

BEING LEONARDO

THE PATH
TO GROWTH



**SUSTAINABILITY AND INNOVATION
REPORT 2016**

index

Introduction	5
Letter to stakeholders	7
YEAR REVIEW 2016	11
Our performance	12
LEONARDO PROFILE	17
Profile	18
The new identity	19
Business activities	21
THE APPROACH TO SUSTAINABILITY	25
Our approach	27
Sustainability governance	29
COMPLIANCE WITH STANDARDS AND RULES	31
Corporate governance	33
Responsible business conduct	35
INNOVATION FOR SUSTAINABLE DEVELOPMENT	43
The sources and pathways of innovation	45
Earth care and sustainability in the use of resources	52
Sustainable mobility	54
Prevention and management of emergencies	57
People protection and land monitoring	58
Cyber security and protecting critical infrastructures	60

index

OUