the measures put in place to manage and mitigate risks. In order to identify and promptly manage violations, potential risks and negative impacts on human rights, Leonardo has mechanisms in place for the management of reports, either signed or anonymous, and has set up a dedicated communication channel[28].

People management

- Prohibition on all discrimination against race, skin colour, gender, language, religion, political opinions, sexual orientation, nationality, social status or background, trade union membership, age or disability or any other type of discrimination or intolerance towards diversity.
- Prohibition on all exploitation of child, forced or illegal labour.
- Guarantee for political and trade unions' rights.
- Protection of sensitive data of natural persons, whether they be employees, collaborators, visitors, customers or suppliers.
- Protection of health and safety of workers, in compliance with applicable provisions and the highest standards in terms of safety and hygiene.

99% of employees in OECD countries.
78% of employees under collective agreements.
35% of employees are members of trade unions.
75% of employees operating in OHSAS 18001 certified sites.

Supply chain

- Prohibition on any type of forced labour and human trafficking and implementation of measures to prevent the risk of modern slavery.
- Checking whether suppliers meet the requirements related to the protection of employment, people and health and safety.
- Reputational check of third parties with which Leonardo intends to establish contractual relationships.
- Social clauses to protect workers in the case of contract handovers.
- Implementation of measures to verify whether minerals (tin, tantalum, gold and tungsten) from conflict zones are present in products, components, parts or materials that are supplied.

96% of purchases from OECD countries.
100% of suppliers accept the Supplier Code of Conduct.
More than **6,500** suppliers evaluated on social and ethical-legal issues.
The new procedure was issued on Conflict Minerals.

Sale and distribution of products

- Development of technology solutions for the security and protection of citizens, national institutions, technological sovereignty, and the resilience of countries.
- Non-involvement in the production, development, storage, trade and/or sale of non-conventional weapons (e.g. cluster bombs, mines, chemical weapons).
- Non-involvement in nuclear weapons production or maintenance activities.
- Prevention of the risk of illicit trade practices through the Trade Compliance Programme.
- Application of due diligence processes for potential customers and end-users, using screening activities to check whether they are on blacklists and other checks in the case of transactions with Sensitive Countries.

178 transactions monitored in Sensitive Countries.

28 humanrights@leonardocompany.com.

The increasing investments by Leonardo in research and development of digital technologies, in particular on artificial intelligence, and their application to its products and solutions, require a defined ethical and legal reference context and an analysis of potential economic and social risks and impacts. Aware of this new context, Leonardo is committed to aligning development and progress opportunities with ethical considerations.

Development and ethical use of artificial intelligence

- Commitment to respecting the fundamental principles of the International Humanitarian Law (IHL), including: the distinction between civilians and combatants and limiting collateral damage, as far as possible; the principle of proportionality with regard to the need for defence and security.
- Adherence to the Human-On-The-Loop (HOTL) and Human-In-The-Loop (HITL) standards to ensure that the use of autonomous weapons in situations critical to the security of people is subject to human supervision and control.

Planet

Planet

Leonardo has defined a sustainable business strategy based on responsible economic and social models and takes account of short-, medium- and long-term risks and opportunities in order to counter and mitigate the effects of human and industrial activities on the Planet's climate and ecosystem.

Priority issues

- Management of natural resources
- Climate change, adaptation and mitigation
- Digital transformation
- Working conditions and health and safety
- R&D, innovation and advanced technologies

SDGs

Impact indicators

About
73,000
tons of waste recovered as from 2017

About
116,000
tons of CO_2 avoided through the use of virtual training systems as from 2018

About
750
megaliters of water consumed less compared to 2017

LEONARDO IN THE CLIMATE A LIST

In 2020 Leonardo joined the 2020 Climate A List of the international non-profit organisation CDP, which includes the world's leading companies – out of more than 9,500 analysed – in the fight against climate change, compiled on the basis of information on impacts, risks and opportunities related to the environment, requested by more than 500 investors, accounting for USD 106 trillion of assets under management. Promotion to the highest level of the evaluation rewards Leonardo's commitment to reducing emissions, mitigating climate change risks and implementing an environmentally friendly strategy, in particular through research and implementation of innovative technologies: from the use of advanced materials for more sustainable air mobility, to solutions for Earth observation and satellite monitoring. The 2020 A List includes eight Italian companies and two in the Aerospace and Defence sector.

Climate governance and strategy

Leonardo's environmental, climate change adaptation and mitigation strategy, combining technological innovation and sustainability, integrates two key aspects: the first linked to the continuous efficiency improvement in production activities and processes through a reduction of energy consumption and emissions into the atmosphere; the second linked to the development of products and services with a lower environmental impact and technologies that are instrumental to climate change mitigation and adaptation.

The Group's strategy is the result of an analysis of risks (regarding transition to a low-emission economy and physical risks) and of opportunities, regulatory requirements, emerging global scenarios and trends and customer needs. In order to address the identified risks, Leonardo rolls out specific mitigation actions, including the continuous monitoring of environmental risks related to production processes that are managed at different organisational levels, using the centrally-defined tools and technical-management solutions designed on the basis of the specific features of each site and process. As an integral part of the Group's sustainability strategy, the environmental strategy and the fight to climate change is assessed by the Board of Directors, through the Sustainability and Innovation Committee and in consultation with the Control and Risks Committee, in line with the Strategic Plan.

Leonardo provides a voluntarily disclosure on the impact that climate change-related risks and opportunities may have on its activities, strategy and financial planning in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board, which Leonardo joined in 2017, and reports climate change-related impacts and performance in accordance with the metrics set out in the GRI Sustainability Reporting Standards and considering the Non-binding Guidelines of the European Commission and the SASB (Sustainability Accounting Standards Board) standards.

For additional information, reference should be made to the paragraphs "Natural resources management in industrial processes", "Technological solutions to fight climate change", "Risks for the Group" and the GRI tables "Environmental indicators".

Natural resources management in industrial processes

Among the principles behind the Group's environmental management model[29] are the responsible and sustainable development of its activities, the application of health, safety and environmental management standards, the attention to the needs and expectations of its stakeholders, excellence in services and continuous improvement in its performance. In line with these principles, Leonardo is committed to the efficient use of energy and natural resources, as well as to an effective risk management to protect the health and safety of people and a reduction in emissions and pollution, operating in compliance with applicable laws, voluntary standards and stakeholder expectations. The culture of environmental responsibility is spread within the company through engagement programmes and internal and external communication tools that promote behaviours based on sustainability, health and safety among employees, partners and suppliers.
Leonardo has made and planned investments for the efficiency of production processes, extended the voluntary adoption of certified management systems, dedicated resources to training and raising awareness among people. Audit programmes, risk identification and management processes in the areas of environment, health and safety and any related mitigation plans make it possible to ensure a safe working environment, as well as check for regulatory compliance, maintain site management system certifications, certify emission allowances[30] and assess the correct application of monitoring, control and reporting tools to protect people, the environment and business continuity. Energy consumption and expenditure at the Group's sites are managed using a governance model geared towards efficiency and sustainability. Electricity and gas purchases, for example, are managed according to a portfolio perspective in order to diversify the risk linked to market volatility and reduce supply prices. Operational policies and instructions set out efficiency targets, activities and processes for a structural reduction of energy consumption.

Efficiency indicators[31]

Intensity of water withdrawals	Intensity of energy consumption	Intensity of waste produced	Intensity of Scope I and II CO_2 emissions
-23%	-16%	-7%	-1%
Baseline 2017	Baseline 2017	Baseline 2017	Baseline 2017

Environmental and energy management

76%
of employees at sites with **ISO 14001** certified environmental management systems (66% in 2017)

Over **14,500**
hours of specialist **training** in environmental issues

1,139
environmental **audits** of which 1,047 conducted in-house and 92 by third parties

29 The Health, Safety and Environment policy, procedures and operational instructions applied by the Group's Divisions and companies define Leonardo's model for identifying, assessing, managing and minimising environmental risks.
30 10 sites in Italy fall within the scope of application of the ETS Directive. No site falls within the scope of application of the ETS on Aviation.
31 Indicators calculated as a ratio to revenues. Emissions intensity refers to the sum of Scope I and Scope II (location-based).

Water management

Water Project - The project was started which envisages an analysis of the conditions of water networks and water treatment plants at most Italian sites in order to design a long-term programme of interventions aimed at solving critical issues and implementing innovative solutions.

Water stress - Leonardo monitors water withdrawals and discharges in water-stressed areas, putting in place actions and interventions for a more efficient management of water resources[32].

Facility management

Digitalisation - A new approach has been developed, which is based on big data analysis to optimise maintenance and cleaning activities at 50 sites.

Audits - Over 2,000 audits and inspections were carried out in relation to catering, maintenance, hygiene, civil and industrial cleaning.

Hazardous substance management

Leonardo's sites where production processes are carried out, which involve the controlled use of hazardous substances operate in line with specific regulations to manage risks and any potential impact on the environment:

- 12 sites subject to the Integrated Pollution Prevention & Control (IPPC) Directive[33];
- 4 sites classified as subject to Major Accident Hazards (RIR - *Rischio di Incidente Rilevante*)[34];
- 24 sites holding a Single Environmental Authorisation (AUA - *Autorizzazione Unica Ambientale*), 3 of which monitor certain potentially hazardous priority substances at discharge[35].

Leonardo has traced 490 substances, 16 of which are subject to authorisation (REACH Regulation) in the Group and in the supply chain on the Italian perimeter, and has prepared 140 Substitution Plans in the related industrial processes. Over 700,000 parts have been monitored and analysed.

Remediation

The management of contaminated sites is based on an approach of responsibility and sustainability to implement the best technical and operational solutions. 20 remediation processes are currently underway. By 2021, work will be completed for the removal and remediation of asbestos-containing materials, planned since 2016, the current state of progress of which is about 70%.

Environmental investments

Leonardo has planned 98 efficiency improvement measures, 19 of which have already been completed, and investments of €mil. 17.1 for the period from 2020 to 2024, of which:

- 86% for the reduction of energy consumption and CO_2 equivalent emissions;
- 6% for water efficiency;
- 8% for reducing waste generation.

For the mitigation of climate change-related effects, additional investments have been planned for €mil. 1.4 (in the period from 2020 to 2023) in order to reduce risks related to acute and chronic physical events, including reconfiguration of a road boundary and the full operation of water networks.

Energy efficiency

Facility management - 145 zero-investment energy efficiency improvement programmes were defined and implemented over the two-year period from 2019 to 2020 in relation to manufacturing and office facilities. 6 sites have an ISO 50001 certified energy management system.

Demand Response - Leonardo has made available 2 MW of power generation capacity in order to support the operator that manages the networks for the delivery of energy in Italy in the resolution of potential congestion. The project, in line with the sustainability objectives of the European Green Deal, allows a more efficient use of the power generation resources available in Italy.

Self-production of energy and district heating - Detailed analyses were started on the first pilot projects in the fields of photovoltaic and trigeneration to increase the share of self-produced energy from green and efficient sources. Operations commenced on the "District heating for Aircraft - Turin" project, which will make it possible to eliminate the use of gas-fired site heating systems for winter air conditioning.

LED Industrial Lighting - Since 2014, more than 12,000 lamps have been replaced, resulting in estimated annual savings of 16,800 MWh in full operation. A second phase of the programme was scheduled for the Group's Italian sites in 2020.

Energy Efficiency Partnerships - An agreement was signed with Enel to put in place measures on efficient and green energy self-generation systems, efficiency improvement and incentive management services, innovative Demand Response projects, and interventions on the quality and stability of electricity grids serving factories and plants.

32 For more details on water withdrawals and discharges in water-stressed areas, please see the GRI indicator 303.
33 Directive 2008/1/EC and Directive 2010/75/EU.
34 Directive 2012/18/EU (Seveso III), transposed into Legislative Decree 105/2015, as amended and supplemented, in Italy.
35 For the management of potentially hazardous priority substances in the field of water discharges, reference should be made to the international standard (Directive 2013/39/EU) and national legislation (Legislative Decree 172 of 13 October 2015. Implementation of Directive 2013/39/EU).

Green mobility

Mobility Survey - More than 11,000 employees at 52 sites have responded to the home-work commute survey to assess readiness for the shift to low pollution emission cars, carpooling, public transport and bicycling.

Electric and hybrid cars - 26% of the long-term leased company car fleet is hybrid/electric drive, 51% of the pool fleet. 53 charging towers have been installed at 21 facilities. A car sharing pilot project has also been launched at some sites, using only electric or hybrid cars, with the aim of gradually extending it to the entire Group.

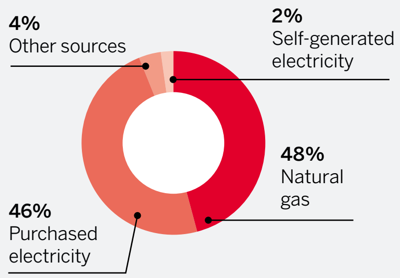
Bicycles - 35 racks have been installed for bikes and scooters.

Less plastic

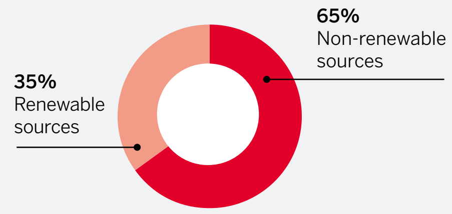
- The replacement of disposable plastic cups and scoops with environmentally friendly materials in approximately 1,500 vending machines at 35 sites has avoided the use of approximately 12 tons of plastic.
- More than 50,000 reusable masks instead of disposable ones have been distributed to employees, avoiding more than 7,200 kilos of plastic.

Environmental performance 2020

Energy consumption by source

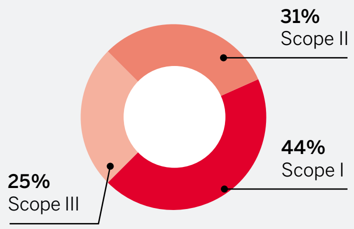


Energy consumption from renewable sources

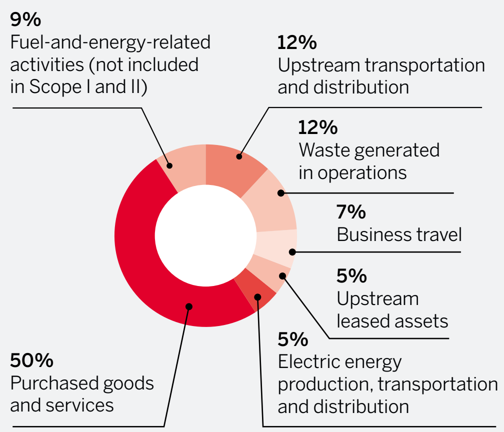


- Energy consumption: 5,493 TJ (-6% compared to 2019).
- Natural gas is the main source of energy, accounting for 48% of total.
- 35% of total energy consumption comes from renewable sources (100% of electricity for sites in Italy and in the United Kingdom comes from renewable sources)[36].

CO_2e emissions (Scope I, II and III)

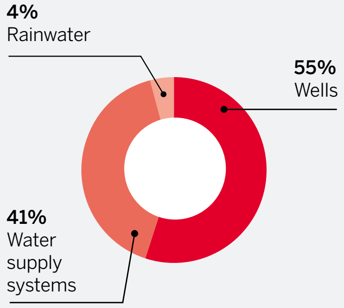


CO_2e indirect emissions (Scope III)

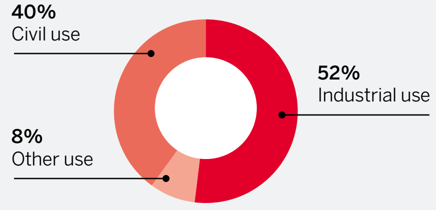


- Total emissions of CO_2e: 816,094 tons (-7% compared to 2019).
- Scope I emissions: 359,711 tons of CO_2e (+8% compared to 2019).
- Scope II emissions: 248,958 tons of CO_2e (-7% compared to 2019) calculated according to the location-based method[37].
- Scope III emissions: 207,425 tons (-26% compared to 2019).

Water withdrawals by source

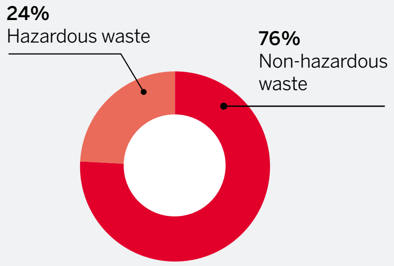


Water usage

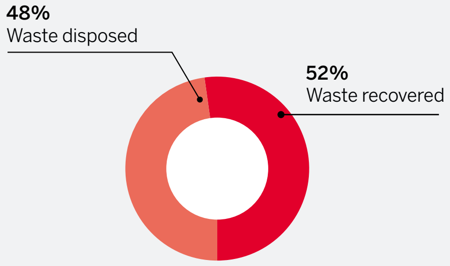


- Water withdrawals: 5,287 megaliters (-10% compared to 2019).
- Water usage: 4,786 megaliters (-13% compared to 2019).
- 52% of water resources used for industrial use.

Waste produced



Waste by disposal method



- Waste produced: 34,474 tons (-10% compared to 2019).
- Non-hazardous waste accounts for 76% of total.
- 52% of waste produced has been recovered (of which recovery for 35% and recycling for 16%).
- 890 tons of paper (+28% compared to 2019) and 490 tons of plastics (+50% compared to 2019) were recycled.

36 Covered by Guarantee of Origin.

37 The location-based method considers the average intensity of GHG emissions of the networks on which there is energy consumption, mainly using the data relating to the average emission factor of the network.

Technological solutions to fight climate change

In developing products and solutions, Leonardo uses materials, methodologies and technological solutions that favour the reduction of greenhouse gas emissions, minimise the quantities of materials that are used, while limiting the use of hazardous substances, and extending the useful life of products. The development of technologies to combat climate change also takes place within the framework of the main national and European programmes in the sector, including Horizon 2020 and the Clean Aviation programme, which is currently in the process of being defined, for the development of competitive low-carbon technologies.

Leonardo's areas that contribute to combating climate change, as well as monitoring and mitigating its effects are mainly the development of technologies for products and services with lower environmental impact, the development of solutions for Earth observation and satellite data collection, which can be integrated with other sources of information, and the development of products and services to intervene in the case of natural disasters.

Circular economy model

Optimise

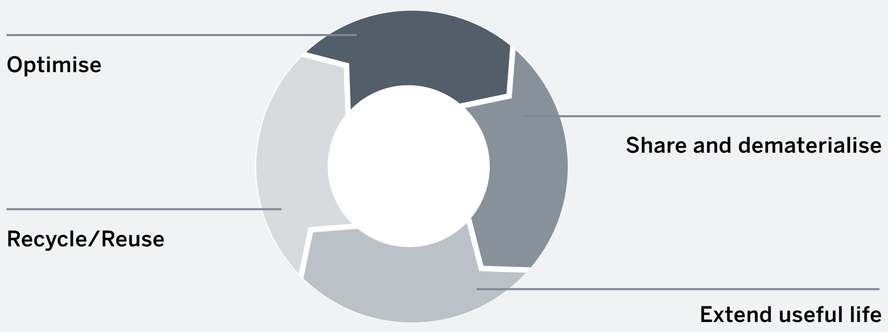
- Reducing materials through advanced design systems.
- Applying the product life cycle management and eco-design approach.
- Using composite materials to reduce weight, consumption and impacts.

Reduction in fuel consumption by **10-15%** and in **emissions** by **20%** with the use of carbon fiber for aerostructures of aircraft and helicopters.
About **60% less of scraps** by using Additive Manufacturing for the construction of primary composite parts of the Tiltrotor.

Share and dematerialise

- Selling flight hours instead of products.
- Virtual product testing.
- Virtual training systems.

More than 28,770 tons of CO_2 avoided through the use of virtual training systems in 2020.
Reduction in IT energy consumption thanks to the rationalisation and consolidation from 50 data centres to two target data centres, increasing reliability and security.



Recycle/Reuse

- Using recyclable metal materials.
- Regeneration of used components.
- Recycling of auxiliary materials, packaging, assembly platforms and metal equipment.
- Buy-back of used helicopters.

More than 70% of aircraft and helicopters in circulation composed of **recyclable metal parts**.
52% of waste produced **was recovered** in 2020.
Over 1,500 kilos of ferrous material put back into use thanks to the disposal of 4,000 kilos of WEEE (Waste of Electrical and Electronic Equipment) through a social impact project in 2020.

Extend useful life

- Optimising maintenance cycles.
- Replacing only components that reach end of life.
- Upgrading software to extend the life of hardware components.

Aircraft structures capable of maintaining a level of **useful life greater than 20 years** of operation.

Prosperity

Prosperity

Prosperity is the result of economic and social security that is achieved while respecting people's rights, collective needs and in harmony with the Planet's natural resources. Leonardo takes action on the entire value chain to contribute to long-term prosperity. Technological innovation, especially in its digital dimension, is the key enabler to sustainable development as a result of the effects it brings and the support of the entire research ecosystem. Partnerships, oriented towards customer satisfaction and the suppliers' resilience capability, are the foundation for solid economic growth. Investments in the territory and the promotion of scientific and technological culture, which is essential to face the challenges posed by contemporary society, generate a positive social and economic impact on communities and future generations.

Priority issues

- R&D, innovation and advanced technologies
- Digital transformation
- Customer intimacy
- Solutions' quality, safety and performance
- Sustainable supply chain
- Development of territories and communities
- Citizens' security

SDGs

Impact indicators

124,000 employed and €bil. 10.5 of direct, indirect and induced added value generated in Italy[38]

50% of investments in 2020 contributed **to the SDGs (SDG-aligned)**

26,000 employed and GBPbil. 1.9 of direct, indirect and induced added value generated in the United Kingdom[39]

DAVINCI-1, ONE OF THE MOST POWERFUL SUPERCOMPUTERS IN THE WORLD

davinci-1 is one of the most powerful supercomputers in the world, ranking 89th in the TOP500 list and 37th in the HPCG500 list[40]. Among the supercomputers of private companies, it is placed tenth worldwide, second in Italy and ranks just after NASA and JAXA in the aerospace sector. davinci-1 is a machine conceived to perform multiple tasks at the highest level, from the most demanding needs of complex numerical simulations, such as those used to design helicopters and aircraft, to the processing of data, up to the development of applications based on artificial intelligence and cloud computing – the latter is necessary for use within the GAIA-X projects, which Leonardo has decided to join, aimed at creating a marketplace where the supply and demand of cloud services meet. Within this context the standards are to be defined which will be adopted in Europe in the future and this constitutes an additional key lever, for Leonardo, to develop leadership in cyber services and solutions based on IoT, EDGE and cloud, HPC, artificial intelligence and big data technologies.

38 *Sistema industriale della difesa per il Paese* - AIAD, Prometeia. Data relating to 2019.
39 The contribution of Leonardo to the UK economy 2020 - Report of Oxford Economics. Data relating to 2018.
40 November 2020.

Technological innovation

Innovation, technology and sustainability are the factors underlying Leonardo's strategy, which are integrated with each other and on which its competitiveness and future growth are founded. In line with the "Be Tomorrow - Leonardo 2030" Strategic Plan, the company's objective is to become a driver of innovation at a systemic level, through the creation of an ecosystem centred on research for product development, carried out within the Group's Divisions and companies, and on technological research carried out mainly within Leonardo Labs, the laboratories set up in 2020.

The Group's strategy to 2030, which is outlined in the 2030 Masterplan for Innovation, is to promote and inject disruptive innovation at various levels across the company by focusing on low TRL (Technology Readiness Level) projects, which, alongside their intrinsically high risk, are the only ones that can guarantee a long-term return on investment.

The cornerstone of the Masterplan are Leonardo Labs, incubators for impressive research and development programmes applied to strategic domains of the highest priority for the future of the Group. The Labs aim to increase technological power, accelerate digitalisation processes and develop innovative technologies by generating and enhancing key competencies. Along this path, the Sustainable Development Goals (SDGs) of the United Nations indicate the direction to follow in order to give rise to positive impacts from its business activities on the whole society and the community of stakeholders.

Leonardo's davinci-1, the new supercomputer (High Performance Computing - HPC), which was installed at the end of 2020, is one of the main platforms for the development of the Labs' activity as an accelerator of knowledge and an enabler in the transition to digital, allowing Leonardo's researchers and engineers to compete for and defend the company's leadership all over the world. From simulation to artificial intelligence, value creation is, in fact, increasingly shifting from physical to virtual products and davinci-1 is the key to enable this transition in today's scenario.

The 2030 Masterplan also sets out the other pillars on which Leonardo's innovation is based: strengthening the strategy on intellectual property, for the maintenance, management and enhancement of the portfolio of patents and technologies, inside and outside the Group, and that dedicated to projects financed both at a national and international level.

Open innovation projects with universities, research centres and industrial partners are an additional tool to support innovation, in addition to knowledge sharing initiatives that, despite the difficulties due to the pandemic, have been carried on and enhanced thanks to the increasingly widespread use of digital tools.

Numbers of innovation

€bil. 1.6 spent on R&D and product engineering

Collaborations with **more than 70 universities and research centres** in the world

8,800 people dedicated to R&D

6.1 petaflops of computing power and

27.1 petabytes of storage capacity

Leonardo Labs

Leonardo Labs are the technology incubators conceived to support the Group in long-term research and development of the most innovative technologies, especially in the digital field, and transversal competencies across the company's business areas. The technological scope of the Labs is outlined within the 2030 Masterplan and each lab will incorporate several research units focused on topics such as artificial intelligence (AI), autonomous systems, big data, high performance computing, simulation and modelling, quantum technologies, electric mobility, materials and structures.

These new facilities – some set up in collaboration with industrial partners and research centres that are world leaders in their respective fields of expertise – are and will be built close to Leonardo's main industrial sites with the aim of also facilitating technology transfer and maximising the benefits to the relevant territories, strengthening collaboration with local institutions. The Labs will thus be fertilizers for local areas while allowing Leonardo to centralise the development of frontier technologies centred on the sustainability of solutions.

The Labs also make it possible to feed a continuous flow of talent and to ensure flexibility and renewal, both in terms of skills and professional competencies: Leonardo's research fellows coming from all over the world, who are part of the Labs network, in fact work together with experts and researchers within the Leonardo Divisions to contribute to increasing the Group's competitiveness and, where possible, to anticipate innovation, with a view to long-term sustainable growth. The international call for recruitment, which was launched in June 2020, led to the selection of 72 young researchers from over 900 applications.

Leonardo Labs in detail

Future Rotorcraft Technologies	Development of technologies and solutions for next-generation rotary-wing platforms with the aim of improving safety and operational flexibility of aircraft and electrifying propulsion systems. Specifically, the lab will develop advanced modelling solutions, solutions for the application of AI to flight control/management systems for the optimisation of pilot-aircraft interaction and research on the electrification of propulsion systems for urban air mobility applications.
Future Aircraft Technologies	Development of technologies and solutions for next-generation fixed-wing platforms to improve the production and monitoring of platforms throughout their life cycle and to electrify propulsion systems. Specifically, the lab will develop AI-based solutions for advanced pilot assistance in complex and changing operational scenarios. Research activities are also planned on electrification of propulsion systems for the sustainability of future aircraft and autonomous (unmanned) platforms.
Materials Technologies	Development of new materials, especially composites, and related production processes, with the aim of improving mechanical properties in aeronautical applications, extending life cycle and the possibility of reuse and reducing production costs. Specifically, the lab will develop research on multifunctional materials and structures capable of combining mechanical features, system functionality and specific physical/chemical/mechanical properties.
Space Technologies	Development of advanced monitoring technologies capable of combining satellite data with other data, with the aim of building a global system for monitoring of land and environment, critical infrastructure, management of natural events, EMS operations, health emergencies, smart cities, border controls. Specifically, methods and algorithms will be developed for monitoring based on machine learning and deep learning.
Future Electronics & Sensing	Development of new technologies and solutions for command and control systems in order to transform current decision support systems into a truly cognitive process that leverages AI and state-of-the-art solutions. Research will also cover the development of new technologies and algorithms for autonomous vehicles, the development of a predictive maintenance framework, and the development of AI-based solutions for human activity detection in crowded environments.
Quantum Technologies	Development of secure quantum communication technologies, computing technologies and quantum sensing, with particular attention to sensors for inertial navigation. In particular, a specific area of research will be devoted to investigate quantum computing with particular attention to quantum algorithms and its application to machine learning.
Applied Artificial Intelligence	Development of AI technologies and applications of strategic interest to Leonardo and capable of exploiting the HPC functionality in a more effective manner. Specifically, advanced solutions will be developed, which leverage the ability to explain the functioning of AI and to search for cutting-edge solutions in certain domains. Specific research will investigate new methods and technologies to use AI on low-energy consumption and low-computational capacity devices.
HPC/Cloud/ Big Data Technologies	Developing the ability to modernise Leonardo applications and leverage advanced HPC architectures. Specifically, the lab will develop solutions that are best suited to new applications in synergy with big data, HPC and AI concepts to support IoT and EDGE solutions. The lab hosts the davinci-1 supercomputer, which will significantly strengthen the capabilities in supercomputing, big data and AI application development both across the company and in Italy.
Intelligent Autonomous System	Development of autonomous systems based on intelligent robots and advanced man-machine interaction technologies, for specific missions, production activities, operations in extreme environments, maintenance and, in the future, in aerospace environments too. Particular attention will be paid to research into new solutions for navigation, mobility and locomotion, motion planning and interaction, manipulation control and AI solutions for robots.

Leonardo-Solvay Joint Lab

The Joint Lab with Solvay will be operational from 2021 and will be headquartered at Leonardo Lab in Grottaglie and supported by Solvay MSAC - Application development centre in Brussels. The collaboration programme with Solvay is a significant step forward and a key competitiveness factor in the research on advanced materials. It will allow the Group to improve performance and safety of products, in order to expand their potential, with direct effects on environmental impact and resource consumption, giving impetus to a circular and efficient production system. The Leonardo-Solvay Joint Lab will operate in the sector of engineered materials with a thermoplastic matrix and, in particular, in the field of welding and automatic lamination (in situ consolidation) of complex and large aerospace structures, in order to improve properties of products and extend their life cycle. Thermoplastic composites offer in fact unique advantages, including weight reduction, for more fuel-efficient aircraft. In addition, the new material does not require the use of an autoclave during the manufacturing phase to consolidate parts, thus enhancing the efficiency on the production line. The agreement is the starting point for further collaboration platforms, both in the short and medium term, on applications in the aerospace sector and beyond.

Leonardo-Istituto Italiano di Tecnologia Joint Lab

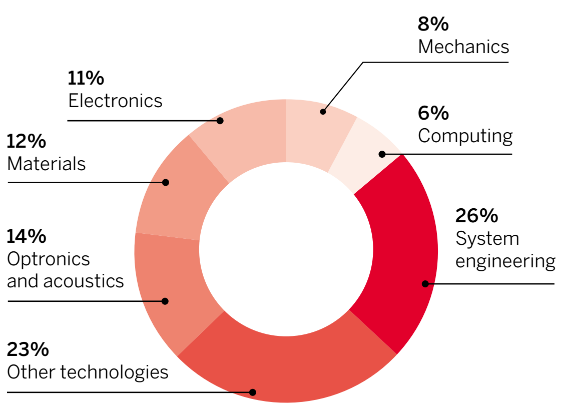
This Joint Lab, which will be operational from 2021, will be headquartered at the Leonardo Lab in Genoa and will be dedicated to research and development in three areas of interest: AI for manufacturing, space robotics and computational sciences. It has been designed to develop and combine robotics and automation technologies with machine vision, machine learning, AI, augmented reality, remote-controlled systems and IoT, and will enable multi-purpose applications – from defence to civil markets, from disaster recovery to space applications – thanks to the ability to deal with real-world scenarios: recognising objects, people's behaviour and dynamic events, classifying activities, predicting events, reconstructing the 3D environment, while exploiting all available sources of data. This lab aims to understand human behaviour and intentions and anticipate situations to perform tasks. Such smart capabilities spread across many application domains, including surveillance, drone control, robotics, machine-to-machine and man-machine interactions. The Joint Lab's challenge will be that of achieving the adaptive capabilities suitable to operate in extreme conditions.

Intellectual property governance

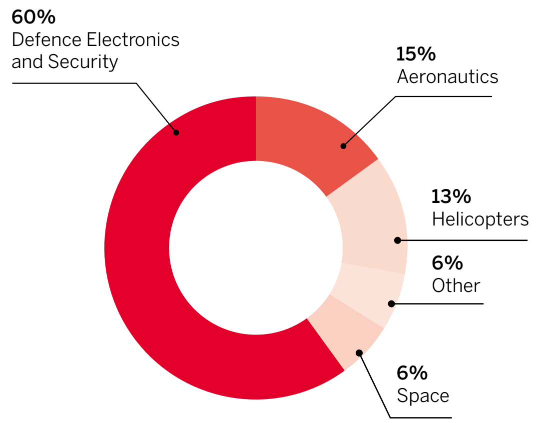
In 2020, policies and procedures were designed for the management of intellectual property (IP), with the centralisation of IP Management and the creation of the Corporate IP Office, the Patent Office and the Technology Transfer Office, in order to support Leonardo's and Leonardo Labs' researchers in the analysis of patenting opportunities and the exploitation of the results of our corporate R&D. Among the main operational tools for the promotion of patents and company technologies are proprietary online showcases[41] and partnership agreements with technology advisors and hubs. The patent offering is mainly oriented to the dual use of technologies in sectors surrounding Aerospace, Defence and Security, as well as to supporting small- and medium-sized enterprises (SMEs) in the evolution of their products and helping start-ups. A showcase of patents dedicated to Mechatronics has been created in collaboration with the technological hub of MESAP[42]. In 2020 Leonardo also joined the Open COVID Pledge, an international project for the free use of solutions and technologies to realise innovations that allow the diagnosis, prevention, containment and treatment of the virus[43].

41 For more details, please see the website https://techtransfer.leonardocompany.com/.
42 For more details, please see the website https://www.mesap.it/brevetti-leonardo/.
43 For more details, please see the website https://techtransfer.leonardocompany.com/en/news/covid19.

Patents by key technology



Patents by sector



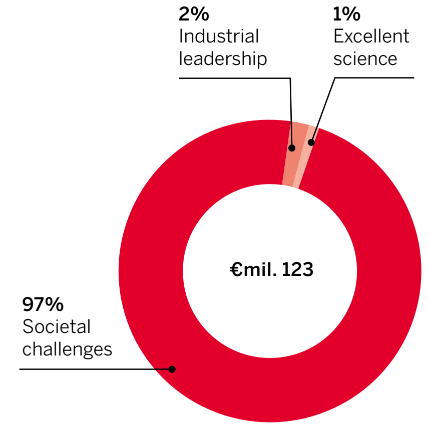
Funding programmes for research and innovation

Leonardo participates in regional, national and supranational research and innovation funding projects and programmes, including major European programmes such as Horizon 2020 and the European Digital Innovation Hub, the Italian Technology Clusters, in particular with the chairmanship of the National Cluster for Aerospace Technology, the Competence Centres and the Regional Technology Hubs.

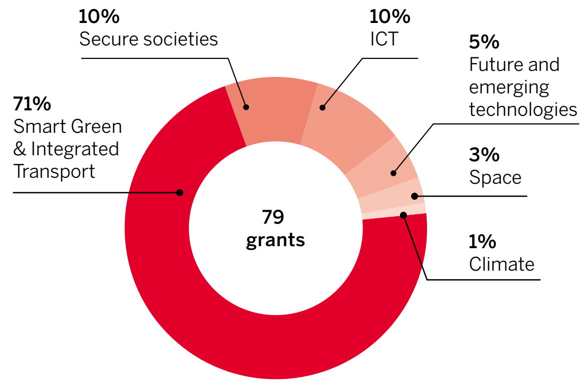
Within the European Horizon 2020 programme for funding of research and innovation, Leonardo is a partner in a number of projects, in fields that range from maritime surveillance to space technologies, from the reduction of environmental impact to combat climate change to the development of technologies for a new generation of more efficient and environmentally friendly regional helicopters and aircraft and next-generation air traffic management (ATM) infrastructures. Under the Horizon 2020 programme, Leonardo is the first company in Italy for financing received, with 79 grants for a total amount of more than €mil. 123[44], 97% of which was devoted to social challenges, one of the three pillars of the programme, i.e. those issues related to society and citizens, such as climate, environment, energy and transport.

Other significant projects for their impacts on innovation and sustainability, such as the PhotonHub Europe, ORCHESTRA, WE-TRANSFORM and EuroHPC, were also launched during 2020, which will contribute to the European Green Deal especially as regards issues related to the digitalisation of SMEs and public administration and the reduction of CO_2 produced by air transport.

Horizon 2020 - Financing received by pillar



Horizon 2020 - Projects financed by scope



44 The figure refers to financing granted to Leonardo SpA and Leonardo MW.

European research programmes

ORCHESTRA - H2020 Transport - In the area of architectures and systems for power supply and communications of avionics systems, the consortium will consider all key technical issues, including electrical architectures, machines, power management and control, cabling solutions, thermal management, electrical energy storage, experimental and virtual testing, as well as system integration, to develop and deliver a holistic framework of scalable modular "building blocks" that incorporate emerging technologies and revolutionary design ideas. Among the main quantitative targets of the project are the reduction of the overall weight of the Electric Power Supply (EPS) by 25% and the improvement in EPS efficiency by 10% over the current state of the art, thus contributing to lowering CO_2 emissions produced by air transport.

Clean Sky - This programme, which is currently in its second iteration (Clean Sky 2), is the largest aeronautical project in Europe, aimed at reducing the environmental impact of civil air transport, in terms of gaseous emissions (CO_2 and NO_x), noise and recyclability of materials over the entire life cycle of the aircraft. The programme is structured into several research areas and Leonardo is the leading Group of two of the three Innovative Aircraft Demonstrator Platforms: Regional Aircraft with the Aircraft Division and Fast Rotorcraft with the Helicopters Division.

Clean Aviation - The new Institutional Partnership under Horizon Europe will continue work of Clean Sky, pursuing particularly disruptive technological objectives such as electric and hydrogen propulsion. Leonardo is involved in the preparation of the programme with a particular focus on fixed-wing aircraft in the Regional transport segment.

SESAR - The Single European Sky Air Traffic Management (ATM) Research programme, in its second iteration (SESAR 2020), is aimed at upgrading the ATM architecture in Europe by focusing on the harmonisation of national traffic control systems and the efficiency improvement of systems through a massive use of automation and digitalisation. The high level objectives of the programme are: to triple the capacity of the European skies, to improve safety by a factor of 10, to reduce environmental impact by 10%, to reduce ATM service costs by 50%. Leonardo is a founding member of SESAR; the Aircraft Division is the leader in the work on regional, military and RPAS aircraft; the Helicopters Division is co-leader in the helicopters segment; the Electronics Division is active in projects related to air traffic control operations and systems, communications and civil-military interoperability. Telespazio also participates in the areas of positioning, navigation and satellite communication, applied to both manned and unmanned aircraft.

SESAR 3 Integrated ATM - This is the new institutional partnership that will follow SESAR 2020, within the scope of the new European framework programme Horizon Europe for the period from 2021 to 2027. Leonardo will focus its research and development work on low-altitude operations in urban environments, for which technology enablers and airspace flight rules will have to be developed, as well as on the containment of emissions and noise through specific flight procedures and trajectories.

PhotonHub Europe - Leonardo is an integral part of the European Digital Hub on ICT Photonics, which will commence operations in 2021 and includes 53 partners in 18 European regions. For Italy the cluster is located in the Tuscany region and Leonardo will be a key partner to offer services to the regional/national SME supply chain and to the European ones. The activities will contribute to the European Green Deal especially for the issues related to the digitalisation of SMEs and public administration.

European Digital Innovation Hubs (EDIHs) for Industry 4.0 - Digital Innovation Hubs, in synergy with national Competence Centres, aim to foster the adoption of well-established enabling digital technologies, such as cloud technologies and applications of data analytics and AI, high-performance computing (HPC) and cyber security, on the part of the industry and organisations in the public sector in Europe. The DAMAS hub led by Leonardo was designated by the Ministry for Economic Development (MiSE) as a candidate to become one of the EDIHs in Italy. The EDIH led by Leonardo will focus its work on AI, exploiting the processing capabilities provided by a powerful high-power computing infrastructure. It is designed to meet the innovation needs of automotive and aerospace production chains, supporting them in their digitalisation process. Leonardo also participated as a partner in other 8 consortia that submitted applications under the MiSE's call for EDIHs, 7 of which were selected, along with DAMAS, for the European bidding phase that will follow in 2021.

EuroHPC and national competence centres - Leonardo has re-joined the ETP4HPC association (of which it was one of the founding members) and the EuroHPC Joint Undertaking (EuroHPC-JU), which will have a budget of about €bil. 8, under the next framework programme, many of which will support the introduction of HPC techniques in European companies. Based on the proposal of co-funding projects, Leonardo's objective with the new HPC davinci-1 laboratory is to co-finance 50% of the human resources within its organisation, or double the budget made available to the company. Again within the scope of EuroHPC, Leonardo has joined the national HPC Competence Centre as one of the main industrial partners. The Competence Centre is

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funded by EuroHPC-JU as a hub of the network of 27 European Competence Centres in HPC. Leonardo carries out tutoring, training and project development activities with companies operating in the fields of simulation and AI in order to enable them to exploit HPC infrastructures and increase the adoption of HPC and cloud computing in industrial supply chains, with particular reference to SMEs. The activities will contribute to the European Green Deal especially for issues related to digitalisation.

ECSEL - Development of electronic components and systems, including big data, cloud, software and AI applications for embedded systems, Industry 4.0 and safety & security. Leonardo also participated actively in drafting the 2021 Strategic Research and Innovation Agenda.

WE-TRANSFORM - H2020 Transport - The project aims to apply a participatory approach, using AI and Collective Intelligence, to search for, formulate and prioritise challenges related to the effects of automation on the transportation workforce, future working conditions and skill requirements.

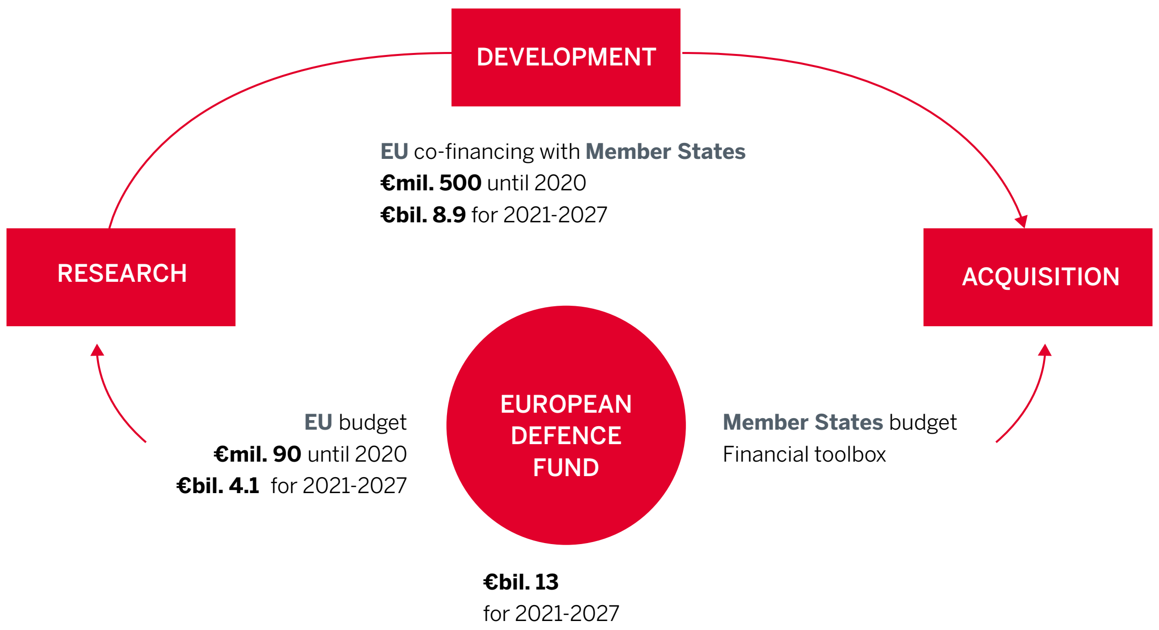
Defence research and funding programmes

In developing opportunities in the field of European defence research, supported by the European Defence Fund (EDF) programme, Leonardo has supported the Defence Administration in the activities related to the topics of the Permanent Structured Cooperation (PESCO) scheme under the Italian leadership. Leonardo has been awarded 3 projects related to the call for Preliminary Action on Defence Research 2019 (PADR) and 6 projects related to the Call for European Defence Industrial Development Programme (EDIDP).

With regard to the EDIDP 2020 call, Leonardo has presented 16 projects in consortium with other European companies, acting as a coordinator in 5 of these.

During 2020, Leonardo continued to work with the 5th Department of Segredifesa (Italian Defence Secretariat General) on technological innovation for Defence both at national (under the National Military Research Plan - NMRP) and European level (with the CapTech groups of the European Defence Agency - EDA). Segredifesa has selected 4 Leonardo projects within the scope of the NMRP 2020, of which one is under the responsibility of Leonardo Labs, for a total funding of €mil. 5, and 27 new proposals have been submitted by Leonardo for NMRP 2021, of which 3 involve Leonardo Labs. Finally, work continued on the research and innovation programmes promoted within NATO, the European Defence Agency and the Italian and European Space Agencies.

European Defence Fund - Funding mechanism



Open innovation & contests

Leonardo actively participates in an innovation ecosystem that includes over 70 universities and research centres around the world. In the United States, for example, Leonardo also holds three university chairs in addition to collaborating with some of the most prestigious universities. In addition, with the aim of strengthening the relationship between universities and businesses, Leonardo representatives sit on the steering committees of numerous Italian universities, so as to contribute to outlining the educational offer of some of the main engineering faculties, including through teaching and laboratory activities. There are several projects of technological collaboration, as well as to identify, select and develop Proof of Concept with start-ups and innovative SMEs, for example in relation to different digital technologies and additive manufacturing. On a periodical basis Leonardo launches hackathons, calls for ideas and contests in order to strengthen the technological network of collaboration and find solutions both inside and outside the company perimeter.

Main contests and university collaborations in 2020

Call for Entrepreneurship - The Call for Entrepreneurship "Innovative Business Ideas" is an initiative dedicated to the entire population of Leonardo aimed at bringing out new innovative business ideas that, by leveraging the use of existing products, services and technologies, enable the creation of new business models and solutions that are also applicable to market segments adjacent to the Group's traditional ones. The project was launched in June 2020 and collected 94 proposals divided into three different areas: Augmented Services, Digitalisation and Improving Quality of Life. 230 employees participated in the contest. The winning teams will be accompanied along a path to incubation of the idea for its acceleration towards the market.

Drone contest - This open innovation project, which was launched in 2019, is aimed at fostering the development of artificial intelligence applied to the field of remotely piloted systems in Italy. Leonardo is coordinating the project, which involves a path to technological development and experimentation in phases with a total duration of three years to mature algorithms and solutions for cooperative autonomy of drones in any operational scenario. The first challenge was held on 18 September 2020 with the involvement of six Italian universities: Politecnico di Torino, Politecnico di Milano and the Universities Alma Mater Studiorum in Bologna, Sant'Anna in Pisa, Tor Vergata in Rome and Federico II in Naples. Leonardo Tutors, belonging to all Divisions, support PhD students who in turn work in teams with students, researchers, other PhD students and professors, in synergy between different departments and degree courses. The Politecnico di Torino, for example, has created a working group involving over 40 young people.

Contest with the Italian Army - In 2020, the first event was held on the innovative use of unmanned systems in an operational environment, developed by the Army Training Command and Application School in collaboration with Leonardo.

European T TeC - This was the second edition of Telespazio's contest aimed at students, PhDs and researchers on technological issues in space domains. It involved 15 departments of Italian universities and 15 departments of universities in the United Kingdom, Germany, France and Spain.

Contest #E-TeC (ENAC Technology Contest) - "*Idee tra terra e cielo*" (Ideas between earth and sky) for the development of modern service concepts with drones. E-TeC is a project promoted by the Italian Civil Aviation Authority (*Ente Nazionale Aviazione Civile*, ENAC) to enhance university research activities in the field of science and technology by offering young university students the opportunity to design and implement new service concepts based on the use of remotely-piloted systems. Leonardo has supported the project by providing support in the definition phase of operational needs and technical evaluation of solutions, as well as business potential.

Cyberchallenge - This is the main Italian project organised by CINI - Cyber Security National Lab to identify, attract, recruit and place the next generation of cyber security professionals. Leonardo, which is the sponsor of the event, actively participated in the training programme for young talents (16-23 years old), with several thousand students involved.

Cybersecurity Scholarship Programme - This is a collaboration programme with the University of Genoa, to design a specialist course of studies focused on cyber security for the 2020/2021 academic year. The programme will provide students with knowledge and operational training for the cyber defence of digital infrastructures through an educational path that combines traditional training with innovative and engaging activities based on gaming and simulation models.

Incubator initiative - This is Leonardo DRS's initiative in the United States to incentivise innovation through challenges that involve domain specialists and employees.

Supply chain value

Leonardo's supply chain is made up of more than 11,000 companies around the world, which contribute on a daily basis to the competitiveness of the business, ensuring compliance with quality and safety requirements in the supplies and actively collaborating in the management of contracts and open innovation processes, with the sharing of knowledge, skills and technologies. It is a supply chain that includes both international Aerospace, Defence and Security players, which supply highly complex systems and subsystems integrated into Leonardo platforms, and many SMEs, the technological specialisation of which contributes to the creation and success of our products. Leonardo's considerable industrial footprint in its four domestic markets (Italy, the United Kingdom, the United States and Poland) has in fact enabled the development of local supply chains with a high intensity of knowledge and innovation, which are a key asset for the relevant local areas in terms of economic and employment impact and even more so for the quality of the skills developed and the technological content of the products and services Leonardo creates. This is where most of the Group's purchases are concentrated and Leonardo plays an active role through the creation of partnerships and the implementation of development programmes.

Supply chain in 2020

8.9

€ billion of purchases of goods and services

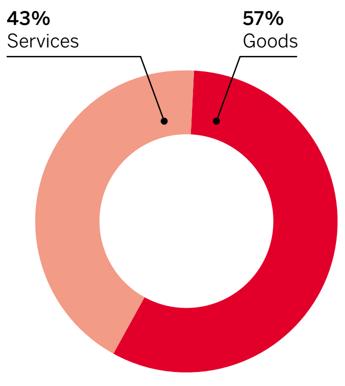
63%

incidence of purchases on revenues

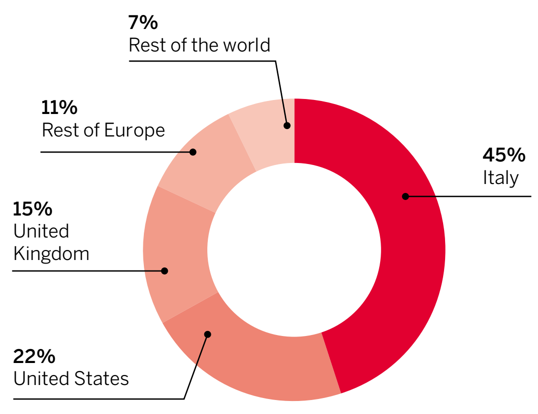
82%

of purchases related to **domestic markets**, with a supply chain of more than 7,000 SMEs

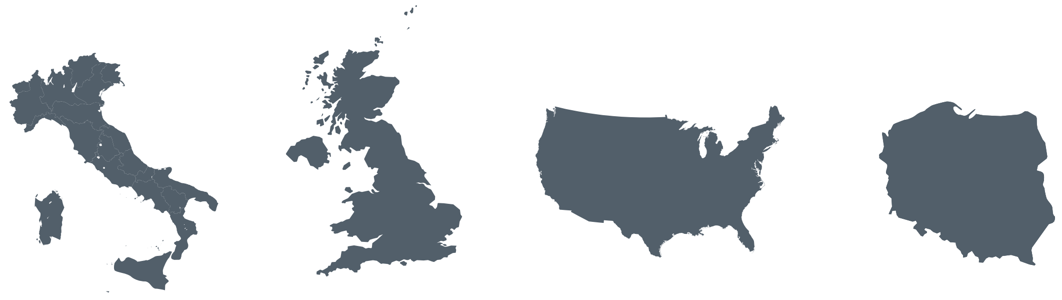
Purchases by type



Purchases by country



Local supply chains - Incidence of national SMEs in domestic countries



Italy	United Kingdom	United States	Poland
86%	71%	71%	87%

Supplier relations are managed by a professional family of over 1,700 Procurement & Supply Chain professionals worldwide, with different roles, specialisations and cultures, engaged to create a quality, innovative, integrated, resilient and sustainable supply chain. This objective relies on four key pillars within which projects, initiatives and concrete tools are developed to support the Group's growth, building a sustainable partnership with the excellences in the supply chain, while optimising costs and creating value, in compliance with Leonardo's security and compliance standards.

4 pillars of Leonardo's procurement and supply chain strategy

- **Sustainable growth**
- **Profitability & value creation**
- **Delivery/Processes excellence**
- **Security & compliance**

Partnerships and growth programmes for suppliers

The Leonardo Empowering Advanced Partnerships 2020 (LEAP 2020) programme is the new supplier management model, now in its third year of implementation, which is aimed at creating the best conditions to enhance capabilities and technological excellence of its partners. The process starts from the analysis of the strengths and weaknesses of key suppliers, on some high-impact categories, overcoming the traditional dimensions of price and performance, in order to identify the suppliers eligible for advanced collaboration initiatives and medium/long-term partnerships. To date a base of more than 1,300 suppliers has been analysed in Italy for a total expenditure of about €bil. 2. Of these, around 200 suppliers were preliminary identified for a partnership path. In particular, for over 100 suppliers, improvement and development projects have already been launched, including targeted managerial and technical-specialist training programmes, long-term commercial partnership agreements, agreements for financial support, support for technology transfer and digital transformation.

Through specific instruments, activated also in partnerships with external stakeholders, and a continuous improvement approach, Leonardo aims to guarantee greater punctuality and quality of supplies as well as a qualitative and quantitative growth of the partners, with a focus on the development of the suppliers' expertise, the ability to innovate and a greater financial stability. These are the factors necessary to increase business resilience and become more competitive in international markets.

LEAP2020

More than 1,300 suppliers analysed, 200 eligible for partnerships, more than 100 involved in improvement and development projects

ELITE Leonardo Lounge

67 key suppliers participating in the programme, for a turnover of €bil. 1.3 and a total of 7,500 employees

LEADS

500 Italian and foreign key suppliers involved in the new phase of sustainability analysis

Measuring the sustainability of Leonardo's supply chain - Results of the survey on sustainability and innovation[45]

600
Italian suppliers who responded to the survey representing more than 80% of the core orders

62%
of businesses which export

38%
of businesses where more than half of the employees have a STEM secondary-school diploma/degree

27
out of 100 businesses focus their sales only on one sector

30%
of businesses with managers in key positions above 25%

42%
of businesses invest more than 5% of sales revenue in R&D

64%
of businesses have adopted one sustainability initiative

- High level of business specialisation.
- High export vocation.
- Traditional corporate structure (family, restricted shareholder base) prevailing.
- More frequent corporate transactions in larger companies.
- Strong specialisation of workforce in technical training.
- For R&D activities, 4 out of 5 companies collaborate with third parties.
- 93% hold third party certifications (mainly quality and aeronautics).
- Energy efficiency and waste reduction/recycling among the main sustainability initiatives.
- Training, financial support, tools to promote internationalisation and to collaborate are requisites for medium-term growth.

45 The survey for Italian suppliers was completed in the first quarter of 2020 and focused on markets and corporate structure, managerial capacity and human capital development, innovation and technological development, sustainability, circular economy and external transparency. Strengths and weaknesses guided the development programmes launched with LEAP2020.

Supply chain training and growth programmes

ELITE Leonardo Lounge - This is a two-year development programme targeted at entrepreneurs and top managers of supplier companies to accelerate their growth by facilitating access to capital, network and key skills. The number of key suppliers participating in the programme increased up to 67, from 13 Italian regions, with an aggregate turnover of €bil. 1.3 and a total of 7,500 employees. In 2020, 3 workshops dedicated to greater supply chain integration were also organised, during which Leonardo's top management transferred to its suppliers the vision and path to achieve key common goals: "Technologies and Networks for Innovation", dedicated to open innovation and digital transformation, "Sustainability - the key to business success" and "Lean Management & Leonardo Production System". During 2020, the programme was completed with sessions dedicated to the development of a resilience plan.

Confindustria's Digital Innovation Hub for digital transformation - Raising awareness of, and training in, 4.0 technologies, assessment of the level of digital maturity and cyber security, while also focusing on the risks of smart working, outlining a development roadmap and giving support to supplier networking in the Industry 4.0 ecosystem, from smart factories to Competence Centres. 28 key suppliers from 9 Italian regions participated in the first phase of the project, which was completed in 2020, for an aggregate turnover of over €mil. 600 and a total of almost 3,000 employees.

Supply Chains for the 21st Century (SC21) - Leonardo's 69 suppliers in the United Kingdom, 25 of which are sponsored by the company, participate in the programme to improve competitiveness in the sector by acting on the supply chain performance.

Hellios/JOSCAR (Joint Supply Accreditation Register) - Approximately 500 suppliers have been involved by Leonardo in the industry-wide initiative to qualify common suppliers.

Supplier 360 Capability Assessment - The programme launched at the Farnborough Show in 2018 with the top 50 suppliers in the Electronics Division continued with improved assessment and engagement capacity. Currently, 100 suppliers are participating, including 60 strategic suppliers registered on JOSCAR.

LEAP2020 Partnership - Specific long-term commercial agreements were signed with over 55 suppliers with a focus on continuous improvement and sustainable development objectives.

Leonardo Technical Training - Training for technical and specialist skills of managers, office and manual workers, in order to also meet the demand for new specialist labour expected in the coming years. The programme funded by Fondimpresa, which was launched in 2020, involves the first 19 suppliers.

Additive Manufacturing - Development and implementation of an employee training programme to enhance innovation related to this technology, with the support of a diversified network of expert suppliers and in collaboration with local universities to engage students in research and development.

Aerospace Growth Partnership (AGP) - The Manufacturing & Supply Chain Working Group within the AGP is a cross-sector forum that supports aerospace in the United Kingdom, focusing on challenges and supply chain opportunities, as well as on market trends. Leonardo is involved on areas such as new technologies, procurement strategies, Industry 4.0 for SMEs, the SC21 programme, funding strategies and Aerospace Technology Institute projects.

Cyber security - Workshops were organised in the United States, with more than 300 suppliers, to support large and small suppliers to achieve or pass audits for compliance with new US Department of Defense (DoD) cyber security regulations and increase supply chain cyber resilience.

Supplier Relationship Management (SRM) - The online conference held in the United Kingdom with key stakeholder representatives hosted 18 strategic suppliers to launch the SRM programme, focused on five areas: Resilience, Cost & Value, Innovation, Sustainability and Ways of Working.

Support against COVID-19

Supplier survey - Data were collected on the impact and responsiveness of over 1,700 Italian and foreign suppliers, with detailed information on operating limits, use of smart working, delays in logistics operations, and the need for public/private financial support in the medium to long term.

Crisis Committee - Structured coordination was ensured between divisional procurement managers across the various geographical areas to manage communication, monitoring and definition of action plans. In particular, communications were sent to all suppliers to ensure the performance of contracts by implementing precautionary measures, in line with national and international guidelines on the health emergency, and continuous monitoring of around 3,000 suppliers of greatest interest commenced, with synergic activities between the Divisions and corporate management.

Financial support - To cope with the financial needs caused by the pandemic, Leonardo has strengthened the package of financial solutions and tools available to its suppliers to ensure continuity and development of AD&S programmes. Through the enhancement of the supply chain, the agreements make it possible to preserve access to credit for small- and medium-sized Italian suppliers in the sector. The project follows and extends the scope of action of the agreement signed in 2019 for LEAP2020 key suppliers and involves some of the leading financial institutions in Italy as partners.

Site services and logistics - The system of site services (sanitation, canteens, PPE, etc.) and freight transport was put under control and strengthened.

Sustainable supply chain management

Among key priorities for product development is that of ensuring the sustainability of the supply chain, which represents a strong commitment to the Group's stakeholders. In recent years, the focus on environmental, social and governance (ESG) issues has gradually increased in all phases of collaboration with suppliers: from the application to become a supplier, to the pre-qualification and qualification phases to enter the register, from selection criteria to the contractual terms and conditions, up to due diligence audits and development plans of suppliers.

In selecting its suppliers, Leonardo applies structured pre-qualification and qualification processes, which assess ethical aspects and compliance with the social, environmental and health and safety regulations in force in various countries in order to reduce ESG risks in the supply chain. Leonardo's potential suppliers must in fact pass the first pre-qualification phase to check compliance with economic, financial, ethical, legal, social and environmental requirements, which is repeated at least every two years. If there are risk factors, including in relation to the ownership structure and the final beneficiaries, a reputational analysis is performed with the support of specialist databases. Subsequently a qualification stage is launched, which analyses technical and operating capabilities for specific supplies. A successful qualification is required to become an effective supplier. For some product categories, supplier selection takes into account the compliance with specific ESG requirements, for example environmental certifications and cyber security issues.

By means of specific clauses included in contracts, suppliers must guarantee that their subcontractors also meet the same qualification requirements.

Finally, suppliers are involved in the management of specific strategic and operational risks related to the supply chain, from risks of obsolescence or the procurement of critical materials, up to the increasing risk of cyber-attacks. In particular, an ESG assessment has also been introduced for key suppliers, which includes additional audits on risks associated with the management of conflict minerals and related mitigation actions, in line with Leonardo's policy. Maintenance of the requirements is monitored via periodic checks throughout the entire duration of contractual relationships. Serious or repeated non-compliance with requirements can result in temporary or definitive exclusion from the Register. Leonardo manages its relationship with suppliers through a dedicated procurement portal, in order to ensure transparency and traceability of information.

Main phases of supplier selection and management[46]

Phase					
Portal registration	Code of Ethics	Anti-Corruption Code	Supplier Code of Conduct	Organisational, Management and Control Model	
Pre-qualification	Economic-financial requirements	Pension and social security contributions	No criminal sanctions	Non-inclusion in international black lists	Compliance with Modern Slavery regulations (*)
	Check of environmental crimes	No use of child, forced or illegal labour	Compliance with anti-corruption regulations	Compliance with Trade Compliance requirements (**)	Compliance with anti-money laundering regulations
Qualification	Technical and professional requirements	Environmental information (***)	Health and safety certifications (OHSAS 18001)		
	Quality certifications	Cyber security			
Selection/Call for bids	Check of specific tender requirements	Supply terms and conditions	Compliance with conflict minerals regulation	Check of existence and maintenance of reputational requirements	
Management and monitoring	Monitoring activities (documents, inspections, on-site audits)	Improvement plans	Pre-qualification revocation	Black list	

2020 KPIs

>6,500 pre-qualifications of suppliers

103 denied pre-qualifications of new suppliers

114 revoked pre-qualifications of suppliers in the renewal phase

>5,300 qualifications completed

118 reputational due diligence

723 suppliers selected based on environmental criteria

>2,600 environmental, health and safety audits on service providers (indirect suppliers)

>1,000 audits on direct suppliers

>4,000 performance improvement reviews on direct suppliers

6 black listed suppliers

(*) Modern Slavery Act 2015 in the United Kingdom and Code Title 22, chapter 78 in the United States.
(**) Check carried out only for suppliers in at-risk countries.
(***) Of which in possession of environmental authorisations and certified management systems; compliance with REACH, RoHS and WEEE and waste regulations.

Knowing and leading suppliers

LEADS (Leonardo Assessment and Development for Sustainability) - The new evaluation and development model has been finalised and implemented, which aims at the 360° growth of Leonardo's partners. Supplier evaluation has been divided into different components and made measurable to support a path to continuous improvement: operating performance (punctuality, quality), technical skills and manufacturing capabilities (technical capabilities, operational excellence, capacity, cost attention), ESG sustainability (compliance, business health, social-environmental responsibility, innovation, managerial capabilities). In 2020, Leonardo agreed specific improvement plans with the 24 key suppliers that had completed the appraisal on all evaluation axes, whose progress is monitored regularly. More than 500 key Italian and foreign suppliers were also invited to participate in a dedicated digital assessment that will enable them to obtain their respective sustainability scoring and an initial development roadmap for all participants in 2021.

ESG evaluation - About 3,000 suppliers operating in the United States have been assessed on environmental, social, and governance issues based on ESG ratings provided by a third party body. Furthermore, more than 30 key suppliers have been involved in an ESG assessment combined with an evaluation model to jointly define supplier development activities.

Supply Chain Fragility Working Group - The cross-sector working group, which was formed by the Ministry of Defence in the United Kingdom in 2020, aims to work with key direct suppliers, including Leonardo, to better manage risks and strengthen supply chain resilience.

Business Continuity Planning - This is a business continuity management plan designed to take account of Brexit-related risks, especially for the most exposed suppliers such as, for example, logistics partners and suppliers subject to import/export licenses.

46 The figures refer to a Leonardo SpA, Leonardo Global Solutions, FATA Logistics Systems, Vitrociset.

Customer support, quality and safety

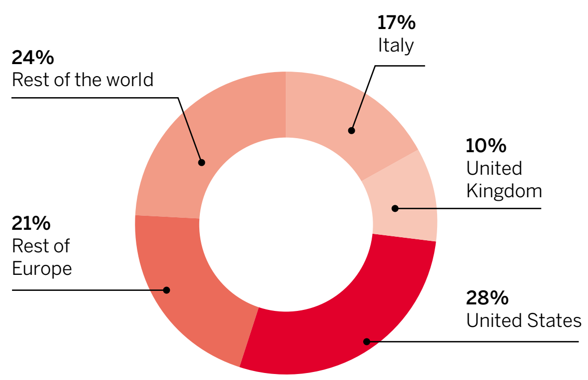
Providing innovative technological solutions to contribute to the progress and safety of the world. From the design phase to the development of products, services and solutions and after-sales service, Leonardo searches and applies high levels of quality, safety and sustainability, in compliance with the standards and regulations of a highly regulated sector, in order to become a trusted partner for its customers. For Leonardo, customer centricity means in fact thinking every day about the positive impact of its business, responding to every possible operational need of its customers and striving to anticipate what could become their critical issues in the future.

4
virtual stands with more than **4,500 visits** and **1 digital exhibition**

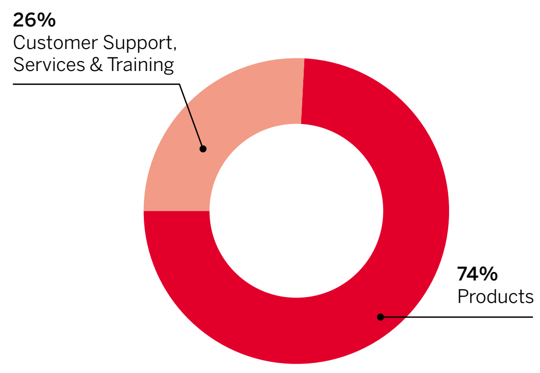
150
delegations hosted worldwide

40
events with the customers

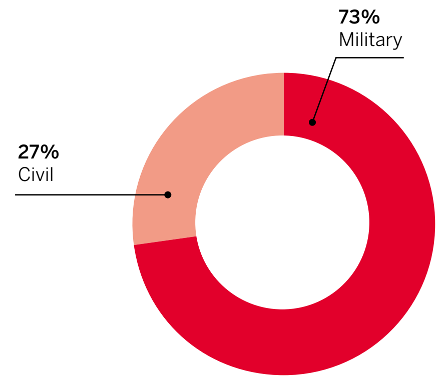
Revenues by geographical area



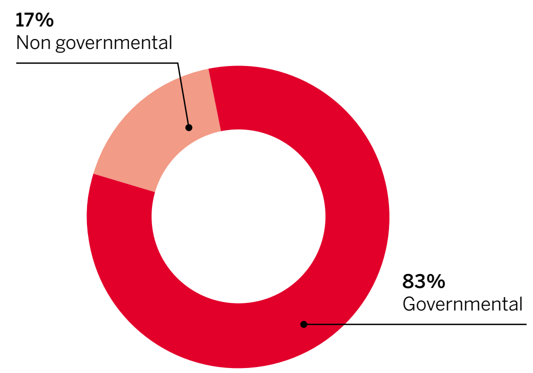
CSS&T revenues



Sales by civil/military market



Sales by governmental/non-governmental market



Civil/military by sector

●	47%	65%	84%
●	53%	35%	16%

Governmental/non-governmental by sector

●	67%	67%	92%
●	33%	33%	8%

Customer support and training

Leonardo offers customised solutions and innovative, value-added after-sales support services: from the offer of integrated services to continuous hardware and software upgrade that ensures customers extended performance over time, as well as to training programmes, which are required to maintain direct contact with end users and nurture a strategic relationship in the long term. The development of the Customer Support, Services & Training business and the improvement in customer satisfaction are among the objectives of Leonardo's Strategic Plan, which are pursued through a transformation that involves the organisation, processes, procedures, the way of doing business and, above all, people. This is a paradigm shift, from "product support" to "customer support", which leverages some key concepts for greater resilience: customer centricity, servitisation, continuous improvement, development of hard and soft skills, data management, through the application of smart technology and increasingly digitised processes. The organic management of customer satisfaction and customer support management tools ensures a high level of information integrity and full transparency in customer communication, while improving the relationship with the company and facilitating the digitalisation of services with a view to sustainable innovation.

Training, which is a strategic area for Leonardo, is based on advanced technologies for the virtual reproduction of aircraft systems and their operational use. The use of simulators cuts back on real flight hours, with a positive impact on costs and environmental and noise pollution. Virtual and augmented reality technologies, distinguished by their high quality, are also used for maintenance and predictive maintenance, thus helping to prevent and identify failures and inefficiencies.

Over
26,000
training hours delivered through flight simulators

Over
9,800
pilots and operators of helicopters and aircraft trained

First place
among helicopter companies in **ProPilot**'s 2020 ranking for quality of after-sales support

Pilot training

International Flight Training School (IFTS) - The programme was born from the strategic collaboration between the Italian Air Force and Leonardo for the creation of an advanced flight training centre at international level in the training of military pilots, as from the advanced phase of training (Phase IV), subsequently employed on next-generation aircraft. Currently the IFTS is operational at the 61st Wing in Galatina (Puglia) with the M-346 Integrated Training System. The use of the M-346, which is the most advanced aircraft available on the market in terms of avionics and aerodynamic performance, and the related Ground Based Training System (GBTS), a state-of-the-art system that incorporates flight and mission simulation, will allow a significant reduction in actual flight hours during Phase IV, thus resulting in a decrease in emissions and hourly cost of training. In addition, thanks to the advanced performance of the M-346 aircraft and simulation systems on board and on the ground, it is possible to reduce the flight hours scheduled for the subsequent phases of Operational Conversion Unit, which are generally performed on fighter aircraft, with significant reduction in fuel consumption, emissions and costs.

Customer intimacy

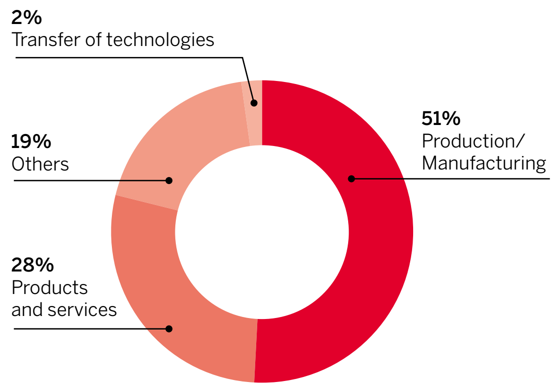
Customer satisfaction - With the use of the Net Promoter System (NPS) methodology, which was implemented in full in 2020, more than 150 customers have been involved from the civil, military and government markets in different geographical areas, obtaining a deeper and more complete knowledge of the perception of the company and providing tools and structured processes to take corrective measures, from offering new services that anticipate the needs of Leonardo's customers to organising meetings and dialogue events, with a view to continuous service improvement. The NPS score has recorded an annual improving trend just thanks to the corrective actions undertaken and the application of this methodology.

Customer Service Digitisation - Leonardo has launched new Customer Relationship Management (CRM) and e-commerce platforms that enable customer management with the best digital tools, offering a single point of access for all after-sales services to customers in the civil and military sectors. This is a single architecture that adapts to the peculiar features of different businesses.

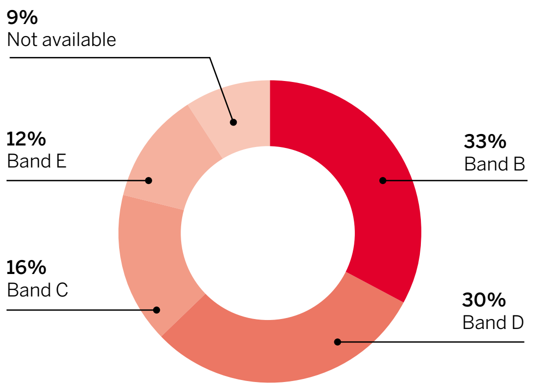
Industrial collaboration programmes

Leonardo collaborates with its international customers to generate economic and industrial benefits, both in the civil and defence sectors, under industrial offset agreements. In 2020, Leonardo had 43 indirect offset contracts in place around the world. The management of these projects is inspired by the principles set out under Leonardo's codes and is based on compliance with the applicable national and international regulations[47].

Indirect offset projects by type



Offset projects by country risk[48]



47 For more details, please see the paragraph "Responsible business conduct".

48 The break down takes account of the available evaluations of the countries according to the most recent classification of the Government Defence Anti-Corruption Index of Transparency International, which ranges from corruption risk level A (very low) to F (critical).

Quality and safety

Company engineering and manufacturing processes are based on recognised procedures and standards, providing training and information to people on an ongoing basis, and the integration of risk management and product life cycle management methodologies, with the aim of ensuring maximum safety of products and services and making deliveries to customers within the expected timeline and without defects, using materials and resources in the most efficient way. Every Division or specific programme within the Group is supported by safety-oriented R&D work, is provided with a safety governance system at the central Division level and Safety System Management constituents at the local function level, control and risk assessment procedures and manuals, quality management systems and continuous improvement plans. Compliance with high quality standards is also required from suppliers, to guarantee materials and goods without any defect in design, manufacturing and installation, and verified during the qualification phase. Leonardo is also subject to audits by the competent safety authorities due to the type of products and services it provides.

89%

of employees operate at sites certified according to the **AS/EN 9100 quality standard**

42%

of Italian suppliers with **aeronautical certification** of processes[49]

3

safety roadshows in the helicopters sector with more than **150 participants** in 3 countries

In the applicable businesses, Leonardo has in place Airworthiness Review processes to investigate any event with potential impact on safety and take any appropriate precautionary measure and/or corrective action. In 2020, Leonardo agreed an Emergency Airworthiness Directive related to the helicopter field for a surface defect on a tail rotor blade with the competent aviation authority. Following the investigation and in accordance with current regulations, Leonardo issued the applicable Alert Service Bulletin (ASB), providing instructions to manage the identified risk[50].

Furthermore, Leonardo plays an active role in the evolution of sector standards and regulations through its participation in the main international organisations, including IAQG (International Aerospace Quality Group), EAQG (European Aerospace Quality Group), CBMC (Certification Body Management Committee) and contributes to designing the EPAS (European Plan for Aviation Safety) implemented by the European aviation authority with all Member States. Since 2018, it has guided the IAQG's Strategy Working Group, which defines quality standards and the related certification scheme format, measuring effectiveness and developing the global database of best practices.

Performance-Based Navigation - Advantages for EMS, civil protection, surveillance and fire-fighting operations

The certification standards of Leonardo helicopters, with their advanced systems and equipment, already make it possible to develop and use flight procedures compliant with modern Performance-Based Navigation (PBN) requirements in support of the different phases of flight. PBN flight procedures, which are implemented using advanced satellite navigation, contribute significantly to optimising airspace use, with increased safety for flight operations due to higher accuracy in navigation and in approach and landing procedures, which is critical particularly in complex weather conditions. These procedures are added to or upgrade more traditional ground station-based systems, while allowing a reduction in pollutant emissions and noise impact through dedicated routes and greater efficiency. Passenger transport, EMS, civil protection, surveillance and firefighting, with day and night operations, are among the main application areas that can benefit from this technological advancement.

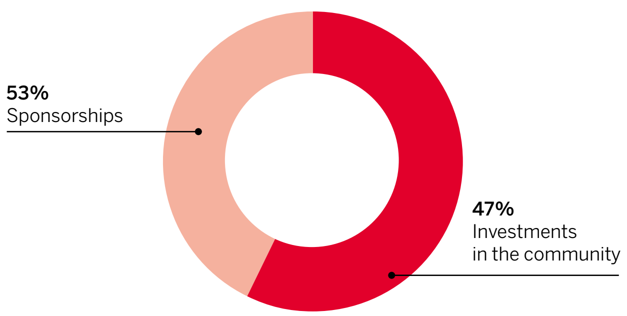
49 Out of a sample of 600 Italian companies analysed, accounting for more than 80% of Leonardo's core orders.
50 Data available on the website of the European Union Aviation Safety Agency.

Value for territories and communities

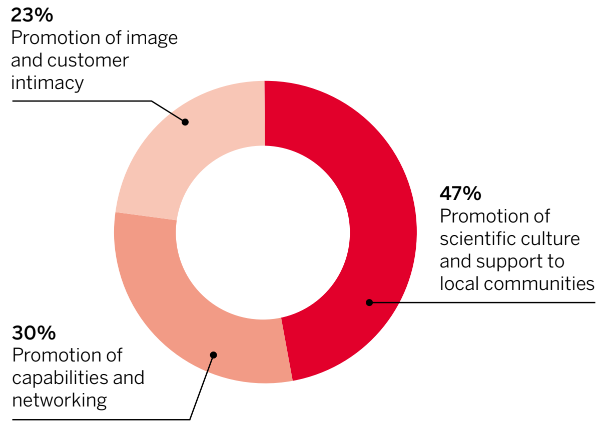
Social commitment

Leonardo has invested an amount of €mil. 3.6 in sponsorship and investment initiatives to support communities and territories, encourage inclusion and combat social inequalities, promote scientific culture and business capabilities, while strengthening the Group's heritage and industrial culture. The selection of activities, which has taken place in compliance with the selection processes required by company regulations, aims to focus its efforts on issues relevant to the company's strategy or on the link with the territory to maximise impact, while avoiding the dispersion of small contributions. In particular, conferences linked to specific business areas, geographical areas or institutional environments have been selected for capacity building. Furthermore, a number of initiatives have been digitised to cope with the health emergency. Leonardo's commitment is also expressed through the activities carried out by Fondazione Leonardo - Civiltà delle Macchine and Fondazione Ansaldo, as well as with a voluntary contribution on the part of employees and former employees.

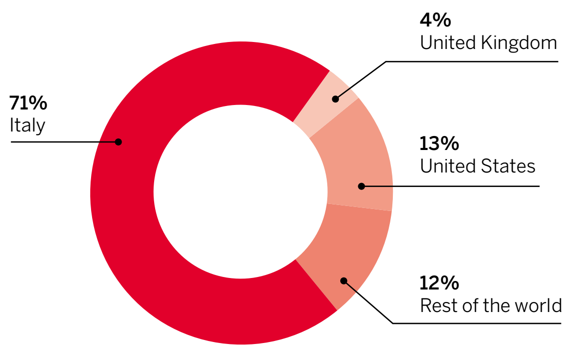
Scope of action



Type of initiative



Geographical area



Support to territories

WEEE in prison - With over 4,000 kilos of discarded WEEE, Leonardo collaborates in the project for the recovery of materials – ferrous and non-ferrous metals (copper, brass, bronze, tin), plastic polymers, rubber and computer components such as electronic boards, processors and power supply units – which involves Bollate prison (Milan). The recycling system, located inside the prison, has been built and operates thanks to the collaboration of institutional and private players.

Red Cross - Leonardo has given its support to the Red Cross in Italy and the United States, mainly for the containment and prevention of the pandemic in the two countries.

Telethon Foundation - Leonardo has funded a scholarship in the framework of the International Doctorate Programme in Molecular Medicine at the San Raffaele University of Milan.

Support to war veterans in the United States - Leonardo DRS supports solidarity programmes reserved for war veterans and their families, as well as disabled athletes such as Armed Services YMCA, Fisher House and Army Ten Miler.

UK Business Hero - Leonardo has been recognised as a "UK Business Hero" by the British Chambers of Commerce for its ongoing work to support current and future Armed Forces programmes during the pandemic and its contribution to local communities by producing hundreds of personal protective equipment for the National Health Service.

World Commerce & Contracting Innovation Awards - Leonardo has been recognised as Highly Commended in Innovation in the Crisis Award category of the World Commerce & Contracting Innovation Awards 2020 for its work in combating the COVID-19 outbreak, producing essential devices such as 3D visors and masks for the National Health Service and nursing homes in the United Kingdom.

Marshall Legacy Institute - Leonardo supports the US humanitarian organisation that contributes to demining programmes around the world, including Mine Detection Dogs, which are regarded by The Humane Society as the fastest and most effective method of identifying landmines, which are still present in more than 60 countries.

Solidarity and culture projects

Responsible Canteens Programme - This programme, in partnership with Fondazione Banco Alimentare Onlus and canteen service providers, has been designed for the recovery of surplus food from the canteens of the main Italian factories in favour of non-profit organisations. In 2020, about 99,000 portions of food were distributed, as were baked goods, fruit and vegetables. Leonardo has also sustained its commitment with Fondazione Banco Alimentare by promoting the "National Food Collection" which was dematerialised in 2020, allowing purchases online or at supermarkets that have joined the programme.

Rolli Days Digital Week - Fondazione Ansaldo has supported the digital event that has allowed people to discover the Genoa buildings that are Unesco heritage sites, by presenting the Foundation's headquarters, Villa Cattaneo dell'Olmo, and the rarities present in its archives with a video for more than 2,000 viewers.

#WOMEN - This is the first of a series of exhibitions of the Mostre in Fabbrica project (Exhibitions in the Factory), created by Fondazione Ansaldo and Leonardo with the aim of enhancing and strengthening the link between the worlds of culture and industry. The exhibition has been dedicated to the role played by women in the world of work, especially inside factories. The novelty of the project is that the exhibitions will be itinerant at the production sites of the Foundation's industrial partners.

Integrated Museum and Archive System - The Italian company museums that are part of the Museum System are the Agusta Museum in Cascina Costa (Varese), the Breda Meccanica Bresciana Museum in Brescia, the Officine Galileo Museum in Campi Bisenzio (Florence), the Radar Museum in Bacoli (Naples), the headquarters of the Associazione della Melara in La Spezia and, from November 2020, the Aeronautical Industry Museum in Turin/Caselle. Museum openings in 2020, limited by the pandemic, welcomed around 780 people, accompanied by the company's Seniores (over 200 active in the museums) and volunteers.

Volunteerism - In addition to the Volunteer Noticeboard, an in-house platform created to support offers and requests for volunteer work for non-profit organisations and the community, in 2020 the Stories of Volunteerism section on the company portal made it possible to share the experiences of employees.

Education and scientific citizenship

The promotion of scientific citizenship forms an integral part of Leonardo's strategy to strengthen skills and the innovation chain. Leonardo aims to be a point of reference for scientific culture in the countries in which it operates, from projects to enhance STEM disciplines and access to the professions of the future to relations with the educational system – in all cycles of compulsory schooling, with training activities also for teachers and special attention to the involvement of girls and young women – and strategic partnerships with universities, colleges and research centres.

Over
37,000
students reached with university Career Days and job fairs in Italy and the United States

1,653
hours of teaching by Leonardo employees in 5 Italian Technical High Schools (ITS)

Over
780
training opportunities activated with the educational system[51]

46
Italian institutes supported with the crowdfunding project **Leonardo for the School**

Leonardo's STEM ambassadors, present in the various geographical areas, encourage young people to undertake STEM studies, spreading passion for science and technology and improving the company's ability to recruit from a prospective point of view. In Italy, through their collaboration with Technical High Schools (Istituti Tecnici Superiori), Leonardo ambassadors transfer to students not only knowledge and skills but also a passion for the profession, enhancing the industrial vocation of local areas and contributing to their growth and development. Within the scope of the School-Business System project (promoted by the ELIS consortium), Leonardo has also made available to students the testimonials of 19 Role Model women with STEM backgrounds who deliver inspirational talks in secondary schools. The focus on female STEM subjects in the United Kingdom, with career fairs, summer schools and dedicated competitions, has also seen an increase in the presence of girls in recruitment for internship, apprenticeship and industrial placement roles, with a share of almost 20%. Almost 20,000 spontaneous applications were received through the Group's website application system.

Science popularisation

Events on STEM, education and scientific citizenship - Over 1,900 people participated in the events organised by Leonardo in virtual mode on topics related to science, technology and culture. Fondazione Leonardo - Civiltà delle Macchine took part in the Sustainable Development Festival, promoted by ASviS (Italian Alliance for Sustainable Development), with the digital dialogue "*La fiducia, il diritto di essere noi*". In addition, representatives of the Group took part in the Technology Biennial organised by Politecnico di Torino and in the "*Verde e il Blu Festival*", highlighting the role of new technologies for sustainability.

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Distance learning, training and digitalisation

Leonardo for the School - This is the first crowdfunding project launched to support an extensive programme of digitalisation of Italian schools, one of the sectors most affected by the COVID-19 emergency. The intention was to help equip primary, middle and high schools with new PCs, tablets and other computer devices suitable to facilitate the digitalisation of educational processes. The fundraising, which was targeted at all employees in Italy and included the 2019 bonus of Leonardo's CEO, supported 46 institutes: 30 schools, 18 of which were also committed to providing teaching to children hospitalised for long periods, and 16 juvenile penitentiary institutes. In fact, the need to adopt distance learning has accentuated social inequalities and the digital gap, especially for children without IT tools. The schools

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51 Including internship, apprenticeship, traineeship and school-to-work alternation programmes.

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Civiltà delle Macchine - Four issues of the magazine of Fondazione Leonardo - Civiltà delle Macchine were published in 2020, focusing on issues such as space exploration, the COVID-19 pandemic – with a commitment to curbing the phenomenon of fake news involving representatives from the world of research, medicine, school, philosophers, economists and representatives of institutions – and 5G.

National Geographic Festival of Sciences - For the third year Leonardo was educational partner of the Festival that, with its streaming events, reached over 2 million people. Leonardo promoted 70 digital events dedicated to schools that had over 15,200 views and participated with its speakers in two panels dedicated to artificial intelligence and security.

Science Festival - Leonardo sponsored three online workshops and participated with one of its speakers in the webinar on "Women and Science" targeted at teachers and students. It also produced a short introductory spot on STEM that was used as an intro for the Festival workshops.

Busalla Space Festival - The event sponsored by Leonardo involved representatives of Italian and European Institutions, industry representatives, scientific speakers, astronauts, representatives of hi-tech industry and research.

Cool Aeronautics Event - Leonardo's STEM ambassadors in the United Kingdom hosted the virtual event, in collaboration with the Royal Aeronautical Society, which involved more than 470 children, transferring them new engineering skills to apply in an adventure game.

Stories of STEM women - The series of interviews with women with Leonardo STEM backgrounds, broadcast on all company communication channels, tell stories of achievements, passion for scientific disciplines, motivation and great determination, to inspire the new generations without gender stereotypes and enhancing diversity.

STEM@Home - Series of videos launched during the lockdown made by Leonardo employees offering fun activities to introduce young children to STEM disciplines. 95 STEM ambassadors organised 10 virtual events as part of STEM@Home in the United Kingdom.

>>

supported have been those affected by greater social and economic hardship, identified in agreement with the Ministry of Education.

Siena Advanced School - There was the third edition of the advanced training school on the themes of environmental, economic and social sustainability, organised by ASviS and promoted by Leonardo. Among the participants of the School were also two employees who won the internal Leonardo4SDGs competition.

Treccani Scuola and Fondazione Leonardo - Civiltà delle Macchine - The Foundation, in collaboration with Treccani Scuola, has designed a new publishing project to enrich the platform for distance learning with cultural and scientific content. Together with the company's managers and technicians, online lessons and STEM multimedia content have been created to make Leonardo's knowledge and technological skills available to the Italian school system.

Fondazione Ansaldo - In response to the requests from schools in local areas, Fondazione Ansaldo has developed new educational programmes that can be used online, dedicated to women and children's work in factories from the end of the 19th century to the 1950s and to industrialisation. In 2020, about 200 students took advantage of the Foundation's educational offer.

Career Days - Every year Leonardo participates in the Career Days of the main universities in order to optimise recruiting processes and offer young people an opportunity for job orientation. In 2020, Leonardo reached more than 37,000 students with university Career Days and job fairs, virtual and in-person, in Italy and the United States. In Italy in particular, Leonardo interacted with more than 22,000 young people through webinars, video interviews, one-to-one chats, avatars and virtual stands, participating in 8 digital events.

Millennials and Generation Z - Leonardo DRS in the United States promotes the Generational Mentoring Program and organises workshops and forums dedicated to listening to the new generations.

Solutions for security and progress

Leonardo's investments have a direct and indirect impact on various industrial sectors and areas of society, anticipating and satisfying the needs of customers, citizens and territories. As a confirmation of the full integration of sustainability into the Group's strategy, in 2020 more than 50% of investments[52] contributed to the Sustainable Development Goals (SDG-aligned investments). The main impacts are connected with SDG 9 "Industry, Innovation & Infrastructure", SDG 8 "Decent work and economic growth" and SDG 11 "Sustainable Cities & Communities", giving a direct contribution to strengthening innovation processes, developing the supply chain, creating skilled jobs and to continuous research into innovative solutions for the society, the environment and the safety of people, infrastructures and territories. This commitment is in line with the CFO Principles on Integrated SDG Investments and Finance, the framework Leonardo supports by participating in the CFO Taskforce of the United Nations' Global Compact to contribute to creating a sustainable financial model for the prosperity of businesses and communities.

Leonardo supports the **Principles on Integrated SDG Investments and Finance** of the Global Compact

~50% of investments in 2020 contributed to the **SDGs (SDG-aligned)**

Investments will mainly support **SDG 8, SDG 9 and SDG 11** in the next three-year period

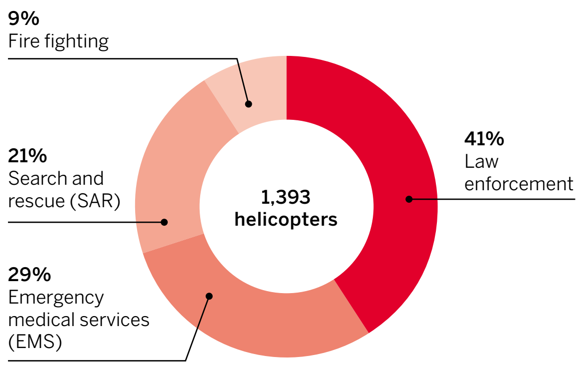
Under its Sustainability Plan, Leonardo intends to strengthen the development and use of products and services for sustainability, such as solutions to reduce environmental impact, systems for the safety of citizens, space technologies to protect the Planet and p eople, even in case of any emergency, monitor critical infrastructures and the historical, artistic and environmental heritage, as well as accelerate towards precision agriculture. Leonardo's capabilities are also being deployed in the medical field, from EMS operations to healthcare logistics, with ongoing experiments in advanced air mobility in urban environments.

71 emergency mapping activated for earthquakes, floods, fires, humanitarian crises

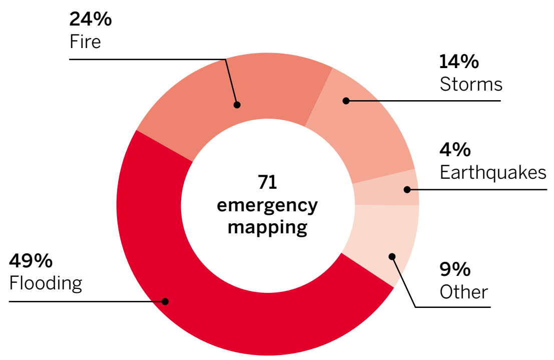
Over 1,300 helicopters used in search, rescue and firefighting missions by more than 250 operators

2 Armed Forces have used C-27J aircraft in standard configuration for **firefighting missions**

Leonardo helicopters by type of mission



Satellite services by type of event



52 The analysis includes R&D capitalised and tangible assets capitalised. More details are provided in the explanatory notes to the consolidated financial statements on "intangible assets" and "property, plant and equipment".

Earth observation technologies

Ozone hole

GOME-2 (Global Ozone Monitoring Experiment-2), on board MetOp satellites, is an imaging spectrometer that collects data to measure the concentration of ozone and other gases in the atmosphere, which protect Earth from the harmful effects of ultraviolet radiation.

Meteorology and climate models

The Sea and Land Surface Temperature Radiometer (SLSTR), on board the Sentinel-3 satellite, enables the measurement of ocean and Earth temperatures through optical and thermal sensors, providing valuable support to meteorology and climatology.

Aeolus, thanks to the ultraviolet laser ALADIN (Atmospheric LAser Doppler INstrument), is the first satellite capable of measuring wind speed and direction on a planetary scale, even where meteorological measurements are not available, such as ocean areas, allowing reliable weather forecasts to be made up to seven days and more accurate climate models to be built.

State of health of vegetation

FLORIS is the high-resolution spectrometer which detects the fluorescence intensity of chlorophyll photosynthesis from about 800 kilometres away to map the state of health of vegetation. It will be used under the FLuorescence EXplorer (FLEX) satellite programme, scheduled in 2023, and will be capable of communicating with Sentinel-3.

Technologies for cities

Transport by drones

Telespazio's experimental project for the delivery of medical goods through the T-DROMES platform and the use of lightweight drones was carried out for the Bambino Gesù Children's Hospital, with the support of Leonardo and ENAC. This platform will be the basis for the future offer of services with drones in different sectors such as security, precision agriculture and monitoring of critical infrastructure.

With the "*Sumeri: Si Salpa!*" project, in partnership with the Municipality of Turin and the support on the part of the Italian Civil Aviation Authority (ENAC), Leonardo has experienced for the first time in Italy the flight of a 130 kilo drone that is capable of carrying weights up to 50 kilos at a maximum distance of 50 kilometres, in safe conditions. This is a solution that will reduce pollution and traffic congestion, by means of electric propulsion, thus making cities more sustainable and cleaner, while offering new services to citizens. The project relies on artificial intelligence, autonomous systems, system and aeronautical capabilities, in addition to the use of the D-Flight unmanned traffic management platform.

Urban Air Mobility (UAM)

It is an innovative transport option based on short-range Vertical Takeoff and Landing (VTOL) flights, and in particular on electrically-powered VTOLs, which may be used to transport up to five passengers and deliver cargo up to 50 miles, thus avoiding congestion of cities and road pollution. It exploits a low-altitude airspace, does not require a runway and its applications range from EMS operations to tourist transport. It is hoped that in 10-15 years air taxis will be commonly used and affordable, and new jobs and services may develop around this market. Leonardo has set a development roadmap with funded research projects that achieved very encouraging results in 2020 on both hybrid propulsion and aircraft architecture, and with internal developments. The Leonardo Lab Future Rotorcraft Technologies will play a crucial role in this area by exploring the frontiers of flight electrification.

Technologies to protect health

Emergency Medical Services (EMS)

Leonardo's EMS helicopters are true "flying hospitals". The personnel on board have the tools to start the medical treatment of patients, stabilise them during the flight and send, through a data link and in real time, the clinical parameters to the hospital of destination. In this manner, the medical team on the ground will have all the information to intervene immediately after landing, thus saving time and ensuring patients a better chance of survival or avoiding permanent damage. The cabins can be configured with the latest generation of medical equipment: from ECMO (ExtraCorporeal Membrane Oxygenation) for blood oxygenation with extracorporeal circulation to intra-aortic balloon pump and neonatal incubators. Leonardo is working to also allow the installation on board of a portable CAT device in the future.

Other informations

Other performance indicators

€ millions	2019	2020	Change %
FFO	1,476	989	(33.0%)
ROE	14.7%	4.5%	(10.2) p.p.
Net interest	(182)	(168)	7.7%

For the definition of indices, reference should be made to the paragraph on "'Non-GAAP' alternative performance indicators".

Related party transactions

In 2010 Leonardo adopted a specific "Procedure for Related Party Transactions" (hereinafter referred to as the "Procedure"), which was mostly recently updated in December 2019, pursuant to CONSOB Regulation 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, Corporate Governance section, "Related Parties" area).

Pursuant to Article 5.8 of the Regulation, during 2020 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 which 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 2019 Report on Operations.

CONSOB - Market Regulation 20249/2017, Article 15

In accordance with CONSOB provisions contained in the Market Regulation adopted by CONSOB Resolution 20249 of 28 December 2017 and subsequently updated by the amendments made by Resolution 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 11971 of 14 May 1999, as amended by CONSOB Resolution 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 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.

Correlation table - Non-Financial Statement

The 2020 Integrated Annual Report provides the information required by Legislative Decree 254/2016, implementing European Directive 2014/95 (Consolidated Non-Financial Statement, prepared within the Report on Operations). The themes required by the Legislative Decree 254/2016 are dealt with in the document, consistently with their materiality with respect to the characteristics of the Group, giving evidence of the activities, performance, results and impacts.

The GRI Standards have been used as the main reporting standards in preparing the Consolidated Non-Financial Statement, in addition to other indicators that help to describe the Group's performance in relation to material topics ("ESG performance indicators", "SASB content index" and "Other indicators"). The table below has been prepared to identify, within the Integrated Annual Report, the information required by the Legislative Decree 254/2016 as well as by the relevant standard on reporting references, the management and organisational model, public policies, the Group's results and performance indicators and the risk categories, which are part of the Non-Financial Statement.

Correlation table with Legislative Decree 254/2016

Key:
RO = Report on Operations
CGR = 2021 Corporate Governance Report (FY 2020)
MA (GRI Management Approach) = Disclosure 103-1, 103-2, 103-3 on management approach to material topics

Topics under Legislative Decree 254/2016	Scope	Reference			GRI Standards - Disclosures
		Document	Chapter	Paragraph	
Reporting **standard** and **materiality** analysis	Environment, Social, Personnel, Human rights, Corruption	RO	Strategy and outlook	Materiality analysis	102-45; 102-46; 102-47; 102-49; 102-54; 102-55; 102-56
			Governance	Stakeholder engagement	
		Integrated Annual Report	Methodology note of the Non-Financial Statement	*Note 1*	
Business model for the management and organisation of company activities	Environment, Social, Personnel, Human rights, Corruption	RO	Group's profile	*Note 1*	102-2; 102-4; 102-5; 102-6; 102-7; 102-9; 102-10; 102-11; 102-12; 102-13; 102-18; 102-20; 102-40; 102-43; 102-44
			Governance	*Note 1*	
		CGR	Organisational Model as per Legislative Decree 231/2001	*Note 1*	
			Additional corporate governance practices	*Note 1*	
Company policies, including due diligence procedures, outcomes and related **key non-financial performance indicators**	Environment	RO	Strategy and outlook	Sustainability Plan	302-1; 302-3; 303-1; 303-2; 303-3; 303-4; 304-1; 305-1; 305-2; 305-3; 305-4; 305-5; 305-7; 306-2; 307-1; 308-1; MA series 300
			Group's results and financial position	ESG performance indicators	
			Planet	*Note 1*	
			Prosperity	Supply chain value	
	Social	RO	Strategy and outlook	Sustainability Plan	102-2; 102-4; 102-9; 102-40; 102-42; 102-43; 102-44; 204-1; 415-1; 416-1; 418-1; MA series 200; MA series 400
			Prosperity	*Note 1*	

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Topics under Legislative Decree 254/2016	Scope	Reference			GRI Standards - Disclosures
		Document	Chapter	Paragraph	
	Personnel	RO	Strategy and outlook	Sustainability Plan	102-4; 102-8; 102-41; 401-1; 401-3; 402-1; 403-1; 403-2; 403-3; 403-4; 403-5; 403-6; 403-7; 403-9; 404-1; 404-2; 404-3; 405-1; 405-2; MA series 400
			Group's results and financial position	ESG performance indicators	
			People	*Note 1*	
	Human rights	RO	Strategy and outlook	Sustainability Plan	102-4; 102-9; 102-41; 407-1; 414-1; 418-1; MA series 400
			People	Respect for human rights	
		Code of Ethics			
	Corruption	RO	Strategy and outlook	Sustainability Plan	102-16; 102-17; 205-2; 205-3; 206-1; 415-1; MA series 200; MA series 400
			Governance	Responsible business conduct	
		CGR	Additional corporate governance practices	*Note 1*	
		Anti-Corruption Code			
Main risks, generated or undergone, including their management, related to the abovementioned matters, coming from business activities, products or services, commercial relationships including, where relevant, the supply chains	Environment, Social, Personnel, Human rights, Corruption	RO	Governance	Risk management	
Diversity in management and supervisory bodies		RO	Governance	Corporate governance	102-24; 405-1; MA series 400
			People	Human capital enhancement	
		CGR	Diversity criteria and policies	*Note 1*	

Note 1: The entire chapter is part of the Non-Financial Statement.

Performance of the Parent Company

2020 results

€ millions	2019	2020	Change
New orders	9,163	8,362	(8.7%)
Order backlog	27,987	27,160	(3.0%)
Revenues	9,010	8,654	(4.0%)
EBITDA	1,025	811	(20.9%)
EBITA	568	404	(28.9%)
ROS	*6.3%*	*4.7%*	*(1.6) p.p.*
EBIT	538	50	(90.7%)
EBIT margin	*6.0%*	*0.6%*	*(5.4) p.p.*
Net result before extraordinary transactions	390	(93)	(123.8%)
Net result	390	(93)	(123.8%)
Net debt	3,874	4,114	6.2%
FOCF	(264)	(48)	81.8%
ROI	*6.3%*	*4.1%*	*(2.2) p.p.*
Workforce (no.)	29,348	29,227	(0.4%)

For the definition of indices, reference should be made to the paragraph on "'Non-GAAP' alternative performance indicators".

The performance of Leonardo SpA's key indicators in 2020 reflects the effects of the COVID-19 pandemic, which led to a reduction in revenues, mainly due to the contraction in the civil aviation business sector. Consequently, the company concentrated its resources above all in the Defence and Security sectors and put in place efficient measures, which were also aimed at ensuring a gradual resumption of business operations in full, in order to mitigate the aforesaid effects.

In particular:

- new orders, equal to €mil. 8,362, showed a decrease of 8.7% compared to 2019 (€mil. 9,163);
- revenues, equal to €mil. 8,654, showed, compared to 2019 (€mil. 9,010), a decline of 4%, mainly attributable to the abovementioned effects of the pandemic with a consequent decline in operating profitability (ROS from 6.3% in 2019 to 4.7% in 2020);
- EBITA recorded a decrease of €mil. 164 (-28.9%), mainly due to the abovementioned effects of the COVID-19 pandemic, compared to 2019;

- EBIT, equal to €mil. 50, showed, compared to 2019 (€mil. 538), a reduction of €mil. 488 (-90.7%) due to lower EBITA, as well as to:
  - the necessary one-off update of tangible and intangible assets in the civil Aviation area;
  - the recognition of the costs that the company sustained to comply with the government guidelines on COVID-19, in order to also protect the health of its workers;
- the net loss of €mil. 93 (against profits of €mil. 390 at 31 December 2019) was due to a deterioration in EBIT and to the greater impact of net financial costs, mainly due to the lower contribution given by the management of equity investments, which was partially offset by the positive effect of taxation.

Reclassified income statement

€ millions	Notes	2019	2020	Change	Change %
Revenues		9,010	8,654	(356)	(4.0%)
Purchase and personnel expenses	(*)	(7,949)	(7,807)		
Other net operating income/(expenses)	(**)	(36)	(36)		
Depreciation and impairment losses	(***)	(457)	(407)		
EBITA		**568**	**404**	**(164)**	**(28.9%)**
ROS		*6.3%*	*4.7%*	*(1.6) p.p.*	
Non-recurring income/(expenses)		(21)	(318)		
Restructuring costs		(5)	(32)		
Amortisation of intangible assets acquired as part of business combinations		(4)	(4)		
EBIT		**538**	**50**	**(488)**	**(90.7%)**
EBIT margin		*6.0%*	*0.6%*	*(5.4) p.p.*	
Net financial income/(expenses)	(****)	(51)	(170)		
Income taxes		(97)	27		
Net result		**390**	**(93)**	**(483)**	**(123.8%)**

Notes to the reconciliation between the reclassified income statement and the statutory income statement.
(*) Includes "purchase and personnel expenses" (excluding restructuring costs and non-recurring costs) and "accruals/(reversals) for onerous contracts (final losses on orders)".
(**) 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 (final losses on orders)).
(***) Includes "amortisation, depreciation and impairment losses and value adjustments to financial assets", 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" and "financial expenses" (net of the gains and losses relating to extraordinary transactions).

Reclassified cash flow statement

€ millions	Notes	2019	2020	Change	Change %
Cash flows generated from/(used in) operating activities	(*)	(40)	(12)		
Dividends received		171	58		
Cash flows from ordinary investing activities	(**)	(395)	(94)		
Free Operating Cash Flow (FOCF)		**(264)**	**(48)**	**216**	**81.8%**
Strategic transactions	(***)	(28)	(199)		
Change in other investing activities	(****)	4	162		
Net change in loans and borrowings		152	421		
Dividends paid		(81)	(81)		
Net increase/(decrease) in cash and cash equivalents		**(217)**	**255**		
Cash and cash equivalents at 1 January		1,621	1,407		
Exchange rate differences and other changes		3	1		
Cash and cash equivalents at 31 December		**1,407**	**1,663**		

Notes to the reconciliation between the reclassified and the statutory cash flow statements.
(*) Includes "cash flows generated from/(used in) operating activities", excluding debt payments pursuant to Law 808/1985.
(**) Includes "cash flow 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".
(****) Includes "other investing activities", excluding dividends collected and the effect of operations classified as "strategic transactions".

Reclassified statement of financial position

€ millions	Notes	31 December 2019	31 December 2020
Non-current assets		13,221	12,777
Non-current liabilities		(1,449)	(1,345)
Capital assets	(*)	**11,772**	**11,432**
Inventories	(**)	41	44
Trade receivables		2,698	2,970
Trade payables		(3,057)	(3,063)
Working capital		(318)	(49)
Provisions for short-term risks and charges		(804)	(945)
Other net current assets/(liabilities)	(***)	(756)	(407)
Net working capital		**(1,878)**	**(1,401)**
Net invested capital		**9,894**	**10,031**
Equity		6,020	5,917
Net debt		**3,874**	**4,114**

Notes to the reconciliation between the reclassified and the statutory statements of financial position.
(*) 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").

Below is the breakdown of the net debt:

€ millions	31 December 2019	*Of which current*	31 December 2020	*Of which current*
Bonds	2,469	*83*	2,969	*827*
Bank debt	942	*48*	896	*48*
Cash and cash equivalents	(1,407)	*(1,407)*	(1,663)	*(1,663)*
Net bank debt and bonds	**2,004**		**2,202**	
Current loans and receivables from related parties	(263)	*(263)*	(463)	*(463)*
Other current loans and receivables	(26)	*(26)*	(10)	*(10)*
Current loans and receivables and securities	**(289)**		**(473)**	
Non-current financial receivables from Group's consolidated entities	(402)		(243)	
Related party loans and borrowings	1,842	*1,842*	1,921	*1,821*
Lease liabilities from related parties	573	*97*	496	*105*
Lease liabilities	53	*15*	104	*22*
Other financial debts	93	*61*	107	*52*
Net debt	**3,874**		**4,114**	

The Parent Company's offices

The Parent Company's offices are:

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

Reconciliation of net profit and shareholders' equity of the Group Parent with the consolidated figures at 31 December 2020

€ millions	2020	
	Equity	**of which: Net profit/(loss) for the year**
Group Parent equity and net profit/(loss)	5,917	(93)
Excess of shareholders' equities in the annual financial statements compared with the carrying amounts of the equity investments in consolidated companies	(3,252)	338
Consolidation adjustments for:		
- difference between purchase price and corresponding book equity	3,164	30
- elimination of intercompany profits	36	56
- deferred tax assets and liabilities	-	-
- dividends from consolidated companies	-	(90)
- translation differences	(598)	-
Group equity and net profit/(loss)	**5,267**	**241**
Non-controlling interests	11	2
Total consolidated equity and net profit/(loss)	**5,278**	**243**

Proposal to the Shareholders' Meeting

Dear shareholders,

the 2020 financial statements, which we submit for your approval, close with a net loss of € 93,152,464.65. 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 2020;
- having acknowledged the report of KPMG SpA;

resolves

- to approve the Directors' Report on Operations and the financial statements at 31 December 2020;
- to approve the proposal posed by the Board of Directors of covering the 2020 net loss of € 93,152,464.65 through the use of profits carried forward."

For the Board of Directors
The Chairman
(Luciano Carta)

Consolidated financial statements at 31 December 2020

Consolidated accounting statements

Consolidated separate income statement

€ millions	Notes	2019	*Of which with related parties*	2020	*Of which with related parties*
Revenues	*27*	13,784	*1,895*	13,410	*1,738*
Other operating income	*28*	551	*4*	655	*14*
Purchase and personnel expenses	*29*	(12,136)	*(669)*	(11,984)	*(1,169)*
Amortisation, depreciation and value adjustments to financial assets	*30*	(619)		(795)	
Other operating expenses	*28*	(587)	*(1)*	(792)	*(1)*
Income before tax and financial expenses		**993**		**494**	
Financial income	*31*	168	*5*	147	*2*
Financial expenses	*31*	(475)	*(4)*	(414)	*(4)*
Share of profits/(losses) of equity-accounted investees	*12*	183		26	
Operating profit/(loss) before income taxes and discontinued operations		**869**		**253**	
Income taxes	*32*	(147)		(12)	
Profit/(Loss) from discontinued operations	*33*	100		2	
Net profit/(loss) for the period attributable to:		**822**		**243**	
- Owners of the Parent		*821*		*241*	
- non-controlling interests		*1*		*2*	
Earnings/(Losses) per share	*34*	**1,428**		**0.419**	
Basic and diluted from continuing operations		*1.254*		*0.416*	
Basic and diluted from discontinued operations		*0.174*		*0.003*	

Consolidated statement of comprehensive income

€ millions	Notes		2019		2020
Profit/(Loss) for the period			**822**		**243**
Other comprehensive income/(expenses):					
Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:					
- measurement of defined-benefit plans:	*20*		(70)		121
. revaluation		*(74)*		*117*	
. exchange rate gains/(losses)		*4*		*4*	
- tax effect	*20*		13		(28)
- tax rate adjustment			-		-
			(57)		93
Comprehensive income/(expenses) which will or might be subsequently reclassified within the profit/(loss) for the period:					
- changes in cash flow hedges:	*20*		30		85
. change generated in the period		*26*		*128*	
. transferred to the profit/(loss) for the period		*4*		*(43)*	
- translation differences:	*20*		141		(331)
. change generated in the period		*142*		*(331)*	
. transferred to the profit/(loss) for the period		*(1)*		*-*	
- tax effect and other movements	*20*		(6)		(29)
			165		(275)
Current portion of "other comprehensive income/(expenses)", equity-accounted investees			(27)		(38)
Total other comprehensive income/(expenses), net of tax			**81**		**(220)**
Total comprehensive income/(expenses), attributable to:			**903**		**23**
- Owners of the Parent			*902*		*21*
- non-controlling interests			*1*		*2*
Total comprehensive income/(expenses) attributable to Owners of the Parent			**902**		**21**
- from continuing operations			*802*		*19*
- from discontinued operations			*100*		*2*

Consolidated statement of financial position

€ millions	Notes	31 December 2019	*Of which with related parties*	31 December 2020	*Of which with related parties*
Intangible assets	*9*	6,764		6,647	
Property, plant and equipment	*10*	2,177		2,015	
Investment property		103		70	
Rights of use	*11*	431		527	
Investments accounted for under equity method	*12*	1,154		1,066	
Receivables	*13*	436	*8*	412	*8*
Deferred tax assets	*32*	1,096		1,093	
Other non-current assets	*13*	175		53	
Non-current assets		**12,336**		**11,883**	
Inventories	*15*	5,823		5,882	
Contract assets	*16*	2,928		3,059	
Trade receivables	*17*	2,995	*573*	3,033	*663*
Income tax receivables		71		116	
Loans and receivables	*17*	197	*161*	167	*149*
Other current assets	*18*	489	*6*	648	*75*
Cash and cash equivalents	*19*	1,962		2,213	
Current assets		**14,465**		**15,118**	
Non-current assets held for sale	*33*	92		72	
Total assets		**26,893**		**27,073**	
Share capital	*20*	2,496		2,498	
Other reserves		2,827		2,769	
Equity attributable to Owners of the Parent		**5,323**		**5,267**	
Equity attributable to non-controlling interests		**11**		**11**	
Total equity		**5,334**		**5,278**	
Borrowings (non-current)	*21*	3,975	*33*	3,880	*127*
Employee benefits	*23*	509		400	
Provisions for risks and charges	*22*	675		584	
Deferred tax liabilities	*32*	245		233	
Other non-current liabilities	*24*	814		779	
Non-current liabilities		**6,218**		**5,876**	
Contract liabilities	*16*	7,804		7,777	
Trade payables	*25*	3,791	*350*	3,619	*359*
Borrowings (current)	*21*	1,031	*730*	1,824	*784*
Income tax payables		43		37	
Provisions for short-term risks and charges	*22*	1,164		1,318	
Other current liabilities	*24*	1,485	*63*	1,319	*12*
Current liabilities		**15,318**		**15,894**	
Liabilities associated with assets held for sale	*33*	23		25	
Total liabilities		**21,559**		**21,795**	
Total liabilities and equity		**26,893**		**27,073**	

Consolidated statement of cash flows

€ millions	Notes	2019	*Of which with related parties*	2020	*Of which with related parties*
Gross cash flows from operating activities	*35*	1,847		1,701	
Change in trade receivables/payables, contract assets/ liabilities and inventories	*35*	(528)	*164*	(656)	*(117)*
Change in other operating assets and liabilities and provisions for risks and charges	*35*	(390)	*(40)*	(425)	*(112)*
Interest paid		(216)	*1*	(247)	*(2)*
Income taxes received/(paid)		(68)		(98)	
Cash flows generated from/(used in) operating activities		**645**		**275**	
Investments in property, plant and equipment and intangible assets		(594)		(311)	
Sales of property, plant and equipment and intangible assets		17		18	
Other investing activities		111		(145)	
Cash flows generated from/(used in) investing activities		**(466)**		**(438)**	
Bond issue		-		492	
EIB subscription and CDP loan		300		100	*100*
Bond redemption		(423)		-	
Net change in other borrowings		(58)	*(75)*	(51)	*65*
Dividends paid		(81)		(81)	
Cash flows generated from/(used in) financing activities		**(262)**		**460**	
Net increase/(decrease) in cash and cash equivalents		(83)		297	
Exchange rate differences and other changes		2		(46)	
Cash and cash equivalents at 1 January		2,049		1,962	
Net increase/(decrease) in cash of discontinued operations		(6)		-	
Cash and cash equivalents at 31 December		**1,962**		**2,213**	

Consolidated statement of changes in equity

€ millions	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Translation reserve	Equity attributable to Owners of the Parent	Non-controlling interests	Total equity
1 January 2019	**2,495**	**2,685**	**(104)**	**(168)**	**(409)**	**4,499**	**11**	**4,510**
Profit/(Loss) for the period	-	821	-	-	-	821	1	822
Other comprehensive income/(expenses)	-	-	34	(106)	153	81	-	81
Total comprehensive income/(expenses)	**-**	**821**	**34**	**(106)**	**153**	**902**	**1**	**903**
Repurchase of treasury shares less shares sold	1	-	-	-	-	1	-	1
Dividends resolved	-	(80)	-	-	-	(80)	(1)	(81)
Total transactions with Owners of the Parent, recognised directly in equity	**1**	**(80)**	**-**	**-**	**-**	**(79)**	**(1)**	**(80)**
Other changes	-	1	-	-	-	1	-	1
31 December 2019	**2,496**	**3,427**	**(70)**	**(274)**	**(256)**	**5,323**	**11**	**5,334**
1 January 2020	**2,496**	**3,427**	**(70)**	**(274)**	**(256)**	**5,323**	**11**	**5,334**
Profit/(Loss) for the period	-	241	-	-	-	241	2	243
Other comprehensive income/(expenses)	-	(8)	75	55	(342)	(220)	-	(220)
Total comprehensive income/(expenses)	**-**	**233**	**75**	**55**	**(342)**	**21**	**2**	**23**
Repurchase of treasury shares less shares sold	2	-	-	-	-	2	-	2
Dividends resolved	-	(80)	-	-	-	(80)	(1)	(81)
Total transactions with Owners of the Parent, recognised directly in equity	**2**	**(80)**	**-**	**-**	**-**	**(78)**	**(1)**	**(79)**
Other changes	-	(6)	-	7	-	1	(1)	-
31 December 2020	**2,498**	**3,574**	**5**	**(212)**	**(598)**	**5,267**	**11**	**5,278**

Notes to the consolidated financial statements at 31 December 2020

1. General information

Leonardo SpA (hereinafter also "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 also "the Group") is a major Italian high technology organisation operating in the *Helicopters*, *Defence Electronics and Security*, *Aeronautics* and *Space* sectors.

2. Form, content and applicable accounting standards

In application of EU 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 (IFRSs) 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 (IFRSs) used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2019 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 2020 of the Leonardo Group were approved by the Board of Directors on 9 March 2021 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 2020 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".

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 Counter Intelligence and Security Agency ("DCSA") of the US Department of Defense (in charge of the protection of information related to the national security or, however, subject to special confidentiality 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 the Proxy Holders subject to the approval of the DCSA. These 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 Non-Proxy Holders directors (including the CEO) appointed by them according to the designation by Leonardo US Holding, are also entitled to vote on behalf of the latter, in the context of a trust relationship on whose basis their activity must protect, on one hand, the legitimate interest of the shareholders, and, on the other hand, the need for national security in the United States. The Proxy Holders are always in a number greater than the Non-proxy Holders and cannot be discharged by the shareholder, except in case of fraud or gross negligence or, subject to the approval of the DCSA, 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 (i) to guarantee shareholders their rights and an adequate flow of information, above all with regard to the results of operations and financial data, with the consent of the DCSA and in compliance with the restrictions under the Proxy Agreement in relation to "classified" information, as well as (ii) to protect the management against any possible influence exercised by the foreign partner as to "sensitive" information. On the contrary, the decisions on M&A transactions and the transfer of intellectual property rights, as well as extraordinary debt assumption and intercompany business reorganisations are the direct competence of the shareholder.

Not consolidated on a line-by-line basis are those entities which, because of the dynamics of their operations (e.g. consortia without shares and controlling interests in equity consortia 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.

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 3.23.

3.2 Segment information

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

3.3 Currency translation

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.

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.

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, expenses 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:

	31 December 2019		31 December 2020		Change %	
	average	final	average	final	average	final
US dollar	1.1195	1.1234	1.1422	1.2271	2.0%	9.2%
Pound sterling	0.8777	0.8508	0.8897	0.8990	1.4%	5.7%

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.

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.

Concessions, licences 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.

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:

	Years
Customer backlog and commercial positioning	7-15
Order backlog	10-30
Software/know-how	3

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 an 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

Revenue from contracts with customers is 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 revenue 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;
- "(net) 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, revenue is 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:

- 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 adjustment 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.

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.

Financial assets at fair value through other comprehensive income

Such category includes financial assets that are possibly held by the Group 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).

Financial assets at fair value through profit and 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 assessed 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.

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.

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. 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.

The "cash flow hedge reserve" also includes the recognition of fair value changes in the forward component of forward contracts, taken to the separate income statement at the time when the underlying affects profit or loss.

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

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.

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 expense 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

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 (in the "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.

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.

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.

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

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.

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.

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 reporting date, the European Commission had endorsed certain standards and interpretations that were not yet compulsory, which will be adopted by the Group in the following financial periods, if applicable. We expect no significant effects on the Group's financial statements deriving from those 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 any possible persistent adverse trend in some currencies, the Group might enter into more highly structured operations that, while substantively hedging the positions, do not qualify for hedge accounting under IFRS 9. 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 31. Hedges in the former case are reported as cash flow hedges.

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 2020 the Group adopted the provisions governing hedge accounting laid down in IFRS 9 "Financial instruments". The main amendment brought in by the first-time adoption of the new standard for the Group entails accounting for the forward component of forward contracts (premium points).

Specifically, the change in the fair value of the premium points, previously recognised immediately under net profit/(loss) for the year, is now recognised as other comprehensive income accumulated in the cash flow hedge reserve under equity. The deferred amounts are then reclassified to the net profit/(loss) for the period when the hedged item occurs.

All hedging relationships designated in accordance with IAS 39 as at 31 December 2019 met the hedge accounting requirements of IFRS 9 as at 1 January 2020 and, therefore, constitute continuing hedge relationships.

Upon first-time adoption, the Group adopted the prospective approach, without restating any comparative value. As a result, as at 1 January 2020, no adjustment was made to the amounts at 31 December 2019.

Amendments to IFRS 3 "Business combinations" also became applicable with effect from 1 January 2020, relating to the definition of a business, identified as an integrated set of activities and assets that must include at least one input and one underlying process, which together contribute significantly to the ability to create an output. These amendments did not have any impact on these financial statements.

6. Significant non-recurring events and transactions

During 2020 the global scenario was strongly impacted by the consequences of the COVID-19 pandemic on global economy.

The effects that the health emergency has had on companies in general and, specifically, on the Group, are essentially of two types. The first, direct effect concerned the impact on the manufacturing sector generated by the restrictions imposed by governments on travel and the measures adopted to protect people. The second, indirect effect is the impact that the pandemic has had on customers both following the abovementioned restrictions and, with particular reference to the civil aviation sector, as a result of a drastic reduction in demand for aircraft on the part of the world's leading operators as a result of a reduction in air traffic in the civil sector.

With reference to the first effect, the Group reacted promptly to the new situation by implementing a set of measures aimed primarily at ensuring full protection of the health and safety of its workers, while preserving the continuity of its manufacturing operations, relating to business sectors that are regarded as strategic in the main countries in which it operates. In this context, monitoring and action plans were developed to assess the impact of COVID-19 in the various areas of operation and limit its effects.

From an operational point of view, the actions included measures aimed at recovering adequate productivity levels through a gradual increase in the presence at the sites in safe conditions, a greater efficiency of remote working with additional in digital means and infrastructures, the review of the working schedules in order to support, in agreement with the trade unions, the recovery of accrued delays during the second half of the year. At the same time the Group has carried out an in-depth review of its cost base and level of investment, reducing or delaying all projects and expenses that were regarded as not strictly necessary or strategic, achieving savings on controllable costs (travel and business trips, consultants, exhibitions and fairs, etc.) and reviewing assumptions regarding staffing levels and other actions aimed at reducing the cost of labour.

As regards the indirect effect that the pandemic has had on the Group's customers, Leonardo has undertaken various and structured projects aimed at maintaining adequate levels of sales promotion and action and, at the same time, has promptly concentrated production activities towards the Defence and Security business areas less affected by the pandemic effects in order to reduce the significant decline in demand in the civil business sector and, in particular, in the Aerostructures Division.

Despite the resilience demonstrated by Leonardo, in the abovementioned extraordinary and unprecedented context, the effects on the 2020 performance were as follows:

- slowdowns in activities aimed at finalising commercial negotiations, essentially due to restrictions on travel, which led to a delay in the acquisition of certain orders, especially for the export component, with a consequent impact on production volumes and related profit margins;
- a drop in demand in the civil market, which is expected to continue well beyond 2020, resulting in a decline in new orders, revenues and profit margins;
- lower work progress on programmes following the slowdowns in production activities caused by actions taken to protect the health of workers, restrictions on travel and the impossibility of accessing customers' sites, which had an impact on the Group's revenues and consequently on its profit margins;
- a reduction in the number of production hours worked due to reduced presence and efficiency, albeit mitigated by the effects of measures aimed at recovering adequate productivity levels in the second half of the year, which led to a lower absorption of fixed costs with a consequent impact on EBITA.

These effects were partly offset by the measures promptly implemented by the Group, which, in addition to a gradual recovery of adequate productivity levels, resulted in savings on controllable costs and the cost of labour, as well as a reduction in net investments.

As a whole, the effects of COVID-19 led, on the basis of the aforesaid evaluations, to a reduction in Group revenues – compared to forecasts in the absence of COVID-19 – equal to about €mil. 1,500, with a consequent impact in terms of EBITA, net of cost containment actions, equal to about €mil. 300, as shown below:

- the drop in demand in the civil market, together with the postponement of deliveries due to the impossibility of carrying out final testing, had an impact of about €mil. 700 on Group revenues, with a consequent effect on profit margins, which was amplified at EBITA level by a significant drop in the GIE ATR; in addition to a reduction in the absorption of fixed costs deriving from a decline in production hours, particularly marked in Aerostructures (-23% compared to expectations compared to -8% for the rest of the Group, down 10% in total), this had an impact of about €mil. 300 on EBITA, net of the mitigation actions implemented during the year;
- the lower work progress on the programmes, as a result of the delays in the acquisition of new orders, as well as of the restrictions on the movement of resources, the impossibility of accessing customers' sites and the initial lower

efficiency due to a reconfiguration of part of the activities in smart working mode entailed an impact on Group revenues equal to approximately €mil. 800; the consequent lower profit margin and the effect arising from a drop in production hours recorded in particular during the first half-year were substantially offset at EBITA level by the actions aimed at recovering adequate productivity levels during the second half of the year and reducing costs.

The recognition of the impact that COVID-19 has had on results of operations is the result of complex estimates made by management that take account of the following factors:

> as regards the lower orders received and the consequent reduction in revenues and associated profit margins, the valuation is made on the basis of suitable documentation to trace the cause to the pandemic emergency. If there was no specific evidence, the impact assessment was carried out on the basis of the variance from the 2020 budget forecasts assuming that, where considered reasonable on the basis of the information available to the Company's management, the postponement of specific tenders or commercial negotiations was mainly due to the impossibility on the part of customers and/or Leonardo to undertake the necessary contacts following the government restrictions issued in the various countries. With reference to the civil aviation market, the fall in new orders, revenues and associated profit margins is documented by the formal requests to reduce the production rates imposed by customers following the drastic drop in demand for aircraft on the part of the main operators in civil aviation traffic;

> the lower revenues and profit margins produced on backlog contracts are measured on the basis of evidence relating to various cases, such as the postponement of final testing of products or of the customer's certification attesting that contract milestones have been actually performed due to the impossibility of making deliveries or accessing production sites for the necessary activities. In particular, for civil helicopters, whose revenues are recognised according to the "point in time" criterion in compliance with IFRS 15, the impact is documented by the "ready for delivery" and the request for postponement by the customer, with consequent non-invoicing;

> management estimated that the direct impacts of the pandemic on productivity are the lower absorption, due to a reduction in production hours – with respect to the 2020 budget forecasts –, of fixed costs consisting of the cost of labour of employees directly or indirectly employed in production activities, the depreciation of plant and machinery and operating costs of production facilities that cannot be reduced, net of any and all cost recoveries implemented by the Company's management with the aim of reducing the impact itself.

In preparing this Integrated Annual Report, the Company's management was called upon to carry out in-depth analyses to report particularly significant issues that required significant estimates. More specifically, the Company's management has also paid particular attention to the analysis of recoverability, as well as of goodwill (in any case tested on an annual basis), concerning almost all the non-recurring costs and development costs; they did so in order to establish whether the assets recognised in the changed business scenario of reference could be recovered, including by further stressing sensitivity scenarios.

Moreover, as reported in Note 30, the financial assets recognised in the accounts were measured by updating the creditworthiness of the counterparties in order to reflect the changed business scenario.

Finally, the Company's management carried out an in-depth analysis of the usual considerations regarding the recoverability of the Group's inventories, in light of the estimated time lags associated with their use in production activities.

With reference to financial risks, the Group's limited exposure to interest rate risk minimises any volatility effect arising from significant market fluctuations. However, although this risk may occur during a period of pandemic, it has not yet had any significant impact, since interest rates have recorded low volatility trends at present.

In order to better cope with any liquidity risk, in May 2020 Leonardo entered into facility agreements with a pool of international banks for a total amount of €bil. 2, with a term of up to 24 months. Moreover, in July 2020, a new issue was completed on the Euromarket, under the EMTN programme, for a nominal amount of €mil. 500, which, as planned, entailed a decrease in the abovementioned lines of credit.

The considerations reported above, together with the evidence of the analyses carried out, have led the Company's management to believe that there are no risks associated with the Group's going concern.

As regards 2019, it should be noted that on 31 January 2019 there was the closing of the acquisition of the entire stake in Vitrociset SpA and that 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 had taken place in 2015; the related effects through profit or loss have been classified under the result of "discontinued operations".

7. Significant post balance sheet events

On 22 February 2021, the deed of demerger was signed between Vitrociset SpA and Telespazio SpA for contributing to the latter the space business unit of Vitrociset SpA, a transaction already envisaged at the time of the acquisition, which took place in January 2019. As reported in Note 33, to which reference should be made, the assets and liabilities of the space business unit of Vitrociset SpA are classified, as early as from the first recognition after the acquisition, as a group of assets held for sale, and the effects through profit or loss are classified among the results of "discontinued operations".

In addition, on 26 February 2021 Leonardo DRS filed a registration statement on Form S-1 with the US Securities and Exchange Commission (SEC) relating to a proposed initial public offering of a minority interest in its ordinary shares. All of these shares subject to the offering will be placed by Leonardo US Holding, a wholly-owned US subsidiary of Leonardo. The number of ordinary shares to be placed and the price range of the placement have not yet been determined. The transaction is expected to be completed by the end of March 2021, and is subject, among other things, to completion of the SEC audit process and to favourable market conditions.

Following the placement, Leonardo US Holding will hold a majority interest in Leonardo DRS's capital. A new Proxy Agreement will enter into force with the US Department of Defense to allow Leonardo DRS to continue to compete and work on classified programmes.

Finally, taking into account the medium-term consequences of the pandemic on the civil sector, and in particular the prospects of the commercial aviation market, Leonardo is undertaking actions aimed at mitigating the effects on the industrial performance of the Aerostructures Division. In this context, Leonardo is beginning, among other things, to adopt measures for the early retirement of employees. Management has estimated to involve about 500 employees.

8. Segment information

The Divisions and companies through which the Group operates are aggregated, for the purposes of internal and external reporting, into the four business sectors of reference: *Helicopters*, *Defence Electronics and Security*, *Aeronautics* and *Space*. The segment of *Other activities* includes the Corporate and remaining activities.

The Group assesses the performance of its operating segments and the allocation of its financial resources on the basis of revenues and EBITA (please also see the paragraph on "'Non-GAAP' alternative performance indicators" included in the Report on Operations). 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 2020, as compared to 2019, are as follows:

	Helicopters	Defence Electronics and Security	Aeronautics	Space	Other activities	Eliminations	Total
31 December 2019							
Revenues	4,025	6,701	3,390	-	463	(795)	13,784
Inter-segment revenues (*)	(15)	(491)	(4)	-	(285)	795	-
Third party revenues	**4,010**	**6,210**	**3,386**	**-**	**178**	**-**	**13,784**
EBITA	431	613	362	39	(194)	-	1,251
Investments (**)	231	167	146	-	107	-	651
Non-current assets (***)	3,219	3,567	1,290	-	968	-	9,044

	Helicopters	Defence Electronics and Security	Aeronautics	Space	Other activities	Eliminations	Total
31 December 2020							
Revenues	3,972	6,525	3,393	-	407	(887)	13,410
Inter-segment revenues (*)	(9)	(545)	(16)	-	(317)	887	-
Third party revenues	**3,963**	**5,980**	**3,377**	**-**	**90**	**-**	**13,410**
EBITA	383	537	200	23	(205)	-	938
Investments (**)	176	219	(23)	-	93	-	465
Non-current assets (***)	3,434	3,460	916	-	922	-	8,732

(*) Inter-segment revenues include 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 (net of grants ascertained on these items).
(***) 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:

	Helicopters	Defence Electronics and Security	Aeronautics	Space	Other activities	Total
2019						
EBITA	431	613	362	39	(194)	1,251
Amortisation of intangible assets acquired as part of business combinations	(9)	(18)	-	-	-	(27)
Restructuring costs	-	(24)	(1)	-	(3)	(28)
Non-recurring income/(costs)	(16)	(8)	(19)	-	-	(43)
EBIT	**406**	**563**	**342**	**39**	**(197)**	**1,153**
Equity-accounted strategic JVs	-	(68)	(53)	(39)	-	(160)
Income before tax and financial expenses	**406**	**495**	**289**	**-**	**(197)**	**993**

	Helicopters	Defence Electronics and Security	Aeronautics	Space	Other activities	Total
2020						
EBITA	383	537	200	23	(205)	938
Amortisation of intangible assets acquired as part of business combinations	(9)	(18)	-	-	-	(27)
Restructuring costs	(10)	(23)	(26)	-	(2)	(61)
Non-recurring income/(costs)	(17)	(48)	(264)	-	(4)	(333)
EBIT	**347**	**448**	**(90)**	**23**	**(211)**	**517**
Equity-accounted strategic JVs	-	(69)	69	(23)	-	(23)
Income before tax and financial expenses	**347**	**379**	**(21)**	**-**	**(211)**	**494**

Below is the breakdown of revenues by geographical area (based on the customer's home country) and relevant sector:

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

	Helicopters	Defence Electronics and Security	Aeronautics	Other activities	Eliminations	Total
31 December 2020						
Italy	705	1,574	260	398	(709)	2,228
United Kingdom	632	826	-	-	(174)	1,284
Rest of Europe	1,248	821	791	5	-	2,865
United States	381	2,531	920	1	(4)	3,829
Rest of the world	1,006	773	1,422	3	-	3,204
Revenues	**3,972**	**6,525**	**3,393**	**407**	**(887)**	**13,410**
Inter-segment revenues (*)	(9)	(545)	(16)	(317)	887	-
Third party revenues	**3,963**	**5,980**	**3,377**	**90**	**-**	**13,410**

(*) 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:

	31 December 2019	31 December 2020
Italy	5,044	4,723
United Kingdom	1,818	1,722
Rest of Europe	133	384
United States	2,032	1,885
Rest of the world	17	18
	9,044	**8,732**

9. Intangible assets

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2019							
Cost	5,988	1,147	2,261	585	1,331	458	**11,770**
Depreciation	-	(570)	(453)	(378)	(1,009)	(344)	**(2,754)**
Impairment losses	(2,255)	(101)	(48)	-	-	(21)	**(2,425)**
Carrying amount	**3,733**	**476**	**1,760**	**207**	**322**	**93**	**6,591**
Investments (net of grants)	-	66	204	6	-	44	**320**
Sales	-	(2)	-	-	-	-	**(2)**
Amortisation	-	(29)	(54)	(16)	(27)	(29)	**(155)**
Impairment losses	-	(3)	(48)	-	-	(3)	**(54)**
Increase for business combinations (*)	1	-	4	-	2	-	**7**
Other changes	91	(5)	(61)	22	8	2	**57**
31 December 2019	**3,825**	**503**	**1,805**	**219**	**305**	**107**	**6,764**
Broken down as follows:							
Cost	6,117	1,269	2,435	635	1,363	486	**12,305**
Depreciation	-	(628)	(508)	(416)	(1,058)	(353)	**(2,963)**
Impairment losses	(2,292)	(138)	(122)	-	-	(26)	**(2,578)**
Carrying amount	**3,825**	**503**	**1,805**	**219**	**305**	**107**	**6,764**
Investments (net of grants)	-	121	(18)	10	-	47	**160**
Sales	-	(2)	-	-	-	-	**(2)**
Amortisation	-	(26)	(48)	(17)	(27)	(29)	**(147)**
Impairment losses	-	(62)	(8)	-	-	-	**(70)**
Increase for business combinations	-	193	-	-	-	3	**196**
Other changes	(197)	(14)	(21)	(1)	(12)	(9)	**(254)**
31 December 2020	**3,628**	**713**	**1,710**	**211**	**266**	**119**	**6,647**
Broken down as follows:							
Cost	6,085	1,556	2,355	650	1,275	518	**12,439**
Depreciation	-	(707)	(479)	(439)	(1,009)	(372)	**(3,006)**
Impairment losses	(2,457)	(136)	(166)	-	-	(27)	**(2,786)**
Carrying amount	**3,628**	**713**	**1,710**	**211**	**266**	**119**	**6,647**
31 December 2019							
Gross value			4,902				
Grants			3,097				
31 December 2020							
Gross value			4,707				
Grants			2,997				

(*) Increases from business combinations, net of reclassification to "assets held for sale".

The investments for the period are stated net of related grants, which determined in 2020 a net debit balance in relation to non-recurring costs, attributable to the *Aeronautics* sector. Commitments are in place for the purchase of intangible assets for €mil. 14 at 31 December 2020 (€mil. 8 at 31 December 2019). The impairment of non-recurring costs mainly refers to the write-down linked to the programme in the *Aeronautics* sector following the production assets' failure to operate at full capacity.

As set out in Note 4.1, 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. The cash flows used are those under the product business plan, as discounted on the basis of 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 2020 and 2019:

	31 December 2019	31 December 2020
Helicopters	1,266	1,237
Defence Electronics and Security	2,499	2,331
DRS	*1,490*	*1,364*
Leonardo Divisions	*1,009*	*967*
Aeronautics	60	60
	3,825	**3,628**

The net decrease compared to 31 December 2020 was mainly due to the foreign currency translation differences on goodwill denominated in US dollars and pound sterling. 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 macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and 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 mostly 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 2020 and 2019:

	31 December 2019		31 December 2020	
	WACC	**g-rate**	**WACC**	**g-rate**
Helicopters	7.7%	2.0%	7.2%	2.0%
Defence Electronics and Security				
DRS	*7.5%*	*2.0%*	*7.7%*	*2.0%*
Leonardo Divisions	*6.1%*	*2.0%*	*6.2%*	*2.0%*
Aeronautics	6.8%	2.0%	6.7%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The results of the tests were subjected to sensitivity analysis, taking as reference those assumptions for which it is reasonable to believe that their change could significantly modify the results of the test. In this regard, it should be noted that in all sectors the large positive margins recorded are such that they cannot be significantly modified by changes in the assumptions described; however, for information purposes the results for all CGUs are reported below. The table below shows for the 2020 and 2019 financial years the positive margin relating to the base scenario, compared with the results of the following sensitivity analyses: (i) increase in interest rates used to discount cash flows on all CGUs by 50 basis points, the other conditions remaining equal; (ii) reduction in the growth rate in the calculation of terminal value by 50 basis points, the other conditions remaining equal; (iii) reduction in operating profitability applied to terminal value by half a point, the other conditions remaining equal.

	Margin (base case)	Margin post sensitivity		
		WACC	**g-rate**	**ROS TV**
31 December 2019				
Helicopters	1,314	940	1,011	1,110
Defence Electronics and Security				
DRS (USD millions)	*1,995*	*1,624*	*1,693*	*1,779*
Leonardo Divisions	*7,436*	*6,234*	*6,410*	*7,050*
Aeronautics	8,348	7,685	7,794	8,091

	Margin (base case)	Margin post sensitivity		
		WACC	**g-rate**	**ROS TV**
31 December 2020				
Helicopters	1,291	868	942	1,066
Defence Electronics and Security				
DRS (USD millions)	*2,100*	*1,731*	*1,818*	*1,881*
Leonardo Divisions	*10,374*	*8,933*	*9,145*	*9,985*
Aeronautics	6,932	6,325	6,417	6,683

Development costs and non-recurring costs

Investments in "development costs" and "non-recurring costs" refer to the *Defence Electronics and Security* (€mil. 51 and €mil. 37, respectively) and *Helicopters* (€mil. 70 and €mil. 50, respectively). Total investments were affected by the grants received during the year, recognised as a decrease in the related item. 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 29.

Total research and development costs, comprising also "development costs" and "non-recurring costs" just mentioned, are equal to €mil. 1,646.

Other items of intangible assets

"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:

	31 December 2019	31 December 2020
Know-how	99	85
Trademarks	44	43
Backlog and commercial positioning	162	138
	305	**266**

Specifically, "backlog and commercial positioning" chiefly refers, as part of the purchase price allocation, to *Helicopters* and to the UK component of *Defence Electronics and Security*.

The item "other" mainly includes software, intangible assets in progress and advances.

10. Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2019					
Cost	1,599	1,592	2,169	1,277	6,637
Amortisation, depreciation and write-offs	(705)	(1,190)	(1,618)	(958)	(4,471)
Carrying amount	**894**	**402**	**551**	**319**	**2,166**
Investments	3	21	42	258	324
Sales	(8)	-	-	(5)	(13)
Depreciation	(43)	(77)	(131)	(57)	(308)
Impairment losses	-	-	(1)	-	(1)
Increase for business combinations	19	2	-	-	21
Other changes	(32)	15	49	(44)	(12)
31 December 2019	**833**	**363**	**510**	**471**	**2,177**
Broken down as follows:					
Cost	1,518	1,649	2,281	1,520	6,968
Amortisation, depreciation and write-offs	(685)	(1,286)	(1,771)	(1,049)	(4,791)
Carrying amount	**833**	**363**	**510**	**471**	**2,177**
Investments	9	17	40	239	305
Sales	(4)	(2)	(1)	(1)	(8)
Depreciation	(46)	(75)	(103)	(57)	(286)
Impairment losses	-	-	(198)	-	(198)
Increase for business combinations	10	7	-	1	18
Other changes	39	49	39	(120)	7
31 December 2020	**841**	**359**	**287**	**528**	**2,015**
Broken down as follows:					
Cost	1,585	1,673	2,330	1,609	7,197
Amortisation, depreciation and write-offs	(744)	(1,314)	(2,043)	(1,081)	(5,182)
Carrying amount	**841**	**359**	**287**	**528**	**2,015**

The 2020 investments were related to the sectors of *Defence Electronics and Security* for €mil. 120, *Aeronautics* for €mil. 73, *Helicopters* for €mil. 48 and *Other activities* for €mil. 64. The write-down of equipment relates to specific tools – tooling – linked to the civil programmes in the *Aeronautics* sector following the production assets' failure to operate at full capacity.

"Other tangible assets" also include the value of tangible assets under construction (€mil. 216 at 31 December 2020 against €mil. 249 at 31 December 2019).

Purchase commitments of property, plant and equipment were recorded in the amount of €mil. 86 at 31 December 2020 (€mil. 78 at 31 December 2019).

The future receipts attributable to operating leases were equal to €mil. 12 (€mil. 19 at 31 December 2019), of which €mil. 4 beyond 5 years.

11. Rights of use

	Rights of use of land and buildings	Rights of use of plant and machinery	Rights of use of other tangible assets	Total
1 January 2019				
Cost	-	-	-	-
Amortisation, depreciation and write-offs	-	-	-	-
Carrying amount	**-**	**-**	**-**	**-**
IFRS 16 adoption	399	4	42	**445**
New contract submission	66	1	4	**71**
Closing and contract modifications	(38)	-	-	**(38)**
Depreciation	(55)	(2)	(17)	**(74)**
Other changes	21	1	5	**27**
31 December 2019	**393**	**4**	**34**	**431**
Broken down as follows:				
Cost	448	6	51	**505**
Amortisation, depreciation and write-offs	(55)	(2)	(17)	**(74)**
Carrying amount	**393**	**4**	**34**	**431**
New contract submission	180	6	4	**190**
Closing and contract modifications	1	-	9	**10**
Depreciation	(63)	(2)	(15)	**(80)**
Impairment losses	-	-	-	**-**
Increase for business combinations	6	-	-	**6**
Other changes	(29)	(1)	-	**(30)**
31 December 2020	**488**	**7**	**32**	**527**
Broken down as follows:				
Cost	601	11	66	**678**
Amortisation, depreciation and write-offs	(113)	(4)	(34)	**(151)**
Carrying amount	**488**	**7**	**32**	**527**

During 2020 this item showed an increase due to the signature of new contracts, mainly relating to the completion of the new production site of DRS and contract changes, net of amortisation allowances.

The leases with a term of less than 12 months and those concerning assets of modest value were recognised among "costs for purchases" (Note 29).

At 31 December 2020 there were lease commitments amounting to €mil 5, €mil. 3 of which on short-term leases.

12. Equity investments and share of profits/(losses) of equity-accounted investees

	31 December 2019			31 December 2020		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
Material joint ventures	902		**902**	814		**814**
Joint ventures not individually material:	79	(5)	**74**	79	(7)	**72**
- Rotorsim Srl	*37*		***37***	*37*		***37***
- Advanced Acoustic Concepts LLC	*19*		***19***	*20*		***20***
- Rotorsim USA LLC	*6*		***6***	*5*		***5***
- Closed Joint Stock Company Helivert	*-*	*(5)*	***(5)***	*-*	*(7)*	***(7)***
- Orizzonte Sistemi Navali	*17*		***17***	*17*		***17***
	981	(5)	**976**	893	(7)	**886**
Associates	173		**173**	173		**173**
	1,154	**(5)**	**1,149**	**1,066**	**(7)**	**1,059**

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:

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

In particular, as regards the companies falling under the so-called "Space Alliance" – Thales Alenia Space and Telespazio – the Company carried out, 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:

	2019	**2020**
Revenues	+526	+535
EBITA	+27	+30
EBIT	+26	+29
Net result (non-controlling interests)	+13	+15
FOCF	+52	+64
Group net debt	-4	-18

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.

	31 December 2019					
	Telespazio	**Thales Alenia Space**	**MBDA (through AMSH BV)**	**GIE ATR**	**Other JVs not individually material**	**Total**
Non-current assets	322	1,976	2,706	253		
Current assets	339	1,681	5,065	851		
- of which cash and cash equivalents	*15*	*11*	*161*	*6*		
Non-current liabilities	63	347	1,016	204		
- of which non-current financial liabilities	*16*	*-*	*5*	*64*		
Current liabilities	312	1,549	6,127	677		
- of which current financial liabilities	*30*	*352*	*25*	*52*		
NCI net equity (100%)	16	-	1	-		
Group net equity (100%)	270	1,761	627	223		
Revenues (100%)	535	2,141	3,877	1,439		
Amortisation, depreciation and impairment losses (100%)	19	65	126	30		
Financial income/(expenses) (100%)	(2)	(7)	(6)	(3)		
Income taxes (100%)	(11)	(18)	(129)	(3)		
Profit/(Loss) from continuing operations (100%)	33	48	270	106		
Profit/(Loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income/(expenses) (100%)	6	(15)	(77)	(8)		
Total comprehensive income/(expenses) (100%)	**39**	**33**	**193**	**98**		
% Group's interest in equity at 1 January	**174**	**571**	**131**	**150**	**76**	**1,102**
% Group's interest in profit/(loss) from continuing operations	22	16	68	53	5	**164**
% Group's interest in other comprehensive income/(expenses)	4	(5)	(19)	(4)	-	**(24)**
% Group's interest in total comprehensive income/(expenses)	**26**	**11**	**49**	**49**	**5**	**140**
Dividends received	(14)	-	(56)	(90)	(3)	**(163)**
Exchange differences and other movements	(5)	(1)	(1)	2	-	**(5)**
% Group's interest in equity at 31 December	**181**	**581**	**123**	**111**	**78**	**1,074**
Consolidation adjustments	2	(211)	115	-	1	(93)
Equity investments at 31 December	**183**	**370**	**238**	**111**	**79**	**981**
% Group's interest in profit/(loss)	22	16	68	53	5	**164**
Consolidation adjustments	-	1	-	-	-	**1**
Share of profits/(losses) of equity-accounted investees	**22**	**17**	**68**	**53**	**5**	**165**
		160				

	31 December 2020					
	Telespazio	Thales Alenia Space	MBDA (through AMSH BV)	GIE ATR	Other JVs not individually material	Total
Non-current assets	320	1,890	2,687	279		
Current assets	326	1,680	7,841	837		
- of which cash and cash equivalents	*10*	*13*	*199*	*4*		
Non-current liabilities	69	353	1,026	303		
- of which non-current financial liabilities	*24*	*-*	*3*	*206*		
Current liabilities	286	1,534	8,901	781		
- of which current financial liabilities	*15*	*309*	*27*	*92*		
NCI net equity (100%)	17	-	3	-		
Group net equity (100%)	274	1,683	598	32		
Revenues (100%)	540	1,861	3,592	390		
Amortisation, depreciation and impairment losses (100%)	19	59	144	28		
Financial income/(expenses) (100%)	(1)	(4)	(9)	(10)		
Income taxes (100%)	(12)	(18)	(119)	1		
Profit/(Loss) from continuing operations (100%)	33	(2)	276	(138)		
Profit/(Loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income/(expenses) (100%)	(6)	(9)	(160)	18		
Total comprehensive income/(expenses) (100%)	**27**	**(11)**	**116**	**(120)**		
% Group's interest in equity at 1 January	**181**	**581**	**123**	**111**	**78**	**1,074**
% Group's interest in profit/(loss) from continuing operations	22	(1)	69	(69)	2	**23**
% Group's interest in profit/(loss) from discontinued operations, net of taxes	-	-	-	-	-	**-**
% Group's interest in other comprehensive income/(expenses)	(4)	(3)	(40)	9	-	**(38)**
% Group's interest in total comprehensive income/(expenses)	**18**	**(4)**	**29**	**(60)**	**2**	**(15)**
Dividends received	(15)	-	-	(33)	(1)	**(49)**
Exchange differences and other movements	-	(22)	-	(2)	(1)	**(25)**
% Group's interest in equity at 31 December	**184**	**555**	**152**	**16**	**78**	**985**
Consolidation adjustments	2	(210)	115	-	1	**(92)**
Equity investments at 31 December	**186**	**345**	**267**	**16**	**79**	**893**
% Group's interest in profit/(loss)	22	(1)	69	(69)	-	**21**
Consolidation adjustments	-	2	-	-	-	**2**
Share of profits/(losses) of equity-accounted investees	**22**	**1**	**69**	**(69)**	**-**	**23**
		23				

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.

	Associates not individually material	
	31 December 2019	31 December 2020
% Group's interest in equity at 1 January	**133**	**173**
% Group's interest in profit/(loss) from continuing operations	20	5
% Group's interest in other comprehensive income/(expenses)	(1)	(6)
% Group's interest in total comprehensive income/(expenses)	**19**	**(1)**
Dividends received	(10)	(9)
Subscriptions and capital increases/(decreases)	37	-
Acquisitions	-	12
Disposals	(2)	-
Exchange differences and other movements	(4)	(2)
% Group's interest in equity at 31 December	**173**	**173**
Consolidation adjustments	-	-
Equity investments at 31 December	**173**	**173**
% Group's interest in profit/(loss)	20	5
Consolidation adjustments	-	-
Share of profits/(losses) of equity-accounted investees	**20**	**5**

13. Receivables and other non-current assets

	31 December 2019	31 December 2020
Financing to third parties	10	8
Deferred grants under Law 808/1985	61	31
Defined-benefit plan assets, net (Note 23)	289	298
Related party receivables (Note 36)	8	8
Other non-current receivables	68	67
Non-current receivables	**436**	**412**
Prepayments - non-current portion	5	17
Equity investments at cost	19	21
Non-recurring costs pending under Law 808/1985	151	15
Other non-current assets	**175**	**53**

Non-current assets showed a decrease, which was mainly due to the non-recurring costs sustained pending the measures and receivables linked to the measures under Law 808/1985, which were reported during the year, with particular reference to the sectors of *Helicopters* (€mil. 106) and *Aeronautics* (€mil. 30).

14. Business combinations

On 8 April 2020, the closing took place for the transaction whereby Leonardo SpA acquired 100% of the Swiss helicopter company Kopter Group AG (Kopter) from Lynwood (Schweiz) AG. The acquisition of Kopter has allowed Leonardo to further strengthen its global leadership and position in the helicopter sector, in line with the objectives of the Industrial Plan towards strengthening its core businesses.

The purchase price includes a fixed amount of USDmil. 185 on a cash free/debt free basis, as well as an earn-out mechanism linked to specific milestones in the life of the programme, as from 2022 (in particular, the earn-out mechanism is calculated on the basis of the date of achievement of certifications related to the helicopter developed by Kopter and the achievement of certain related targets), the fair value of which has been estimated as equal to €mil. 16. The agreements also provide for Leonardo to take over the additional line of credit granted by Lynwood to Kopter during 2020, amounting to €mil. 23.

As at the closing date, the total outlay for Leonardo amounted to €mil. 185, of which €mil. 123 to Lynwood and €mil. 62 to the Russian bank National Bank Trust on account of assumption of a loan that had been previously granted to Kopter. At the time of the closing, the agreements provided for Leonardo to take over all Lynwood's accounts receivable from Kopter (amounting to €mil. 122). As at the closing date, Kopter's debts towards Leonardo amounted to €mil. 184.

The cash out of the transaction, therefore, consisted almost entirely of Leonardo's takeover of the debt positions of the acquired company Kopter.

With reference to the values involved in the acquisition, the process of measuring the fair value of the assets and liabilities acquired (Purchase Price Allocations) was completed in 2020, with the following results:

	Net assets acquired			Net equity adjusted
	Book values	Fair value adjustments	Fair value	
Intangible assets	196	-	196	196
Property, plant and equipment	18	-	18	18
Other non-current assets	7	-	7	7
Inventories	9	-	9	9
Other assets	1	-	1	1
Cash and cash equivalents	1	-	1	1
	232	**-**	**232**	**232**
Borrowings (non-current)	(13)	-	(13)	(13)
Employee benefits	(5)	-	(5)	(5)
Trade payables	(2)	-	(2)	(2)
Current borrowings - third parties	(2)	-	(2)	(2)
Current borrowings - Leonardo				(184)
Other current liabilities	(8)	(1)	(9)	(9)
	202	**(1)**	**201**	**17**
Cash-out			185	
FV of earn out			16	
			201	
Intangible assets from business combinations			-	-
Goodwill arising from acquisition			**-**	

In this Integrated Annual Report, Kopter's contribution – for the nine months following the date of acquisition – posted a negative value of €mil. 10 in terms of EBITA (zero in terms of revenues given the development phase in which the company finds itself). If the Kopter Group had been consolidated for the entire year, its contribution in terms of EBITA would have posted a negative value of €19 million.

In May 2020 the Group also completed the acquisition of 100% of the share capital of the South African company Precision Aviation Services PTY LTD, which operates in the helicopter business, for a consideration of approximately €mil. 1.6. The values being acquired are not significant for the Group and have not generated any goodwill arising from the acquisition.

During 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 fair value measurement of assets and liabilities acquired has led to the recognition of goodwill equal to €mil. 1.

15. Inventories

	31 December 2019	31 December 2020
Raw materials, supplies and consumables	2,052	2,311
Work in progress and semi-finished goods	1,411	1,436
Point in time contract assets	491	484
Advances to suppliers	1,869	1,651
	5,823	**5,882**

Inventories are shown net of impairment charges of €mil. 850 (€mil. 875 at 31 December 2019).

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

	31 December 2019	31 December 2020
Contract assets (gross)	5,094	6,387
Contract liabilities	(2,166)	(3,328)
Contract assets (net)	**2,928**	**3,059**
Contract liabilities (gross)	7,823	7,973
Contract assets	(19)	(196)
Contract liabilities (net)	**7,804**	**7,777**
Net value	**(4,876)**	**(4,718)**

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:

	31 December 2019	31 December 2020
Cost incurred and margins recognised	5,113	6,583
Advances received	(9,989)	(11,301)
Net value	**(4,876)**	**(4,718)**

17. Trade and financial receivables

	31 December 2019		31 December 2020	
	Trade	**Financial**	**Trade**	**Financial**
Receivables	3,129	51	3,042	33
Cumulative impairments	(671)	(15)	(672)	(15)
Related party current receivables (Note 36)	537	161	663	149
	2,995	**197**	**3,033**	**167**

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 37.

18. Other current assets

	31 December 2019	31 December 2020
Derivatives	100	222
Prepaid expenses - current portion	79	97
Receivables for grants	60	56
Receivables from employees and social security	46	41
Indirect tax receivables	44	28
Deferred receivables under Law 808/1985	14	14
Other related party receivables (Note 36)	6	75
Other assets	140	115
	489	**648**

The fair value performance of portfolio derivatives is broken down below:

	Fair value at					
	31 December 2019			31 December 2020		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Interest rate swaps						
Trading	-	(2)	**(2)**	-	(2)	**(2)**
Fair value hedges	-	-	**-**	-	-	**-**
Cash flow hedges	-	(17)	**(17)**	-	(24)	**(24)**
Currency forwards/swaps/options						
Trading	-	-	**-**	-	-	**-**
Fair value hedges	-	-	**-**	7	(1)	**6**
Cash flow hedges	100	(150)	**(50)**	215	(145)	**70**

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 2020 included €mil. 1 of term deposits (€mil. 2 at 31 December 2019).

20. Equity

SHARE CAPITAL

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	**2,525**
Treasury shares	(3,142,497)	-	(29)	-	**(29)**
31 December 2019	**575,007,898**	**2,544**	**(29)**	**(19)**	**2,496**
Repurchase of treasury shares less shares sold	165,817	-	2	-	**2**
31 December 2020	**575,173,715**	**2,544**	**(27)**	**(19)**	**2,498**
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	**2,525**
Treasury shares	(2,976,680)	-	(27)	-	**(27)**

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 2,976,680 treasury shares.

At 31 December 2020 the Ministry of Economy and Finance owned around 30.204% of the share capital. Moreover, in application of enhanced disclosure requirements, during the period the Company received a notice from BlackRock Inc., which declared that it held, through various asset management subsidiaries, 6.352% of the shares (including 1.437% with voting rights), as well as from Norges Bank and the Bank of Italy that declared that they held 1.239% and 1.013% of the shares, respectively. No other notices were received relating to the threshold of 1% shareholding having been exceeded.

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. In accordance with the provisions of IFRS 9 governing hedge accounting, the reserve also includes the fair value change in the forward component of forward contracts (premium points), taken to the income statement when the hedged item affects profit or loss.

Translation reserve

The reserve relating to consolidated companies showed the following changes:

	2019	2020
US dollar	38	(186)
Pound sterling	99	(115)
Other currencies	4	(30)
	141	**(331)**

Overall, the reserve is negative for €mil. 598, mainly for the translation differences on the components denominated in pound sterling.

Tax effects on the gain and loss items recognised in equity

	Group - consolidated entities			Group - equity-accounted investments		
	Amount before taxes	Tax effect	Net amount	Amount before taxes	Tax effect	Net amount
2019						
Revaluation of defined-benefit plans	(70)	13	**(57)**	(63)	14	**(49)**
Changes in cash flow hedges	30	(6)	**24**	13	(3)	**10**
Foreign currency translation difference	141	-	**141**	12	-	**12**
Total	**101**	**7**	**108**	**(38)**	**11**	**(27)**
2020						
Revaluation of defined-benefit plans	121	(28)	**93**	(52)	14	**(38)**
Changes in cash flow hedges	85	(21)	**64**	12	(1)	**11**
Foreign currency translation difference	(331)	-	**(331)**	(11)	-	**(11)**
Total	**(125)**	**(49)**	**(174)**	**(51)**	**13**	**(38)**

There are no tax effects on the gain and loss items recognised in equity of non-controlling interests.

21. Borrowings

	31 December 2019			31 December 2020		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,647	94	**2,741**	2,385	835	**3,220**
Bank borrowings	898	85	**983**	848	48	**896**
Lease liabilities	354	61	**415**	453	72	**525**
Related party lease liabilities	33	3	**36**	27	3	**30**
Other related party borrowings (Note 36)	-	727	**727**	100	781	**881**
Other borrowings	43	61	**104**	67	85	**152**
	3,975	**1,031**	**5,006**	**3,880**	**1,824**	**5,704**

Changes in loans and borrowings are as follows:

	1 January 2019	IFRS 16 adoption	New borrowings	Repayments/ Payments of coupons	Other net increase/ (decrease)	Exchange differences	31 December 2019
Bonds	3,154	-	-	(571)	150	8	**2,741**
Bank borrowings	721	-	300	(46)	9	(1)	**983**
Lease liabilities	5	422	71	(54)	(38)	9	**415**
Related party lease liabilities	-	36	-	-	(2)	2	**36**
Other related party borrowings	669	-	-	-	58	-	**727**
Other borrowings	64	-	-	-	39	1	**104**
	4,613	**458**	**371**	**(671)**	**216**	**19**	**5,006**

	1 January 2020	New borrowings	Repayments/ Payments of coupons	Other net increase/ (decrease)	Exchange differences	31 December 2020
Bonds	2,741	492	(114)	125	(24)	**3,220**
Bank borrowings	983	-	(84)	(2)	(1)	**896**
Lease liabilities	415	190	(68)	16	(28)	**525**
Related party lease liabilities	36	-	(3)	-	(3)	**30**
Other related party borrowings	727	100	-	54	-	**881**
Other borrowings	104	-	-	48	-	**152**
	5,006	**782**	**(269)**	**241**	**(56)**	**5,704**

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 in bond debts was attributable to the bond issue of €mil. 500 which was carried out in July 2020.

The change in other non-current borrowings to related parties included the effect of the loan of €mil. 100 which was taken out with Cassa Depositi e Prestiti (CDP), in support of investments in R&D and innovation, and used during the first quarter of 2020.

During the year, receivables were assigned without recourse for a total volume of €mil. 2,619 (€mil. 2,588 in 2019). The amount of the assignments, substantially in line with the value posted in 2019, was largely due to the particular trend in cash inflows which, as usual, were concentrated in the last part of the year and, as well as for previous years, to contracts in which Leonardo, acting as prime contractor, ensured a timely flow down of payments to subcontractors. Such assignments allowed a linear distribution of the cash profile, including during a financial year characterised by the ongoing pandemic, which has led to significant misalignments in the flow of expected receipts.

It should be noted that financial covenants are included in the Revolving Credit Facility for €mil. 1,800, which require Leonardo to comply with two financial ratios (the ratio of 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/net interest must be no lower than 3.25), tested annually based on annual consolidated data. These covenants are included in the loan agreement with CDP, described above, and in the Term Loan of €mil. 500; furthermore, in accordance with contractual provisions providing for this option, these covenants have also been extended to all EIB loans in place (they had been used for a total amount of €mil. 393 at 31 December 2020), as well as to certain loans granted in past years to DRS by US banks.

In relation to this Integrated Annual Report, there was full compliance with the covenants (the two ratios are 1.5 and 8.2, respectively).

Below is the reconciliation of the changes in loans and borrowings with the cash flows from financing activities:

	2019	2020
Balance at 1 January	**4,613**	**5,006**
Changes included in cash flows from financing activities	**(117)**	**543**
Bond issues	-	492
Repayments of bonds	(423)	-
EIB subscription and CDP loan	300	100
Net change in other borrowings	6	(49)
Non-monetary changes	**510**	**155**
Non monetary items of lease liabilities	489	200
Exchange rate effect	19	(56)
Accrued interest	2	11
Balance at 31 December	**5,006**	**5,704**

Bonds

The increase in the period was due to the abovementioned bond issue in July 2020.

Below is the detail of the bonds at 31 December 2020 which shows the bonds issued by Leonardo (LDO) and Leonardo US Holding Inc. (LH), the latter being fully guaranteed by Leonardo SpA:

Issuer		Year of issue	Maturity	Currency	Outstanding nominal amount (mil.) (*)	Annual coupon	Type of offer
LDO	(**)	2005	2025	€	500	4.875%	European institutional
LDO	(****)	2009	2022	€	556	5.250%	European institutional
LH	(***)	2009	2039	USD	124	7.375%	American institutional Rule 144A/Reg. S
LH	(***)	2009	2040	USD	182	6.250%	American institutional Rule 144A/Reg. S
LDO	(**)	2017	2024	€	600	1.500%	European institutional
LDO	(****)	2013	2021	€	739	4.500%	European institutional
LDO	(**)	2020	2026	€	500	2.375%	European institutional

(*) 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.
(****) Bonds listed on the Luxembourg Stock Exchange, initially issued by Finmeccanica Finance, under the EMTN programme for a maximum amount of €bil. 4. The transaction was authorised in accordance with Article 129 of Legislative Decree 385/1993.

Movements in bonds are as follows:

	1 January 2019	New borrowings	Interest	Re-payments/ Repurchases	Payments of coupons	Effect of exchange rate	31 December 2019	Fair value
€mil. 500 LDO 2025 (*)	516	-	25	(310)	(24)	-	**517**	605
GBPmil. 400 LDO 2019 (*)	310	-	25	-	(25)	-	**-**	-
€mil. 600 LDO 2022 (*)	581	-	30	(40)	(30)	-	**581**	616
USDmil. 300 LH 2039 (*)	149	-	11	(73)	(12)	3	**111**	137
USDmil. 500 LH 2040 (*)	234	-	14	-	(15)	5	**165**	179
€mil. 600 LDO 2024 (*)	598	-	10	-	(9)	-	**599**	620
€mil. 950 LDO 2021 (*)	766	-	35	-	(33)	-	**768**	774
€mil. 500 LDO 2026 (*)	-	-	-	-	-	-	**-**	-
	3,154	**-**	**150**	**(423)**	**(148)**	**8**	**2,741**	**2,931**

	1 January 2020	New borrowings	Interest	Re-payments/ Repurchases	Payments of coupons	Effect of exchange rate	31 December 2020	Fair value
€mil. 500 LDO 2025 (*)	517	-	25	-	(25)	-	**517**	574
GBPmil. 400 LDO 2019 (*)	-	-	-	-	-	-	**-**	-
€mil. 600 LDO 2022 (*)	581	-	30	-	(29)	-	**582**	585
USDmil. 300 LH 2039 (*)	111	-	8	-	(8)	(10)	**101**	133
USDmil. 500 LH 2040 (*)	165	-	10	-	(10)	(14)	**151**	177
€mil. 600 LDO 2024 (*)	599	-	11	-	(9)	-	**601**	612
€mil. 950 LDO 2021 (*)	768	-	35	-	(33)	-	**770**	739
€mil. 500 LDO 2026 (*)	-	492	6	-	-	-	**498**	522
	2,741	**492**	**125**	**-**	**(114)**	**(24)**	**3,220**	**3,342**

(*) 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 2019

	Bonds		Bank borrowings		Lease liabilities		Related party lease liabilities		Other related party borrowings (Note 36)		Other borrowings		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
Within 1 year	-	94	58	27	-	61	-	3	727	-	38	23	**823**	**208**
2 to 5 years	-	1,882	592	55	-	158	-	16	-	-	-	-	**592**	**2,111**
Beyond 5 years	-	765	251	-	-	196	-	17	-	-	43	-	**294**	**978**
Total	**-**	**2,741**	**901**	**82**	**-**	**415**	**-**	**36**	**727**	**-**	**81**	**23**	**1,709**	**3,297**

31 December 2020

	Bonds		Bank borrowings		Lease liabilities		Related party lease liabilities		Other related party borrowings (Note 36)		Other borrowings		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
Within 1 year	-	835	20	28	-	72	-	3	781	-	62	23	**863**	**961**
2 to 5 years	-	1,648	612	27	-	313	-	16	-	-	-	-	**612**	**2,004**
Beyond 5 years	-	737	209	-	-	140	-	11	100	-	67	-	**376**	**888**
Total	**-**	**3,220**	**841**	**55**	**-**	**525**	**-**	**30**	**881**	**-**	**129**	**23**	**1,851**	**3,853**

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

	31 December 2019	*Of which with related parties*	31 December 2020	*Of which with related parties*
Liquidity	**(1,962)**		**(2,213)**	
Current loans and receivables	**(197)**	*(161)*	**(167)**	*(149)*
Current bank borrowings	85		48	
Current portion of non-current borrowings	94		835	
Other current borrowings	852	*730*	941	*784*
Current financial debt	**1,031**		**1,824**	
Net current financial debt (funds)	**(1,128)**		**(556)**	
Non-current bank borrowings	898		848	
Bonds issued	2,647		2,385	
Other non-current borrowings	430	*33*	647	*127*
Non-current financial debt	**3,975**		**3,880**	
Net financial debt	**2,847**		**3,324**	

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

	Notes	31 December 2019	31 December 2020
Net financial debt CONSOB com. DEM/6064293		**2,847**	**3,324**
Forex derivatives covering debt items	18	-	(6)
Group net debt (KPI)		**2,847**	**3,318**

22. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Tax	Product guarantees	Onerous contracts (losses at completion)	Other provisions	Total
1 January 2019							
Current	30	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	32	81	74	125	385	467	**1,164**
Non-current	10	82	20	95	-	468	**675**
	42	**163**	**94**	**220**	**385**	**935**	**1,839**
Allocations	8	39	5	64	207	194	**517**
Uses	-	(89)	(1)	(14)	(18)	(12)	**(134)**
Reversals	(2)	(3)	-	(44)	(112)	(84)	**(245)**
Other changes	(3)	(13)	(4)	(2)	(6)	(47)	**(75)**
31 December 2020	**45**	**97**	**94**	**224**	**456**	**986**	**1,902**
Broken down as follows:							
Current	35	63	77	136	456	551	**1,318**
Non-current	10	34	17	88	-	435	**584**
	45	**97**	**94**	**224**	**456**	**986**	**1,902**

"Other provisions" for risks and charges mainly include:

- the provision for litigation with employees and former employees of €mil. 30 (€mil. 31 at 31 December 2019);
- the provision for litigation underway of €mil. 33 (€mil. 52 at 31 December 2019);
- other provisions mainly related to offset obligations and critical issues on contracts.

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 2020 and in early 2021:

- 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 12 AW101 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. The Company also took the same legal actions with respect to the service of the notice of invitation to appear in court at the hearing on 10 September 2018. By a judgment dated 3 July 2019, the Lazio Regional Administrative Court rejected the appeals submitted by Leonardo SpA; the Company then filed an appeal against the abovementioned measures. By a judgment dated 7 May 2020 the Council of State granted the appeals submitted by Leonardo.

  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 services of notice of invitation to appear at the hearings set on 18 September 2019 and 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 AW101 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.

Finally, it should be noted that on 11 February 2020 a notice was served on AgustaWestland International Ltd whereby it was invited to appear in court 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;
- the debate phase continued within the criminal proceedings before the Court of Naples against some suppliers and subcontractors of the then-Selex Service Management (now Selex ES), in relation to the awarding of the contract for the construction and operation of the Control System for Waste Tracking (SISTRI). Within these proceedings, the company brought a civil action at the hearing held on 7 November 2013;
- on 19 January 2021 the Court of Appeal of Milan rejected the appeals submitted against the judgment whereby on 15 June 2017 the Court of Milan acquitted 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 had 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:

- the proceedings brought by Firema under extraordinary management before the Court of Naples against the directors and statutory and independent auditors of Firema Trasporti (R.G. 32257/13) in order to have them declared responsible for the financial collapse caused to the company, within which Leonardo and AnsaldoBreda have been summoned as parties concerned, have been postponed to the hearing scheduled on 24 June 2021, in order to discuss whether they must be joined to proceedings R.G. 16312/15 described below. It should be noted that, within these proceedings, two of the defendants and specifically the former directors Giorgio and Gianfranco Fiore summoned Leonardo and AnsaldoBreda in court, on the grounds of an alleged abusive exercise of management and coordination activities that, according to them, was perpetrated by the parties summoned to the detriment of Firema. On the basis of this assumption, Giorgio and Gianfranco Fiore therefore requested, primarily, that Leonardo and AnsaldoBreda be ordered to pay direct compensation to the plaintiff for any damages that should be ascertained, which they presumed to be €mil. 262 and which is equal to Firema's liabilities, and, alternatively, to be held harmless by the aforesaid companies.

  As to the action brought by GMR against Leonardo and AnsaldoBreda before the Court of Naples (R.G. 16312/15), the court referred the case to the President in order for the proceedings to be possibly joined to those described above at the hearing held on 1 October 2020.

  It should be noted that, within these proceedings, the plaintiff company states that Firema Trasporti was allegedly subject, during the period in which Leonardo held an investment in it (from 1993 to 2005), to management and coordination activities that were carried out to its detriment and in the sole interest of the Leonardo Group and that, even after the sale of the aforesaid investment, Firema Trasporti was allegedly de facto subjected to an abuse of economic dependence from the abovementioned Leonardo Group in performing the various agreements existing with AnsaldoBreda.

  In both proceedings Leonardo and AnsaldoBreda appeared before the court requesting that, on the merits, the claims submitted against them be dismissed as clearly groundless as of fact and as of right;
- 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 in 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 2000 by the aforesaid companies and the then-Ansaldo Industria, assuming that it was allegedly concluded based on unfair conditions. The claim was 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. 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 before the Court of Appeal of Rome;

- the case involved in the action 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, was referred to the President of the Division at the hearing held on 10 September 2020; to date, we are waiting for the next hearing to be scheduled. It should be also noted that on 18 December 2020 the Ministry took steps to pay the company an additional sum of € 87,920,397 relating to the final payment of the fixed amount set out in the aforesaid contract.

  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 Control 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.

  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 the said Ministry before the Court of Rome, in order to seek a declaration that the contract had expired on 30 November 2014 and obtain the payment of the agreed fees and compensation for damages.

  Following the order dated 17 February 2016, which granted the claim submitted by Selex Service Management pursuant to Article 186-*ter* of the Italian Code of Civil Procedure, the Ministry paid the plaintiff company an amount of €mil. 17;

- 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, on 14 September 2020 the company – before proceeding with the ordinary court hearing to determine jurisdiction – filed a request for the formal initiation of mediation proceedings under the Commercial Courts Act of 2015, which was not accepted by the Ministry. It should be noted that, following a notice from the Indian Ministry to suspend payments and proceed with the termination of the contract for alleged violations of the Pre-Contract Integrity Pact, on 4 October 2013 AgustaWestland International Ltd started arbitration proceedings provided for by the contract in New Delhi.

  Within these proceedings, 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. At the hearing of 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.

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:

- within the arbitration proceedings brought by the L&P JV against the GSIC JV, on 12 November 2020 the plaintiff filed its own Memorial of Claim whereby it better specified its claims for damage, setting them at a total amount of about €mil. 290. 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. 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. 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.

23. Employee benefit obligations

The classification of employee benefit obligations is affected by the net balance, per each plan, of the plan assets and liabilities. The Group recognised on its balance sheet the liabilities (net of related plan assets) as well as the assets (net of related liabilities), depending on whether the plans are in a deficit or surplus position.

Net assets under defined-benefit plans are classified among other non-current assets (Note 13). Below is a breakdown of the net liabilities and assets:

	31 December 2019			31 December 2020		
	Liabilities	Assets	Net	Liabilities	Assets	Net
Severance pay provision	290	-	**290**	265	-	**265**
Defined-benefit plans	191	289	**(98)**	106	298	**(192)**
Defined-contribution plans	28	-	**28**	29	-	**29**
	509	**289**	**220**	**400**	**298**	**102**

The deficit for defined-benefit plans is broken down below:

	31 December 2019	31 December 2020
GBP area	(232)	(295)
Euro area	6	6
USD area	101	70
Other	27	27
	(98)	**(192)**

The change in defined-benefit plans was mainly due to the plans applicable in the United Kingdom and, in particular, to the combined effect of actuarial losses on the value of bonds for a decrease in interest rates, which was offset by the returns on the plan assets, which were higher than those expected.

Below is a breakdown of defined-benefit plans and statistical information regarding the excess (deficit/surplus) of the plans:

	31 December 2019	31 December 2020
Present value of obligations	(3,236)	(3,368)
Fair value of plan assets	3,334	3,560
Plan deficit	**98**	**192**
Of which, related to:		
- net liabilities	(191)	(106)
- net assets	289	298

Changes in the defined-benefit plans are shown below:

31 December 2019

	Present value of obligations	Fair value of plan assets	Net liability defined-benefit plans
Opening balance	**2,659**	**2,790**	**(131)**
Costs of benefits paid	36	-	36
Net interest expenses	74	76	(2)
Remeasurement	413	340	73
Actuarial losses/(gains) through equity - demographic assumption	*(49)*	-	*(49)*
Actuarial losses/(gains) through equity - financial assumptions	*462*	-	*462*
Actuarial losses/(gains) through equity resulting from adjustments based on the experience	-	-	-
Expected return on plan assets (no interest)	-	*340*	*(340)*
Curtailments	-	-	-
Contributions paid	-	52	(52)
Contributions from other plan participants	10	10	-
Exchange rate differences	142	152	(10)
Benefits paid	(98)	(98)	-
Other changes		12	(12)
Closing balance	**3,236**	**3,334**	**(98)**
Of which, related to:			
- net liabilities	2,254	2,063	191
- net assets	982	1,271	(289)

31 December 2020

	Present value of obligations	Fair value of plan assets	Net liability defined-benefit plans
Opening balance	**3,236**	**3,334**	**(98)**
Costs of benefits paid	72		72
Net interest expenses	57	57	-
Remeasurement	268	387	(119)
Actuarial losses/(gains) through equity - demographic assumption	*(32)*	-	*(32)*
Actuarial losses/(gains) through equity - financial assumptions	*322*	-	*322*
Actuarial losses/(gains) through equity resulting from adjustments based on the experience	*(22)*	-	*(22)*
Expected return on plan assets (no interest)	-	*387*	*(387)*
Curtailments	(21)	(20)	(1)
Increase for business combinations	24	19	5
Contributions paid	-	54	(54)
Contributions from other plan participants	11	11	-
Exchange rate differences	(184)	(188)	4
Benefits paid	(95)	(94)	(1)
Other changes	-	-	-
Closing balance	**3,368**	**3,560**	**(192)**
Of which, related to:			
- net liabilities	259	153	106
- net assets	3,109	3,407	(298)

Changes in severance pay are shown below:

	31 December 2019	31 December 2020
Opening balance	302	290
Costs of benefits paid	1	1
Net interest expenses	3	2
Remeasurement	1	2
Actuarial losses/(gains) through equity - demographic assumption	-	-
Actuarial losses/(gains) through equity - financial assumptions	(1)	3
Actuarial losses/(gains) through equity resulting from adjustments based on the experience	2	(1)
Increase for business combinations	7	-
Benefits paid	(26)	(28)
Other changes	2	(2)
Closing balance	290	265

The amount recognised in profit or loss on defined-benefit plans (including the severance pay provision) was calculated as follows:

	2019	2020
Current service costs	65	73
Past service costs	(28)	-
Curtailments and settlements	-	(1)
Costs booked as "personnel expenses"	**37**	**72**
Net interest expenses	1	2
Costs booked as "financial expenses"	**1**	**2**
	38	**74**

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:

	Severance pay provision		Defined-benefit plans	
	31 December 2019	31 December 2020	31 December 2019	31 December 2020
Discount rate (annual)	0.7%	0.4%	2.00% - 2.80%	1.45% - 3.02%
Rate of salary increase	n.a.	n.a.	2.75% - 3.00%	2.10% - 3.20%
Inflation rate	0.7%	0.4%	2.00% -3.00%	1.50% - 3.10%

The discount rate utilised to discount the defined-benefit 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:

	Severance pay provision				Defined-benefit plans			
	31 December 2019		31 December 2020		31 December 2019		31 December 2020	
	-0.25%	+0.25%	-0.25%	+0.25%	-0.25%	+0.25%	-0.25%	+0.25%
Discount rate (annual)	5	(4)	4	(4)	181	(166)	167	(159)
Inflation rate	(3)	3	(2)	3	(76)	98	(102)	111

The average duration of the severance pay is about 6 years while that of the other defined-benefit plans is 19.6 years.

The estimate of the contributions to be paid in 2021 related to defined-benefit plans is about €mil. 56.

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:

	31 December 2019	31 December 2020
Cash and cash equivalents	112	107
Shares and investment funds	1,680	1,461
Debt instrument	1,312	1,506
Real properties	16	8
Derivatives	112	146
Other	102	332
	3,334	**3,560**

In 2020 the item "other" included €mil. 165 of assets held by insurance companies.

24. Other current and non-current liabilities

	31 December 2019		31 December 2020	
	Non-current	Current	Non-current	Current
Employee obligations	51	389	50	343
Deferred income	87	102	82	118
Amounts due to social security institutions	-	181	-	176
Payables to MED (Law 808/1985)	155	-	161	-
Payables to MED for monopoly costs (Law 808/1985)	180	12	196	7
Indirect tax liabilities	-	117	-	108
Derivatives	-	169	-	172
Other liabilities	341	452	290	383
Other payables to related parties (Note 36)	-	63	-	12
	814	**1,485**	**779**	**1,319**

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. 221 at 31 December 2019), 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

	31 December 2019	31 December 2020
Suppliers	3,441	3,260
Trade payables to related parties (Note 36)	350	359
	3,791	**3,619**

26. Guarantees

The Group has existing guarantee for €mil. 14,234 (€mil. 14,755 at 31 December 2019). 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

	2019	2020
Revenues from contracts with customers	11,071	9,924
Change in contract assets	818	1,748
Revenues from related parties (Note 36)	1,895	1,738
	13,784	**13,410**

The breakdown by geographical area and business sector is reported in Note 8.
The breakdown of revenues by timing is reported below:

	2019	2020
Revenues recognised at a point in time	2,830	2,387
Revenues recognised over time	10,954	11,023
	13,784	**13,410**

28. Other operating income/(expenses)

	2019			2020		
	Income	Expenses	Net	Income	Expenses	Net
Grants for research and development costs (*)	29	-	**29**	31	-	**31**
Other operating grants	35	-	**35**	25	-	**25**
Gains/(Losses) on sales of intangible assets, property, plant and equipment	1	(1)	**-**	4	(2)	**2**
Reversals/(Accruals) to provisions for risks	304	(391)	**(87)**	237	(464)	**(227)**
Exchange rate difference on operating items	91	(94)	**(3)**	206	(225)	**(19)**
Restructuring costs	-	(18)	**(18)**	-	(13)	**(13)**
Indirect taxes	-	(36)	**(36)**	-	(34)	**(34)**
Other operating income/(expenses)	87	(46)	**41**	138	(53)	**85**
Other operating income/(expenses) from/to related parties (Note 36)	4	(1)	**3**	14	(1)	**13**
	551	**(587)**	**(36)**	**655**	**(792)**	**(137)**

(*) To which must be added assessments of "non-recurring costs pending under Law 808/1985" (Note 13), equal to €mil. 51 (€mil. 60 at 31 December 2019), and "non-current and current receivables for measures pending under Law 808/1985" (Note 13 and Note 18, respectively), equal to €mil. 176 (€mil. 2 at 31 December 2019).

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 expense (Note 29).

Reversals and accruals to provisions for risks are affected by the work progress and update of onerous contracts (Note 22).

29. Purchase and personnel expenses

	2019	2020
Purchases of materials from third parties	5,094	4,606
Change in inventories of raw materials	(158)	(324)
Costs for purchases from related parties (Note 36)	195	761
Purchases	**5,131**	**5,043**
Services rendered by third parties	3,414	3,351
Costs of leases	69	59
Royalties	5	13
Services rendered by related parties (Note 36)	474	408
Services	**3,962**	**3,831**
Wages and salaries	2,603	2,573
Social security contributions	537	512
Costs related to defined-contribution plans	117	127
Costs related to severance pay provision and other defined-benefit plans (Note 23)	37	72
Employee disputes	6	1
Restructuring costs - net	10	46
Other personnel expenses	139	129
Personnel expenses	**3,449**	**3,460**
Change in finished goods, work in progress and semi-finished products	**(126)**	**(22)**
Internal work capitalised	**(280)**	**(328)**
Total purchases and personnel expenses	**12,136**	**11,984**

The exact workforce at period-end showed, compared to 2019, an increase that was mainly attributable to *Defence Electronics and Security* (252 units, of which 239 in Leonardo DRS) and *Aeronautics* (63 units). As at 31 December 2020, the *Helicopters* segment showed a workforce in line with 2019 despite the fact that the acquisitions of the Kopter Group (326 units) and the PAS Group (33 units) took place during the period.

On the other hand, the trend in average headcount was affected by the particular dynamics of 2019, which had shown a pronounced increase in workforce in the last months of the year. Consequently, it is possible to report an increase for the period in all the sectors in which the Group operates, particularly significant in *Defence Electronics and Security* (534 units, of which 269 in Leonardo DRS) and *Helicopters* (581 units, of which 318 due to the acquisition of the Kopter Group), as well as in *Aeronautics* (253 units) and *Other activities* (186 units).
Below is the breakdown of workforce by position:

	Average workforce			Total workforce		
	31 December 2019	31 December 2020	Change	31 December 2019	31 December 2020	Change
Senior managers (*)	1,193	1,205	12	1,241	1,198	(43)
Middle managers	5,891	5,956	65	6,004	6,113	109
Clerical employees	27,466	28,331	865	28,428	28,806	378
Manual labourers (**)	13,247	13,859	612	13,857	13,765	(92)
	47,797	**49,351**	**1,554**	**49,530**	**49,882**	**352**

(*) Includes pilots.
(**) Includes senior manual labourers.

30. Amortisation, depreciation and value adjustments to financial assets

	2019	2020
Amortisation of intangible assets	155	147
Development costs	*29*	*26*
Non-recurring costs	*54*	*48*
Acquired through business combinations	*27*	*27*
Concessions, licences and trademarks	*16*	*17*
Other intangible assets	*29*	*29*
Depreciation of property, plant and equipment and investment properties	308	286
Depreciation of rights of use	74	80
Impairment of other assets	54	268
Value adjustments to financial assets	28	14
	619	**795**

The impairment of other assets mainly refers to the write-down of non-recurring costs and specific tools (tooling) relating to the *Aeronautics* sector, following some production assets' failure to operate at full capacity. As described in Note 4.1, the impairment was carried out according to the discounted cash flow method, using the cash flows under the product business plan, as discounted on the basis of the sector-specific weighted-average cost of capital (WACC). Value adjustments to financial assets related to the measurements made by the Group on a periodical basis in order to assess the recoverability of financial assets recognised in the consolidated financial statements, in accordance with the provisions governing impairment under IFRS 9.

31. Financial income and expenses

Below is a breakdown of financial income and expenses:

	2019			2020		
	Income	Expenses	Net	Income	Expenses	Net
Interest	4	(175)	**(171)**	3	(150)	**(147)**
Interest on lease liabilities	-	(17)	**(17)**	-	(18)	**(18)**
Premiums received/(paid) on IRS	-	(2)	**(2)**	-	(4)	**(4)**
Commissions on borrowings	-	(9)	**(9)**	-	(17)	**(17)**
Other commissions	-	(9)	**(9)**	-	(7)	**(7)**
Income/(expenses) from equity investments and securities	15	-	**15**	1	-	**1**
Fair value gains/(losses) through profit or loss	22	(56)	**(34)**	22	(21)	**1**
Premiums (paid)/received on forwards	66	(93)	**(27)**	63	(97)	**(34)**
Exchange rate differences	38	(32)	**6**	51	(56)	**(5)**
Interest cost on defined-benefit plans (Note 23)	-	(1)	**(1)**	-	(2)	**(2)**
Financial income/(expenses) - related parties (Note 36)	5	(4)	**1**	2	(4)	**(2)**
Other financial income and expenses	18	(77)	**(59)**	5	(38)	**(33)**
	168	**(475)**	**(307)**	**147**	**(414)**	**(267)**

The decrease in net financial expenses was mainly due to the effect arising from the fair value performance of the instruments used to hedge exchange risks. This item was also affected by the new method of accounting for the forward component (premium points) of forward contracts which, according to the hedge accounting provisions set out in IFRS 9 "Financial instruments" applied by the Group with effect from 1 January 2020, is no longer recognised directly in net profit/loss for the year but as other comprehensive income and accumulated in the cash flow hedge reserve. Deferred amounts are taken to the income statement when the hedged item affects profit or loss. The lower interest was attributable to the benefits arising from the bond repayment occurred in December 2019 in relation to the bond issue of a residual nominal amount of GBPmil. 278, as well as to buy-back transactions carried out in the previous period.

More specifically:

> net interest decreased by €mil. 24. The item includes €mil. 125 (€mil. 150 in 2019) related to interest on bonds;

> the expenses arising from the application of fair value break down as follows:

	2019			2020		
	Income	Expenses	Net	Income	Expenses	Net
Interest rate swaps	-	-	-	-	-	-
Ineffective portion of hedging swaps	22	(51)	(29)	22	(21)	1
Embedded derivatives	-	(5)	(5)	-	-	-
	22	**(56)**	**(34)**	**22**	**(21)**	**1**

The decrease in the item compared to the previous year was affected by the new method of accounting for the premium points envisaged in IFRS 9 "Financial instruments", described above;

> other net financial expenses showed an improvement since the comparative data included costs arising from buy-back transactions (€mil. 20), out of the bond issues denominated in US dollars.

32. Income taxes

Income taxes can be broken down as follows:

	2019	2020
IRES (corporate income tax)	(13)	(3)
IRAP (regional tax on production)	(29)	(24)
Other income taxes (foreign)	(74)	(62)
Tax related to previous periods	27	30
Provisions for tax disputes	(1)	(5)
Deferred tax - net	(57)	52
	(147)	**(12)**

The balance of 2020 tax was significantly lower than in 2019, mainly as a result of the results achieved.

In 2020 the tax rate was equal to about 14.6%, as reported in the table below:

	2019	2020
Operating profit/(loss) before income taxes and discontinued operations	**869**	**253**
Total taxes	147	12
Provisions for tax disputes	(1)	(5)
Tax related to previous periods	27	30
Gain of ATIL JV dismission	-	-
	173	**37**
Tax rate	**19.9%**	**14.6%**

Deferred taxes and related receivables and payables at 31 December 2020 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 an amount of €mil. 83 is related to the tax consolidation mechanism (about €mil. 550 of unrecognised losses).

	2019	2020
Deferred tax assets on tax losses	15	(54)
Property, plant and equipment and intangible assets	(8)	7
Financial assets and liabilities	-	1
Severance and retirement benefits	(2)	2
Provision for risks and impairment	(58)	22
Effect of change in tax rate	-	-
Other	(4)	74
Deferred taxes recognised through profit or loss	**(57)**	**52**

	31 December 2019			31 December 2020		
	Balance sheet			Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	228	-	**228**	160	-	**160**
Property, plant and equipment and intangible assets	39	122	**(83)**	50	129	**(79)**
Severance and retirement benefits	6	21	**(15)**	9	21	**(12)**
Financial assets and liabilities	1	-	**1**	2	-	**2**
Provision for risks and impairment	604	-	**604**	621	-	**621**
Other	125	51	**74**	188	13	**175**
Offsetting	(2)	(2)	**-**	(1)	(1)	**-**
Deferred taxes recognised through balance sheet	**1,001**	**192**	**809**	**1,029**	**162**	**867**
On cash flow hedge derivatives	25	4	**21**	16	16	**-**
On actuarial gains and losses	70	49	**21**	48	55	**(7)**
Deferred taxes recognised through equity	**95**	**53**	**42**	**64**	**71**	**(7)**
	1,096	245	**851**	1,093	233	**860**

33. Assets held for sale and discontinued operations

As detailed in the Annual Financial Report at 31 December 2019, the space business of Vitrociset SpA and that of its investees (Vitrociset Belgium Sprl and Vitrociset France Sarl) was intended for a contribution transaction in favour of the Space Alliance (in particular Telespazio SpA).

Consequently, the assets and liabilities of the business unit were reclassified, as early as from the first recognition after the acquisition, as a group of assets held for sale, for a net value of €mil. 38 (€mil. 51 at 31 December 2019).

Assets held for sale also include the value of assets owned by Leonardo Global Solutions held for sale for €mil. 9 (€mil. 18 at 31 December 2019).

	31 December 2019	31 December 2020
Non-current assets	45	35
Current assets	47	37
Assets	**92**	**72**
Adjustment to selling price	-	-
Assets held for sale	**92**	**72**
Non-current liabilities	4	4
Current liabilities	19	21
Liabilities associated with assets held for sale	**23**	**25**

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 have also been classified as "discontinued operations" (a net result of €mil. 2, €mil. 4 in 2019).

	2019	2020
Revenues	61	61
Purchase and personnel expenses	(56)	(58)
Amortisation, depreciation and write-offs	(1)	(1)
Other operating income/(expenses)	92	1
Income before tax and financial expenses	**96**	**3**
Financial income/(expenses)	-	-
Income taxes	4	(1)
Profit/(Loss) for the period	**100**	**2**
Other comprehensive income/(expenses)	-	-
Total comprehensive income/(expenses)	**100**	**2**

As reported in Note 7, to which reference should be made, the deed of demerger between Vitrociset SpA and Telespazio SpA was signed on 22 February 2021.

With reference to the comparative period, it should be noted that 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", worth a total amount of €mil. 96.

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.

	2019	2020
Average shares outstanding during the reporting period (in thousands)	574,914	574,914
Earnings for the period (excluding non-controlling interests) (€ millions)	821	241
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	721	239
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	100	2
Basic and diluted EPS (€)	**1.428**	**0.419**
Basic and diluted EPS from continuing operations (€)	1.254	0.416
Basic and diluted EPS from discontinued operations (€)	0.174	0.003

Basic EPS, as that relating to the comparative period, was equal to diluted earnings per share, since there are no dilutive elements.

35. Cash flows from operating activities

	2019	2020
Net result	822	243
Amortisation, depreciation and value adjustments to financial assets	619	795
Share of profits/(losses) of equity-accounted investees	(183)	(26)
Income taxes	147	12
Cost of severance pay provision and other defined-benefit plans	37	72
Net financial expenses /(income)	307	267
Net allocations to the provisions for risks and inventory write-downs	178	339
Profit from discontinued operations	(100)	(2)
Other non-monetary items	20	1
	1,847	**1,701**

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 a personnel expense (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:

	2019	2020
Inventories	(380)	(167)
Contract assets and liabilities	(564)	(208)
Trade receivables and payables	416	(281)
	(528)	**(656)**

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:

	2019	2020
Payment of pension plans	(78)	(83)
Changes in provisions for risks and other operating items	(312)	(342)
	(390)	**(425)**

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 2019

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Associates						
NHIndustries SAS				114		**114**
Eurofighter Jagdflugzeug GmbH				105		**105**
AgustaWestland Aviation Services LLC				17		**17**
Macchi Hurel Dubois SAS				15		**15**
Other with unit amount lower than €mil. 10	1		1	34	2	**38**
Joint ventures						
GIE ATR				44		**44**
Joint Stock Company Helivert				42		**42**
Thales Alenia Space SAS			156	18	1	**175**
MBDA SAS				16		**16**
Other with unit amount lower than €mil. 10	7		1	13	3	**24**
Consortia (*)						
Other with unit amount lower than €mil. 10			3	12		**15**
Companies subject to the control or considerable influence of the MEF						
Fintecna SpA				63		**63**
Ferrovie dello Stato Italiane SpA				17		**17**
Other with unit amount lower than €mil. 10				27		**27**
Total	**8**	**-**	**161**	**537**	**6**	**712**
% against total for the period	*44.4%*	*n.a.*	*81.7%*	*17.9%*	*3.5%*	

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control.

Receivables at 31 December 2020

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Associates						
NHIndustries SAS				147		**147**
Eurofighter Jagdflugzeug GmbH				140		**140**
Iveco - OTO Melara Scarl				24		**24**
AgustaWestland Aviation Services LLC				20		**20**
Other with unit amount lower than €mil. 10	1		2	27		**30**
Joint ventures						
Thales Alenia Space SAS			142	26		**168**
Joint Stock Company Helivert				39		**39**
GIE ATR				22	71	**93**
Orizzonte Sistemi Navali SpA				37		
MBDA SAS				20		**20**
Other with unit amount lower than €mil. 10	7		1	8	4	**20**
Consortia (*)						
Other with unit amount lower than €mil. 10			2	12		**14**
Companies subject to the control or considerable influence of the MEF						**-**
Fintecna SpA				72		**72**
Ferrovie dello Stato Italiane SpA				41		**41**
ENAV SpA				15		**15**
Other with unit amount lower than €mil. 10			2	13		**15**
Total	**8**	**-**	**149**	**663**	**75**	**858**
% against total for the period	***50.0%***	***n.a.***	***89.2%***	***21.9%***	***35.0%***	

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control.

Payables at 31 December 2019

	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Associates							
Gulf System Logistic Services Company WLL				133		**133**	
Eurofighter Jagdflugzeug GmbH			16	45		**61**	
Elettronica SpA				11		**11**	
Leonardo Helicoptères Algerie			20			**20**	
Other with unit amount lower than €mil. 10			3	21	6	**30**	
Joint ventures							
MBDA SAS			651	50		**701**	47
GIE ATR				38	48	**86**	
Rotorsim Srl				21		**21**	
Telespazio SpA			36	3	3	**42**	182
Other with unit amount lower than €mil. 10				9		**9**	
Consortia (*)							
Other with unit amount lower than €mil. 10				3		**3**	
Companies subject to the control or considerable influence of the MEF							
Enel SpA				14		**14**	
Other with unit amount lower than €mil. 10			1	2	6	**9**	592
Total			**727**	**350**	**63**	**1,140**	**821**
% against total for the period	***n.a.***	***n.a.***	***70.5%***	***9.2%***	***5.2%***		

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control.

Payables at 31 December 2020

	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Associates							
Gulf System Logistic Services Company WLL				82		**82**	
Eurofighter Jagdflugzeug GmbH			45	55		**100**	
NHIndustries SAS				21		**21**	
Elettronica SpA				15		**15**	
Leonardo Helicoptères Algerie			20			**20**	
Other with unit amount lower than €mil. 10			4	15	6	**25**	
Joint ventures							
MBDA SAS			663	67		**730**	47
Telespazio SpA			49	2	2	**53**	161
GIE ATR				55		**55**	
Rotorsim Srl				12		**12**	
Other with unit amount lower than €mil. 10				8	1	**9**	
Consortia (*)							
Other with unit amount lower than €mil. 10				4		**4**	
Companies subject to the control or considerable influence of the MEF							
Cassa Depositi e Prestiti SpA	100				3	**103**	
Enel SpA				19		**19**	
Other with unit amount lower than €mil. 10				4		**4**	410
Total	**100**	**-**	**781**	**359**	**12**	**1,252**	**618**
% against total for the period	***2.6%***	***n.a.***	***42.8%***	***9.9%***	***1.2%***		

(*) Consortia 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 and payables for subscribed capital unpaid to be paid towards Leonardo Helicoptères Algerie for €mil. 20.

The financial exposure to Cassa Depositi e Prestiti (€mil. 100) relates to the loan taken out at the beginning of the year in support of investments in R&D and innovation set out in the Industrial Plan.

Trade payables to associates mainly related to the relations with Gulf System Logistic Services Company WLL, which showed a decrease following the completion of the hangar, expected within the EFA Kuwait programme.

Current loans and borrowings from related parties include in particular the amount of €mil. 663 (€mil. 651 at 31 December 2019) due by Group companies to the joint venture MBDA and payables of €mil. 45 (€mil. 16 at 31 December 2019), 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 2019

	Revenues	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Associates						
Eurofighter Jagdflugzeug GmbH	493		162			
NHIndustries SAS	348					
Iveco - OTO Melara Scarl	77		2			
Macchi Hurel Dubois SAS	56					
Advanced Air Traffic Systems SDH BHD	17		2			
AgustaWestland Aviation Services LLC	15		4			
Gulf System Logistic Services Company WLL			273			
Elettronica SpA	1		17			
Other with unit amount lower than €mil. 10	19		4			1
Joint ventures						
GIE ATR	276		43			
Thales Alenia Space SAS	82		3		1	
MBDA SAS	59		61			3
Orizzonte Sistemi Navali SpA	154		1			
Joint Stock Company Helivert	10	1	1			
Rotorsim Srl			20			
Other with unit amount lower than €mil. 10	5	3	8			
Consortia (*)						
Consorzio G.e.i.e. Eurotorp	14					
Other with unit amount lower than €mil. 10	11			1		
Companies subject to the control or considerable influence of the MEF						
Fintecna SpA	118		(2)			
Ferrovie dello Stato Italiane SpA	47					
Poste Italiane SpA	26					
ENAV SpA	25					
Istituto Poligrafico e Zecca dello Stato SpA	14					
Enel SpA	7		69			
Other with unit amount lower than €mil. 10	21		1		**4**	
Total	**1,895**	**4**	**669**	**1**	**5**	**4**
% against total for the period	***13.7%***	***0.7%***	***5.5%***	***0.2%***	***3.0%***	***0.8%***

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control.

Income statement transactions at 31 December 2020

	Revenues	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Associates						
Eurofighter Jagdflugzeug GmbH	433		755			
NHIndustries SAS	417					
Iveco - OTO Melara Scarl	74		2			
Macchi Hurel Dubois SAS	30					
AgustaWestland Aviation Services LLC	20		4			
Advanced Air Traffic Systems SDH BHD	11					
Euromids SAS	11		1			
Elettronica SpA	1		27			
Gulf System Logistic Services Company WLL			166			
Other with unit amount lower than €mil. 10	17		6	1		1
Joint ventures						
GIE ATR	122		26			
MBDA SAS	65		96			1
Thales Alenia Space SAS	53		2		1	
Joint Stock Company Helivert	41	1				
Orizzonte Sistemi Navali SpA	155		1			
Telespazio SpA	4		5			
Rotorsim Srl	1	2	12			
Other with unit amount lower than €mil. 10			3			1
Consortia (*)						
Consorzio Protezioni Balistiche Italia	11					
Other with unit amount lower than €mil. 10	8		1			
Companies subject to the control or considerable influence of the MEF						
Fintecna SpA	168	10	(11)			
Ferrovie dello Stato Italiane SpA	26					
Poste Italiane SpA	22					
ENAV SpA	19					
Enel SpA	8		72			
Other with unit amount lower than €mil. 10	21	1	1		1	1
Total	**1,738**	**14**	**1,169**	**1**	**2**	**4**
% against total for the period	*13.0%*	*2.1%*	*9.8%*	*0.1%*	*1.4%*	*1.0%*

(*) Consortia 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 consortia:

- Eurofighter Jagdflugzeug GmbH in the scope of the EFA Kuwait aeronautical programme, for which higher volumes were developed compared to 2019;
- NHIndustries in the scope of the NH90 helicopter programme;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (mainly VBM Freccia for the Italian Army);
- trade receivables from Macchi Hurel Dubois for the commercialisation of nacelles are no longer reported since they were less than €mil. 10; this decrease was due to lower sales volumes due to the COVID-19 pandemic;
- 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 ENAV for the supply of systems and software components for flight assistance.

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; the decrease in costs to Gulf does not offset the considerable increase in costs to Eurofighter, due to the delivery, started in 2020, involving the major components for the assembly and mounting on aircraft intended for the Kuwait customer;
- 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 2020, equal to €mil. 5,704, included the value of lease liabilities equal to €mil. 555. The amount of fixed-rate borrowings (also through the use of hedging instruments) amounts to about 73%, and, consequently, the floating-rate percentage is around 27%. 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 3.34% with an average life of about 3.8 years (excluding lease liabilities). It should be noted that, following the Group's repayment of the bond issue expired in January 2021 and the drawdown of the EIB loan described in the section relating to liquidity risks, in January 2021 the cost of debt showed a further decrease, reaching a value of about 3% with an average term of about 5 years.

At 31 December 2020, 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 1.82% on the loan.

The detail of the main interest rate swaps at 31 December 2019 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2019	Changes			Fair value 31.12.2019
	2018	2019			Income	Expenses	CFH reserve	
Options	200	200	Bond 2025	(3)	-	-	-	(3)
IRS fixed/floating/ fixed	300	300	EIB	(3)	-	-	(13)	(16)
Total notional	**500**	**500**		**(6)**	**-**	**-**	**(13)**	**(19)**

	Notional		Underlying (maturity)	Fair value 01.01.2020	Changes			Fair value 31.12.2020
	2019	2020			Income	Expenses	CFH reserve	
Options	200	200	Bond 2025	(3)	-	-	1	(2)
IRS fixed/floating/ fixed	300	300	EIB	(16)	-	-	(8)	(24)
Total notional	**500**	**500**		**(19)**	**-**	**-**	**(7)**	**(26)**

The table below shows the effects of the sensitivity analysis for 2019 and 2020 deriving from the 50-basis-point shift in the interest rate at the reporting date:

Effect of shift of interest rate curve

	31 December 2019		31 December 2020	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	(1)	1	(5)	5
Equity (*)	8	(8)	3	(3)

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

Exchange rate risk

Transaction risk

Due to its commercial operations, the Group's companies are exposed to the risk of fluctuations in the currencies related to those cases in which orders, revenue 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 Group defines the existence of an economic relationship between the hedging instrument and the hedged item on the basis of the currency, amounts and respective cash flows and assesses whether the derivative designated in each hedging relationship will be and has been effective in offsetting changes in the cash flows of the hedged item. In the event that, due to their nature or following events that entail their ineffectiveness, derivative instruments held in the portfolio should be found to no longer be a 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, 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 2020 the Leonardo Group had outstanding foreign exchange transactions totalling €mil. 6,888 (notional amount). Overall, the average euro/ US dollar exchange rate for hedging purposes is 1.142 on sales and about 1.155 on purchases.

	Notional			Fair value 01.01.2019	Changes				Fair value 31.12.2019
	Sales	Purchases	Total		Discontinued operation	Income	Expenses	CFH reserve	
Swap and forward transactions	4,226	3,267	7,493	(86)	-	22	(56)	70	(50)

	Notional			Fair value 01.01.2020	Changes				Fair value 31.12.2020
	Sales	Purchases	Total		Discontinued operation	Income	Expenses	CFH reserve	
Swap and forward transactions	3,837	3,051	6,888	(50)	-	22	(21)	125	76

The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2019				31 December 2020			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash flow and fair value hedges								
Within 1 year	2,293	10	1,132	929	1,473	72	871	1,002
2 to 3 years	1,358	-	276	163	1,156	-	347	123
4 to 9 years	17	-	4	47	429	-	27	-
Total	**3,668**	**10**	**1,412**	**1,139**	**3,058**	**72**	**1,245**	**1,125**
Hedging transactions which cannot be classified as hedging transactions	474	1	474	1	551	2	551	2
Total transactions	**4,142**	**11**	**1,886**	**1,140**	**3,609**	**74**	**1,796**	**1,127**

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), assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2020 (equal to 1.2271 and 0.8990, respectively) and at 31 December 2019 (1.1234 and 0.8508, respectively).

	31 December 2019				31 December 2020			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%
Net result	(6)	8	-	1	3	(3)	-	1
Equity (*)	(24)	26	81	(78)	(19)	22	65	(70)

(*) 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 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. Furthermore, there is the risk of not being able to repay or refinance debts at the expiry dates.
In order to face these risks the Leonardo Group has at its disposal, for financing its operations:

> the cash and cash equivalents of €mil. 2,213 generated at 31 December 2020 related to Leonardo SpA (€mil. 1,663) and to Group companies that, for different reasons, do not fall within the scope of the cash pooling system (€mil. 502), in addition to temporarily available cash amounts of the companies falling, directly or indirectly, within the scope of the cash pooling, as well as to deposits made for different reasons;

> two Revolving Credit Facilities (RCFs), available to Leonardo SpA, amounting to €mil. 1,800 due February 2023, and €mil. 1,250 due November 2021, respectively, renewable, at the request of Leonardo, for further 6 months. Both the RCFs had been entirely unused at 31 December 2020;

> uncommitted bank credit lines totalling €mil. 638 (entirely unused at 31 December 2020) and a Term Loan for the remaining amount of about €mil. 250, again available to Leonardo SpA. It should be noted that at the end of December 2020 Leonardo requested – and with effect from 18 January 2021 obtained – the cancellation of the remaining amount out of the Term Loan, which was as said equal to about €mil. 250;

> a new loan taken out by Leonardo SpA with the European Investment Bank in December 2020, for an amount of €mil. 200, which was used in January 2021 after the reporting date of the financial statements;

> short-term credit lines subject to revocation in US dollars, available to subsidiary Leonardo US Holding and guaranteed by Leonardo SpA, for an overall countervalue of €mil. 228 (entirely unused at 31 December 2020);

- uncommitted signature bank credit lines for a total amount of €mil. 10,749, of which an amount of €mil. 3,375, available at 31 December 2020;
- the EMTN (Euro Medium Term Note) programme, out of which all the bonds of Leonardo SpA were issued, which are currently in place on the Euromarket and which had been used for a total nominal amount of €mil. 2,895 at 31 December 2020, compared to a total amount of €mil. 4,000 under the programme.

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 2020, we note the following relations with countries exposed to credit risk according to the Italian institutions (SACE):

	Lybia	Zambia	Pakistan	Turkmenistan	Other countries	Total
Assets	47	3	52	18	-	**120**
Liabilities	(56)	(13)	(13)	(2)	(8)	**(92)**
Net exposure	**(9)**	**(10)**	**39**	**16**	**(8)**	**28**

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, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

€ billions	31 December 2019	31 December 2020
Portion due	1.4	1.3
- of which: for more than 12 months	*0.6*	*0.6*
Portion not yet due	1.7	1.7
Total trade receivables	**3.0**	**3.0**

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. 183 (€mil. 215 at 31 December 2019), include €mil. 16 (€mil. 18 at 31 December 2019) classified as "non-current" and consequently excluded from the net financial position. Loans and receivables are broken down in the table below:

	31 December 2019	31 December 2020
Loans and receivables from related parties	8	8
Other loans and receivables	10	8
Non-current loans and receivables	**18**	**16**
Loans and receivables from related parties	161	149
Other loans and receivables	36	18
Current loans and receivables	**197**	**167**
Total loans and receivables	**215**	**183**

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.

	31 December 2019			31 December 2020		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	-	**-**	-	-	**-**
Other current assets	100	-	**100**	222	-	**222**
Other non-current liabilities	-	221	**221**	-	221	**221**
Other current liabilities	169	-	**169**	172	-	**172**

38. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA amounted to €mil. 9 (€mil. 9 at 31 December 2019).

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 2 (€mil. 2 in 2019). 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 2020 to €mil. 10 (€mil. 9 in 2019).

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 € 14.76 (value of Leonardo shares at the grant date of 31 July 2017) for the third three-year cycle (2017-2019) relating to the first plan, 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), € 11.04 (value of Leonardo shares at the grant date of 31 July 2019) with reference to the second three-year cycle (2019-2021) and € 5.41 (value of Leonardo shares at the grant date of 31 July 2020) with reference to the third three-year cycle (2020-2022).

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 € 8.55 with reference to the third three-year cycle (2017-2019) for the first plan, while, for the second plan, it was equal to € 3.51 with reference to the first three-year cycle (2018-2020), € 6.72 with reference to the second three-year cycle (2019-2021) and € 1.73 with reference to the third three-year cycle (2020-2022).

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 2020 the requirements for the award of the rights relating to the third cycle (an overall number of 165,817 shares delivered under the Co-Investment and Long-Term Incentive plans) were fulfilled in respect of the bonus shares ("matching shares").

For the Board of Directors
The Chairman
(Luciano Carta)

Attachments

Attachment: Disclosure *ex-lege* 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 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 aids 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.

Grants made

As a publicly traded company, Leonardo SpA is not subject to the obligations under Article 1, paragraph 126, in accordance with 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)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	ENGINEERED SUPPORT SYSTEMS INC.	CAD	-		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	LEONARDO SPA	GBP	1	100		100
AGUSTAWESTLAND INDIA PRIVATE LTD (IN LIQ.)	New Delhi (India)	AGUSTAWESTLAND SPA AGUSTAWESTLAND LTD	INR	11,519,450		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Yeovil, Somerset (UK)	AGUSTAWESTLAND SPA AGUSTAWESTLAND LTD	GBP	511,000		100	100
AGUSTAWESTLAND LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1,520,304		100	100
AGUSTAWESTLAND PHILADELPHIA CO.	Wilmington, Delaware (USA)	LEONARDO SPA	USD	20,000,000	100		100
AGUSTAWESTLAND SPA	Rome	SO.GE.PA. SPA	EUR	120,000		100	100
ALENIA AERMACCHI SPA	Rome	SO.GE.PA. SPA	EUR	120,000		100	100
ANSALDOBREDA SPA	Naples	LEONARDO SPA	EUR	10,000,000	100		100
DAYLIGHT DEFENSE LLC	Wilmington, Delaware (USA)	DAYLIGHT SOLUTIONS INC.	USD	-		100	100
DAYLIGHT SOLUTIONS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS ADVANCED ISR LLC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	-		100	100
DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC.	USD	1		100	100
DRS DEFENSE SOLUTIONS LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	-		100	100
DRS ENVIRONMENTAL SYSTEMS INC.	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC.	USD	2		100	100
DRS GLOBAL ENTERPRISE SOLUTIONS INC.	Baltimora, Maryland (USA)	DRS D.S. LLC	USD	50		100	100
DRS HOMELAND SECURITY SOLUTIONS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS INTERNATIONAL INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
DRS NAVAL POWER SYSTEMS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS NETWORK & IMAGING SYSTEMS LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	-		100	100
DRS RADAR SYSTEMS LLC	Wilmington, Delaware (USA)	DRS C3 & AVIATION COMPANY	USD	-		100	100
DRS SIGNAL SOLUTIONS INC.	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	10		100	100
DRS SURVEILLANCE SUPPORT SYSTEMS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS SUSTAINMENT SYSTEMS INC.	Wilmington, Delaware (USA)	ENGINEERED SUPPORT SYSTEMS INC.	USD	1,000		100	100
DRS SYSTEMS MANAGEMENT LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS SYSTEMS INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS TECHNICAL SERVICES GMBH & CO. KG	Stuttgart (Germany)	DRS GLOBAL ENT. SOLUTIONS INC.	EUR	-		100	100
DRS TECHNOLOGIES CANADA INC.	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	1		100	100
DRS TECHNOLOGIES CANADA LTD	Kanata, Ontario (Canada)	DRS TECHNOLOGIES CANADA INC.	CAD	100		100	100
DRS TECHNOLOGIES SAUDI ARABIA LLC	Riyadh (Saudi Arabia)	LEONARDO DRS INC.	SAR	2,000,000		49.0	100
DRS TECHNOLOGIES UK LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
DRS TECHNOLOGIES VERWALTUNGS GMBH	Stuttgart (Germany)	DRS GLOBAL ENT. SOLUTIONS INC.	EUR	25,000		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee, Florida (USA)	DRS D.S. LLC	USD	510		49.00	100
DRS TSI INTERNATIONAL LLC	Wilmington, Delaware (USA)	DRS GLOBAL ENT. SOLUTIONS INC.	USD	-		100	100
DRS UNMANNED TECHNOLOGIES INC.	Wilmington, Delaware (USA)	DRS T. & C. SYSTEMS LLC	USD	1		100	100
ENGINEERED COIL COMPANY	Jefferson City, Missouri (USA)	ENGINEERED SUPPORT SYSTEMS INC.	USD	1,000		100	100

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
ENGINEERED SUPPORT SYSTEMS INC.	Jefferson City, Missouri (USA)	LEONARDO DRS INC.	USD	1		100	100
ESSI RESOURCES LLC	Frankfort, Kentucky (USA)	DRS SUSTAINMENT SYSTEMS INC.	USD	-		100	100
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)	LEONARDO GLOBAL SOLUTIONS SPA	EUR	100,000		100	100
GLOBAL NETWORK SERVICES LLC	Wilmington, Delaware (USA)	DRS GLOBAL ENT. SOLUTIONS INC.	USD	1		100	100
KOPTER DESIGN AG	Mollis, Glarona Nord (Switzerland)	KOPTER GROUP AG	CHF	200,000		100	100
KOPTER GERMANY GMBH	Höhenkirchen-Siegertsbrunn (Germany)	KOPTER GROUP AG	EUR	25,000		100	100
KOPTER GROUP AG	Mollis, Glarona Nord (Switzerland)	LEONARDO SPA	CHF	32,000,000	100		100
KOPTER NORTH AMERICA LLC	Wilmington, Delaware (USA)	KOPTER GROUP AG	USD	1,000		100	60.0
LARIMART SPA	Rome	LEONARDO SPA	EUR	2,500,000	60.0		100
LAUREL TECHNOLOGIES PARTNERSHIP	Wilmington, Delaware (USA)	DRS SYSTEMS MANAGEMENT LLC DRS SIGNAL SOLUTIONS INC.	USD	-		100	100
LEONARDO AUSTRALIA PTY LTD	Essendon, Victoria (Australia)	LEONARDO INTERNATIONAL SPA	AUD	7,916,301		100	100
LEONARDO BELGIUM SA	Grace Hollogne (Belgium)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL	EUR	500,000		100	100
LEONARDO DO BRASIL LTDA	Osasco (Brazil)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	BRL	48,241,788		100	100
LEONARDO DRS INC.	Wilmington, Delaware (USA)	LEONARDO US HOLDING INC.	USD	1.00		100	100
LEONARDO ELECTRONICS US INC.	Wilmington, Delaware (USA)	LEONARDO MW LTD	USD	32,750,000		100	100
LEONARDO GERMANY GMBH	Neuss (Germany)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	EUR	2,500,000		100	100
LEONARDO GLOBAL SOLUTIONS SPA	Rome	LEONARDO SPA	EUR	51,000,000	100		100
LEONARDO HELICOPTERS USA INC.	Wilmington, Delaware (USA)	AGUSTAWESTLAND PHILADELPHIA CO	USD	-		100	100
LEONARDO HISPANIA SAU	Loriguilla, Valencia (Spain)	LEONARDO INTERNATIONAL SPA	EUR	5,189,019		100	100

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
LEONARDO INTERNATIONAL SPA	Rome	LEONARDO SPA	EUR	1,000,000	100		100
LEONARDO MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	LEONARDO INTERNATIONAL SPA	MYR	2,500,000		100	100
LEONARDO MW LTD	Basildon, Essex (UK)	LEONARDO SPA	GBP	314,500,100	100		100
LEONARDO PORTUGAL SA	Lisbon (Portugal)	LEONARDO INTERNATIONAL SPA	EUR	100,000		100	100
LEONARDO ROMANIA AEROSPACE, DEFENCE & SECURITY SA	Ploiesti (Romania)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	RON	10,847,960		100	100
LEONARDO TECHNOLOGIES & SERVICES LTD	Nairobi (Kenya)	LEONARDO INTERNATIONAL SPA	KES	109,600,000		100	100
LEONARDO TURKEI HAVACILIK SAVUNMA VE GUVENLIK SISTEMLERI AS	Ankara (Turkey)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	TRY	79,557,009		100	100
LEONARDO US AIRCRAFT INC.	Wilmington, Delaware (USA)	LEONARDO US HOLDING INC.	USD	44		100	100
LEONARDO US HOLDING INC.	Wilmington, Delaware (USA)	LEONARDO SPA	USD	10	100		100
OTO MELARA NORTH AMERICA LLC	Wilmington, Delaware (USA)	LEONARDO DRS INC.	USD	-		100	100
PARTECH SYSTEMS PTY LTD	Yerriyong (Australia)	LEONARDO AUSTRALIA PTY LTD	AUD	330		60.0	60.0
PIVOTAL POWER INC.	Halifax, Nova Scotia (Canada)	3083683 NOVA SCOTIA LIMITED	CAD	-		100	100
PRECISION AVIATION PROPERTY PTY LTD	Wonderboom (South Africa)	PRECISION AVIATION SERVICES PTY LTD	ZAR	100		100	100
PRECISION AVIATION SERVICES PTY LTD	Lynnwood (South Africa)	LEONARDO INTERNATIONAL SPA	ZAR	500		100	100
PRECISION AVIATION TRAINING ACADEMY PTY LTD	Wonderboom (South Africa)	PRECISION AVIATION SERVICES PTY LTD	ZAR	1,000		100	100
REGIONALNY PARK PRZEMYSLOWY ŚWIDNIK SP Z OO	Świdnik (Poland)	PZL-ŚWIDNIK SA	PLN	7,072,000		73.9	73.4
SELEX ELSAG LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	25,800,100		100	100
SELEX ES AUSTRALIA PTY LTD	Melbourne (Australia)	LEONARDO INTERNATIONAL SPA	AUD	500,000		100	100
SELEX ES INC.	Wilmington, Delaware (USA)	LEONARDO INTERNATIONAL SPA	USD	1		100	100
SELEX ES INTERNATIONAL LTD	Basildon, Essex (UK)	LEONARDO SPA	GBP	100	100		100
SELEX ES LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
SELEX ES MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	LEONARDO INTERNATIONAL SPA	MYR	500,000		100	100
SELEX ES SPA (IN LIQ.)	Roma	SO.GE.PA. SPA	EUR	120,000		100	100
SELEX ES SAUDI ARABIA LTD	Riyadh (Saudi Arabia)	LEONARDO MW LTD SELEX ES (PROJECTS) LTD	SAR	500,000		100	100
SO.GE.PA. - SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	Rome	LEONARDO SPA	EUR	1,000,000	100		100
T - S HOLDING CORPORATION	Austin, Texas (USA)	TECH-SYM LLC	USD	280,000		100	100
TECH-SYM LLC	Carson City, Nevada (USA)	LEONARDO DRS INC.	USD	10		100	100
TTI TACTICAL TECHNOLOGIES INC.	Ottawa, Ontario (Canada)	LEONARDO MW LTD	CAD	2,500,001		100	100
UTM SYSTEMS & SERVICES SRL	Rome	LEONARDO SPA TELESPAZIO SPA	EUR	6,620,000	66.7	33.3	89.0
VEGA CONSULTING SERVICES LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
VEGA DEUTSCHLAND GMBH	Cologne (Germany)	SELEX ES SPA	EUR	25,700		100	100
VITROCISET BELGIUM SPRL	Transinne (Belgium)	VITROCISET SPA VITROCISET FRANCE SARL	EUR	1,282,750		100	100
VITROCISET FRANCE SARL	Kourou (French Guiana)	VITROCISET SPA	EUR	7,625		100	100
VITROCISET SPA	Rome	LEONARDO SPA	EUR	24,500,000	100		100
WORLD'S WING SA	Geneva (Switzerland)	LEONARDO SPA	CHF	811,876	100		100
WYTWORNIA SPRZETU KOMUNIKACYJNEGO "PZL-ŚWIDNIK"	Świdnik (Poland)	LEONARDO SPA	PLN	137,401,350	99.3		99.3

List of companies consolidated using the equity method (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	DRS D.S. LLC	USD	-		51.0	51.0
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Shah Alam (Malaysia)	SELEX ES INTERNATIONAL LTD	MYR	10,000,000		30.0	30.0
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	LEONARDO SPA	AED	58,010,000	30.0		30.0
AIRBUS TELESPAZIO CAPACITY OPERATOR SAS	Issy Les Moulineaux (France)	TELESPAZIO FRANCE SAS	EUR	11,000,000		49.0	32.8
AMSH BV	Rotterdam (The Netherlands)	LEONARDO SPA	EUR	36,296,316	50.0		50.0
AVIO SPA	Rome	LEONARDO SPA	EUR	90,964,213	29.6		29.6
C-27J AVIATION SERVICES INC.	Ottawa, Ontario (Canada)	LEONARDO CANADA CO	CAD	10,000		30.0	30.0
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	1		100	100
CONSORZIO GIE ATR	Toulouse (France)	LEONARDO SPA	USD	-	50.0		50.0
D-FLIGHT SPA	Rome	UTM SYSTEMS & SERVICES SRL	EUR	83,333		40.0	35.6
E-GEOS SPA	Matera	TELESPAZIO SPA	EUR	5,000,000		80.0	53.6
ELETTRONICA SPA	Rome	LEONARDO SPA	EUR	9,000,000	31.3		31.3
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	LEONARDO SPA	EUR	2,556,459	21.0		21.0
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	LEONARDO SPA	EUR	260,000	24.0		24.0
EUROMIDS SAS	Paris (France)	LEONARDO SPA	EUR	40,500	25.0		25.0
GAF AG	Munich (Germany)	E-GEOS SPA	EUR	256,000		100	53.6
GULF SYSTEMS LOGISTICS SERVICES COMPANY WLL	Kuwait City (Kuwait)	ALENIA AERMACCHI SPA	KWD	75,000		40.0	40.0
IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCARL	Venice	LEONARDO SPA	EUR	208,000	25.0		25.0
ICARUS SCPA (IN LIQ.)	Turin	LEONARDO GLOBAL SOLUTIONS SPA	EUR	3,192,724		53.1	53.1
INDUSTRIA ITALIANA AUTOBUS SPA	Rome	LEONARDO SPA	EUR	21,050,000	28.7		28.7
INMOVE ITALIA SRL	Naples	ANSALDOBREDA SPA	EUR	14,441		100	100
IVECO - OTO MELARA SCARL	Rome	LEONARDO SPA	EUR	40,000	50.0		50.0
JIANGXI CHANGHE AGUSTA HELICOPTER CO LTD	Jingdezhen (China)	LEONARDO SPA	CNY	6,000,000	40.0		40.0
JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	LEONARDO SPA	RUB	325,010,000	50.0		50.0
LEONARDO ADVANCED JET TRAINING SRL	Villasor (Cagliari)	LEONARDO SPA	EUR	100,000	100		100

List of companies consolidated using the equity method (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
LEONARDO AEROSPACE DEFENSE & SECURITY INDIA PRIVATE LTD	New Delhi (India)	LEONARDO INTERNATIONAL SPA SELEX ES INTERNATIONAL LTD	INR	30,000,000		100	100
LEONARDO CANADA CO.	Halifax, Nova Scotia (Canada)	LEONARDO INTERNATIONAL SPA	CAD	298,421		100	100
LEONARDO (CHINA) CO. LTD	Beijing (China)	LEONARDO INTERNATIONAL SPA	USD	800,000		100	100
LEONARDO ELECTRONICS PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	100		100	100
LEONARDO FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES WLL	Kuwait City (Kuwait)	LEONARDO INTERNATIONAL SPA	KWD	303,000		93.0	93.0
LEONARDO FUTUREPLANNER (TRUSTEE) LIMITED	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
LEONARDO HELICOPTERES ALGERIE SPA	Bir Mourad Rais (DZ) (Algeria)	LEONARDO SPA LEONARDO INTERNATIONAL SPA	EUR	55,000,000	39.0	10.0	49.0
LEONARDO HELICOPTERS PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
LEONARDO LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100
LEONARDO POLAND SP. Z OO	Warsaw (Poland)	LEONARDO INTERNATIONAL SPA	PLN	850,000		100	100
LEONARDO SINGAPORE PTE. LTD	Singapore (Singapore)	LEONARDO INTERNATIONAL SPA	USD	150,000		100	100
LEONARDO TECHNOLOGY PAKISTAN (SMC-PRIVATE) LIMITED	Islamabad (Pakistan)	LEONARDO INTERNATIONAL SPA	PKR	30,000,000		100	100
LEONARDO & CODEMAR SA	Maricà (Brazil)	LEONARDO INTERNATIONAL SPA	BRL	2,010,000		51.0	51.0
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO.	Tripoli (Libya)	AGUSTAWESTLAND SPA LEONARDO SPA	EUR	8,000,000	25.0	25.0	50.0
MACCHI HUREL DUBOIS SAS	Versailles (France)	LEONARDO SPA	EUR	100,000	50.0		50.0
MBDA SAS	Paris (France)	AMSH BV	EUR	53,824,021		50.0	25.0
NHINDUSTRIES SAS	Aix-en-Provence (France)	LEONARDO SPA	EUR	306,000	32.0		32.0

List of companies consolidated using the equity method (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
ORIZZONTE SISTEMI NAVALI SPA	Genoa	LEONARDO SPA	EUR	20,000,000	49.0		49.0
RARTEL SA	Bucharest (Romania)	TELESPAZIO SPA	RON	468,500		61.1	40.9
ROTORSIM SRL	Sesto Calende (Varese)	LEONARDO SPA	EUR	9,800,000	50.0		50.0
ROTORSIM USA LLC	Wilmington, Delaware (USA)	AGUSTAWESTLAND PHILADELPHIA CO.	USD	12,607,452		50.0	50.0
SELEX ES (PROJECTS) LTD	Basildon, Essex (UK)	LEONARDO MW LTD	GBP	100		100	100
SPACEOPAL GMBH	Munich (Germany)	TELESPAZIO SPA	EUR	500,000		50.0	33.5
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	TELESPAZIO SPA TELESPAZIO BRASIL SA	ARS	9,950,000		100	67.0
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	TELESPAZIO LATIN AMERICA LTDA	BRL	58,724,000		98.8	66.2
TELESPAZIO FRANCE SAS	Toulouse (France)	TELESPAZIO SPA	EUR	33,670,000		100	67.0
TELESPAZIO IBÉRICA SL	Madrid (Spain)	TELESPAZIO SPA	EUR	2,230,262		100	67.0
TELESPAZIO LATIN AMERICA LTDA	Rio de Janeiro (Brazil)	TELESPAZIO SPA TELESPAZIO VEGA UK LTD	BRL	56,444,390		100	67.0
TELESPAZIO SPA	Rome	LEONARDO SPA	EUR	50,000,000	67.0		67.0
TELESPAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	TELESPAZIO SPA TELESPAZIO FRANCE SAS	EUR	44,150		100	67.0
TELESPAZIO VEGA UK LTD	Luton, Bedfordshire (UK)	TELESPAZIO SPA	GBP	14,400,048		100	67.0
TELESPAZIO VEGA UK SL	Madrid (Spain)	TELESPAZIO VEGA UK LTD	EUR	3,100		100	67.0
THALES ALENIA SPACE SAS	Cannes (France)	LEONARDO SPA	EUR	918,037,500	33.0		33.0
TORPEDO SOUTH AFRICA (PTY) LTD	Gauteng (South Africa)	LEONARDO SPA	ZAR	-	49.0		49.0
VITROCISET JADWALEAN LTD	Riyadh (Saudi Arabia)	VITROCISET SPA	SAR	2,000,000		45.0	45.0
WIN BLUEWATER SERVICES PRIVATE LTD (IN LIQ.)	New Delhi (India)	LEONARDO SPA SELEX ES INTERNATIONAL LTD	INR	8,534,800	99.9999	0.0001	100

List of subsidiaries and associates valued at cost (amounts in currency)

Company name	Registered office	Participating company	Currency	Share capital	% Group ownership		% Group shareholding
					Direct	Indirect	
ADVANCED MALE AIRCRAFT LLC	Al Ain, Muwaiji (United Arab Emirates)	LEONARDO SPA	AED	200,000	49.00		49.0
CCRT SISTEMI SPA (IN BANKRUPTCY)	Milan	SO.GE.PA. SPA	EUR	697,217		30.3	30.3
CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP. CO. LTD	Chongqing (China)	ANSALDOBREDA SPA	CNY	50,000,000		50.0	50.0
EARTHLAB LUXEMBOURG SA	Mamer (Luxembourg)	TELESPAZIO FRANCE SAS E-GEOS SPA	EUR	4,875,000		54.4	34.2
ELSACOM - UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	SO.GE.PA. SPA	UAH	7,945,000		49.0	49.0
INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (EXT. ADM.)	Genoa	SO.GE.PA. SPA	EUR	103,567		31.0	31.0
LEONARDO INTERNATIONAL LTD	Yeovil, Somerset (UK)	LEONARDO MW LTD	GBP	1		100	100

Below are the main changes in the scope of consolidation at 31 December 2020 in comparison with 31 December 2019:

COMPANY	EVENT	MONTH
Companies which entered the scope of consolidation		
Leonardo & Codemar SA	newly established	January 2020
Kopter Group AG	acquired	April 2020
Kopter Design AG	acquired	April 2020
Kopter Germany GmbH	acquired	April 2020
Kopter North America LLC	acquired	April 2020
Leonardo Advanced Jet training Srl	newly established	April 2020
Precision Aviation Services PTY Ltd	acquired	April 2020
Precision Aviation Trading Academy PTY Ltd	acquired	April 2020
Precision Aviation Property PTY Ltd	acquired	April 2020
Hoverfly Technologies Inc.	acquired	August 2020
Leonardo Helicopters Usa Inc.	newly established	November 2020
Companies which left the scope of consolidation		
Distretto Tecnologico Aerospaziale SCARL	sold	March 2020
Westland Support Services Ltd	deconsolidated	October 2020
Eurofighter Aircraft Management GmbH (in liq.)	deconsolidated	October 2020
Selex ES India Private Limited (in liq.)	deconsolidated	November 2020
Tecnossan SpA (in bankruptcy)	deconsolidated	December 2020

Companies involved in merger transactions		
Merged company	**Merging company**	**Month**
Sistemi Dinamici SpA	Leonardo SpA	January 2020
Lasertel Inc.	Selex Galileo Inc.	January 2020
DRS Power Technology Inc.	DRS Naval Power Systems Inc.	January 2020
Consorzio S3LOG	Vitrociset SpA	February 2020
BredaMenarinibus SpA	SO.GE.PA. SpA	August 2020
Selex Service Management SpA (in liq.)	Selex ES SpA (in liq.)	August 2020

Companies which changed their corporate name		
Old name	**New name**	**Month**
Selex Galileo Inc.	Leonardo Electronics US Inc.	January 2020

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 2020.

2. In this respect it is noted that no significant matters arose.

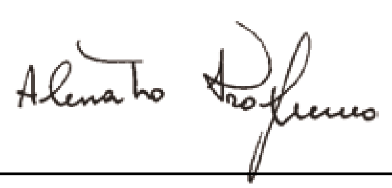
3. It is also certified that:

   3.1 the consolidated financial statements:
   > were prepared in accordance with International Financial Reporting Standards endorsed by the European Union pursuant to EU 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, 9 March 2021



The Chief Executive Officer
(Alessandro Profumo)

The Officer in charge of financial reporting
(Alessandra Genco)

KPMG S.p.A.
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(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 2020, the 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 2020 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

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Recognition of long-term contract revenue and losses

Notes to the consolidated financial statements: notes 3.9 "Revenue and contract assets/liabilities with customers", 4.4 "Estimate of revenues 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.	Our audit procedures included: — 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;

	– 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 "Intangible assets", 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 2020 include goodwill of €3,628 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 2021-2025 business plan (the "business plan") that the parent's directors approved on 9 March 2021 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 2021; — 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"

Key audit matter	Audit procedures addressing the key audit matter
In its consolidated financial statements at 31 December 2020, 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 €2,423 million under intangible assets. 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.	Our audit procedures included: — updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs; — assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit; — for a sample of development projects deemed material for the purposes of our audit: – 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; – challenging the reasonableness of the assumptions underlying the product business plans; – involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information; — assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the consolidated financial statements.

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 2020 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 2020 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 2020 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, 11 March 2021

KPMG S.p.A.

(signed on the original)

Marcella Balistreri
Director of Audit

Separate financial statements at 31 December 2020

Leonardo - Società per azioni

Accounting statements to the separate financial statements as at 31 December 2020

Separate income statement

Euro	Notes	2019	*Of which with related parties*	2020	*Of which with related parties*
Revenues	*26*	9,009,514,782	*2,367,868,350*	8,653,557,015	*2,154,473,112*
Other operating income	*27*	394,053,724	*8,856,207*	483,417,660	*16,548,497*
Purchase and personnel expenses	*28*	(8,025,905,631)	*(1,440,000,436)*	(7,843,805,926)	*(1,804,991,837)*
Amortisation, depreciation and value adjustments to financial assets	*29*	(480,589,162)		(659,149,051)	
Other operating expenses	*27*	(358,651,891)	*(1,149,117)*	(584,322,247)	*(10,269,691)*
Income before tax and financial expenses		**538,421,822**		**49,697,451**	
Financial income	*30*	335,066,858	*22,884,962*	207,613,058	*19,015,525*
Financial expenses	*30*	(387,982,318)	*(23,935,570)*	(377,071,753)	*(18,959,163)*
Operating profit/(loss) before income taxes and discontinued operations		**485,506,362**		**(119,761,244)**	
Income taxes	*31*	(95,728,776)		26,608,779	
Net profit/(loss) for the period		**389,777,586**		**(93,152,465)**	

Statement of comprehensive income

Euro		2019		2020
Profit /(Loss) for the period		**389,777,586**		**(93,152,465)**
Other comprehensive income/(expenses)				
Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:				
- measurement of defined-benefit plans:		(1,033,534)		(1,906,626)
. *revaluation*	*(1,033,534)*		*(1,906,626)*	
- tax effect		8,078		-
		(1,025,456)		**(1,906,626)**
Comprehensive income/(expenses) which will not be subsequently reclassified within the profit/(loss) for the period:				
- changes in cash flow hedges:		16,848,832		84,015,571
. *change generated in the period*	*8,138,891*		*119,902,408*	
. *transferred to the profit/(loss) for the period*	*8,709,941*		*(35,886,837)*	
- tax effect		(3,260,635)		(20,163,784)
		13,588,197		63,851,787
Total other comprehensive income/(expenses), net of tax		**12,562,741**		**61,945,161**
Total comprehensive income		**402,340,327**		**(31,207,304)**

Statement of financial position

Euro	Notes	31 December 2019	Of which with related parties	31 December 2020	Of which with related parties
Intangible assets	8	2,965,761,115		2,872,677,133	
Property, plant and equipment	9	965,868,110		765,756,548	
Rights of use	10	627,226,590		586,163,414	
Equity investments	11	7,697,088,895		7,690,519,681	
Receivables	12	480,773,493	*409,709,531*	284,836,459	*242,661,135*
Deferred tax assets	31	731,828,221		803,168,229	
Other non current assets	12	154,331,909		16,385,130	
Non-current assets		**13,622,878,333**		**13,019,506,594**	
Inventories	13	4,617,885,581		4,602,069,402	
Contract assets	14	1,913,464,046		2,165,470,114	
Trade receivables	15	2,698,189,320	*954,037,383*	2,969,805,101	*1,193,716,911*
Income tax receivables	16	61,987,483		73,289,482	
Loans and receivables	15	288,924,980	*262,593,699*	472,614,515	*462,947,736*
Other current assets	17	343,586,975	*26,321,844*	529,046,330	*101,019,217*
Cash and cash equivalents	18	1,407,215,252		1,663,484,164	
Current assets		**11,331,253,637**		**12,475,779,108**	
Total assets		**24,954,131,970**		**25,495,285,702**	
Share capital		2,496,351,674		2,497,872,383	
Other reserves		3,523,992,642		3,419,162,372	
Total equity	19	**6,020,344,316**		**5,917,034,755**	
Loans and borrowings (non-current)	20	3,826,101,303	*476,020,598*	3,617,426,919	*490,650,060*
Employee benefits	22	298,186,511		276,695,643	
Provisions for risks and charges	21	478,346,768		418,543,859	
Deferred tax liabilities	31	82,227,927		99,694,334	
Other non-current liabilities	23	590,502,374	*13,740*	550,394,758	*14,260*
Non-current liabilities		**5,275,364,883**		**4,962,755,513**	
Contracts liabilities	14	6,490,362,697		6,723,998,280	
Trade payables	24	3,056,746,711	*776,501,561*	3,062,079,678	*820,552,931*
Loans and borrowings (current)	20	2,146,411,929	*1,939,192,870*	2,875,232,454	*1,926,229,717*
Income tax payables	16	19,790,650		27,358,176	
Provisions for short-term risks and charges	21	803,633,974		944,695,941	
Other current liabilities	23	1,141,476,810	*130,974,145*	982,130,905	*51,941,142*
Current liabilities		**13,658,422,771**		**14,615,495,434**	
Total liabilities		**18,933,787,654**		**19,578,250,947**	
Total liabilities and equity		**24,954,131,970**		**25,495,285,702**	

Statement of cash flows

Euro	Notes	2019	Of which with related parties	2020	Of which with related parties
Gross cash flows from operating activities	32	1,112,742,707		963,191,812	
Change in working capital	32	(593,969,445)	*20,371,965*	(412,374,812)	*(194,645,104)*
Change in other operating assets and liabilities and provisions for risks and charges	32	(374,606,982)	*(140,564,144)*	(329,758,745)	*(161,693,699)*
Interest paid		(161,075,578)	*14,975,124*	(205,352,255)	*53,362*
Income taxes (paid)/received		(23,207,790)		(27,364,304)	
Cash flows generated from/(used in) operating activities		**(40,117,088)**		**(11,658,304)**	
Investments in property, plant and equipment and intangible assets		(397,853,115)		(96,177,152)	
Sales of property, plant and equipment and intangible assets		2,874,044		1,572,304	
Dividends received		184,657,377		72,387,819	
Other investing activities		(38,938,978)		(50,617,848)	
Cash flows generated from/(used in) investing activities		**(249,260,672)**		**(72,834,877)**	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Term Loan, EIB subscription and CDP loan		300,000,000		100,000,000	*100,000,000*
Bond issue		-		491,749,000	
Bond redemption		(310,342,861)		(8,251,000)	
Net change in other loans and borrowings		209,210,761	*380,862,321*	(116,946,654)	*(19,828,679)*
Dividends paid		(80,500,435)		(80,524,020)	
Cash flows generated from/(used in) financing activities		**72,047,119**		**339,706,980**	
Net increase/(decrease) in cash and cash equivalents		(217,330,641)		255,213,799	
Exchange rate differences and other changes		3,394,262		1,055,113	
Cash and cash equivalents at 1 January		1,621,151,631		1,407,215,252	
Cash and cash equivalents at 31 December		**1,407,215,252**		**1,663,484,164**	

Statement of changes in equity

Euro	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Merger surplus	Total equity
1 January 2019	**2,494,859,259**	**2,622,258,980**	**(89,175,759)**	**(59,456,645)**	**722,681,269**	**5,691,167,104**
Profit/(Loss) for the period	-	389,777,586	-	-	-	389,777,586
Other comprehensive income/(expenses)	-	-	13,588,197	(1,025,456)	-	12,562,741
Total comprehensive income/(expenses)	**-**	**389,777,586**	**13,588,197**	**(1,025,456)**	**-**	**402,340,327**
Dividends resolved	-	(80,508,421)	-	-	-	(80,508,421)
Repurchase of treasury shares less sold shares	1,492,415	-	-	-	-	1,492,415
Total transactions with Owners of the Parent, recognised directly in equity	**1,492,415**	**(80,508,421)**	**-**	**-**	**-**	**(79,016,006)**
Stock option/grant plans - performance's value	-	5,852,891	-	-	-	5,852,891
31 December 2019	**2,496,351,674**	**2,937,381,036**	**(75,587,562)**	**(60,482,101)**	**722,681,269**	**6,020,344,316**
1 January 2020	**2,496,351,674**	**2,937,381,036**	**(75,587,562)**	**(60,482,101)**	**722,681,269**	**6,020,344,316**
Profit/(Loss) for the period	-	(93,152,465)	-	-	-	(93,152,465)
Other comprehensive income/(expenses)	-	-	63,851,787	(1,906,625)	-	61,945,162
Total comprehensive income/(expenses)	**-**	**(93,152,465)**	**63,851,787**	**(1,906,625)**	**-**	**(31,207,303)**
Repurchase of treasury shares less sold shares	1,520,709	-	-	-	-	1,520,709
Dividends resolved	-	(80,524,319)	-	-	-	(80,524,319)
Total transactions with Owners of the Parent, recognised directly in equity	**1,520,709**	**(80,524,319)**	**-**	**-**	**-**	**(79,003,610)**
Effect from mergers/demergers					(2,618,565)	(2,618,565)
Stock option/grant plans - performance's value	-	7,566,931	-	-	-	7,566,931
Other changes	-	1,952,986	-			1,952,986
31 December 2020	**2,497,872,383**	**2,773,224,169**	**(11,735,775)**	**(62,388,726)**	**720,062,704**	**5,917,034,755**

Notes to the separate financial statements at 31 December 2020

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 and Security* and *Aeronautics* sectors.

2. Form, content and applicable accounting standards

In application of EU Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2020 were prepared in accordance with the international accounting standards (IFRSs) 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 (IFRSs) 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 2019 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 9 March 2021 resolved to submit to shareholders the draft financial statements at 31 December 2020, authorising their circulation, and in the same venue set the dates for the Ordinary Shareholders' Meeting for 10 and 19 May 2021, 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 "adjustments to 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 IFRS, 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 2020 (First-Time Adoption) the Company adopted the provisions governing hedge accounting laid down in IFRS 9 "Financial instruments". The main amendment brought in by the first-time adoption of the new standard for the Company entails accounting for the forward component of forward contracts (premium points).

Specifically, the change in the fair value of the premium points, previously recognised immediately under net profit/(loss) for the year, is now recognised as other comprehensive income and accumulated in a reserve for hedging costs as an equity component. The reserve is then reclassified to the net profit/(loss) for the period when the hedged item occurs.

All hedging relationships designated in accordance with IAS 39 as at 31 December 2019 met the hedge accounting requirements of IFRS 9 as at 1 January 2020 and, therefore, constitute continuing hedge relationships.

Upon first-time adoption, the Company adopted the prospective approach, without restating any comparative value. As a result, as at 1 January 2020, no adjustment was made to the amounts at 31 December 2019.

Amendments to IFRS 3 "Business combinations" also became applicable with effect from 1 January 2020, relating to the definition of a business, identified as an integrated set of activities and assets that must include at least one input and one underlying process, which together contribute significantly to the ability to create an output. These amendments did not have any impact on these financial statements.

5. Significant non-recurring events and transactions

During 2020 the global scenario was strongly impacted by the consequences of the COVID-19 pandemic on global economy.

The effects that the health emergency has had on companies in general and, specifically, on the Company, are essentially of two types. The first, direct effect concerned the impact on the manufacturing sector generated by the restrictions imposed by governments on travel and the measures adopted to protect people. The second, indirect effect is the impact that the pandemic has had on customers both following the abovementioned restrictions and, with particular reference to the civil aviation sector, as a result of a drastic reduction in demand for aircraft on the part of the world's leading operators as a result of a reduction in air traffic in the civil sector.

With reference to the first effect, the Company reacted promptly to the new situation by implementing a set of measures aimed primarily at ensuring full protection of the health and safety of its workers, while preserving the continuity of its manufacturing operations, relating to business sectors that are regarded as strategic in the main countries in which it operates. In this context, monitoring and action plans were developed to assess the impact of COVID-19 in the various areas of operation and limit its effects.

From an operational point of view, the actions included measures aimed at recovering adequate productivity levels through a gradual increase in the presence at the sites in safe conditions, a greater efficiency of remote working with additional investments in digital means and infrastructures, the review of the working schedules in order to support, in agreement with the trade unions, the recovery of accrued delays during the second half of the year. At the same time the Company carried out an in-depth review of its cost base and level of investment, reducing or delaying all projects and expenses that were regarded as not strictly necessary or strategic, achieving savings on controllable costs (travel and business trips, consultants, exhibitions and fairs, etc.) and reviewing assumptions regarding staffing levels and other actions aimed at reducing the cost of labour.

As regards the indirect effect that the pandemic has had on the Company's customers, Leonardo has undertaken various and structured projects aimed at maintaining adequate levels of sales promotion and action and, at the same time, has promptly concentrated production activities towards the Defence and Security business areas less affected by the pandemic effects in order to reduce the significant decline in demand in the civil business sector and, in particular, in the Aerostructures Division.

Despite the resilience demonstrated by the Company, in the abovementioned extraordinary and unprecedented context, the effects on the 2020 performance were as follows:

- slowdowns in activities aimed at finalising commercial negotiations, essentially due to restrictions on travel, which led to a delay in the acquisition of certain orders, especially for the export component, with a consequent impact on production volumes and related profit margins;
- a drop in demand in the civil market, which is expected to continue well beyond 2020, resulting in a decline in new orders, revenues and profit margins;
- lower work progress on programmes following the slowdowns in production activities caused by actions taken to protect the health of workers, restrictions on travel and the impossibility of accessing customers' sites, which had an impact on the Company's revenues and consequently on its profit margins;

- a reduction in the number of production hours worked due to reduced presence and efficiency, albeit mitigated by the effects of measures aimed at recovering adequate productivity levels in the second half of the year, which led to a lower absorption of fixed costs with a consequent impact on EBITA.

These effects were partly offset by the measures promptly implemented by the Company, which, in addition to a gradual recovery of adequate productivity levels, resulted in savings on controllable costs and the cost of labour, as well as a reduction in net investments.

As a whole, the effects of COVID-19 led, on the basis of the aforesaid evaluations, to a reduction in Company revenues – compared to forecasts in the absence of COVID-19 – equal to about €mil. 1,300, with a consequent impact in terms of EBITA, net of cost containment actions, equal to about €mil. 160, as shown below:

- the drop in demand in the civil market, together with the postponement of deliveries due to the impossibility of carrying out final testing, had an impact of about €mil. 660 on revenues, with a consequent effect on profit margins, which was amplified at EBITA level by a significant drop in the GIE ATR; in addition to a reduction in the absorption of fixed costs deriving from a decline in production hours, particularly marked in Aerostructures (-23% compared to expectations), this had an impact of about €mil. 160 on EBITA, net of the mitigation actions implemented during the year;
- the lower work progress on the programmes, as a result of the delays in the acquisition of new orders, as well as of the restrictions on the movement of resources, the impossibility of accessing customers' sites and the initial lower efficiency due to a reconfiguration of part of the activities in smart working mode entailed an impact on revenues equal to approximately €mil. 640; the consequent lower profit margin and the effect arising from a drop in production hours recorded in particular during the first half-year were substantially offset at EBITA level by the actions aimed at recovering adequate productivity levels during the second half of the year and reducing costs.

The recognition of the impact that COVID-19 has had on results of operations is the result of complex estimates made by management that take account of the following factors:

- as regards the lower orders received and the consequent reduction in revenues and associated profit margins, the valuation is made on the basis of suitable documentation to trace the cause to the pandemic emergency. If there was no specific evidence, the impact assessment was carried out on the basis of the variance from the 2020 budget forecasts assuming that, where considered reasonable on the basis of the information available to the Company's management, the postponement of specific tenders or commercial negotiations was mainly due to the impossibility on the part of customers and/or Leonardo to undertake the necessary contacts following the government restrictions issued in the various countries. With reference to the civil aviation market, the fall in new orders, revenues and associated profit margins is documented by the formal requests to reduce the production rates imposed by customers following the drastic drop in demand for aircraft on the part of the main operators in civil aviation traffic;
- the lower revenues and profit margins produced on backlog contracts are measured on the basis of evidence relating to various cases, such as the postponement of final testing of products or of the customer's certification attesting that contract milestones have been actually performed due to the impossibility of making deliveries or accessing production sites for the necessary activities. In particular, for civil helicopters, whose revenues are recognised according to the "point in time" criterion in compliance with IFRS 15, the impact is documented by the "ready for delivery" and the request for postponement by the customer, with consequent non-invoicing;
- management estimated that the direct impacts of the pandemic on productivity are the lower absorption, due to a reduction in production hours – with respect to the 2020 budget forecasts –, of fixed costs consisting of the cost of labour of employees directly or indirectly employed in production activities, the depreciation of plant and machinery and operating costs of production facilities that cannot be reduced, net of any and all cost recoveries implemented by the Company's management with the aim of reducing the impact itself.

In preparing this Integrated Annual Report, the Company's management was called upon to carry out in-depth analyses to report particularly significant issues that required significant estimates. More specifically, the Company's management has also paid particular attention to the analysis of recoverability, as well as of goodwill (in any case tested on an annual basis), concerning almost all the non-recurring costs and development costs; they did so in order to establish whether the assets recognised in the changed business scenario of reference could be recovered, including by further stressing sensitivity scenarios.

Moreover, the financial assets recognised in the accounts were measured by updating the creditworthiness of the counterparties in order to reflect the changed business scenario.

Finally, the Company's management carried out an in-depth analysis of the usual considerations regarding the recoverability of the Company's inventories, in light of the estimated time lags associated with their use in production activities.

With reference to financial risks, the Company's limited exposure to interest rate risk minimises any volatility effect arising from significant market fluctuations. However, although this risk may occur during a period of pandemic, it has not yet had any significant impact, since interest rates have recorded low volatility trends at present.

From a financial point of view in January 2020 the Company took out a loan with Cassa Depositi e Prestiti (CDP) for an amount of €mil. 100, which was drawn down in full in February to support investments in research, development and innovation. The loan has a term of 6 years and a rate equal to 6-month Euribor +118 bps with zero floor on the final rate.

Moreover, in view of the COVID-19 health emergency and the consequent need to strengthen its liquidity position, in May 2020 the Company entered into two new credit facility agreements with a pool of international banks for a total of €mil. 2,000 with maturities of up to 24 months. These facilities, which do not provide for financial covenants, were taken out according to different technical procedures: the first is a Revolving Credit Facility (for €mil. 1,250), while the second is a Term Loan (for €mil. 750). The latter facility agreement provided, among other things, for the obligation to cancel the loan if Leonardo issued bonds during the term of the facility, for an amount equal to the proceeds derived from the new issues. Since 1 July 2020 the Company placed on the Euromarket new bonds listed on the Luxembourg Stock Exchange with a term of 5.5 years for a nominal amount of €mil. 500, with an annual coupon of 2.375%, the Term Loan at 31 December 2020 amounted to €mil. 250. It should be noted that the Company obtained the cancellation with effect from 18 January 2021.

Finally, in December 2020 the Company took out a new loan with the European Investment Bank for an amount of €mil. 200 used, after the reporting date of the financial statements, in January 2021.

The considerations reported above, together with the evidence of the analyses carried out, have led the Company's management to believe that there are no risks associated with the Company's going concern.

Within the project for more efficient and effective operations of Leonardo's manufacturing activities, it should be noted that on 1 January 2020 the legal, accounting and tax effects commenced to run for the merger of Sistemi Dinamici SpA – an engineering company, which was previously a wholly-owned subsidiary operating in the development, production and sale of remotely-controlled aircraft – by incorporation into Leonardo SpA. 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 addition, on 28 January 2020, Leonardo signed a contract with Lynwood (Schweiz) AG to acquire 100% of the Swiss helicopter company Kopter. The SH09, the new single-engine helicopter that is currently under development on the part of Kopter, fits within Leonardo's product portfolio, offering opportunities for future additional technological developments. The Swiss company's expertise will accelerate the development of new technologies, mission capabilities and hybrid/electric propulsion solutions. The acquisition replaces 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 and in close coordination with Leonardo's Helicopters Division. The transaction was completed on 8 April 2020.

On 15 June 2020, the Company announced the completion of the transactions aimed at acquiring 988,475 shares of Avio in order to strengthen its position in the Space sector. Following these transactions, which were completed on 29 May 2020 with an outlay of €mil. 14, Leonardo's stake increased by 3.75%, and is now equal to 29.63% of the company's share capital.

6. Significant post balance sheet events

On 26 February 2021, Leonardo DRS filed a registration statement on Form S-1 with the US Securities and Exchange Commission (SEC) relating to a proposed initial public offering of a minority interest in its ordinary shares. All of these shares subject to the offering will be placed by Leonardo US Holding, a wholly-owned US subsidiary of Leonardo. The number of ordinary shares to be placed and the price range of the placement have not yet been determined. The transaction is expected to be completed by the end of March 2021, and is subject, among other things, to completion of the SEC audit process and to favourable market conditions.

Following the placement, Leonardo US Holding will hold a majority interest in Leonardo DRS's capital. A new Proxy Agreement will enter into force with the US Department of Defense to allow Leonardo DRS to continue to compete and work on classified programmes.

Finally, taking into account the medium-term consequences of the pandemic on the civil sector, and in particular the prospects of the commercial aviation market, Leonardo is undertaking actions aimed at mitigating the effects on the industrial performance of the Aerostructures Division. In this context, Leonardo is beginning, among other things, to adopt measures for the early retirement of employees. Management has estimated to involve about 500 employees.

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 and Security* and *Aeronautics*. For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, reference should be made to the Report on Operations.

8. Intangible assets

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2019							
Cost	917	859	2,054	496	96	327	**4,749**
Depreciation and impairment losses	(210)	(482)	(403)	(427)	(47)	(258)	**(1,827)**
Carrying amount	**707**	**377**	**1,651**	**69**	**49**	**69**	**2,922**
Investments (net of grants)	-	48	194	5	-	33	**280**
Sales	-	(1)	-	-	-	-	**(1)**
Depreciation	-	(23)	(53)	(19)	(4)	(22)	**(121)**
Impairment losses	-	(6)	(48)	-	-	-	**(54)**
Other changes	-	(5)	(58)	5	-	(2)	**(60)**
31 December 2019	**707**	**390**	**1,686**	**60**	**45**	**78**	**2,966**
Broken down as follows:							
Cost	917	901	2,216	513	96	346	**4,989**
Depreciation	-	(504)	(423)	(453)	(51)	(245)	**(1,676)**
Impairment losses	(210)	(7)	(107)	-	-	(23)	**(347)**
Carrying amount	**707**	**390**	**1,686**	**60**	**45**	**78**	**2,966**
Investments (net of grants)	-	50	(21)	9	-	37	**75**
Sales	-	(2)	-	-	-	-	**(2)**
Depreciation	-	(17)	(47)	(19)	(4)	(20)	**(107)**
Impairment losses	-	(60)	(8)	-	-	-	**(68)**
Other changes	-	(1)	7	11	-	(8)	**9**
31 December 2020	**707**	**360**	**1,617**	**61**	**41**	**87**	**2,873**
Broken down as follows:							
Cost	1,454	951	2,247	534	96	299	**5,581**
Depreciation	-	(521)	(469)	(473)	(55)	(264)	**(1,782)**
Impairment losses	(747)	(70)	(161)	-	-	52	**(926)**
Carrying amount	**707**	**360**	**1,617**	**61**	**41**	**87**	**2,873**
31 December 2019							
Gross value			4,506				
Grants			2,820				
31 December 2020							
Gross value			4,578				
Grants			2,961				

In 2020 investments, net of related grants, mainly related to the sectors of *Helicopters* (€mil. 70), *Defence Electronics and Security* (€mil. 76) and *Aeronautics* (negative for €mil. 97 as a result of the grants received during the period). Commitments were in place for the purchase of intangible assets for €mil. 11 at 31 December 2020 (€mil. 8 at 31 December 2019).

The impairment of non-recurring costs mainly refers to the write-down of programmes of the Aeronautics sector following the production assets' failure to operate at full capacity. As set out in Note 4.1 of the consolidated financial statements, to which reference should be made, development costs and non-recurring costs are tested for impairment, if the conditions are fulfilled, using the discounted cash flow method. The cash flows used are those of the product business plan, as discounted on the basis of weighted-average cost of capital (WACC) rate 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 2020 is as follows:

	31 December 2019	31 December 2020
Helicopters	459	459
Defence Electronics and Security	188	188
Aeronautics	60	60
	707	**707**

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 the amount recoverable by sale (fair value). In practice, the Group has established an operational hierarchy between calculating the fair value net transaction costs and the 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 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 macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected prospective developments in the markets in which the Group operates.

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-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 mostly 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 2020 and 2019:

	31 December 2019		31 December 2020	
	WACC	g-rate	WACC	g-rate
Helicopters	7.7%	2.0%	7.2%	2.0%
Defence Electronics and Security	6.1%	2.0%	6.2%	2.0%
Aeronautics	6.8%	2.0%	6.7%	2.0%

Testing revealed no signs of impairment but showed, on the contrary, significant positive margins (headroom). The 2020 headroom amounts benefitted from 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 in all sectors 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 2020 and 2019 financial years, the headroom relating to the base scenario, compared with the results of the following sensitivity analyses: (i) increase in interest rates used to discount cash flows on all CGUs by 50 basis points, other conditions being equal; (ii) reduction in the growth rate used in calculating the terminal value by 50 basis points, other conditions being equal; (iii) reduction in the operating profitability applied to the terminal value by half a point, other conditions being equal.

	Margin (base case)	Margin post sensitivity		
		WACC	g-rate	ROS TV
31 December 2019				
Helicopters	1,004	630	701	800
Defence Electronics and Security	7,847	6,645	6,821	7,461
Aeronautics	8,352	7,689	7,798	8,095

	Margin (base case)	Margin post sensitivity		
		WACC	g-rate	ROS TV
31 December 2020				
Helicopters	1,057	634	709	832
Defence Electronics and Security	10,075	8,634	8,846	9,686
Aeronautics	6,929	6,321	6,413	6,680

Other intangible assets

The item "development costs" mainly related to *Helicopters* (€mil. 177), *Aeronautics* (€mil. 6) and *Defence Electronics and Security* (€mil. 177). Investments for the year related in particular to *Defence Electronics and Security* (€mil. 34) and *Helicopters* (€mil. 16).

The investments for the year relating to "non-recurring costs" mainly refer to the sectors of *Helicopters* (about €mil. 50) and *Defence Electronics and Security* (€mil. 37).

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 27.

The impairment of non-recurring costs mainly refers to the write-down of programmes in the Aeronautics sector following the production assets' failure to operate at full capacity.

Total research and development costs, including also "development costs" and "non-recurring costs" just mentioned, amount to €mil. 1,077 at 31 December 2020 (€mil. 1,074 at 31 December 2019), of which €mil. 136 expensed (€mil. 131 at 31 December 2019).

"Other assets" mainly include software, intangible assets in progress and advances.

9. Property, plant and equipment and investments

	Property, plant and equipment				
	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2019					
Cost	26	1,183	1,753	684	**3,646**
Depreciation and impairment losses	(19)	(896)	(1,288)	(497)	**(2,700)**
Carrying amount	**7**	**287**	**465**	**187**	**946**
Investments	-	7	36	110	**153**
Sales	-	-	-	(1)	**(1)**
Depreciation	(1)	(53)	(105)	(21)	**(180)**
Impairment losses	-	-	(1)	-	**(1)**
Other changes	(1)	23	19	8	**49**
31 December 2019	**5**	**264**	**414**	**283**	**966**
Broken down as follows:					
Cost	25	1,210	1,803	792	**3,830**
Depreciation and impairment losses	(20)	(946)	(1,389)	(509)	**(2,864)**
Carrying amount	**5**	**264**	**414**	**283**	**966**
Investments	-	5	34	118	**157**
Sales	-	-	-	(1)	**(1)**
Depreciation	(1)	(52)	(76)	(26)	**(155)**
Impairment losses	-	-	(198)	-	**(198)**
Other changes	1	39	17	(60)	**(3)**
31 December 2020	**5**	**256**	**191**	**314**	**766**
Broken down as follows:					
Cost	38	1,240	1,853	852	**3,983**
Depreciation and impairment losses	(33)	(984)	(1,662)	(538)	**(3,217)**
Carrying amount	**5**	**256**	**191**	**314**	**766**

This item showed a decrease that was mainly due to the write-downs on equipment, in particular with regard to specific tools – tooling – of *Aeronautics* following the production assets' failure to operate at full capacity.

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. 69 at 31 December 2020 (€mil. 73 at 31 December 2019).

10. Rights of use

	Rights of use of land and buildings	Rights of use of plant and machinery	Rights of use of equipment	Total
1 January 2019				
Cost	-	-	-	-
Depreciation and impairment losses	-	-	-	-
Carrying amount	-	-	-	-
IFRS 16 adoption	494	1	33	**528**
New contract submission	218	1	1	**220**
Closing and contract modifications	-	-	(1)	**(1)**
Depreciation	(100)	(1)	(10)	**(111)**
Other changes	(10)	-	1	**(9)**
31 December 2019	**602**	**1**	**24**	**627**
Broken down as follows:				
Cost	702	2	38	**742**
Depreciation and impairment losses	(100)	(1)	(14)	**(115)**
Carrying amount	**602**	**1**	**24**	**627**
New contract submission	57	-	1	**58**
Closing and contract modifications	1	-	12	**13**
Depreciation	(102)	-	(11)	**(113)**
Other changes	2	(1)	-	**1**
31 December 2020	**560**	-	**26**	**586**
Broken down as follows:				
Cost	757	-	48	**805**
Depreciation and impairment losses	(197)	-	(22)	**(219)**
Carrying amount	**560**	-	**26**	**586**

During 2020 this item showed a decrease by €mil. 41 as a result of the amortisation for the period, which were partly offset by the execution of new agreements.

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 "costs for purchases".

At 31 December 2020 acquisition commitments were in place for short-term leases for €mil. 3.

11. Equity investments

	31 December 2019			31 December 2020		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	**7,381**	**(6)**	**7,375**	**7,697**	**(4)**	**7,693**
Acquisitions/ Subscriptions	63	2	65	36	-	36
Increase for trasfer of fixed assets	281	-	281	-	-	-
Impairment losses	(23)	-	(23)	(42)	-	(42)
Disposals	(6)	-	(6)	-	-	-
Other changes	1	-	1	-	-	-
31 December	**7,697**	**(4)**	**7,693**	**7,691**	**(4)**	**7,687**

Appendices no. 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 of the consolidated financial statements.

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

- acquisition of the total stake of Kopter Group AG, equal to €mil. 17 (Note 5);
- acquisition of capital quotas in the following investments:
  - Avio SpA, equal to €mil. 14;
  - Leonardo International SpA, equal to €mil. 2;
  - Skydweller Aero Inc., equal to €mil. 3;
- write-downs for the period related for €mil. 2 to AgustaWestland Holding Ltd and for €mil. 40 to the GIE ATR consortium. The latter write-down became necessary as a result of the critical issues that are currently characterising the civil aviation sector, including in consideration of the effects of the abovementioned COVID-19 pandemic;
- the impairment was carried out according to the discounted cash flow method, using the cash flows under the Company's budget/plan, as discounted on the basis of the sector's weighted-average cost of capital (WACC) that takes into account the specific business risks, determined applying the Capital Asset Pricing Model.

Finally, below is presented a comparison of the carrying amounts and the average market price of the listed shares of Avio SpA in December 2020:

Listed company	No. of shares held	Stock price		Book value		Unit difference in €	Total difference in €mil.
		Unit €	Total €mil.	Unit €	Total €mil.		
Avio SpA	7,809,307	11.372	89	10.844	85	0.528	4

12. Receivables and other non-current assets

	31 December 2019	31 December 2020
Deferred grants under Law 808/1985	61	31
Related party receivables (Note 33)	410	243
Other non-current receivables	10	11
Non-current receivables	**481**	**285**
Prepayments - non-current portion	3	1
Non-recurring costs pending under Law 808/1985	151	15
Other non-current assets	**154**	**16**

Non-current receivables showed a decrease of €mil. 196, mainly attributable to related parties, the details of which are reported in Note 33.

Non-current assets showed a decrease that was mainly due to the non-recurring costs sustained pending the measures and receivables linked to measures under Law 808/1985 that occurred during the year, with particular regard to the sector of *Helicopters* (€mil. 106) and *Aeronautics* (€mil. 30).

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

	31 December 2019	31 December 2020
Raw materials, supplies and consumables	1,440	1,686
Work in progress and semi-finished goods	973	958
Finished goods and merchandise	32	34
Point in time contract assets	367	305
Advances to suppliers	1,806	1,619
	4,618	**4,602**

Inventories showed a decrease in the period, equal to €mil. 16.

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. 609 (€mil. 619 at 31 December 2019).

"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

	31 December 2019	31 December 2020
Contract assets (gross)	3,490	4,709
Contract liabilities	(1,577)	(2,544)
Contract assets (net)	**1,913**	**2,165**
Contract liabilities (gross)	6,598	6,980
Contract assets	(108)	(256)
Contract liabilities (net)	**6,490**	**6,724**
Net value	**(4,577)**	**(4,559)**

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:

	31 December 2019	31 December 2020
Cost incurred and margins recognised	3,598	4,965
Advanced received	(8,175)	(9,524)
Net value	**(4,577)**	**(4,559)**

15. Trade and financial receivables

	31 December 2019		31 December 2020	
	Trade	Financial	Trade	Financial
Receivables	2,115	28	2,160	12
Cumulative impairments	(371)	(2)	(384)	(2)
Related party current receivables (Note 33)	954	263	1,194	463
	2,698	**289**	**2,970**	**473**

The item “cumulative impairments” 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 34.

16. Income tax receivables and liabilities

Net income tax receivables and payables amounted to €mil. 46 at 31 December 2020 (€mil. 42 at 31 December 2019).

Receivables mainly relate to IRES (corporate income tax) 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

	31 December 2019	31 December 2020
Derivatives	78	202
Prepaid expenses - current portion	39	46
Receivables for grants	59	54
Receivables from employees and social security	45	40
Indirect tax receivables	15	12
Deferred receivables under Law 808/1985	14	14
Other related party receivables (Note 33)	26	101
Other assets	68	60
	344	**529**

This item showed an increase of €mil. 185 compared to 2019, mainly as a result of an increase in receivables for derivative assets and from related parties (Note 33).

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.

	Fair value at					
	31 December 2019			31 December 2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps						
Trading	-	(2)	(2)	-	(2)	(2)
Cash flow hedges	-	(17)	(17)	-	(24)	(24)
Currency forwards/swaps/options						
Trading	2	(2)	-	5	(5)	-
Fair value hedges	-	-	-	-	-	-
Cash flow hedges	76	(136)	(60)	197	(132)	65

The cash flow hedge is the forward instrument hedging trade items denominated in foreign currency.

18. Cash and cash equivalents

The balance of cash and cash equivalents at 31 December 2020, equal to €mil. 1,663 (€mil. 1,407 at 31 December 2019), was mainly the result of net cash flows realised by the Company's Divisions during the year. Cash and cash equivalents at 31 December 2020 include €mil. 1 of term deposits (€mil. 1 at 31 December 2019).

19. Equity

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

The composition of the share capital is as follows:

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(3,142,497)	-	(29)	-	(29)
31 December 2019	**575,007,898**	**2,544**	**(29)**	**(19)**	**2,496**
Repurchase of treasury shares less shares sold	165,817	-	2	-	2
31 December 2020	**575,173,715**	**2,544**	**(27)**	**(19)**	**2,498**
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(2,976,680)	-	(27)	-	(27)

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 2,976,680 treasury shares.

At 31 December 2020 the Ministry of Economy and Finance owned around 30.204% of the share capital. Moreover, in application of enhanced disclosure requirements, during the period the Company received a notice from BlackRock Inc., which declared that it held, through various asset management subsidiaries, 6.352% of the shares (including 1.437% with voting rights), as well as from Norges Bank and the Bank of Italy that declared that they held 1.239% and 1.013% of the shares, respectively. No other notices were received relating to the threshold of 1% shareholding having been exceeded.

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.

20. Loans and borrowings

	31 December 2019			31 December 2020		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,386	83	**2,469**	2,142	827	**2,969**
Bank loans and borrowings	894	48	**942**	848	48	**896**
Related party loans and borrowings (Note 33)	476	1,939	**2,415**	491	1,926	**2,417**
Lease liabilities	38	15	**53**	82	22	**104**
Other financial debts	32	61	**93**	55	52	**107**
	3,826	**2,146**	**5,972**	**3,618**	**2,875**	**6,493**

The increase in payables was essentially attributable to the new placement, which was carried out on the Euromarket in July 2020, involving new bonds listed on the Luxembourg Stock Exchange, for a total nominal amount of €mil. 500, with a term of 5.5 years and annual coupon of 2.375%. The issue was only reserved for Italian and international institutional investors.

Borrowings from related parties related for €mil. 496 to lease liabilities at 31 December 2020 (€mil. 573 at 31 December 2019).

Bonds

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

Year of issue	Maturity	Currency	Outstanding nominal amount (mil.) (*)	Annual coupon	Type of offer
2005	2025	€	500	4.88%	European institutional
2009	2022	€	556	5.25%	European institutional
2013	2021	€	739	4.50%	European institutional
2017	2024	€	600	1.50%	European institutional
2020	2026	€	500	2.38%	European institutional

(*) Residual nominal amounts in case of issues subject to the buy-back transactions.

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

Below is the breakdown in borrowings:

	1 January 2019	Application of IFRS 16	Issues	Repayments/ Payments of coupons	Other net increase/ (decrease)	Exchange differences	31 December 2019
Bonds	2,778	-	-	(310)	1	-	**2,469**
Bank loans and borrowings	691	-	300	(46)	(19)	16	**942**
Related-parties loans and borrowings	1,425	470	-	-	520	-	**2,415**
Lease liabilities	-	58	-	-	(5)	-	**53**
Other financial debts	71	-	-	-	22	-	**93**
	4,965	**528**	**300**	**(356)**	**519**	**16**	**5,972**

	1 January 2020	Issues	Repayments/ Payments of coupons	Other net increase/ (decrease)	Exchange differences	31 December 2020
Bonds	2,469	492	-	8	-	**2,969**
Bank loans and borrowings	942	-	(46)	-	-	**896**
Related-parties loans and borrowings	2,415	100	-	(106)	8	**2,417**
Lease liabilities	53	-	-	51	-	**104**
Other financial debts	93	-	-	14	-	**107**
	5,972	**592**	**(46)**	**(33)**	**8**	**6,493**

Below is the reconciliation of the financial liabilities with the cash flows from financing activities in 2020:

	2019	2020
Balance at 1 January	**4,965**	**5,972**
Changes included in cash flows from financing activities	**366**	**537**
Bond issue	-	500
Repayment of bonds	(309)	-
Term Loan, EIB subscription and CDP loan	300	100
Net change in other borrowings	375	(63)
Non-monetary changes	**641**	**(16)**
Non-monetary items of lease liabilities	626	(26)
Exchange rate effects	16	8
Accrued interest	(1)	2
Balance at 31 December	**5,972**	**6,493**

Bank loans and borrowings

The item includes the use of the 12-year 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 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. 393 at 31 December 2020 (€mil. 439 at 31 December 2019).

Related party loans and borrowings

Payables to related parties amounted to €mil. 2,417 at 31 December 2020 (€mil. 2,415 at 31 December 2019) and remained substantially unchanged compared to the previous year.

It should be noted that, during the first quarter of 2020, a loan agreement was entered into with Cassa Depositi e Prestiti (CDP) and the amount concerned was drawn down in full for €mil. 100; the loan is aimed at co-financing some investment projects provided for in the Industrial Plan, which have already been 50% funded by the abovementioned European Investment Bank (EIB) (Note 5).

This item also included lease liabilities for €mil. 496 at 31 December 2020 (€mil. 573 at 31 December 2019).

For a more detailed breakdown of payables to related parties, reference is made to Note 33.

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 2019

	Bonds		Bank loans and borrowings		Related party loans and borrowings (Note 33)		Lease liabilities		Other financial debts		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
Within 1 year	-	83	24	24	1,826	113	-	15	7	54	**1,857**	**289**
2 to 5 years	-	1,888	589	55	-	217		25		32	**589**	**2,217**
Beyond 5 years	-	498	250	-	-	259	-	13	-		**250**	**770**
Total	**-**	**2,469**	**863**	**79**	**1,826**	**589**	**-**	**53**	**7**	**86**	**2,696**	**3,276**

31 December 2020

	Bonds		Bank loans and borrowings		Related party loans and borrowings (Note 33)		Lease liabilities		Other financial debts		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
Within 1 year	-	827	20	28	1,821	105	-	22	35	17	**1,876**	**999**
2 to 5 years	-	1,649	612	27	-	212		48	55	-	**667**	**1,936**
Beyond 5 years	-	493	209	-	100	179	-	34	-	-	**309**	**706**
Total	**-**	**2,969**	**841**	**55**	**1,921**	**496**	**-**	**104**	**90**	**17**	**2,852**	**3,641**

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

	31 December 2019	*Of which with related parties*	31 December 2020	*Of which with related parties*
Cash and cash equivalents	(1,407)		(1,663)	
Securities held for trading	-		-	
Liquidity	**(1,407)**		**(1,663)**	
Current loans and receivables	**(289)**	*(263)*	**(473)**	*(463)*
Current bank loans and borrowings	48		48	
Current portion of non-current loans and borrowings	83		827	
Other current loans and borrowings	2,015	*1,939*	2,000	*1,926*
Current financial debt	**2,146**		**2,875**	
Net current financial debt (funds)	**450**		**739**	
Non-current bank loans and borrowings	894		848	
Bonds issued	2,386		2,142	
Other non-current loans and borrowings	546	*476*	628	*491*
Non-current financial debt	**3,826**		**3,618**	
Net financial debt	**4,276**		**4,357**	

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

	31 December 2019	31 December 2020
Net financial debt CONSOB com. DEM/6064293	**4,276**	**4,357**
Non current financial receivables from Group's consolidated entities	(402)	(243)
Net debt (KPI)	**3,874**	**4,114**

Lease liabilities

The item amounted to €mil. 600 at 31 December 2020 (€mil. 626 at 31 December 2019), of which €mil. 104 (€mil. 53 at 31 December 2019) towards third parties and, as already noted, €mil. 496 at 31 December 2020 (€mil. 573 at 31 December 2019) towards related parties.

21. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Penalties	Product guarantees	Onerous contracts (losses at completion)	Other provisions	Total
1 January 2019							
Current	27	73	11	94	312	293	**810**
Non-current	-	138	7	53	-	423	**621**
	27	**211**	**18**	**147**	**312**	**716**	**1,431**
Allocations	8	-	2	63	10	168	**251**
Uses	(5)	(69)	(3)	(8)	-	(16)	**(101)**
Reversals	-	-	(5)	(29)	(82)	(121)	**(237)**
Other changes	-	(5)	2	(1)	7	(65)	**(62)**
31 December 2019	**30**	**137**	**14**	**172**	**247**	**682**	**1,282**
Broken down as follows:							
Current	30	70	11	103	247	343	**804**
Non-current	-	67	3	69	-	339	**478**
	30	**137**	**14**	**172**	**247**	**682**	**1,282**
Allocations	8	12	2	43	103	174	**342**
Uses	-	(70)	(1)	(6)	-	(4)	**(81)**
Reversals	-	-	-	(28)	(60)	(56)	**(144)**
Other changes	(3)	2	(1)	-	4	(37)	**(35)**
31 December 2020	**35**	**81**	**14**	**181**	**294**	**759**	**1,364**
Broken down as follows:							
Current	35	53	10	113	294	440	**945**
Non-current	-	28	4	68	-	319	**419**
	35	**81**	**14**	**181**	**294**	**759**	**1,364**

The amount of the provision for risks showed an increase of €mil. 82 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. 55 (€mil. 50 at 31 December 2019);
- the provision for litigation with employees and former employees of €mil. 25 (€mil. 25 at 31 December 2019);
- the provision for litigation in progress of €mil. 2 (€mil. 1 at 31 December 2019);
- provisions for critical issues on contracts equal to €mil. 336 (€mil. 310 at 31 December 2019), 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 2020 and in early 2021:

- 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 12 AW101 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. The Company also took the same legal actions with respect to the service of the notice of invitation to appear in court at the hearing on 10 September 2018. By a judgment dated 3 July 2019, the Lazio Regional Administrative Court rejected the appeals submitted by Leonardo SpA; the Company then filed an appeal against the abovementioned measures. By a judgment dated 7 May 2020 the Council of State granted the appeals submitted by Leonardo.

  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 hearings set on 18 September 2019 and 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 AW101 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.

Finally, it should be noted that on 11 February 2020 a notice was served on AgustaWestland International Ltd whereby it was invited to appear within the proceedings brought by the Indian Judicial Authority (Directorate of Enforcement);

> on 19 January 2021 the Court of Appeal of Milan rejected the appeals submitted against the judgment whereby on 15 June 2017 the Court of Milan acquitted 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 had 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 152/06 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 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:

> the proceedings brought by Firema under extraordinary management before the Court of Naples against the directors and statutory and independent auditors of Firema Trasporti (R.G. 32257/13) in order to have them declared responsible for the financial collapse caused to the company, within which Leonardo and AnsaldoBreda have been summoned as parties concerned, have been postponed to the hearing scheduled on 24 June 2021, in order to discuss whether they must be joined to proceedings R.G. 16312/15 described below. It should be noted that, within these proceedings, two of the defendants and specifically the former directors Giorgio and Gianfranco Fiore summoned Leonardo and AnsaldoBreda in court, on the grounds of an alleged abusive exercise of management and coordination activities that, according to them, was perpetrated by the parties summoned to the detriment of Firema. On the basis of this assumption, Giorgio and Gianfranco Fiore therefore requested, primarily, that Leonardo and AnsaldoBreda be ordered to pay direct compensation to the plaintiff for any damages that should be ascertained, which they presumed to be €mil. 262 and which is equal to Firema's liabilities, and, alternatively, to be held harmless by the aforesaid companies.
As to the action brought by GMR against Leonardo and AnsaldoBreda before the Court of Naples (R.G. 16312/15), the court referred the case to the President in order for the proceedings to be possibly joined to those described above at the hearing held on 1 October 2020.

It should be noted that, within these proceedings, the plaintiff company states that Firema Trasporti was allegedly subject, during the period in which Leonardo held an investment in it (from 1993 to 2005), to management and coordination activities that were carried out to its detriment and in the sole interest of the Leonardo Group and that, even after the sale of the aforesaid investment, Firema Trasporti was allegedly de facto subjected to an abuse of economic dependence from the abovementioned Leonardo Group in performing the various agreements existing with AnsaldoBreda.

In both proceedings Leonardo and AnsaldoBreda appeared before the court requesting that, on the merits, the claims submitted against them be dismissed as clearly groundless as of fact and as of right;

> 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 in 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 2000 by the aforesaid companies and the then-Ansaldo Industria, assuming that it was concluded based on unfair conditions. The claim was 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. 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 before the Court of Appeal of Rome.

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, within the arbitration proceedings brought by the L&P JV against the GSIC JV, on 12 November 2020 the plaintiff filed its own Memorial of Claim whereby it better specified its claims for damage, setting them at a total amount of about €mil. 290. 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. 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. 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.

22. Employee benefit obligations

	31 December 2019	31 December 2020
Severance pay provision	272	250
Defined-contribution plans	26	26
	298	**276**

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. 2 (€mil. 3 at 31 December 2019).

Below are the changes in the severance pay:

	31 December 2019	31 December 2020
Opening balance	**289**	**272**
Net interest expenses	3	2
Remeasurement	1	2
Actuarial losses/(gains) through equity - financial assumptions	*1*	*2*
Benefits paid	(20)	(25)
Other changes	(1)	(1)
Closing balance	**272**	**250**

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 that has maintained the nature of defined-benefit plan are as follows:

	31 December 2019	31 December 2020
Discount rate (annual)	0.7%	0.4%
Inflation rate	0.7%	0.4%

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

	31 December 2019		31 December 2020	
	-0.25%	+0.25%	-0.25%	+0.25%
Discount rate (annual)	4	(4)	4	(4)
Inflation rate	(3)	3	(4)	4

The average duration of the severance pay is 6 years.

23. Other current and non-current liabilities

	31 December 2019		31 December 2020	
	Non-current	Current	Non-current	Current
Employee obligations	49	281	48	250
Deferred income	205	52	144	71
Amounts due to social security institutions	-	167	1	155
Payables to MED (Law 808/1985)	155	-	161	-
Payables to MED for monopoly costs (Law 808/1985)	180	12	196	7
Indirect tax liabilities	-	60	-	68
Derivatives	-	157	-	163
Other liabilities	2	282	-	216
Other payables to related parties (Note 33)	-	131	-	52
	591	**1,142**	**550**	**982**

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 payables to related parties showed a reduction of €mil. 79 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 for €mil. 37 (€mil. 59 at 31 December 2019) and to penalties on programmes for €mil. 68 (€mil. 94 at 31 December 2019).

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.

24. Trade payables

	31 December 2019	31 December 2020
Suppliers	2,280	2,241
Trade payables to related parties (Note 33)	777	821
	3,057	**3,062**

25. Guarantees and other commitments

At 31 December 2020 the Company had in place the following guarantees:

	31 December 2019	31 December 2020
Guarantees in favour of related parties (Note 33)	4,432	3,921
Guarantees in favour of third parties	8,266	8,389
Guarantees given to third parties	2,257	2,212
Unsecured guarantees given	**14,955**	**14,522**

Specifically, the main guarantees issued consist of:

> bank and insurance sureties in favour of third party companies for an amount of €mil. 8,389 (€mil. 8,263 at 31 December 2019);

> bank and insurance counter-guarantees issued in the interest of related parties for €mil. 941 (€mil. 1,024 at 31 December 2019) and in the interest of third party companies for €mil. 0 (€mil. 3 at 31 December 2019);

> direct commitments issued by the Company in favour of tax authorities, customers and co-suppliers (Parent Company Guarantee) for €mil. 2,210 (€mil. 2,253 at 31 December 2019), in favour of related parties for €mil. 2,980 (€mil. 3,408 at 31 December 2019) and in favour of other companies for €mil. 2 (€mil. 4 at 31 December 2019).

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.

26. Revenues

	2019	2020
Revenues from contracts with customers	5,958	5,102
Change in contract assets	684	1,398
Revenues from related parties (Note 33)	2,368	2,154
	9,010	**8,654**

The performance in terms of revenues by business sector at Group level is commented on in the Report on Operations.

Below is the breakdown of revenues by timing of reporting:

	2019	2020
Revenues at point in time	1,977	1,514
Revenues over time	7,033	7,140
	9,010	**8,654**

Revenues were realised in the following geographical areas:

	2019	2020
Italy	2,038	2,110
United Kingdom	397	313
Rest of Europe	2,749	2,367
United States	1,326	1,210
Rest of the world	2,500	2,654
	9,010	**8,654**

27. Other operating income/(expenses)

	2019			2020		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Grants for research and development costs (*)	26	-	**26**	25	-	**25**
Other operating grants	1	-	**1**	1	-	**1**
Reversals/(Accruals) to provisions for risks	226	(238)	**(12)**	141	(319)	**(178)**
Exchange rate difference on operating items	64	(68)	**(4)**	173	(199)	**(26)**
Insurance reimbursements	4	-	**4**	3	-	**3**
Indirect taxes	-	(10)	**(10)**	-	(8)	**(8)**
Other operating income/(expenses)	64	(42)	**22**	124	(48)	**76**
Other operating income/(expenses) from related parties (Note 33)	9	(1)	**8**	16	(10)	**6**
	394	**(359)**	**35**	**483**	**(584)**	**(101)**

(*) To which must be added assessments of "non-recurring costs pending under Law 808/1985" (Note 12) equal to €mil. 51 (€mil. 60 at 31 December 2019) and "non-current and current receivables for measures pending under Law 808/1985" (Note 12 and Note 17, respectively), equal to €mil. 176 (€mil. 2 at 31 December 2019).

28. Purchase and personnel expenses

	2019	2020
Purchases of materials from third parties	2,829	2,533
Change in inventories of raw materials	(101)	(279)
Costs for purchases from related parties (Note 33)	718	1,104
Purchases	**3,446**	**3,358**
Services rendered by third parties	2,068	1,910
Costs of leases	70	70
Royalties	3	13
Services rendered by related parties (Note 33)	722	701
Services	**2,863**	**2,694**
Wages and salaries	1,455	1,375
Social security contributions	422	397
Costs related to defined-contribution plans	95	99
Employee disputes	6	2
Restructuring costs - net	8	34
Other personnel expenses net of cost recovery	16	15
Personnel expenses	**2,002**	**1,922**
Change in finished goods, work in progress and semi-finished products	**(36)**	**112**
Internal work capitalised	**(249)**	**(242)**
Total purchase and personnel expenses	**8,026**	**7,844**

The average workforce at 31 December 2020 was equal to 28,640 units, showing an increase of 348 units compared to 2019.

The figure of total workforce at 31 December 2020, equal to 29,227 units, showed a decrease of 121 units compared to 2019.

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:

	Average workforce			Total workforce		
	31 December 2019	31 December 2020	Change	31 December 2019	31 December 2020	Change
Senior managers (*)	784	785	1	829	798	(31)
Middle managers	3,308	3,266	(42)	3,388	3,381	(7)
Clerical employees	16,728	16,896	168	17,416	17,323	(93)
Manual labourers (**)	7,472	7,693	221	7,715	7,725	10
Total	**28,292**	**28,640**	**348**	**29,348**	**29,227**	**(121)**

(*) Includes pilots.
(**) Includes senior manual labourers.

29. Amortisation, depreciation and value adjustments to financial assets

	2019	2020
Amortisation of intangible assets	121	107
Development costs	*23*	*17*
Non-recurring costs	*53*	*47*
Acquired through business combinations	*4*	*4*
Concessions, licences and trademarks	*19*	*19*
Other intangible assets	*22*	*20*
Depreciation of property, plant and equipment and investment properties	179	155
Depreciation of right of use	111	113
Impairment of other assets	55	266
Value adjustments to financial assets	14	18
	480	**659**

The impairment of other assets mainly refers to the write-down of non-recurring costs and specific equipment (tooling) related to the *Aeronautics* sector, following some production assets' failure to operate at full capacity. The impairment was carried out according to the discounted cash flow method, using the cash flows under the product business plan, as discounted on the basis of the sector's weighted-average cost of capital (WACC) that takes into account the specific business risks. Value adjustments of financial assets related to the valuations carried out by the Company on a periodical basis in order to assess the recoverability of financial assets recognised in the accounts, in accordance with the provisions on impairment under IFRS 9.

30. Financial income and expenses

	2019			2020		
	Income	Expenses	Net	Income	Expenses	Net
Interest to/from banks	1	(12)	**(11)**	-	(16)	**(16)**
Interest on lease liabilities	-	(1)	**(1)**	-	(2)	**(2)**
Interest and other charges on bonds	-	(122)	**(122)**	-	(104)	**(104)**
Commissions	-	(14)	**(14)**	-	(21)	**(21)**
Dividends	185	-	**185**	72	-	**72**
Premiums paid/(received) on IRS	-	(2)	**(2)**	-	(4)	**(4)**
Premiums paid/(received) on forwards	53	(69)	**(16)**	48	(83)	**(35)**
Income/(expenses) from equity investments and securities	12	-	**12**	1	-	**1**
Value adjustments to equity investments	-	(23)	**(23)**	-	(42)	**(42)**
Fair value gains/(losses) through profit or loss	19	(47)	**(28)**	22	(13)	**9**
Exchange rate differences	28	(27)	**1**	40	(43)	**(3)**
Financial income/(expenses) - related parties (Note 33)	23	(24)	**(1)**	19	(19)	**-**
Other financial income and expenses	14	(47)	**(33)**	5	(30)	**(25)**
	335	**(388)**	**(53)**	**207**	**(377)**	**(170)**

The deterioration in net financial income and costs was equal to €mil. 117 compared to 2019. It was mainly affected by a lower contribution given by the management of equity investments (as the net balance between dividends and write-downs).

Fair value results through profit or loss are as follows:

	2019			2020		
	Income	Expenses	Net	Income	Expenses	Net
Ineffective portion of hedging swaps	19	(47)	(28)	22	(13)	9

31. Income taxes

Income taxes can be broken down as follows:

	2019	2020
IRES (corporate income tax)	(54)	(20)
IRAP (regional tax on production)	(26)	(21)
Tax related to previous periods	21	2
Provisions for tax disputes	(5)	(5)
Deferred tax - net	(27)	74
Other taxes	(5)	(3)
	(96)	**27**

Below is an analysis of the composition of the theoretical and effective tax rates for 2020 and 2019:

	2019	2020
Profit/(Loss) before income taxes	**486**	**(120)**
Tax rate	**(19.8%)**	**22.5%**
Theoretical tax	(117)	29
Permanent differences	6	18
Timing differences	(1)	-
Dividends	22	9
Impairment of equity investments	(5)	(10)
IRAP tax	(26)	(21)
Net deferred tax assets	28	13
Tax provision	(5)	(5)
Other taxes	2	(6)
Total tax through profit or loss	**(96)**	**27**
Theoretical tax	**(24.0%)**	**24.0%**
Permanent differences	1.2%	15.0%
Timing differences	(0.2%)	n.a.
Dividends	4.5%	7.5%
Impairment of equity investments	(1.0%)	(8.3%)
IRAP tax	(5.3%)	(17.5%)
Net deferred tax assets	5.8%	10.8%
Tax provision	(1.0%)	(4.2%)
Other taxes	0.4%	(5.0%)
Total tax	**(19.8%)**	**22.5%**

The effective tax rate went from 19.8% in 2019 to 22.5% in 2020.

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 2020 were the result of the following differences:

	2019	2020
Deferred tax assets on tax losses	44	(13)
Property, plant and equipment and intangible assets	(9)	16
Provision for risks and impairment	(32)	29
Other	(30)	42
Deferred taxes recognised through profit or loss	**(27)**	**74**

	31 December 2019			31 December 2020		
	Balance sheet			Balance sheet		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets on tax losses	74	-	**74**	61	-	**61**
Property, plant and equipment and intangible assets	19	(61)	**(42)**	34	(60)	**(26)**
Provision for risks and impairment	505	-	**505**	534	-	**534**
Other	98	(16)	**82**	147	(23)	**124**
Deferred taxes recognised through balance sheet	**696**	**(77)**	**619**	**776**	**(83)**	**693**
On cash flow hedge derivatives	25	(1)	**24**	16	(13)	**3**
On actuarial gains and losses	11	(4)	**7**	11	(4)	**7**
Deferred taxes recognised through equity	**36**	**(5)**	**31**	**27**	**(17)**	**10**
	732	**(82)**	**650**	**803**	**(100)**	**703**

32. Cash flows from operating activities

	2019	2020
Net result	390	(93)
Amortisation, depreciation and value adjustments to financial assets	481	659
Income taxes	96	(27)
Net allocations to the provisions for risks and inventory write-downs	58	244
Net financial expenses/(income)	53	170
Other non-monetary items	35	10
	1,113	**963**

The changes in working capital are as follows:

	2019	2020
Inventories	(180)	27
Contract assets and liabilities	(520)	(86)
Trade receivables and payables	106	(353)
	(594)	**(412)**

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

	2019	2020
Payment of pension plans	(22)	(26)
Changes in provisions for risks and other operating items	(353)	(304)
	(375)	**(330)**

33. 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 2019

	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
AgustaWestland Philadelphia Co.			138		1	**139**
W.S.K. PZL-Świdnik SA			12			**12**
Sistemi Dinamici SpA		28	3			**31**
Leonardo MW Ltd	71		228			**299**
Leonardo Global Solutions SpA	51		5	5	12	**73**
Leonardo International SpA		20	1			**21**
Leonardo Australia PTY Ltd			18			**18**
Leonardo Malaysia SDN BHD			16			**16**
SO.GE.PA. - Società Generale di Partecipazioni SpA	142					**142**
Leonardo US Holding Inc.	138	1				**139**
Vitrociset SpA		54	7			**61**
Other with unit amount lower than €mil. 10		1	46		4	**51**
Associates						
NHIndustries SAS			113			**113**
Eurofighter Jagdflugzeug GmbH			103			**103**
AgustaWestland Aviation Services LLC			17			**17**
Macchi Hurel Dubois SAS			15			**15**
Other with unit amount lower than €mil. 10	1		27			**28**
Joint ventures						
GIE ATR			44			**44**
MBDA SAS			10			**10**
Thales Alenia Space SAS		156	18		1	**175**
Joint Stock Company Helivert			39			**39**
Telespazio SpA	7	1	7	3		**18**
Other with unit amount lower than €mil. 10			1			**1**
Consortia						
Other with unit amount lower than €mil. 10		1	5			**6**
Companies subject to the control or considerable influence of the MEF						
Fintecna SpA			63			**63**
Other with unit amount lower than €mil. 10		1	18			**19**
Other related parties						
Other with unit amount lower than €mil. 10						
Total	**410**	**263**	**954**	**8**	**18**	**1,653**
% against total for the period	***85.2%***	***91.0%***	***35.4%***	***2.3%***	***5.2%***	

Receivables at 31 December 2020

	Non-current loans and receivables	Current loans and receivables	Trade receivables	Receivables from consolidated tax mechanism	Other current receivables	Total
Subsidiaries						
AgustaWestland Philadelphia Co.			175		1	**176**
W.S.K. PZL-Świdnik SA			7			**7**
Kopter Group AG		246				**246**
Leonardo MW Ltd	22		330			**352**
Leonardo Global Solutions SpA	69		5	7	13	**94**
Leonardo International SpA		8	1			**9**
Leonardo Australia PTY Ltd			28			**28**
Leonardo Malaysia SDN BHD			8			**8**
SO.GE.PA. - Società Generale di Partecipazioni SpA	17		1		2	**20**
Leonardo US Holding Inc.	126		1			**127**
Vitrociset SpA		61	7			**68**
Other with unit amount lower than €mil. 10		3	42	1	2	**48**
Associates						
NHIndustries SAS			147			**147**
Eurofighter Jagdflugzeug GmbH			137			**137**
Iveco - OTO Melara Scarl			23			**23**
AgustaWestland Aviation Services LLC			19			**19**
Other with unit amount lower than €mil. 10	1	1	20			**22**
Joint ventures						
GIE ATR			22		71	**93**
MBDA SAS			16			**16**
Thales Alenia Space SAS		142	26			**168**
Joint Stock Company Helivert			36			**36**
Orizzonte Sistemi Navali SpA			37			**37**
Telespazio SpA	7	1	2	2		**12**
Rotorsim Srl						
Other with unit amount lower than €mil. 10			1			**1**
Consortia						
Consorzio G.e.i.e. Eurotorp						
Consorzio CREO						
Other with unit amount lower than €mil. 10		1	5			**6**
Companies subject to the control or considerable influence of the MEF						
Fintecna SpA			72			**72**
ENAV SpA			15			**15**
Other with unit amount lower than €mil. 10			8			**8**
Other related parties						
Other	1		3		2	**6**
Total	**243**	**463**	**1,194**	**10**	**91**	**2,001**
% against total for the period	*85.3%*	*97.9%*	*40.2%*	*1.9%*	*17.2%*	

Payables at 31 December 2019

	Current and non-current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries						
AgustaWestland Philadelphia Co.		111			**111**	415
AgustaWestland SpA		17		9	**26**	
Leonardo MW Ltd	840	143			**983**	1,670
Alenia Aermacchi SpA			1		**1**	
AnsaldoBreda SpA	87		22	1	**110**	271
BredaMenarinibus SpA			13		**13**	
Larimart SpA	10	6			**16**	1
DRS Group					**-**	
FATA Logistic Systems SpA	16	35			**51**	
Leonardo Global Solutions SpA	670	24			**694**	6
Leonardo US Aircraft Inc.		15			**15**	
Selex Service Management SpA (in liq.)			2		**2**	
W.S.K. PZL-Świdnik SA		38			**38**	122
Selex ES International Ltd						22
Selex ES Inc.		2			**2**	
Selex ES Saudi Arabia Ltd						13
Leonardo US Holding Inc.						440
Leonardo Belgium SA		3			**3**	
Leonardo Australia PTY Ltd		4			**4**	
Leonardo Malaysia SDN BHD		7			**7**	
Leonardo DRS Inc.		11			**11**	224
Sistemi Dinamici SpA		1	1		**2**	
Selex ES International Ltd	51				**51**	
Leonardo International SpA	2		1		**3**	192
SO.GE.PA. SpA	20		17	2	**39**	190
Vitrociset SpA		6			**6**	26
Other with unit amount lower than €mil. 10		17		1	**18**	
Associates						
Eurofighter Jagdflugzeug GmbH	16	45			**61**	
Elettronica SpA		11			**11**	
Gulf System Logistics Services Company WLL		133			**133**	
Iveco - OTO Melara Scarl		2		6	**8**	
NHIndustries SAS		5			**5**	
Industria Italiana Autobus SpA					**-**	19
AgustaWestland Aviation Services LLC		3			**3**	
Leonardo Helicoptères Algerie SpA	16				**16**	
Other with unit amount lower than €mil. 10		4			**4**	
Joint ventures						
GIE ATR		38		48	**86**	
MBDA SAS	651	50			**701**	47

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Payables at 31 December 2019

	Current and non-current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
>>						
Orizzonte Sistemi Navali SpA		2			**2**	
Telespazio SpA	36	2		2	**40**	182
Thales Alenia Space SAS		2			**2**	
Rotorsim Srl		21			**21**	
Joint Stock Company Helivert		1			**1**	
Consortia						
Consorzio G.e.i.e. Eurotorp		2			**2**	
Other					-	
Companies subject to the control or considerable influence of the MEF						
Enel SpA		14			**14**	
Fintecna SpA		1			**1**	
Other with unit amount lower than €mil. 10		1		5	**6**	
Other related parties						
Other					-	592
Total	**2,415**	**777**	**57**	**74**	**3,323**	**4,432**
% against total for the period	***40.4%***	***25.4%***	***5.0%***	***6.5%***		***29.6%***

Payables at 31 December 2020

	Current and non-current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries						
AgustaWestland Philadelphia Co.		106			**106**	440
AgustaWestland SpA		19	5	9	**33**	
Leonardo MW Ltd	716	147			**863**	1,494
AnsaldoBreda SpA	108		17		**125**	257
Larimart SpA	8	8			**16**	1
FATA Logistic Systems SpA	13	39			**52**	1
Leonardo Global Solutions SpA	629	40			**669**	4
Leonardo US Aircraft Inc.		17			**17**	
W.S.K. PZL-Świdnik SA		38			**38**	119
Selex ES International Ltd	48				**48**	
Selex ES Saudi Arabia Ltd		3			**3**	12
Leonardo US Holding Inc.					-	498
Leonardo Malaysia SDN BHD		10			**10**	
Leonardo DRS Inc.		12			**12**	205
Leonardo International SpA	2			1	**3**	112
SO.GE.PA. - Società Generale di Partecipazioni SpA	7		1	1	**9**	110
Vitrociset SpA	12	6	1	1	**20**	28
Other with unit amount lower than €mil. 10		30	3	1	**34**	
Associates						
Eurofighter Jagdflugzeug GmbH	45	55			**100**	
Elettronica SpA		15			**15**	
Gulf System Logistics Services Company WLL		82			**82**	
NHIndustries SAS		21			**21**	
Industria Italiana Autobus SpA					-	21
Leonardo Helicoptères Algerie SpA	16				**16**	
Other with unit amount lower than €mil. 10		11		6	**17**	
Joint ventures						
GIE ATR		55			**55**	
MBDA SAS	663	67			**730**	47
Telespazio SpA	49	1		2	**52**	161
Thales Alenia Space SAS		2			**2**	
Rotorsim Srl		12			**12**	
Consortia						
Other with unit amount lower than €mil. 10		3			**3**	
Companies subject to the control or considerable influence of the MEF						
Cassa Depositi e Prestiti SpA	100			3	**103**	
Enel SpA		19			**19**	
Fintecna SpA		1			**1**	
Other related parties						
Other	1	2	1			410
Total	**2,417**	**821**	**28**	**24**	**3,286**	**3,921**
% against total for the period	***37.2%***	***26.8%***	***2.9%***	***2.4%***		***27.0%***

As regards the most important transactions we note that:

- non-current receivables, equal to €mil. 243 (€mil. 410 at 31 December 2019), showed a decrease of €mil. 167 and mainly related to the reduction in the amount claimed from SO.GE.PA. - Società Generale di Partecipazioni SpA for €mil. 125;
- current financial receivables of €mil. 463 (€mil. 263 at 31 December 2019) arise from financing activities conducted by Leonardo in favour of the Group companies, as a result of the abovementioned centralisation of treasury resources. In particular the increase was attributable to the loan granted to the Swiss helicopter company Kopter Group AG, which was acquired during 2020;
- other receivables and payables (equal to €mil. 101 and €mil. 52, respectively) including amounts deriving from the Group tax consolidation mechanism, are recognised by Leonardo SpA, the party having a legal relationship with the Tax Authority, against payables and receivables recognised by the companies that adopt the national tax consolidation and the Group VAT;
- trade receivables equal to €mil. 1,194 (€mil. 954 at 31 December 2019), include receivables related to services rendered in the interests and in favour of the Group's companies;
- borrowings from related parties, equal to €mil. 2,417 (€mil. 2,415 at 31 December 2019) include a fixed amount of €mil. 496 (€mil. 573 at 31 December 2019) linked to lease transactions in accordance with IFRS 16, and the other current financial debt relationships arising from net cash inflows achieved by the Group companies during the year, which were contributed to Leonardo as a result of the Group's cash pooling system; among these, the item includes a payable of €mil. 663 (€mil. 651 at 31 December 2019) to the MBDA joint ventures and the loan of €mil. 100 taken out with Cassa Depositi e Prestiti (CDP), which, as already noted, is aimed at co-financing some investment projects envisaged in the Industrial Plan.

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 2020 and 2019.

Income statement transactions at 31 December 2019

	Revenues	Other operating revenues	Purchase and service expenses	Other operating expenses	Financial income	Financial expenses
Subsidiaries						
AgustaWestland Philadelphia Co.	188	3	138		1	
FATA Logistic Systems SpA			83			
Leonardo Global Solutions SpA	1		100			16
Leonardo MW Ltd	262	2	202		7	4
Larimart SpA			11			
Leonardo Belgium SA	21		7			
Leonardo Australia PTY Ltd	10		3			
Leonardo Malaysia SDN BHD	38		18			
Leonardo DRS Inc.			5			
W.S.K. PZL-Świdnik SA	31		171			
Other with unit amount lower than €mil. 10	27		47		11	1
Associates						
Eurofighter Jagdflugzeug GmbH	493		162			
Elettronica SpA	1		17			
Gulf System Logistics Services Company WLL			273			
NHIndustries SAS	348		(4)			
Iveco - OTO Melara Scarl	77		2			
Macchi Hurel Dubois SAS	56					
AgustaWestland Aviation Services LLC	15		4			
Advanced Air Traffic Systems SDN BHD	17		2			
Other with unit amount lower than €mil. 10	13		3			
Joint ventures						
GIE ATR	276		43			
MBDA SAS	34		60			3
Orizzonte Sistemi Navali SpA	154		1			
Thales Alenia Space France SAS	81		3	1	1	
Rotorsim Srl	1	3	20			
Joint Stock Company Helivert	10	1	1			
Other with unit amount lower than €mil. 10	3		1			
Consortia						
Consorzio G.e.i.e. Eurotorp	14					
Other with unit amount lower than €mil. 10	2					
Companies subject to the control or considerable influence of the MEF						
Enel SpA	7		69			
Fintecna SpA	118		(2)			
ENAV SpA	23					
Poste Italiane SpA	26					
Other with unit amount lower than €mil. 10	5				3	
Other related parties						
Other	16					
Total	**2,368**	**9**	**1,440**	**1**	**23**	**24**
% against total for the period	***26.3%***	***n.a.***	***17.9%***	***n.a.***	***6.9%***	***51.1%***

Income statement transactions at 31 December 2020

	Revenues	Other operating revenues	Purchase and service expenses	Other operating expenses	Financial income	Financial expenses
Subsidiaries						
AgustaWestland Philadelphia Co.	125		85			
FATA Logistic Systems SpA	3		87			
Leonardo Global Solutions SpA	1		124			14
Leonardo MW Ltd	245	1	122	9	4	2
Larimart SpA			16			
Leonardo Belgium SA	19		11			
Leonardo Australia PTY Ltd	26		4			
Leonardo Malaysia SDN BHD	32		20			
W.S.K. PZL-Świdnik SA	17	1	122			
Other with unit amount lower than €mil. 10	34		53		11	
Associates						
Eurofighter Jagdflugzeug GmbH	433		755			
Elettronica SpA	1		27			
EUROMIDS SAS	11		2			
Gulf System Logistics Services Company WLL			167			
NHIndustries SAS	417					
Iveco - OTO Melara Scarl	74		2			
Macchi Hurel Dubois SAS	30					
AgustaWestland Aviation Services LLC	20		4			
Advanced Air Traffic Systems SDN BHD	11					
Other with unit amount lower than €mil. 10	7		1			
Joint ventures						
GIE ATR	122		26			
MBDA SAS	37		96			1
Orizzonte Sistemi Navali SpA	155		1			
Thales Alenia Space SAS	53		2		1	
Rotorsim Srl	1	2	12			
Joint Stock Company Helivert	41	1				
Other with unit amount lower than €mil. 10	1		2			
Consortia						
Consorzio G.e.i.e. Eurotorp	7					
Other with unit amount lower than €mil. 10	1		1			
Companies subject to the control or considerable influence of the MEF						
Enel SpA	8		72			
Fintecna SpA	168	10	(11)			
ENAV SpA	15					
Poste Italiane SpA	22					
Other with unit amount lower than €mil. 10	17				1	1
Other related parties						
Other		1	2	1	2	1
Total	**2,154**	**16**	**1,805**	**10**	**19**	**19**
% against total for the period	***24.9%***	***3.3%***	***23.0%***	***1.7%***	***9.2%***	***5.0%***

"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.

34. 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 Note 37 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.

In this regard, it should be noted that loans and borrowings at 31 December 2020, equal to €mil. 6,493, included lease liabilities of €mil. 600. The amount of fixed-rate loans and borrowings (including by using hedging instruments) was equal to about 56% and, consequently, the amount at variable rate was equal to about 44%.

At 31 December 2020 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 1.82% on the loan.

The detail of the main interest rate swaps at 31 December 2020 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2019	Changes			Fair value 31.12.2019
	2018	2019			Income	Expenses	CFH reserve	
Options	200	200	Bond 2025	(3)	1	-	-	(2)
IRS fixed/floating	300	300	EIB 2025	(3)	-	-	(14)	(17)
Total notional	**500**	**500**		**(6)**	**1**	**-**	**(14)**	**(19)**

	Notional		Underlying (maturity)	Fair value 01.01.2020	Changes			Fair value 31.12.2020
	2019	2020			Income	Expenses	CFH reserve	
Options	200	200	Bond 2025	(2)	-	-	-	(2)
IRS fixed/floating	300	300	EIB 2025	(17)	-	-	(7)	(24)
Total notional	**500**	**500**		**(19)**	**-**	**-**	**(7)**	**(26)**

The table below shows the effects of the sensitivity analysis for 2020 and 2019 on IRS at 31 December 2020 deriving from the 50-basis-point shift in the interest rate curve:

Effect of shift of interest rate curve

	31 December 2019		31 December 2020	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	(5)	5	(7)	7
Equity (*)	4	(4)	1	(1)

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

Exchange rate risk

Exchange rate risk management for the Group is governed by the Directive issued by Leonardo SpA, the purpose of 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 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 Company defines the existence of an economic relationship between the hedging instrument and the hedged item on the basis of the currency, amounts and respective cash flows and assesses whether the derivative designated in each hedging relationship will be and has been effective in offsetting changes in the cash flows of the hedged item. In the event that, due to their nature or following events that entail their ineffectiveness, derivative instruments held in the portfolio should be found to no longer be an 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, the cash flow hedge accounting method of recognition is adopted (Note 4.3 of the consolidated financial statements).

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. 5,809 (notional amount), as detailed in the following table:

	Notional 2019			Notional 2020		
	Sales	Purchases	Total	Sales	Purchases	Total
Swap and forward transactions	3,601	2,972	6,573	3,116	2,693	5,809

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 risk is hedged using mirror transactions of payables/receivables to/from third parties in the currency of intercompany items or through specific exchange rate derivatives, classified as fair value hedges. The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2019				31 December 2020			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash flow and fair value hedges								
Within 1 year	2,258	145	1,159	1,278	1,536	102	1,111	1,278
2 to 3 years	814	8	302	209	920	-	150	7
4 to 9 years	-	-	-	-	-	-	12	-
Total	**3,072**	**153**	**1,461**	**1,487**	**2,456**	**102**	**1,273**	**1,285**
Hedging transactions which cannot be classified as hedging transactions	23	38	23	38	21	2	21	2
Total transactions	**3,095**	**191**	**1,484**	**1,525**	**2,477**	**104**	**1,294**	**1,287**

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 2020 (0.8990 and 1.2271, respectively) and at 31 December 2019 (0.8508 and 1.1234, respectively).

	31 December 2019				31 December 2020			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%	Increase of 5%	Decrease of 5%
Net result	(7)	8	-	1	3	(4)	1	(1)
Equity (*)	(26)	27	74	(70)	(22)	25	55	(61)

(*) 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 optimising the management of financial resources by resorting to bank and bond transactions.

In order to mainly finance its operations, the Company has at its disposal:

> an EMTN (Euro Medium Term Note) programme in place, for a total amount of €bil. 4, out of which the Company's bonds were issued, which are currently in place on the Euromarket. This programme was renewed in May 2020 for an additional period of 12 months, leaving the available maximum amount unchanged. As at 31 December 2020 it had been used for a total nominal amount of €mil. 2,895;

> two Revolving Credit Facilities (RCFs), amounting to €mil. 1,800 due February 2023 and €mil. 1,250 due November 2021, respectively, renewable, at the request of the Company, for further 6 months. Both the RCFs had been entirely unused at 31 December 2020;

> a Term Loan for the remaining amount of about €mil. 250. It should be noted that at the end of December 2020 Leonardo requested – and with effect from 18 January 2021 obtained – the cancellation of the remaining amount out of the Term Loan;

> a new loan taken out with the European Investment Bank in December 2020, for an amount of €mil. 200, which was used in January 2021 after the reporting date of the financial statements.

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 2020, we note the following relations with countries exposed to credit risk according to the Italian institutions (SACE):

	Libya	Zambia	Pakistan	Turkmenistan	Other	Total
Assets	4	3	52	18	-	**77**
Liabilities	(14)	(13)	(13)	(2)	(8)	**(50)**
Net exposure	**(10)**	**(10)**	**39**	**16**	**(8)**	**27**

Finally, the receivables related to certain existing contracts, as illustrated in the section "Risk management" of the Report on Operations, might not be paid, renegotiated or written off.

The table below summarises trade receivables at 31 December 2020 and 2019:

€ billions	31 December 2019	31 December 2020
Portion due	1.3	1.6
- of which: for more than 12 months	*0.5*	*0.9*
Portion not yet due	1.4	1.4
Total trade receivables	**2.7**	**3.0**

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.

	31 December 2019			31 December 2020		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other assets	157	-	**157**	163	-	**163**
Other current liabilities	78	-	**78**	202	-	**202**

35. Remuneration to key management personnel

Remuneration paid to persons who have strategic power and responsibility of Leonardo SpA amounted to €mil. 9 (€mil. 9 at 31 December 2019).

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 2 (€mil. 2 in 2019). This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

36. 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 2020 to €mil. 10 (€mil. 9 in 2019).

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 € 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) for the first plan, while, for the second plan, it was equal to € 10.25 (the value of Leonardo shares at the grant date of 31 July 2018) with reference to the first three-year cycle (2018-2020), 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) and to € 5.41 (the value of Leonardo shares at the grant date of 31 July 2020) with reference to the third three-year cycle (2020-2022).

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 € 8.55 with reference to the third three-year cycle (2017-2019) for the first plan, while, for the second plan it was equal to € 3.51 with reference to the first three-year cycle (2018-2020), to € 6.72 with reference to the second three-year cycle (2019-2021) and to € 1.73 with reference to the third three-year cycle (2020-2022).

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 2020, in respect of the bonus shares ("matching shares") the requirements for the award of the rights have been fulfilled in relation to the third cycle (a total of 165,817 shares delivered, out of the Co-Investment and Long-Term Incentive plans).

Proposal to the Shareholders' Meeting

Dear shareholders,

the 2020 financial statements, which we submit for your approval, close with a loss of € 93,152,464.65. 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 2020;
- having acknowledged the report of KPMG SpA;

resolves

- to approve the Directors' Report on Operations and the financial statements at 31 December 2020;
- to approve the proposal posed by the Board of Directors to cover the loss of € 93,152,464.65 for the 2020 financial year by using profits carried forward."

Attachment: Disclosure *ex-lege* 124/2017

In accordance with the provisions of Article 1, paragraphs 125-126, of Law 124 of 4 August 2017, information is provided below on grants received from public administrations and granted to Leonardo SpA.

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 Company's services and any grant deriving from bilateral financial relationships, which are peculiar to the Company'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 separate 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 aids or 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.

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.

Appendices

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

		31 December 2019										31 December 2020		
		Cost	Impairment	Carrying amount	Transfers/ Acquisition of business unit (a)	Acquis./ Subscriptions/ Payments of capital	Disposal (b)	Reclass. (c)	Financial reval./ Impairment	Capital replenish-ment	Other changes (d)	Cost	Impairment	Carrying amount
%	**Equity investments in subsidiaries**													
100	AGUSTAWESTLAND HOLDING LTD	58	(55)	3	-	-	-	-	(2)	-	(1)	57	(57)	-
100	AGUSTAWESTLAND PHILADELPHIA CO.	217		217	-	-	-	-	-	-	-	217		217
100	ANSALDOBREDA SPA	509	(492)	17	-	-	-	-	-	-	-	509	(492)	17
100	KOPTER GROUP AG	-	-	-	-	17	-	-	-	-	-	17	-	17
60	LARIMART SPA	14	-	14	-	-	-	-	-	-	-	14	-	14
100	LEONARDO GLOBAL SOLUTIONS SPA	850	-	850	-	-	-	-	-	-	-	850	-	850
100	LEONARDO INTERNATIONAL SPA	144	-	144	-	2	-	-	-	-	-	146	-	146
100	LEONARDO MW LTD	2,804	-	2,804	-	-	-	-	-	-	-	2,804	-	2,804
100	LEONARDO US HOLDING INC.	3,234	(1,290)	1,944	-	-	-	-	-	-	-	3,234	(1,290)	1,944
100	SELEX ES INTERNATIONAL LTD	131	(77)	54	-	-	-	-	-	-	-	131	(77)	54
100	SO.GE.PA.- SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	50	(37)	13	-	-	-	-	-	-	-	50	(37)	13
67	TELESPAZIO SPA (*)	171	-	171	-	-	-	-	-	-	-	171	-	171
100	VITROCISET SPA	28	-	28	-	-	-	-	-	-	-	28	-	28
99	UTM SYSTEMS & SERVICES SRL	4	-	4	-	-	-	-	-	-	-	4	-	4
	W.S.K. PZL-ŚWIDNIK SA	143	-	143	-	-	-	-	-	-	-	143	-	143
	Other with unit amount lower than €mil. 10	1	(1)	-	-	-	-	-	-	-	-	1	(1)	-
		8,358	**(1,952)**	**6,406**	**-**	**19**	**-**	**-**	**(2)**	**-**	**(1)**	**8,376**	**(1,954)**	**6,422**
%	**Equity investments in associates**													
30	AGUSTAWESTLAND AVIATION SERVICES LLC	4	-	4	-	-	-	-	-	-	-	4	-	4
50	AMSH BV (*)	873	(392)	481	-	-	-	-	-	-	-	873	(392)	481
26	AVIO SPA	102	(31)	71	-	14	-	-	-	-	-	116	(31)	85
50	GIE ATR	232	-	232	-	-	-	-	(40)	-	-	232	(40)	192
31	ELETTRONICA SPA	54	(47)	7	-	-	-	-	-	-	-	54	(47)	7
21	EUROFIGHTER JAGDFLUGZEUG GMBH	9	-	9	-	-	-	-	-	-	-	9	-	9
24	EUROFIGHTER SIMULATION SYSTEMS GMBH	2	-	2	-	-	-	-	-	-	-	2	-	2
30	INDUSTRIA ITALIANA AUTOBUS SPA	9	(6)	3	-	-	-	-	-	-	-	9	(6)	3
40	JIANGXI CHANGHE AGUSTA HELICOPTERS CO.	2	-	2	-	-	-	-	-	-	-	2	-	2
39	LEONARDO HELICOPTERES ALGERIE	21	-	21	-	-	-	-	-	-	-	21	-	21
25	LIBYAN ITALIAN ADVANCED TECHNOLOGY CO.	2	(2)	-	-	-	-	-	-	-	-	2	(2)	-
32	NHINDUSTRIES SAS	1	-	1	-	-	-	-	-	-	-	1	-	1
49	ORIZZONTE SISTEMI NAVALI SPA	16	-	16	-	-	-	-	-	-	-	16	-	16
50	ROTORSIM SRL	28	-	28	-	-	-	-	-	-	-	28	-	28
33	THALES ALENIA SPACE SAS (*)	546	(145)	401	-	-	-	-	-	-	-	546	(145)	401
	Other with unit amount lower than €mil. 10	2	-	2	-	-	-	-	-	-	1	3	-	3
		1,903	**(623)**	**1,280**	**-**	**14**	**-**	**-**	**(40)**	**-**	**1**	**1,918**	**(663)**	**1,255**

(*) Joint venture.

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

		31 December 2019										31 December 2020		
		Cost	Impairment	Carrying amount	Transfers/ Acquisition of business unit (a)	Acquis./ Subscriptions/ Payments of capital	Disposal (b)	Reclass. (c)	Financial reval./ Impairment	Capital replenish-ment	Other changes (d)	Cost	Impairment	Carrying amount
%	**Other companies**													
99	CONSORZIO CREO	1	(1)	-	-	-	-	-	-	-	-	1	(1)	-
3	ISTITUTO TRECCANI SPA	2	-	2	-	-	-	-	-	-	-	2	-	2
15	PANAVIA AIRCRAFT GMBH	3	-	3	-	-	-	-	-	-	-	3	-	3
8	SKYDWELLER AERO INC.	3	-	3	-	3	-	-	-	-	-	6	-	6
1	CISET HOLDING SRL	1	-	1	-	-	-	-	-	-	-	1	-	1
	Other with unit amount lower than €mil. 10	2	-	2	-	-	-	-	-	-	-	2	-	2
		12	**(1)**	**11**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**15**	**(1)**	**14**
	TOTAL EQUITY INVESTMENTS	**10,273**	**(2,576)**	**7,697**	**-**	**36**	**-**	**-**	**(42)**	**-**	**-**	**10,309**	**(2,681)**	**7,691**

	Subsidiaries	Associates	Other companies
(a) Of which:			
Cost			
Impairment losses			
	-	-	-
(b) Of which:			
Cost			
Impairment losses			
	-	-	-
(c) Of which:			
Cost			
Impairment losses			
	-	-	-
(d) Of which:			
Cost			
Impairment losses			
	-	-	-

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

Name	Office	Reporting date	Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/ (Loss)	Ownership	Net equity in financial statements	Carrying amount
Equity investments in subsidiaries											
AGUSTAWESTLAND HOLDING LTD	Yeovil (UK)	31.12.2020	1	GBP	-	-	-	-	100	-	-
AGUSTAWESTLAND PHILADELPHIA CO.	Philadelphia (USA)	31.12.2020	20,000,000	USD	167	892	725	(4)	100	167	217
ANSALDOBREDA SPA	Naples (Italy)	31.12.2020	10,000,000		133	230	97	2	100	133	17
KOPTER GROUP AG	Wetzikon (Switzerland)	31.12.2020	32,000,000	CHF	(13)	262		(31)	100	(13)	17
LARIMART SPA	Rome (Italy)	31.12.2020	2,500,000		43	17	26	4	60	16	14
LEONARDO ADVANCED JET TRAINING SRL	Decimomannu (Italy)	n.a.	100,000		n.a.	n.a.	n.a.	n.a.	100	n.a.	-
LEONARDO GLOBAL SOLUTIONS SPA	Rome (Italy)	31.12.2020	51,000,000		893	1,141	248	19	100	893	850
LEONARDO INTERNATIONAL SPA	Rome (Italy)	31.12.2020	1,000,000		145	176	248	(1)	100	145	146
LEONARDO MW LTD	Basildon (UK)	31.12.2020	314,500,100	GBP	2,290	6,130	3,840	185	100	2,290	2,804
LEONARDO US HOLDING INC.	Wilmington (USA)	31.12.2020	10	USD	2,029	2,566	536	16	100	2,029	1,944
SELEX ES INTERNATIONAL LTD	Basildon (UK)	31.12.2020	100	GBP	56	2	54	-	100	54	54
SO.GE.PA.- SOCIETÀ GENERALE DI PARTECIPAZIONI SPA	Rome (Italy)	31.12.2020	1,000,000		23	81	57	-	100	23	13
TELESPAZIO SPA	Rome (Italy)	31.12.2020	50,000,000		238	544	307	33	67	159	171
VITROCISET SPA	Rome (Italy)	31.12.2020	24,500,000		8	189	181	7	100	8	28
UTM SYSTEMS & SERVICES SRL	Rome (Italy)	31.12.2020	6,620,000		8	2	6	(1)	67	4	4
W.S.K. PZL-ŚWIDNIK SA	Świdnik (Poland)	31.12.2020	307,642,000	PLN	177	266	89	20	100	176	143
WIN BLUE WATER SERVICES PVT LTD (IN LIQ.)	New Delhi (India)	31.12.2019	8,534,800	INR	-	9	9	(5)	100	-	-
WORLD'S WING SA	Geneva (Switzerland)	31.12.2019	811,876	CHF	(135)	-	(135)	-	100	(135)	-
											6,422
Equity investments in associates											
A4ESSOR SAS	Gennevilliers (France)	31.12.2019	123,100		35	34	1	-	19	-	-
ADVANCED MALE AIRCRAFT LLC	Al Ain (United Arab Emirates)	n.a.	200,000	AED	n.a.	n.a.	n.a.	n.a.	49	n.a.	-
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi City (United Arab Emirates)	31.12.2020	58,010,000	AED	18	35	17	1	30	5	4
AMSH BV	Rotterdam (The Netherlands)	31.12.2019	36,296,316		931	1,002	71	135	50	466	481
AVIO SPA	Rome (Italy)	31.12.2019	90,964,212		292	1,067	775	29	30	87	85
CONSORZIO GIE ATR	Blagnac Cedex (France)	31.12.2019	n.a.	USD	250	1,239	989	118	50	125	192
ELETTRONICA SPA	Rome (Italy)	31.12.2019	9,000,000		102	649	547	18	31	32	7
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	31.12.2019	2,556,459		45	999	954	22	21	9	9
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	31.12.2019	260,000		11	9	3	-	24	1	3
EUROMIDS SAS	Paris (France)	31.12.2019	40,500		42	39	3	-	25	1	1
INDUSTRIA ITALIANA AUTOBUS SPA	Rome (Italy)	31.12.2019	21,050,000		11	157	146	(3)	29	3	3
IVECO - OTO MELARA SCARL	Rome (Italy)	31.12.2019	40,000		-	141	141	-	50	-	-
JIANGXI CHANGHE AGUSTA HELICOPTERS CO.	Jingdezhen (China)	31.12.2020	6,000,000	CNY	5	7	2	-	40	2	2
JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	31.12.2020	325,010,000	RUB	(16)	64	80	(5)	50	(8)	-
LEONARDO HELICOPTERES ALGERIE SPA	Ain Arnat (Algeria)	31.12.2020	55,000,000		45	45	-	-	39	18	22
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO.	Tripoli (Lybia)	31.12.2011	8,000,000		3	17	14	(2)	25	1	-
MACCHI HUREL DUBOIS SAS	Versailles (France)	31.12.2019	100,000		1	31	31	-	50	-	-
NHINDUSTRIES SAS	Aix-en-Provence (France)	31.12.2020	306,000		7	8,901	8,894	-	32	2	1
ORIZZONTE SISTEMI NAVALI SPA	Genoa (Italy)	31.12.2019	20,000,000		1,773	1,738	35	-	49	17	16
ROTORSIM SRL	Sesto Calende (Italy)	31.12.2020	9,800,000		77	91	14	-	50	39	28
THALES ALENIA SPACE SAS	Cannes (France)	31.12.2019	918,037,500		1,186	1,632	446	15	33	391	401
											1,255

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

Name	Office	Reporting date	Share capital (total)	Currency	Equity	Total assets	Total liabilities	Profit/ (Loss)	Ownership	Net equity in financial statements	Carrying amount
Consortia											
CDAC CENTRAL DESIGN AUTHORITY CONSORTIUM	Hallbergmoos (Germany)	n.a.	n.a.		-	-	-	-	33	-	-
CIRA CENTRO ITALIANO RICERCHE AEROSPAZIALI SCPA	Capua (Italy)	31.12.2019	985,224		111	141	30	5	12	13	-
COMPETENCE INDUSTRY MANUFACTURING 4.0	Turin (Italy)	n.a.	n.a.		-	-	-	-	4	-	-
CONAI CONSORZIO NAZIONALE IMBALLAGGI	Rome (Italy)	31.12.2019	15,073,170		66	46	20	(2)	-	-	-
CONSORZIO CREO	L'Aquila (Italy)	31.12.2019	774,685		-	2	2	-	99	-	1
CONSORZIO ERION WEEE	Milan (Italy)	31.12.2019	203,000		n.a.	n.a.	n.a.	n.a.	-	n.a.	-
CONSORZIO IANUA	Genoa (Italy)	31.12.2020	49,716		-	-	-	-	14	-	-
CONSORZIO IMPRENDITORI GIUGLIANO ASI	Giugliano (Italy)	31.12.2018	50,000		1	1	-	-	15	-	-
CONSORZIO KIDS	Rome (Italy)	31.12.2020	100,000		1	-	-	-	90	-	-
CONSORZIO PER IL CONTRATTO DI PROGRAMMA PER L'AREA AQUILANA	L'Aquila (Italy)	31.12.2014	n.a.		-	-	-	-	7	-	-
CONSORZIO PER L'ENERGIA VARESE	Varese (Italy)	31.12.2019	79,509		-	-	-	-	1	-	-
CONSORZIO SISTEMA SOLDATO SICURO - SISS	Rome (Italy)	31.12.2020	40,000		-	-	-	-	65	-	-
CONSORZIO TESSERA	Venice (Italy)	31.12.2019	40,000		-	-	-	-	90	-	-
CONSORZIO TOP IN SCARL	Naples (Italy)	31.12.2019	86,963		-	-	-	-	11	-	-
E-SPAT - E-NET SERVIZI DI PRESIDIO E ASSISTENZA TECNICA	Rome (Italy)	31.12.2020	10,000		3	3	-	-	92	-	-
EUROTORP G.E.I.E.	Sophia Antipolis (France)	31.12.2016	n.a.		-	-	-	1	50	-	-
I.M.A.S.T. - SCARL	Naples (Italy)	31.12.2019	689,000		2	8	6	-	7	-	-
IAMCO-INT. AEROSPACE MANAG. COMPANY SCRL	Venice (Italy)	31.12.2019	208,000		1	9	8	-	25	-	-
LEONARDO TECHNICAL TRAINING FORMERLY CONSAER	Naples (Italy)	31.12.2018	211,123		-	2	2	-	69	-	-
TICOM - CONSORZIO PER LE TECNOL. DELL'INFORMAZ. E COMUNICAZ.	Campi Bisenzio (Italy)	31.12.2020	10,000		-	-	-	-	100	-	-
											1
Other companies											
CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA SPA	Genoa (Italy)	31.12.2019	1,000,000		23	16	7	2	3	-	-
CISET HOLDING SPA	Rome (Italy)	31.12.2019	1,000,000		31	11	20	(2)	1	-	1
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE SCRL	La Spezia (Italy)	31.12.2019	1,140,000		1	22	21	-	10	-	-
DISTRETTO TECNOLOGICO AEROSPAZIALE DELLA CAMPANIA SCARL	Capua (Italy)	31.12.2019	737,500		1	17	16	-	4	-	-
DISTRETTO TECNOLOGICO AEROSPAZIALE SCARL	Brindisi (Italy)	31.12.2019	150,000		2	12	10	-	19	-	-
E.O.S. SCRL	Bruxelles (Belgium)	31.12.2017	84,000		1	1	-	-	2	-	-
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH (IN LIQ.)	Ottobrunn (Germany)	12.11.2018	264,000		-	3	3	-	19	-	-
ISTITUTO DELLA ENCICLOPEDIA ITALIANA TRECCANI SPA	Rome (Italy)	31.12.2019	62,124,105		69	203	134	1	3	2	2
PANAVIA AIRCRAFT GMBH	Hallbergmoos (Germany)	31.12.2019	6,437,165		46	139	93	4	15	7	4
SECBAT SARL	Saint-Cloud (France)	31.12.2019	32,000		1	20	19	-	14	-	-
SIIT SOCIETÀ CONSORTILE PER AZIONI	Genoa (Italy)	31.12.2019	600,000		2	1	1	-	12	-	-
SKYDWELLER AERO INC.	Delaware (USA)	n.a.	474,004		n.a.	n.a.	n.a.	n.a.	15	n.a.	6
TECHNOVA CONSORZIO POLITECNICO PER L'INNOVAZIONE SCARL	Naples (Italy)	31.12.2019	335,000	USD	-	4	4	-	3	-	-
											13
TOTAL											**7,691**

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

	31 December 2019						31 December 2020		
	Amount	Impairment	Carrying amount	Disbursements	Reclassifications	Reimbursements	Amount	Impairment	Carrying amount
Receivables	71	-	71	8	(1)	36	42	-	42
Receivables from subsidiaries	410	-	410	19	(15)	171	243	-	243
Total receivables	**481**	**-**	**481**	**27**	**(16)**	**207**	**285**	**-**	**285**

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

	31 December 2019			31 December 2020		
	Amounts due			Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Receivables	44	27	71	28	14	42
Non-current loans and receivables from relates parties	410	-	410	210	33	243
Other non current assets	100	54	154	16	-	16
Total receivables and non-current assets	**554**	**81**	**635**	**254**	**47**	**301**

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

	31 December 2019			31 December 2020		
	In foreign currency	In euro	Total	In foreign currency	In euro	Total
Receivables	-	71	71	-	42	42
Non-current loans and receivables from related parties	208	202	410	149	94	243
Other non-current assets	-	154	154	-	16	16
Total receivables and other non-current assets	**208**	**427**	**635**	**149**	**152**	**301**
Deferred tax assets	-	732	732	-	803	803
Total non-current assets	**208**	**1,159**	**1,367**	**149**	**955**	**1,104**
Loans and receivables	-	26	26	-	10	10
Loans and receivables form related parties	5	258	263	2	461	463
	5	**284**	**289**	**2**	**471**	**473**
Trade receivables	546	1,198	1,744	364	1,412	1,776
Trade receivables from related parties	268	686	954	403	791	1,194
	814	**1,884**	**2,698**	**767**	**2,203**	**2,970**
Other assets	3	315	318	27	401	428
Other receivables from related parties	-	26	26	1	100	101
	3	**341**	**344**	**28**	**501**	**529**
Income tax receivables	-	62	62	-	73	73
Cash and cash equivalents	221	1,186	1,407	225	1,438	1,663
Total current assets	**1,043**	**3,757**	**4,800**	**1,022**	**4,686**	**5,708**

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

	31 December 2019					31 December 2020				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Receivables	71	-	-	-	71	42	-	-	-	42
Non-current loans and receivables from related parties	202	70	138	-	410	94	23	126	-	243
Other non-current assets	154	-	-	-	154	16	-	-	-	16
Total receivables and other non-current assets	**427**	**70**	**138**	**-**	**635**	**152**	**23**	**126**	**-**	**301**
Deferred tax assets	732	-	-	-	732	803	-	-	-	803
Total non-current assets	**1,159**	**70**	**138**	**-**	**1,367**	**955**	**23**	**126**	**-**	**1,104**
Loans and receivables	26	-	-	-	26	10	-	-	-	10
Loans and receivables from related parties	106	155	2	-	263	73	388	2	-	463
	132	**155**	**2**	**-**	**289**	**83**	**388**	**2**	**-**	**473**
Trade receivables	383	284	193	884	1,744	513	300	99	864	1,776
Trade receivables from related parties	141	589	151	73	954	322	610	183	79	1,194
	524	**873**	**344**	**957**	**2,698**	**835**	**910**	**282**	**943**	**2,970**
Other assets	276	29	7	6	318	375	32	1	20	428
Other receivables from related parties	25	-	1	-	26	29	71	1	-	101
	301	**29**	**8**	**6**	**344**	**404**	**103**	**2**	**20**	**529**
Income tax receivables	52	-	2	8	62	60	-	1	12	73
Cash and cash equivalents	1,284	20	86	17	1,407	1,602	5	-	56	1,663
Total current assets	**2,293**	**1,077**	**442**	**988**	**4,800**	**2,984**	**1,406**	**287**	**1,031**	**5,708**

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

Nature/Description	Amount	Possible use	Distributable portion
Share capital (*)	**2,498**		
Revenue reserves			
Legal reserve	318	B	
Extraordinary reserve	392	A,B,C	392
Reserve for actuarial gains/(losses) in equity	(62)	B	
Cash flow hedge reserve	(12)	B	
Stock-grant reserve	32	B	
Reserve for merger and demerger surplus	720	A,B,C	720
Retained earnings and other reserve	2,124	A,B,C	1,976
Total	**6,010**		**3,088**
Net profit/(loss) for the period	**(93)**	**A,B,C**	**(93)**
Constraint ex Article 2426 paragraph 1 no. 5 Civil Code			**(1,977)**
Total equity	**5,917**		**1,018**

(*) Less treasury shares for €mil. 29 and costs 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

	31 December 2019			31 December 2020		
	Amounts due			Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Other non-current liabilities	400	191	591	344	206	550
Loans and borrowings (non-current)	2,589	761	3,350	1,821	1,306	3,127
Non-current loans and borrowings to related parties	217	259	476	311	180	491
Total non-current liabilities	**3,206**	**1,211**	**4,417**	**2,476**	**1,692**	**4,168**

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

	31 December 2019			31 December 2020		
	In foreign currency	In euro	Total	In foreign currency	In euro	Total
Loans and borrowings (non-current)	1	3,349	3,350	2	3,125	3,127
Non-current loans and borrowings to related parties	-	476	476	-	491	491
	1	**3,825**	**3,826**	**2**	**3,616**	**3,618**
Deferred tax assets	-	82	82	-	100	100
Other non-current liabilities	63	528	591	-	550	550
Total non-current liabilities	**64**	**4,435**	**4,499**	**2**	**4.266**	**4,268**
Loans and borrowings	55	152	207	3	946	949
Related party loans and borrowings	888	1,051	1,939	891	1,035	1,926
	943	**1,203**	**2,146**	**894**	**1,981**	**2,875**
Trade payables	567	1,713	2,280	462	1,779	2,241
Trade payables to related parties	341	436	777	289	532	821
	908	**2,149**	**3,057**	**751**	**2,311**	**3,062**
Other liabilities	152	858	1,010	25	905	930
Other payables to related parties	48	83	131	-	52	52
	200	**941**	**1,141**	**25**	**957**	**982**
Income tax payables	-	20	20	-	27	27
Total current liabilities	**2,051**	**4,313**	**6,364**	**1,670**	**5,276**	**6,946**

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

	31 December 2019					31 December 2020				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Loans and borrowings (non-current)	2,957	392	-	1	3,350	2,779	346	-	2	3,127
Non-current loans and borrowings to related parties	476	-	-	-	476	491	-	-	-	491
	3,433	**392**	**-**	**1**	**3,826**	**3,270**	**346**	**-**	**2**	**3,618**
Deferred tax assets	82	-	-	-	82	100	-	-	-	100
Other non-current liabilities	591	-	-	-	591	550	-	-	-	550
Total non-current liabilities	**4,106**	**392**	**-**	**1**	**4,499**	**3,920**	**346**	**-**	**2**	**4,268**
Loans and borrowings	158	48	-	1	207	900	47	-	2	949
Related party loans and borrowings	364	1,559	-	16	1,939	438	1,472	-	16	1,926
	522	**1,607**	**-**	**17**	**2,146**	**1,338**	**1,519**	**-**	**18**	**2,875**
Trade payables	1,367	354	276	283	2,280	1,485	287	269	200	2,241
Trade payables to related parties	199	280	141	157	777	259	311	139	112	821
	1,566	**634**	**417**	**440**	**3,057**	**1,744**	**598**	**408**	**312**	**3,062**
Other liabilities	891	15	9	95	1,010	831	25	11	63	930
Other payables to related parties	83	48	-	-	131	52	-	-	-	52
	974	**63**	**9**	**95**	**1,141**	**883**	**25**	**11**	**63**	**982**
Income tax payables	20	-	-	-	20	27	-	-	-	27
Total current liabilities	**3,082**	**2,304**	**426**	**552**	**6,364**	**3,992**	**2,142**	**419**	**393**	**6,946**

For the Board of Directors
The Chairman
(Luciano Carta)

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 2020.

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 EU 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;

    3.2 the Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer, together with a description of the main risks and uncertainties it is exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 9 March 2021

The Chief Executive Officer **(Alessandro Profumo)**	The Officer in charge of financial reporting **(Alessandra Genco)**

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(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 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 2020, the 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 2020 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.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

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Recognition of long-term contract revenue and losses

Notes to the separate financial statements: notes 3 "Accounting principles", 14 "Contract assets and liabilities", 21 "Provisions for risks and charges and contingent liabilities" and 26 "Revenue"

Key audit matter	Audit procedures addressing the key audit matter
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.	Our audit procedures included: — 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 company's legal department on long-term contracts disputes; – requesting external confirmations from legal advisors, if involved in the above disputes;

	– assessing the appropriateness of the presentation and adequacy of disclosures about contract revenue and expected contract losses in the separate financial statements.

Recoverability of equity investments and goodwill

Notes to the separate financial statements: notes 3 "Accounting principles", n. 8 "Intangible assets" and 11 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2020 include equity investments of €7,691 million and goodwill of €707 million. 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). 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 2021-2025 business plan (the "business plan") that the company's directors approved on 9 March 2021 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 equity investments and goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the impairment testing procedure approved by the company's board of directors on 25 February 2021; — updating our understanding of the process used to draft the company'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 separate 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 referencein relation to the key assumptions used in the impairment test; — assessing the appropriateness of the presentation and adequacy of disclosures about equity investments, goodwill and impairment testing 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"

Key audit matter	Audit procedures addressing the key audit matter

In its separate financial statements at 31 December 2020, the company 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 €1,977 million under intangible assets.
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.
	Our audit procedures included:
	— updating our understanding of the process for the initial recognition and measurement of recoverability of development and non-recurring costs;
	— assessing the design, implementation and operating effectiveness of the controls deemed material for the purposes of our audit;
	— for a sample of development projects deemed material for the purposes of our audit:
	  – 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;
	  – challenging the reasonableness of the assumptions underlying the product business plans;
	  – involving our own specialist to assess the reasonableness of the impairment test and related assumptions, including by comparing external data and information;
	— assessing the appropriateness of the presentation and adequacy of disclosures about non-recurring costs and development costs in the separate financial statements.

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 2020 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 2020 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 2020 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, 11 March 2021

KPMG S.p.A.

(signed on the original)

Marcella Balistreri
Director of Audit

REPORT OF THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING OF LEONARDO S.P.A.
CALLED TO APPROVE THE 2020 FINANCIAL STATEMENTS
(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 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 to approve the Financial Statements as at 31 December 2020.

The statutory audit activity was entrusted, pursuant to Legislative Decree No. 58/1998 and Legislative Decree No. 39/2010 to the independent auditing firm KPMG S.p.A. (hereinafter referred to as the "Auditing Firm"). The task was granted by the Shareholders' Meeting of 16 May 2012 for the period from 2012 to 2020.

On 20 May 2020 the General Shareholders' Meeting, after having determined that the number of Directors is 12, appointed the new Board of Directors of the Company for the three-year period from 2020 to 2022 and resolved, on the motivated proposal of the Board of Statutory Auditors, to grant the statutory audit mandate for the nine-year period from 2021 to 2029 to the company EY SpA On 25 June 2020, the Board Committees were established, in accordance with the provisions of the Corporate Governance Code for listed companies of the Italian Stock Exchange and the Lead Independent Director and the Supervisory Body were appointed pursuant to Legislative Decree No. 231/2001.

During the year ended on 31 December 2020 - characterized for the most part by the impacts deriving from the epidemiological emergency from COVID-19 - the Board of Statutory Auditors carried out the checks and other supervisory activities in compliance with the laws and regulations in force on the subject, as well as the Corporate Governance Code, the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by the National Board of Chartered Accountants and Accounting Experts and the Communications issued by CONSOB regarding corporate checks and the activities of the Board of Statutory Auditors. This report

has been prepared in accordance with the indications provided by CONSOB with Notice DEM/1025564 of 6 April 2001 as amended and supplemented.

In the persistence of the effects deriving from the above-mentioned pandemic event, the Board of Statutory Auditors remotely carried out a considerable part of its activities, without detecting any impact on the effectiveness of the check activity.

The Board met regularly in 2020, 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 Code of Corporate Governance. It is hereby acknowledged that no Statutory Auditor has had any interests, on his/her own behalf 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.

As required by the Corporate Governance Code, the Board of Statutory Auditors, within the scope of the tasks assigned to it by law, checked the correct application of the assessment criteria and procedures implemented by the Board of Directors to assess the independence of its members.

As in previous years, the Board carried out a self-assessment process relating to the 2020 financial year, thus making use of the support of an external consultant (Eric Salmon & Partners) for the first time. This self-assessment process was 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, 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 conclusive indications of the Board were discussed collectively and subsequently collected in the document called "Analysis of the results and comments of the Statutory Auditors", on the basis of which an executive summary was prepared, sent to the Company and whose content was incorporated in the Report on Corporate Governance and Ownership Assets. Upon completion of the self-assessment process, the Board of Statutory Auditors, with the support of the above-mentioned external consultant, also prepared a document containing the Guidelines of the Board of Statutory Auditors to Shareholders for the renewal of the Board of Statutory Auditors.

During the 2020 financial year, the Board of Statutory Auditors adopted its own Regulations governing the role, organization and operating methods of the Board of Statutory Auditors, in line with the main organizational profiles of Leonardo's corporate governance model, in light of the principles and of the rules established by the Corporate Governance Code and by the Rules of Conduct of the Board of Statutory Auditors of listed companies.

* * *

As part of the activities and tasks assigned to the Board of Statutory Auditors while implementing the relevant standards, the Board during 2020:

a) held twenty meetings and carried out audits and gathered information from the heads of the different corporate functions, periodically meeting the top positions 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 given Art. 2086 of the Italian Civil Code, as well as the implementation of the corporate governance rules from 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 all the General Ordinary Shareholder' meetings, held on 20 May 2020 in its ordinary office, to which the Shareholders were able to intervene exclusively through the designated representative, pursuant to Art. 106 of Legislative Decree No. 18/2020, subsequently converted into Law 27/2020; attended the twelve meetings of the held by the Board of Directors, during which it was informed of the work done and of the main financial and of the most important economic, patrimonial and financial transactions carried out by the Company and its subsidiaries, thus obtaining adequate and timely information on their performance;

c) attended the seven meetings of the Control and Risks Committee, the seven meetings of the Remuneration Committee and the three meetings of the Nomination, Governance and Sustainability Committee (in office for the three-year period from 2017 to 2019), the five meetings of the Nomination and Governance Committee (in office for the three-year period from 2020 to 2022), the four meetings of the Sustainability and Innovation Committee (in office for the three-year period from 2020 to 2022), thus acknowledging that the above-mentioned Committees have worked in compliance with the provisions of the Corporate Governance Code and their own Regulations, as well as participated in the only meeting of the International Scenario Analysis Committee set up by the Company in the three-year period from 2017 to 2019 on a voluntary basis.

Despite the restrictions on mobility caused by the pandemic event, the Board of Statutory Auditors maintained an effective flow of information with the Board of Directors, the internal Board Committees and the Company's structures.

The collaboration with the Control and Risks 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 Risks 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 Committee for internal control and auditing. In particular, the Board monitored the adequacy and effectiveness of the Internal Control and Risks 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 Risks Committee expressed its favourable opinion on 8 March 2021 on the annual assessment of the adequacy of the Internal Control and Risks Management System, also in light of the update made to take into account the pandemic event;

d) as part of the periodic meetings with the CAE, it took note of the results of the check activities carried out in 2020, in line with the audit plan, and of the special audits required from time to time. From these activities, the opportunity sometimes emerged to implement improvement actions on the processes examined that, after being shared with the corporate Top Management, were reflected in action plans whose effectiveness was monitored by the Group Internal Audit ("GIA") O.U. The Board also took note of the results of the "Quality Assurance and Improvement" Plan of the GIA O.U. prepared in order to monitor and improve the effectiveness, efficiency and quality of its activities; the results revealed, for all the audits sampled, a General Compliance with international standards and best practices or "maximum positive evaluation" required by the *Institute of Internal Auditors.* These results were analysed by the Control and Risks Committee in the meeting of 27 January 2021 and explained to the Board of Directors on 28 January 2021;

e) received information about the activities carried out by the GIA O.U. in order to evaluate the operation of the Internal Control System on Financial Information (ICFR) at Leonardo S.p.A. and the companies falling within the perimeter pursuant to Law No. 262/2005. In addition to the Test 262 activities for the 2020 year, the Board was informed by the GIA O.U. about the specific monitoring (the so-called "*Detection Audit"*), as an anti-fraud component of the ICFR Model. Following the performance of these activities, the GIA O.U. informed the Board of Statutory Auditors that no critical issues emerged such as to affect the reliability of the Internal Control System with regard to Accounting and Financial Information;

f) periodically met with the Executive in charge of preparing the corporate accounting documents;

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 Organization, 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, in the person of the Chairman, in the meetings 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, taking note of the annual verification audit, by the Credited Body, of the ISO 37001:2016 ("*Anti-bribery Management System*") certification;

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 Auditing Company 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 activities carried out as a result of the pandemic event and pursuant to the provisions of Art. 19 of Legislative Decree No. 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 every six months from the Company, through the Legal, Corporate Affairs, Compliance, Criminal Law and Anticorruption organizational unit, a six-monthly information policy on 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 information policy on the exercise of the proxies;

o) verified the timeliness of the information flows between the Parent Company and the other Group companies 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, relating to the subsidiary companies established and regulated by the laws of non-EU countries by CAE on 8 March 2021, brought to the

attention also of the Control and Risks 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, as part of a control environment actually operating and substantially adequate to the requirements referred to in the above-mentioned Art. 15. Therefore, the preparation of a specific adjustment plan is not required;

q) after having verified, as head 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 statutory audit of Leonardo S.p.A. for the nine-year period from 2021 to 2029, pursuant to Art. 16, of (EU) Regulation No. 537/2014, the Board of Statutory Auditors drafted a reasoned proposal for the General Shareholders' Meeting called for the approval of the financial statements for the 2019 year, containing proposals in favour of EY S.p.A. and PricewaterhouseCoopers S.p.A., expressing preference for EY S.p.A. The General Shareholders' Meeting, on 20 May 2020, in accordance with the proposal of the Board of Statutory Auditors, granted the task of auditing the accounts for the nine-year period from 2021 to 2029 to EY S.p.A.;

r) 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;

s) was informed of changes in the organizational structure, thus supervising the existence, updating and effective dissemination of the corporate directives and procedures and the general adequacy of the organizational structure;

t) supervised the adequacy of the internal control system and the administrative accounting system and the reliability of the latter in correctly representing the management facts;

u) acknowledged the Company's plans for the succession of Top Management and the management and development projects for the performance of company resources;

v) 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 and the most significant impacts of the pandemic event on them: on these profiles the Boards of Statutory Auditors of the Group companies did not represent critical issues worthy of mention. 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;

w) received periodic reports prepared by the Whistleblowing Committee, on the basis of the provisions of the "Whistleblowing Management Guidelines" - most recently updated at the Board meeting of 17 December 2020 - by virtue of which the Statutory Auditors are informed by the Supervisory Body at the same time as members of the Whistleblowing Committee regarding the reports received by the Company;

x) actively participated in all the meetings organized by the Company 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;

y) 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 reference to significant transactions having an impact on the overall operating model of the Company, the Board of Statutory Auditors monitored, in close relation with the independent directors (and in particular with the Control and Risks Committee), a series of organizational changes that the Company has taken during the year - including the establishment of a General Management reporting directly to the Chief Executive Officer - 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 were filed by the Shareholders pursuant to Art. 2408 of the Italian Civil Code; on this item, the Board of Statutory Auditors informs that Leonardo S.p.A., on 12 November 2020, received a letter stating that it constituted a complaint to the Board of Statutory Auditors pursuant to Art. 2408 of the Italian Civil Code; the Secretariat of the Board of Statutory Auditors, on 13 November 2020, requested the Undersigned to send a

copy of the certification certifying its status as a shareholder, in compliance with the conditions expressly required by the Italian Civil Code and within the terms established by the internal procedure of the Board of Statutory Auditors on the complaints submitted by the shareholders. At the date of this report, the Company has not received a reply and, therefore, the letter in question cannot be evaluated pursuant to paragraph 1, of the Italian Civil Code.

c) expressed its opinion in all the cases provided for by the law and by the Corporate Governance Code 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. when fulfilling its responsibilities;

d) verified the methods of actual implementation of the corporate governance rules provided for by the Corporate Governance Code, as well as the start of the process of adaptation to the new Corporate Governance Code, which will end during the 2021 year;

e) also supervised the corporate documents and information on the market, in particular:

- noted that the Report on Operations for the financial year 2020 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 recommendations of the joint 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 Risks Committee on 24 February 2021 and was approved by the Board of Directors on 25 February 2021; 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 and that, in particular, has prepared the Integrated Financial Statements as a single document that includes the consolidated declaration of a non-financial nature 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 the Legislative Decree No. 254/2016 that certified that the Directors had prepared the non-financial statement, as part of the Report on Operations of the Integrated Financial Statements, which confirmed the adequacy of the methods and processes used, pursuant to Art. 3, para. 7, of Legislative Decree No. 254/2016; by virtue of a specific assignment, the Independent Auditors also issued on 11 March 2021 a report, without qualifications, in the form of "Negative Assurance", on the compliance of the information relating to the non-financial statement, with respect to the requirements of the above-mentioned decree and with respect to the principles, methodologies and methods of drafting, as well as Art. 5 of the CONSOB Regulation adopted with resolution No. 20267;

h) periodically met with the Head of the Chief People, Organization & Transformation Operational Unit to monitor the procedures adopted by the Company in order to reduce the spread of COVID-19 infections and the implementation of safeguards to deal with this health emergency, in line with regulatory provisions and the regulatory protocols of measures to combat and contain the spread of the virus at the workplace; the Company has, moreover, promptly established the COVID-19 Emergency Crisis Committee to define the mitigation actions for the management of the impacts on corporate operations at Group level;

i) verified the update of the risk profile model to incorporate the new critical issues related to the health emergency.

* * *

The 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; 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 No. 39/2010.

More specifically, the Board examined the Independent Auditors' Report on the Financial Statements for the year ended on 31 December 2020 issued, pursuant to art. 14 of Legislative Decree No. 39/2010 and Art. 10 of the EU Reg. No. 537/2014 of 11 March 2021 and with which the auditor certified that:

- the consolidated financial statements of the Group as at 31 December 2020 and the financial statements of the Company provide a true and fair view of the balance sheet as at 31 December 2020, 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 financial statements of the Company and with the consolidated financial statements of the Group and drafted in compliance with the law;
- the opinion on the financial statements 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, 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 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. During 2020 and in the first part of 2021, the above-mentioned procedure was subjected by the Company to a review process under the supervision of the Board of Statutory Auditors, which also examined the final version of the procedure before its issue. From the set of information flows put in place in compliance with the provisions of the procedure and the directive for the assignment of appointments to the Group Independent Auditors, which the Board considers adequate, no critical issues or anomalies emerged that could affect the opinions order to 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 for the financial year amount to a total of EUR 340,000 and are reported, pursuant to art. 149-*duodecies* of the Issuers Regulations, in the summary table attached to the Financial Statements.
- acquired information from the auditor regarding the operational difficulties caused by the health emergency on the audit processes, thus acknowledging that it did not detect any significant impact in terms of the operational effectiveness of the Company's internal control systems, also in light of CONSOB-ESMA communications and references published.

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. 13 of EU Regulation No. 537/2014, 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 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 2020 financial year, which recorded an operating loss of € 93.2 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 2020, nor the proposal for the allocation of the relevant FY result as requested by the Board of Directors.

11 March 2021

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 2020 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.

	Entity providing the services	To	Fees for the 2020 year (€ thousands)
Auditing services	KPMG SpA	Parent Company	2,127
	KPMG SpA	Subsidiaries	935
	KPMG Network	Subsidiaries	8,356
Assurance services	KPMG SpA	Parent Company	275
	KPMG SpA	Subsidiaries	-
	KPMG Network	Subsidiaries	65
	KPMG SpA	Parent Company	-
Other services	KPMG SpA	Subsidiaries	-
	KPMG Network	Subsidiaries	-
Total			**11,758**

Methodology note of the Non-Financial Statement

The 2020 Integrated Annual Report, for the sections on non-financial information pursuant to Legislative Decree 254/2016 (Consolidated Non-Financial Statement), is prepared in compliance with the "GRI Sustainability Reporting Standards" published by the Global Reporting Initiative (GRI), using the "core" reporting option, while also considering other indicators such as the International Integrated Reporting Council (IIRC) Framework, the Sustainable Development Goals (SDG), the Ten Principles of the United Nations' Global Compact, the standards issued by the Sustainability Accounting Standards Board (SASB) for Aerospace & Defence sector and the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). The Consolidated Non-Financial Statement, which is provided in the Integrated Annual Report as from the 2020 financial year, is prepared annually[53].

This document covers the 2020 fiscal year (1 January 2020 - 31 December 2020) and was approved by Leonardo SpA's Board of Directors' meeting held on 9 March 2021. The Sustainability and Innovation Committee is responsible for examining the general approach of the Consolidated Non-Financial Statement, as well as the completeness and transparency of disclosure, issuing in this regard a preliminary opinion for the approval on the part of the Board of Directors.

KPMG SpA carried out a limited assurance engagement on the Leonardo Group's Consolidated Non-Financial Statement at 31 December 2020, in accordance with the criteria established by ISAE 3000 (Revised). For additional information about the scope of the audit work and the procedures performed by the independent auditors, reference should be made to the "Independent Auditors' Report" included in the document. The information summarised in the GRI Content Index is included in the scope of the limited assurance engagement.

The document is published on the Company's website at www.leonardocompany.com.

53 For more details, reference should be made to the "Correlation table - Non-Financial Statement" section.

Materiality analysis

The materiality analysis allows the identification and evaluation of the themes that are priorities for the stakeholders, as weighed on the basis of their relevance and comparing them with the Group's priorities and Industrial Plan, taking the impacts they generate and any misalignments into account. The result of this analysis, reported in the priority matrix, supports and steers the preparation of the Report and the identification of strategic targets, the achievement of which is contributed to by the various Group's functions and Divisions.

Leonardo updates the materiality analysis on a periodical basis for an appropriate description of the expectations of its stakeholders and the Group's strategic priorities. The last update of the priority matrix is the outcome of an analysis – which was started in 2020 and completed in 2021 with its presentation to the Sustainability and Innovation Committee – concerning the regulations, best practices and priorities in the sector and public opinion on economic and financial, environmental, social and corporate governance issues.

The method used takes account of the guidelines of the main international standards, including GRI and SASB.

In order to identify and prioritise material and/or emerging issues, the Company used both intelligence and big data analytics (Datamaran cloud software), in support of a data-driven approach, and stakeholder engagement tools (an online survey aimed at a sample of stakeholders and top management). In particular, 1,613 national and international regulations, 21 companies in the sector and 6,565 press articles were analysed. More than 10 categories of stakeholders, totalling 96 representatives from 11 countries, gave their opinion in the online questionnaire, indicating the degree of relevance of the issues identified in their relationship with the Company.

Description of material issues

R&D, innovation and advanced technologies

Innovation management, intellectual property enhancement and technological development foster innovativeness and new business models. The development of emerging and advanced technologies – with critical impacts on business activities and the community – enables solutions that meet and anticipate market demand.

Sustainable supply chain

Developing the competitiveness of the supply chain (including SMEs and regional clusters) through policies, procedures and targets to improve supplier performance and efficiency and alignment with basic values, with a commitment to complying with the highest ethical, social and environmental standards.

Cyber security and data protection

Ensuring business resilience and privacy by protecting sensitive data and information. Vulnerabilities in critical IT systems and networks can discontinue business-critical activities and allow accidental or illegal access, destruction, alteration or disclosure of confidential data.

Working conditions and health and safety

High and fair labour standards to guarantee fundamental rights at work, while promoting social dialogue and trade union relations. Among the issues to be considered are health and safety management, establishing optimal conditions for employees' productivity and managing organisational change.

Digital transformation

Integration, development and deployment of digital technologies and connectivity are driving a cultural shift towards digitisation. This entails a profound impact on business models, the entire product life cycle and customer experience.

Customer intimacy

Managing the relationship between the Company and the customer in a partnership perspective, while developing strategies and processes to meet or exceed customer expectations. Corporate reputation and the stakeholders' perception depend on performance, including on sustainability, key decisions and the ability to create value.

Sound corporate governance

Board of Directors' proceedings effectiveness, remuneration policy, ESG governance structure, management of relations with shareholders and all stakeholders, on the basis of reliable financial and non-financial information. These practices and processes foster sustainable results and the creation of economic, social and environmental value in the long term.

Well-being, inclusion and equal opportunities

Promoting an inclusive, meritocratic and fair corporate environment and culture, where diversity, including gender diversity, is recognised as an enabling factor for value creation. Factors such as welfare and work-life balance, adequate and fair remuneration, equal opportunities improve performance, satisfaction and sense of belonging.

Citizen security

National and international threats – violations of law and order, terrorism, organised crime, physical/cyber attacks, natural disasters – are risks to the country and for the security of citizens, businesses, critical infrastructures and territories, with strong impacts on the continuity of economic activities.

Development of territories and communities

Strengthening relations and dialogue with the communities with which the Company interacts in order to ensure well-being and support social and economic progress, through industrial footprint, support to suppliers operating at local level, cooperation with local projects and support to social projects.

Business continuity

Preparing plans, actions, protocols and training to deal with disastrous, critical or unexpected events, ensuring the operation of business-critical operations and activities. Among the risk factors that may affect business continuity are also those related to public health.

Climate change, adaptation and mitigation

Impacts, risks and opportunities linked to climate change. Solutions that reduce emissions from products, services and activities, and that enable the analysis and monitoring of environmental data, contribute to combating climate change and mitigating its effects.

Quality, safety and performance of solutions

Management of processes and projects to ensure the quality, reliability and safety of products and services, while guaranteeing efficient and distinctive performance and safety of end users.

Responsible business conduct

Ensuring compliance with rules, policies and regulations, in areas such as anti-corruption, export control, human rights, fair competition, responsible tax practices, prevention of illegal conduct and proactive risk management. Control and reporting systems and the dissemination of corporate values promote ethical business conduct.

Skill and talent management

Selection, recruitment, management and retention of people and talents required to establish and maintain a skilled workforce and stimulate company growth, in a context of increasing competition, which is also linked to the difficulty in finding skills.

Management of natural resources

Efficiency and minimisation of social/environmental damage in the management of water, hazardous/non-hazardous waste, harmful substances, while limiting contamination and pollution and protecting biodiversity. Waste recycling, reduction and recovery, proper management of materials and circular economy practices contribute to the responsible management of natural resources.

Reporting scope

The reporting scope of employee indicators fully matches that of the 2020 consolidated financial statements. Any limitations are indicated from time to time in this document. The 2020 reporting scope of environmental indicators[54] covered 103 sites around the world (equal to 98% of total employees in the 2020 consolidated financial statements). The scope is based on the number of employees and the materiality of Leonardo SpA's and its subsidiaries' operating sites (plants/offices). In order to ensure consistency with the consolidation criteria of the consolidated financial statements, the Group's environmental data do not include those of the joint ventures.

Sites covered by the environmental reporting scope

	2018	2019	2020
Italy	48	52	52
United Kingdom	8	8	8
United States	26	27	31
Rest of the world	8	8	12
No. of sites	**90**	**95**	**103**

Country	2020 scope
Italy	Abbadia San Salvatore, Anagni, Benevento, Brescia, Brindisi, Cameri, Campi Bisenzio, Carsoli, Cascina Costa di Samarate, Caselle Nord, Caselle Sud, Catania, Chieti, Cisterna di Latina, Foggia, Fusaro Bacoli, Genoa, Giugliano, Grottaglie, La Spezia, L'Aquila, Livorno, Montevarchi, Naples, Nerviano, Nola, Frosinone, Palermo, Pisa - Electronics, Pisa - Helicopters, Pomezia, Pomigliano, Pozzuoli, Rome Faustiniana, Rome Larimart, Rome - Piazza Monte Grappa, Rome - Via Flaminia, Rome - Via Laurentina, Rome - Via Pastrengo, Rome - Via Tiburtina - Electronics, Rome Via Tiburtina - Vitrociset, Ronchi dei Legionari, San Maurizio Canavese, Sesto Calende, Taranto, Turin, Venegono Campo Volo, Venegono Superiore, Venice - Helicopters, Venice - Aircraft, Vergiate, Villaputzu
United Kingdom	Basildon Sigma House, Bristol Brandon House, Bristol Building 430, Edinburgh, Farnham, Luton, Southampton, Yeovil
United States	Arlington, Broussard, Burnsville, Chesapeake, Cypress, Dallas 1057 Sherman Street, Dallas 1300 Sherman Street, Dallas Expressway, Danbury, Dayton, Dulles, Fitchburg, Fort Walton Beach, Germantown, Hauppauge, High Ridge, Huntsville, Johnstown Airport, Largo, Lemont Furnace, Madison, Melbourne Babcock, Menomonee Falls, Milwaukee, Overland Park, Philadelphia, San Diego, Sidman, St. Louis, Tampa, West Plains
Belgium	Grâce Hollogne
Canada	Bedford, Ottawa
Germany	Neuss
Poland	Đwidnik
Romania	Ploiesti
Spain	Loriguilla
Switzerland	Mollis, Nafels, Uznach, Wetzikon
Turkey	Ankara

54 Environmental data, as reported through the Group's web-based system (and in particular those relating to energy consumption), were obtained through: direct measurements (e.g. meters and consumption measurement systems); calculations (e.g. bills; purchase orders/invoices); estimates based on the number of employees and/or activities carried out. In particular, with regard to emissions into the atmosphere, where sites have monitoring systems (e.g. industrial sites), these are calculated from laboratory analyses carried out during the year. If these analyses are not carried out (e.g. at office sites and/or in cases where the production processes conducted are not characterised by emissions into the atmosphere), the Group's reporting system automatically calculates the NO_x and SO_2 emissions produced, based on the annual consumption of methane and diesel fuel for the production of energy/heat and emission coefficients available in literature.

GRI Content Index

The GRI table is reported below, which is in line with the "core" reporting option, as set out by the "GRI Sustainability Reporting Standards" published by the Global Reporting Initiative (GRI). It refers to the 2020 Report on Operations or to the other documents where expressly stated: the 2021 Corporate Governance Report (on 2020), the Code of Ethics, the Anti-Corruption Code and the Charter of Values.

Key:
CGR = 2021 Corporate Governance Report (on 2020)

Disclosure		External documents	Pages/Notes
		Organisation profile	
102-1	Name of the organisation		Leonardo SpA
102-2	Activities, brands, products and services		p. 13
102-3	Location of headquarters		Leonardo SpA's registered office is in Piazza Monte Grappa, 4 - Rome (Italy)
102-4	Location of operations		p. 13
102-5	Ownership and legal form		p. 13
102-6	Markets served		p. 13 p. 31 p. 43
102-7	Scale of the organisation		p. 13 p. 31
102-8	Information on employees and other workers		p. 102 p. 103 p. 394
102-9	Supply chain		p. 135
102-10	Significant changes to the organisation and its supply chain		p. 13 p. 74 p. 139 p. 342
102-11	Precautionary principle or approach		p. 84 p. 118
102-12	External initiatives		Ten Principles of the UN Global Compact CFO Principles on Integrated SDG Investments and Finance Global Principles of Business Ethics for the Aerospace and Defence Industry - International Forum on Business Ethical Conduct (IFBEC) Common Industry Standards - Aerospace Defence Security and Space (ASD) Task Force for Climate-related Financial Disclosures (TCFD)
102-13	Membership of associations		World › HAI (Helicopter Association International) › Heli Offshore › TCCA (Tetra and Critical Communications Association) Europe › ASD (AeroSpace and Defence Industries Association of Europe) › ECSO (European Cyber Security Organization) › EHA (European Helicopter Association) › EOS (European Organization for Security) › ETSI (European Telecommunication Standards Institute) › EUROCAE (European Organisation for Civil Aviation Equipment) › ETP4HPC (European Technology Platform for High Performance Computing) Italy › AIAD (Italian Industry Federation for Aerospace, Defence and Security) - associated with Confindustria › ANITEC-ASSINFORM (Association of Information & Communication Technology companies) - associated with Confindustria › ASSONAVE (Italian Industry Association of Shipbuilding Industry) - associated with Confindustria › Global Compact Network Italia (GCNI) Foundation › UNAVIA (Association for standardisation, training and qualification in the Aerospace, Defence and Security sectors) › Ente Nazionale Italiano di Unificazione (UNI, Italian National Unification Body) United Kingdom › ADS (Aerospace Defence Security & Space) › techUK (Information Technology Telecommunications and Electronics Association) › makeUK (formerly EEF - Engineering Employers' Federation) United States › NDIA (National Defense Industry Association) › SIA (Satellite Industry Association) › AIA (Aerospace Industry Association) Poland › Association of Polish Aviation Industry › Aviation Valley - Association of Aerospace Industry Entrepreneurs Group In 2020, membership fees for trade associations, industry and business support organisations, technical interest bodies and think tanks totalled approximately €mil. 5.2 (approximately €mil. 5 in 2019, approximately €mil. 5 in 2018 and €mil. 4.8 in 2017). In particular, the most relevant contributions in 2020 concerned Confindustria (associated local bodies) for €mil. 2.4, AIAD for €mil. 1.1 and Fondazione Ansaldo for €mil. 0.1.
		Strategy	
102-14	Statement from senior decision-maker		p. 6

Ethics and integrity			
102-16	Values, principles, standards, and norms of behaviour		p. 83
		Charter of Values	Available on website[55]
102-17	Mechanisms for advice and concerns about ethics		Reporting processes and mechanisms are described in the "Whistleblowing Management guidelines"[56]. Since they were issued, the Whistleblowing Management Guidelines have been circulated within and outside the Group to ensure maximum publicity. Furthermore, Leonardo DRS implements an Ethics Helpline available 24/7 managed by a third party company[57].
			p. 83
Governance			
102-18	Governance structure		p. 81
102-20	Executive-level responsibility for economic, environmental, and social topics		Chief Innovation & Technology Officer p. 28
102-22	Composition of the highest governance body and its committees		p. 81
		CGR	Board of Directors/Composition
102-23	Chair of the highest governance body		p. 81
102-24	Nominating and selecting the highest governance body		p. 81
		CGR	Diversity criteria and policies
102-32	Highest governance body's role in sustainability reporting		p. 81 p. 375
102-35	Remuneration policies		p. 81
102-37	Stakeholders' involvement in remuneration		In accordance with applicable regulations, Leonardo's Shareholders' Meeting is called upon to express an advisory vote on the Remuneration Report.
Stakeholder engagement			
102-40	List of stakeholder groups		p. 97
102-41	Collective bargaining agreements		p. 103 p. 111 p. 405
102-42	Identifying and selecting stakeholders		p. 97
102-43	Approach to stakeholder engagement		p. 83 p. 97
102-44	Key topics and concerns raised		p. 21 p. 97

55 https://www.leonardocompany.com/en/about-us/our-values.
56 https://www.leonardocompany.com/en/about-us/ethics-compliance/whistleblowing-management-guidelines.
57 The helpline's website is https://drs.altertline.com.

Reporting practice			
102-45	Entities included in the consolidated financial statements		p. 259 p. 375
102-46	Defining report content and topic boundaries		p. 4 p. 25 p. 375
102-47	List of material topics		p. 25
102-48	Restatements of information		Any restatements or adjustments of information are indicated in the document from time to time.
102-49	Changes in reporting		p. 375
102-50	Reporting period		2020 Financial Year
102-51	Date of most recent report		2019 Sustainability and Innovation Report
102-52	Reporting cycle		Annual
102-53	Contact point for questions regarding the report		ir@leonardocompany.com
102-54	Claims of reporting in accordance with the GRI Standards		p. 375
102-55	GRI content index		p. 380
102-56	External assurance		p. 375 p. 410
GRI 201 Economic performance			
103-1	Explanation of the material topic and its boundary		p. 25 Internal and external boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 17 p. 31 p. 43 p. 145
201-1	Direct economic value generated and distributed		p. 403 The following list includes the Parent Company and the main subsidiaries in the 4 domestic markets (fully consolidated) and the main countries of operations at 31 December 2020 (these companies are incorporated in the main country of operation). These subsidiaries are selected based on materiality in terms of revenues, number of employees, fixed assets and tax contribution. Leonardo SpA - Italy Leonardo MW Ltd - United Kingdom Leonardo DRS Inc. - United States PZL-Świdnik SA - Poland Leonardo Global Solutions SpA - Italy These subsidiaries account for: 94% of revenues 87% of fixed assets 93% of employees

201-3	Defined-benefit plan obligations and other retirement 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.
GRI 203 Indirect economic impacts			
103-1	Explanation of the material topic and its boundary		External boundary; indirect impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 17 p. 127 p. 135 p. 145
203-1	Infrastructure investments and services supported		p. 135 p. 145 p. 402
GRI 204 Procurement practices			
103-1	Explanation of the material topic and its boundary		External boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 135
204-1	Proportion of spending on local suppliers		p. 135
GRI 205 Anti-corruption			
103-1	Explanation of the material topic and its boundary		Internal boundary; indirect impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 83
205-2	Communication and training about anti-corruption policies and procedures		Leonardo's anti-corruption policies are communicated to all members of governing bodies, employees and business partners, in all geographies in which the Group operates. In 2020, in particular, members of Leonardo's Board of Directors received an induction session dedicated to anti-corruption; training of sales promoters, commercial advisors and lobbyists continued with 73% coverage of potential recipients; details of employee training are reported in the paragraph "Responsible business conduct".
		Anti-Corruption Code	pages 3-4
205-3	Confirmed incidents of corruption and actions taken		p. 224
			There were no convictions in 2020 related to 2019 and 2020 and no dismissals due to cases of corruption.

GRI 206 Anti-competitive behaviour			
103-1	Explanation of the material topic and its boundary		External boundary; indirect impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 83
206-1	Legal actions for anti- competitive behaviour, anti-trust and monopoly practices		No legal actions were commenced in 2020 related to anti-competitive behaviour, anti-trust and monopoly practices.
GRI 207 Tax			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		pages 402-403
207-1	Approach to tax		p. 403
207-2	Tax governance, control and risk management		p. 403
207-3	Stakeholder engagement and management of concerns related to tax		p. 403
207-4	Country-by-country reporting		p. 403
GRI 302 Energy			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 118
302-1	Energy consumption within the organisation		p. 118 p. 121 p. 392
302-3	Energy intensity		p. 39 p. 392
GRI 303 Water and effluents			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 118
303-1	Interaction with water as a shared resource		p. 118
303-2	Management of water discharge-related impacts		p. 118
303-3	Water withdrawal		p. 121 p. 392
303-4	Water discharge		p. 393

GRI 304 Biodiversity			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 118
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		42 sites are located in, or adjacent to, protected areas and areas of high biodiversity (23 in Italy; 5 in the United Kingdom; 7 in the United States and 7 in the rest of the world). In addition, 13 company-owned sites located in Italy are subject, within 2 km, to additional landscape restrictions, also of an archaeological nature (buffer strips, areas of public interest, etc.). The area in hectares of sites located within 3 km of protected areas and/or areas of high biodiversity is 602 hectares, equal to 50% of the surface area occupied by the Leonardo Group's sites.
GRI 305 Emissions			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 118
305-1	Direct (Scope I) GHG emissions		p. 121 p. 393 Source of the emission factor: GHG Protocol Global
305-2	Indirect (Scope II) GHG emissions		p. 121 p. 393 Reporting method based on the principles of the GHG Protocol new Scope II reporting guidance, using the following coefficients: Average Grid US, Source: EPA - United States Environmental Protection Agency - eGRID2018; Average Grid Europe, Source: TERNA - ENERDATA data 2017; Residual Mix United States and Canada, Source: 2020 Green-e Energy Residual Mix Emissions Rates; Residual Mix Europe, Source: AIB - Association of Issuing Bodies - European Residual Mixes 2019; Boustead Model; UNFCCC - National Inventory Submissions 2020.
305-3	Other indirect (Scope III) GHG emissions		p. 121 p. 393 Source of the emission factor: GHG Protocol Global
305-4	GHG emissions intensity		p. 121 p. 393
305-5	Reduction of GHG emissions		p. 121 p. 393
305-7	Nitrogen oxides (NO_X), sulphur oxides (SO_X) and other significant air emissions		p. 393 Source of the emission factor: GHG Protocol Global

GRI 306 Effluents and waste			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 118
306-2	Waste by type and disposal method		p. 121 p. 394
GRI 307 Environmental compliance			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 118
307-1	Non-compliance with environmental laws and regulations		During 2020, 11 violations of environmental laws were reported by the control bodies (6 in 2019 and 9 in 2018), 2 of which gave rise to total fines of € 30,517 imposed during the year. No spills were recorded during the year. As part of the remediation process, no damage caused to the environment has been reported, for which Leonardo has been definitively found to be liable, and no final penalties are reported which have been imposed on Leonardo for environmental offences.
GRI 308 Supplier environmental assessment			
103-1	Explanation of the material topic and its boundary		External boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 139
308-1	New suppliers that were screened using environmental criteria		p. 139
GRI 401 Employment			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 103
401-1	New employee hires and employee turnover		p. 103 p. 396
401-3	Parental leave		p. 397 In Italy, parental leave-related aspects are ruled by Legislative Decree 151/2001 and other laws on the matter.

GRI 402 Labour/Management relations			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 103
402-1	Minimum notice periods regarding operational changes		In Italy and abroad, Leonardo applies the mechanisms allowed by the regulations and the agreements with the trade unions. In Italy, this issue is covered by and managed as part of the National Collective Bargaining Agreement (CCNL) and supplementary company agreements (if any).
GRI 403 Occupational health and safety			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 110 The control bodies have reported 4 violations of regulations governing health and safety, which have led to imposing 2 fines, for a total of € 2,770.
403-1	Occupational health and safety management system		p. 110
403-2	Hazard identification, risk assessment and incident investigation		p. 110 p. 118
403-3	Occupational health services		p. 110
403-4	Worker participation, consultation and communication on occupational health and safety		p. 110
403-5	Worker training on occupational health and safety		p. 110
403-6	Promotion of workers' health		p. 110
403-7	Prevention and mitigation of H&S impacts directly linked by business relationships		p. 110 p. 139 p. 405
403-9	Work-related injuries		p. 398 The analysis of the injuries that occurred, with the exclusion of commuting injuries, showed that the main causes were accidental falls, injuries from equipment and non-compliance with working procedures.
GRI 404 Training and education			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 103 p. 106
404-1	Average hours of training per year per employee		p. 154 p. 399
404-2	Programmes for upgrading employee skills and transition assistance programmes		p. 106
404-3	Percentage of employees receiving regular performance and career development reviews		p. 106
GRI 405 Diversity and equal opportunity			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 103
405-1	Diversity of governance bodies and employees		p. 81 p. 103 p. 399
405-2	Ratio of basic salary and remuneration of women to men		p. 400 p. 407
GRI 407 Freedom of association and collective bargaining			
103-1	Explanation of the material topic and its boundary		Internal and external boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach	Code of Ethics	p. 6
			p. 111
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		p. 103 p. 111 p. 135 p. 407
GRI 414 Supplier social assessment			
103-1	Explanation of the material topic and its boundary		External boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 135
414-1	New suppliers that were screened using social criteria		p. 139
GRI 415 Public policy			
103-1	Explanation of the material topic and its boundary		External boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 83 p. 86

415-1	Political contributions	Code of Ethics	p. 14
			As provided for in Leonardo's Code of Ethics, the Company does not contribute company funds to political and trade union parties, movements, committees and organisations, or to their representatives and/or candidates: therefore Leonardo did not pay any political contribution in 2020. The prohibition in the Code of Ethics on political contributions applies to all Group companies worldwide, including the United States. For more details, please see the Code of Ethics and Business conduct of Leonardo DRS. In the United States, where voluntary contributions to a Political Action Committee ("PAC") by eligible employees are permitted by law, the operation of the PAC is supervised and monitored for legal compliance to ensure they are not used as vehicles for bribery and corruption.
GRI 416 Customer health and safety			
103-1	Explanation of the material topic and its boundary		External boundary; indirect impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 144
416-1	Assessment of the health and safety impacts of product and service categories		p. 144
GRI 418 Customer privacy			
103-1	Explanation of the material topic and its boundary		External boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 87
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		p. 87
R&D, Innovation and technology			
103-1	Explanation of the material topic and its boundary		Internal and external boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 127
Cyber security and data protection			
103-1	Explanation of the material topic and its boundary		Internal and external boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 87

Digital transformation			
103-1	Explanation of the material topic and its boundary		Internal and external boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 106 p. 118 p. 127 p. 135 p. 141 p. 145
Citizen security			
103-1	Explanation of the material topic and its boundary		External boundary; indirect impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 127 p. 141 p. 149
Customer intimacy			
103-1	Explanation of the material topic and its boundary		Internal boundary; indirect impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 141
Business continuity			
103-1	Explanation of the material topic and its boundary		Internal boundary; direct impact
103-2; 103-3	The management approach and its components Evaluation of the management approach		p. 88

GRI indicators

Environmental indicators

Energy				GRI 302-1/3
Energy consumption within the organisation (GRI 302-1)	**Unit**	**2018**	**2019**	**2020**
Non-renewable energy consumed	**TJ**	**2,931**	**3,040**	**2,815**
Natural gas	TJ	2,741	2,836	2,621
Diesel oil for energy and/or heat generation	TJ	4	4	3
Fuel oil	TJ	-	-	-
Other (LPG, fuels used for product tests)	TJ	187	200	191
Energy purchased for electricity and district heating	**TJ**	**2,453**	**2,663**	**2,545**
Electrical energy from conventional sources	TJ	411	429	436
Electrical energy from renewable sources	TJ	2,021	2,035	1,916
District heating	TJ	20	200	193
Self-generated energy	**TJ**	**137**	**133**	**134**
Energy sold	**TJ**	**-**	**-**	**-**
Total	**TJ**	**5,521**	**5,836**	**5,493**
Energy intensity (GRI 302-3)	**Unit**	**2018**	**2019**	**2020**
Energy consumption/Revenues	MJ/euro	0.45	0.42	0.41

Water and water discharge				GRI 303-3/4
Water withdrawal by source and category (GRI 303-3)	**Unit**	**2018**	**2019**	**2020**
Water supply systems	megaliters	2,242	2,328	2,197
- of which freshwater	megaliters	2,129	2,241	2,123
- of which other water	megaliters	113	87	74
Wells	megaliters	3,274	3,325	2,901
- of which freshwater	megaliters	3,157	3,212	2,792
- of which other water	megaliters	117	113	109
Other sources	megaliters	303	234	190
- of which freshwater	megaliters	302	232	188
- of which other water	megaliters	1	2	2
Total	**megaliters**	**5,819**	**5,887**	**5,287**

Water withdrawal from water-stressed areas by source and category (GRI 303-3)	Unit	2018	2019	2020
Water supply systems	megaliters	588	619	590
- of which freshwater	megaliters	582	611	584
- of which other water	megaliters	6	8	6
Wells	megaliters	160	148	162
- of which freshwater	megaliters	53	50	60
- of which other water	megaliters	108	98	102
Other sources	megaliters	5	5	5
- of which freshwater	megaliters	5	5	5
- of which other water	megaliters	0	0	0
Total	**megaliters**	**753**	**772**	**757**
Water discharge by type of destination (GRI 303-4)	**Unit**	**2018**	**2019**	**2020**
Sewers	megaliters	3,413	3,896	3,707
Surface water	megaliters	300.5	255.0	240.8
Seawater	megaliters	19.5	13.6	14.3
Other use	megaliters	23	30	26
Total	**megaliters**	**3,756**	**4,195**	**3,989**
Water discharge to water-stressed areas by type of destination and category (GRI 303-4)	**Unit**	**2018**	**2019**	**2020**
Freshwater	megaliters	3,353	3,746	3,554
- of which in areas with water stress	megaliters	444	504	491
Other water	megaliters	403	449	434
- of which in areas with water stress	megaliters	41	37	34
Total	**megaliters**	**3,756**	**4,195**	**3,989**

Emissions				GRI 305-1/2/3/4/7
CO_2e emissions (GRI 305-1/2/3)	**Unit**	**2018**	**2019**	**2020**
Direct emissions (Scope I)	t CO_2e	286,643	332,780	359,711
Indirect emissions (Scope II market-based)	t CO_2e	65,110	70,856	63,003
Indirect emissions (Scope II location-based)	t CO_2e	262,331	267,468	248,958
Other indirect emissions (Scope III)	t CO_2e	311,078	281,701	207,425
Total Scopes I, II market-based, III	**t CO_2e**	**662,832**	**685,337**	**630,139**
Total Scopes I, II location-based, III	**t CO_2e**	**860,053**	**881,949**	**816,094**
CO_2e emission intensity (GRI 305-4)	**Unit**	**2018**	**2019**	**2020**
Total emissions (Scope I + Scope II market-based)/Revenues	g/€	28.74	29.28	31.52
Total emissions (Scope I + Scope II location-based)/Revenues	g/€	44.85	43.55	45.39
Other emissions (GRI 305-7)	**Unit**	**2018**	**2019**	**2020**
NO_x	t	162	193	178
SO_2	t	3	3	1
VOC	t	109	127	109
VIC	t	1	2	2
Heavy metal	t	0.2	0.1	0.6
Particulate	t	20	22	17

Waste				GRI 306-2
Waste produced by type and disposal	**Unit**	**2018**	**2019**	**2020**
Non-hazardous	**t**	**25,951**	**29,420**	**26,337**
Recovered	t	15,741	17,316	16,379
	%	61	59	62
Disposed	t	10,210	12,104	9,958
	%	39	41	38
Hazardous	**t**	**8,012**	**9,079**	**8,136**
Recovered	t	1,996	2,169	1,688
	%	25	24	21
Disposed	t	6,016	6,910	6,448
	%	75	76	79
Total waste produced (hazardous and non-hazardous)	**t**	**33,963**	**38,499**	**34,474**

Employee indicators

Information on employees and other workers				GRI 102-8
Employees by employment contract, employment type and gender	**Unit**	**2018**	**2019**	**2020**
Total employees	**no.**	**46,462**	**49,530**	**49,882**
Men	no.	38,094	40,516	40,764
Women	no.	8,368	9,014	9,118
Permanent employment contracts	**no.**	**45,761**	**48,458**	**49,178**
Men	no.	37,539	39,649	40,211
Women	no.	8,222	8,809	8,967
Fixed-term contracts	**no.**	**701**	**1,072**	**704**
Men	no.	555	867	553
Women	no.	146	205	151
Full-time contracts (permanent)	**no.**	**44,518**	**47,139**	**47,952**
Men	no.	37,298	39,381	39,956
Women	no.	7,220	7,758	7,996
Part-time contracts (permanent)	**no.**	**1,243**	**1,319**	**1,226**
Men	no.	241	268	255
Women	no.	1,002	1,051	971
Employees by professional category and gender	**Unit**	**2018**	**2019**	**2020**
Managers	**no.**	**1,126**	**1,199**	**1,152**
Men	no.	1,005	1,058	1,010
Women	no.	121	141	142
Middle managers	**no.**	**5,725**	**6,004**	**6,113**
Men	no.	4,757	4,933	5,009
Women	no.	968	1,071	1,104
White collars	**no.**	**26,922**	**28,428**	**28,806**
Men	no.	20,811	21,943	22,222
Women	no.	6,111	6,485	6,584
Blue collars	**no.**	**12,648**	**13,857**	**13,765**
Men	no.	11,480	12,540	12,477
Women	no.	1,168	1,317	1,288
Pilots	**no.**	**41**	**42**	**46**
Men	no.	41	42	46
Women	no.	-	-	-
Employees by country and gender	**Unit**	**2018**	**2019**	**2020**
Italy	**no.**	**29,244**	**31,186**	**31,052**
Men	no.	24,517	26,142	26,018
Women	no.	4,727	5,044	5,034
United States	**no.**	**6,520**	**6,996**	**7,299**
Men	no.	4,871	5,186	5,406
Women	no.	1,649	1,810	1,893
United Kingdom	**no.**	**6,986**	**7,305**	**7,387**
Men	no.	5,810	6,035	6,060
Women	no.	1,176	1,270	1,327
Poland	**no.**	**2,622**	**2,814**	**2,586**
Men	no.	2,126	2,283	2,109
Women	no.	496	531	477
Other countries	**no.**	**1,090**	**1,229**	**1,558**
Men	no.	770	870	1,171
Women	no.	320	359	387
Employees by employment contract and country	**Unit**	**2018**	**2019**	**2020**
Permanent employment contracts	**no.**	**45,761**	**48,458**	**49,178**
Italy	no.	29,178	31,052	30,966
United States	no.	6,485	6,932	7,248
United Kingdom	no.	6,552	6,832	6,982
Poland	no.	2,547	2,540	2,469
Other countries	no.	999	1,102	1,513
Temporary employment contracts	**no.**	**701**	**1,072**	**704**
Italy	no.	66	134	86
United States	no.	35	64	51
United Kingdom	no.	434	473	405
Poland	no.	75	274	117
Other countries	no.	91	127	45
Workers other than employees	**Unit**	**2018**	**2019**	**2020**
Supervised workers	**no.**	**2,885**	**2,102**	**1,853**

Employment				GRI 401-1/3
New employee hires and employee turnover (GRI 401-1)	**Unit**	**2018**	**2019**	**2020**
Total hires and gender breakdown	**no.**	**4,502**	**5,677**	**3,222**
Percentage of hires on total employees	%	10	11	6
Men	no.	3,551	4,564	2,477
	%	79	80	77
Women	no.	951	1,113	745
	%	21	20	23
Number and percentage of hires by age group				
< 30 years	no.	1,730	2,424	1,319
	%	38	43	41
30-50 years	no.	1,882	2,463	1,339
	%	42	43	42
> 50 years	no.	890	790	564
	%	20	14	18
Number and percentage of hires by country				
Italy	no.	1,408	2,336	919
	%	31	41	29
United States	no.	1,920	1,648	1,244
	%	43	29	39
United Kingdom	no.	795	1,102	736
	%	18	19	23
Poland	no.	169	288	74
	%	4	5	2
Other countries	no.	210	303	249
	%	5	5	8
Total employees leaving and gender breakdown	**no.**	**3,174**	**3,114**	**3,094**
Percentage of employees leaving on total employees	%	7	6	6
Men	no.	2,582	2,562	2,430
	%	81	82	79
Women	no.	592	552	664
	%	19	18	21
Number and percentage of employees leaving by age group				
< 30 years	no.	573	653	544
	%	18	21	18
30-50 years	no.	914	957	745
	%	29	31	24
> 50 years	no.	1,687	1,504	1,805
	%	53	48	58
Number and percentage of employees leaving by country				
Italy	no.	1,092	911	1,073
	%	34	29	35
United States	no.	1,180	1,173	918
	%	37	38	30
United Kingdom	no.	599	772	661
	%	19	25	21
Poland	no.	160	96	186
	%	5	3	6
Other countries	no.	143	162	256
	%	5	5	8
Return to work and retention rates after parental leave (GRI 401-3)	**Unit**	**2018**	**2019**	**2020**
Employees entitled to parental leave	**no.**	**-**	**49,530**	**49,882**
Men	no.	-	40,516	40,764
Women	no.	-	9,014	9,118
Rate of return to work by gender	**%**	**95**	**99**	**96**
Men	%	96	99	97
Women	%	92	97	94
Retention rate by gender	**%**	**97**	**96**	**98**
Men	%	97	98	100
Women	%	97	94	95
Employees who took parental leave during the reporting period, by gender	**no.**	**1,838**	**1,809**	**1,790**
Men	no.	1,079	1,099	1,135
Women	no.	759	710	655
Employees who returned to work at the end of the parental leave during the reporting period, by gender	**no.**	**1,676**	**1,728**	**1,661**
Men	no.	1,051	1,077	1,107
Women	no.	625	651	554
Employees who returned to work at the end of the parental leave and continued to work 12 months after their return, by gender	**no.**	**1,219**	**1,625**	**1,696**
Men	no.	608	1,004	1,065
Women	no.	611	621	631

Occupational health and safety[58]				GRI 403-9
Injuries of employees	**Unit**	**2018**	**2019**	**2020**
Number of injuries	**no.**	**469**	**358**	**213**
Injury Rate (IR) by gender and country	**i**	**5.96**	**4.41**	**2.60**
Men	i	6.33	4.66	2.76
Women	i	4.12	3.25	1.90
Italy	**i**	**5.85**	**5.16**	**2.78**
Men	i	6.18	5.49	3.00
Women	i	3.93	3.31	1.57
United States	**i**	**6.95**	**3.96**	**3.68**
Men	i	9.11	3.85	3.72
Women	i	0.66	4.27	3.57
United Kingdom	**i**	**7.50**	**1.11**	**0.83**
Men	i	6.67	1.03	0.92
Women	i	11.66	1.43	0.42
Poland	**i**	**2.80**	**2.74**	**1.02**
Men	i	2.61	2.82	0.93
Women	i	3.64	2.34	1.41
Number of injuries with high consequences	**no.**	**n.a.**	**n.a.**	-
Injury Rate with high consequences	**i**	**n.a.**	**n.a.**	-
Injuries of workers not employees	**Unit**	**2018**	**2019**	**2020**
Number of injuries	**no.**	**45**	**15**	**9**
Total Injury Rate	**i**	**9.41**	**4.09**	**2.58**
Number of injuries with high consequences	**no.**	**n.a.**	**n.a.**	-
Injury Rate with high consequences	**i**	**n.a.**	**n.a.**	-
Work-related fatalities	**Unit**	**2018**	**2019**	**2020**
Number of fatalities of employees	**no.**	-	-	-
Fatality Rate of employees	**i**	-	-	-
Number of fatalities of workers not employees	**no.**	-	-	-
Total Fatality Rate of workers not employees	**i**	-	-	-

58 As from 2020 the IR is calculated using the following formula: (Total injuries/Total hours worked)*1,000,000. The data for 2018 and 2019 have been recalculated on 1,000,000 hours instead of 200,000 hours. For non-employee workers, reference is made to the category of temporary workers. As regards injuries with serious consequences, the data is published as from 2020.

Training				GRI 404-1
Average hours of training per employee	**Unit**	**2018**	**2019**	**2020**
Training hours	**hours**	**19.6**	**18.8**	**16.2**
Training hours by gender				
Men	hours	18.9	18.6	16.1
Women	hours	22.8	19.6	16.8
Training hours by employee category				
Managers	hours	17.8	37.2	20.0
Middle managers	hours	21.8	19.1	20.0
White collars	hours	19.4	18.2	17.2
Blue collars	hours	19.1	18.0	11.9

Diversity and equal opportunities				GRI 405-1
Diversity of governance bodies and employees	**Unit**	**2018**	**2019**	**2020**
Composition of governance bodies				
Men	%	67	67	58
Women	%	33	33	42
< 30 years	%	-	-	-
30-50 years	%	17	8	25
> 50 years	%	83	92	75
Breakdown of employees by category and gender				
Men				
Managers	%	89	88	88
Middle managers	%	83	82	82
White collars	%	77	77	77
Blue collars	%	91	90	91
Pilots	%	100	100	100
Women				
Managers	%	11	12	12
Middle managers	%	17	18	18
White collars	%	23	23	23
Blue collars	%	9	10	9
Pilots	%	-	-	-
Breakdown of employees by category and age group				
< 30 years				
Managers	%	-	-	-
Middle managers	%	-	-	-
White collars	%	8	10	11
Blue collars	%	13	15	15
Pilots	%	2	-	-

30-50 years				
Managers	%	34	35	35
Middle managers	%	42	42	42
White collars	%	55	54	54
Blue collars	%	54	54	55
Pilots	%	42	38	35
> 50 years				
Managers	%	66	65	65
Middle managers	%	58	58	58
White collars	%	37	36	35
Blue collars	%	33	31	31
Pilots	%	56	62	65
Employees belonging to minorities groups by professional category				
Managers	%	1	1	3
Middle managers	%	4	4	6
White collars	%	6	5	5
Blue collars	%	7	7	8

Equal remuneration for women and men[59] **GRI 405-2**

Ratio of basic salary of women to men by employee category	Unit	2018	2019	2020
Italy				
Managers	%	85	95	97
Middle managers	%	95	98	96
White collars	%	97	98	95
Blue collars	%	93	102	98
United States				
Managers	%	85	100	89
Middle managers	%	86	86	88
White collars	%	83	73	74
Blue collars	%	87	88	85
United Kingdom				
Managers	%	89	94	103
Middle managers	%	88	92	92
White collars	%	80	82	84
Blue collars	%	83	77	82
Poland				
Managers	%	116	158	73
Middle managers	%	106	89	87
White collars	%	87	88	88
Blue collars	%	94	93	92

Ratio of remuneration of women to men by employee category	Unit	2018	2019	2020
Italy				
Managers	%	80	90	97
Middle managers	%	91	92	92
White collars	%	89	88	90
Blue collars	%	80	89	89
United States				
Managers	%	74	101	97
Middle managers	%	90	85	86
White collars	%	82	69	72
Blue collars	%	83	75	82
United Kingdom				
Managers	%	94	87	94
Middle managers	%	90	94	93
White collars	%	83	79	81
Blue collars	%	87	83	67
Poland				
Managers	%	79	138	97
Middle managers	%	106	86	85
White collars	%	79	81	78
Blue collars	%	90	90	87

59 In 2019, the methodology was changed, increasing data granularity level.

Economic indicators

Direct economic value generated and distributed			GRI 201-1
€ millions	**2018**	**2019**	**2020**
Total gross added value[60]	**13,126**	**14,889**	**13,928**
Total costs for the purchase of goods and services	8,024	9,093	8,873
Total employee remuneration	3,376	3,448	3,461
Total loan capital remuneration	368	443	359
Total public administration remuneration	63	147	11
Total sponsorships and community investments	4	5	4
Total company remuneration	1,290	1,754	1,220
Total value distributed	**13,126**	**14,889**	**13,928**
Total added value generated	**5,102**	**5,796**	**5,055**

GRI 207 Tax

GRI 103-2/3

Leonardo fully complies with the tax regulations in force in the countries where it is active. Correct fulfilment of tax obligations is ensured by the Company's internal procedures that identify roles and responsibilities, operational and control activities and the necessary information flows.

GRI 207-1 Approach to tax

Leonardo has adopted a tax strategy in Italy approved by the Board of Directors (BoD) since 2017 and in the United Kingdom, approved on an annual basis. Leonardo has also joined the Cooperative Compliance Scheme and, to monitor actions, has established a Tax Control Framework, i.e. a system for detecting, measuring, managing and controlling tax risk, included in the context of the company and internal control system.

The approach to tax is inspired by the following values:

> properly managing the "tax burden" related to its business while protecting the interests of all stakeholders, including the government and local communities in which Leonardo operates;

> managing all results in compliance with national tax laws as regards both form and substance, in conformity with tax principles, while conducting, on an ongoing basis, an analysis of updates on national and international laws consistently with the activities carried out;

> promoting performance in compliance with the law, transparency, simplicity, with trust and collaboration, truthfulness and professional correctness;

> establishing good relations with the tax authorities with utmost transparency and collaboration in order to solve complex tax issues, while promptly providing accurate and correct information, in response to questions and information requested;

> establishing decision-making processes regarding investments in low-tax regime countries, based on economic reasons and not for tax avoidance and/or planning purposes;

> establishing an adequate information flow spread across all company levels, including top management, in order to enable the BoD to take action as the body in charge of internal control;

> investing in the development of the professional skills of employees involved in tax activities.

Tax returns and payments are subject to audits on the part of independent auditor.

GRI 207-2 Tax governance, control and risk management

The Chief Executive Officer and the Officer in charge of financial reporting participate in tax-related decisions, in terms of both strategy and operations. They are responsible for monitoring tax risk management, the performance of the tax department, and the resources allocated in order to reduce tax risk while the BoD designs the related strategy.

GRI 207-3 Stakeholder engagement and management of concerns related to tax

Leonardo ensures transparency and correctness in relations with the tax authorities in the event of audits relating to both Group companies and third parties. With a view to enhancing transparency towards the tax authorities, it complies with the provisions governing transfer pricing documentation, in accordance with the instructions of the OECD Transfer Pricing Guidelines (i.e. the "three-tiered approach", based on Master File, Local File, Country-by-Country Reporting) for companies that meet the requirements prescribed by the relevant domestic regulations. Finally, Leonardo always acts by adopting a transparent and collaborative approach with all institutions and trade associations in order to support the development of effective tax systems in the various countries in which it operates.

GRI 207-4 Country-by-Country Reporting

The table below is consistent with the information provided to the Revenue Agency within the framework of the "Country-by-Country Reporting" (CBCR). This information has been prepared by taking account of the OECD guidelines relating to this requirement. Therefore, although the figures shown are derived from the same database, they do not follow the rules of representation and preparation of the data included in the Group's consolidated financial statements. In particular, the main changes refer to the following requirements of the OECD guidelines:

> perimeter of companies: inclusion of all subsidiaries, including those that are not consolidated;

> allocation by country: allocation of items relating to permanent establishments in the countries in which they operate, instead of the registered offices of the companies to which they belong, used to prepare consolidated financial statements;

> definitions: levels of aggregation of specific data that are not immediately comparable with the values reported in the consolidated financial statements.

For more details, reference should be made to the notes.

60 "Total gross added value" includes revenues, other revenues, other operating costs and management balance.

€ millions

Year 2018							GRI 207-4
Tax jurisdiction	**Notes**	**Italy**	**United Kingdom**	**United States**	**Poland**	**Other countries**
Revenues from third parties	1	*8,064*	*2,196*	*2,452*	*70*	*461*
Revenues from related parties	2	*720*	*246*	*241*	*195*	*205*
Total revenues	3	8,784	2,442	2,693	265	666
Profit/(Loss) before income taxes	4	256	298	(7)	38	147
Income taxes paid (based on cash accounting)	5	10	(32)	(1)	(4)	(3)
Income taxes accrued in the year	-	35	44	5	8	9
Workforce	6	29,223	6,960	6,524	2,622	1,160
Property, plant and equipment other than cash and cash equivalents	7	1,533	186	203	37	65

Year 2019						GRI 207-4
Tax jurisdiction	**Notes**	**Italy**	**United Kingdom**	**United States**	**Poland**	**Other countries**
Revenues from third parties	1	*9,088*	*2,165*	*2,972*	*60*	*616*
Revenues from related parties	2	*902*	*328*	*210*	*210*	*173*
Total revenues	3	9,990	2,493	3,182	270	789
Profit/(Loss) before income taxes	4	646	284	18	36	(76)
Income taxes paid (based on cash accounting)	5	(13)	(45)	(8)	(9)	5
Income taxes accrued in the year	-	44	51	6	8	8
Workforce	6	31,156	7,257	5,844	2,814	2,978
Property, plant and equipment other than cash and cash equivalents	7	1,877	192	239	39	32

NOTES:
1. Revenues from third parties: include all revenues (as defined below), net of those from companies subject to CBCR.
2. Revenues from related parties: include all revenues (as defined below) from companies subject to CBCR.
3. Revenues: include all revenues and financial income, net of dividends.
4. Profit/(Loss) before income taxes: include the result before tax and the result from discontinued operations.
5. Income tax paid: positive value indicates receipts, while negative value indicates payments. This includes payments for current tax and for tax disputes.
6. Workforce: number of employees entered in the register on the last day of the period (31 December).
7. Property, plant and equipment other than cash and cash equivalents: include tangible assets and investment property.

Other indicators

1. Trade union relations

Industrial relations (% on total employees)	Unit	2020
Employees covered by collective bargaining	%	78
Employees who are members of trade unions	%	35

In Italy, 100% of employees are covered by collective bargaining agreements. The hours of strikes on total hours worked were 0.06% in 2020.

2. Employee training

Average hours of training per employee	Unit	2020
Total average training hours	**no.**	**16.2**
Mandatory training	no.	5.8
Non mandatory training	no.	10.4
Average hours of training per employee by age group	**Unit**	**2020**
<30 years	no.	26.9
30-50 years	no.	15.5
>50 years	no.	14.3

3. Employee health and safety

Health and safety indicators	Unit	2020
Occupational Disease Rate (ODR)	i	0.10
Lost Days Rate (LDR)	i	13.5
Absenteeism Rate (AR)	i	2.3

Details on indicator calculation: ODR is calculated using the following formula: (Total cases of occupational diseases /Total worked hours)*200,000. LDR is calculated using the following formula: (Total days of lost work /Total worked hours)*200,000. AR is calculated using the following formula: (Total days of absence /Total working days)*100.

4. Supplier health and safety

Health and safety indicators related to suppliers that work at Leonardo sites	Unit	2020
Sites monitored	**no.**	29
Number of suppliers	no.	758
Injuries	no.	42
Injuries with high consequences	no.	-

Injuries with high consequences are defined as injuries that resulted in more than 180 days of temporary disability.

5. Employee performance appraisal

Total employees assessed	Unit	2020
Employees with performance appraisal	no.	28,633
Employees assessed by gender	**Unit**	**2020**
Men	%	78
Women	%	22
Employees assessed by category	**Unit**	**2020**
Managers	%	4
Middle managers	%	19
White collars	%	69
Blue collars	%	8

6. Diversity - Ethnic minorities

Ethnic minority employees	Unit	2020
Employees from minorities by gender	**no.**	**1,517**
Men	no.	1,014
Women	no.	503
Ethnic minority employees by category	**Unit**	**2020**
Managers	no.	8
Middle managers	no.	182
White collars	no.	633
Blue collars	no.	693
Pilots	no.	1

The figure only relates to Leonardo's employees in the United States. Ethnic minority employees account for 21% of total employees in the United States. The minority categories monitored are American Indian/Alaska Native, Asian, Black or African American, Hispanic or Latino, Native Hawaiian or other Pacific Islander.

7. Diversity - Disability

Employees with disability	Unit	2020
Employees with disability	**no.**	**1,433**
Employees with disability by category	**Unit**	**2020**
Managers	no.	32
Middle managers	no.	196
White collars	no.	820
Blue collars	no.	385
Pilots	no.	-

The figure only relates to Leonardo's employees in Italy, Poland and in the United Kingdom. Disabled employees account for 3.4% of employees in these geographical areas.

8. Gender diversity

Gender pay gap	Top pay quartile	Upper middle pay quartile	Lower middle pay quartile	Lower quartile	Total
Men	83%	80%	78%	88%	**82%**
Women	17%	20%	22%	12%	**18%**
2020 remuneration ratio	**93%**	**99%**	**102%**	**93%**	**98%**

Remuneration ratio is calculated on 93.5% of employees using the following formula: women average remuneration/men average remuneration. The total median value of the remuneration ratio is 102%. 10% of employees with the highest remuneration is composed of 15% women and 85% men.

Top management by gender	Unit	2020
Men	%	85
Women	%	15

For the "top management" category, the percentage is calculated by considering first-level (reporting directly to the Chief Executive Officer) and second-level management positions.

SASB Content Index

	Disclosure	Section/Notes
RT-AE-000.A	Production/trend by reportable segment	Profile Sector results and outlook
RT-AE-000.B	Number of employees	Profile
RT-AE-130a.1	(1) Total energy consumed (2) Percentage grid electricity (3) Percentage renewable	Natural resources management in industrial processes
RT-AE-150a.1	Amount of hazardous waste generated, percentage recycled	Natural resources management in industrial processes
RT-AE-150a.2	Number and aggregate quantity of reportable spills, quantity recovered	Natural resources management in industrial processes
RT-AE-230a.1	(1) Number of data breaches (2) Percentage involving confidential information	Responsible business conduct
RT-AE-230a.2	Description of approach to identifying and addressing data security risks in (1) company operations and (2) products	Risk management
RT-AE-250a.1	Number of recalls issued, total units recalled	Customer support, quality and safety
RT-AE-250a.3	Number of Airworthiness Directives received, resulting in Emergency Airworthiness Directive, total units affected	Customer support, quality and safety
RT-AE-410a.2	Description of strategic approach to reduce fuel consumption and greenhouse gas (GHG) emissions of products	Climate governance and strategy Technological solutions to fight climate change
RT-AE-440a.1	Description of risk management associated with the use of critical materials	Risk management
RT-AE-510a.1	Total amount of monetary losses resulting from legal proceedings associated with incidents of corruption, bribery and/or illicit international trade	Provisions for risks and charges
RT-AE-510a.2	Revenues from countries classified in band "E" and "F" of Transparency International's Government Defence Anti-Corruption Index	Responsible business conduct
RT-AE-510a.3	Description of processes to manage ethical risks in conducting business throughout the value chain	Responsible business conduct Supply chain value

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

*To the board of directors of
Leonardo S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2020 non-financial statement of the Leonardo Group (the "group") prepared in accordance with article 4 of the decree, included in the Integrated Annual Report and approved by the board of directors on 9 March 2021 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Leonardo S.p.A. (the "parent") for the NFS

The directors are responsible for the preparation of an NFS in accordance with articles 3 and 4 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued by GRI - Global Reporting Initiative (the "GRI Standards"), which they have identified as the reporting standards.

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of an NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the group's business and characteristics, to the extent necessary to enable an understanding of the group's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the group's policies and the identification and management of the risks generated or borne.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Limited, società di diritto inglese.

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The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards, the IESBA Code) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries of the parent's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the decree.
3. Comparing the financial disclosures presented in the NFS with those included in the group's consolidated financial statements.
4. Gaining an understanding of the following:
   - the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;
   - the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
   - the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

   Specifically, we held interviews and discussions with the parent's management personnel and personnel of Leonardo DRS. We also performed limited procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

   Furthermore, with respect to significant information, considering the group's business and characteristics:

   - at group level,
     a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
     b) we carried out analytical and limited procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
   - we held videoconferences with the management of Leonardo S.p.A. and Leonardo DRS and the following divisions: Aerostructures, Helicopters, Aircraft, Electronics and Cyber-Security, which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2020 non-financial statement of the Leonardo Group, included in the Integrated Annual Report, has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the decree and the GRI Standards.

Rome, 11 March 2021

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

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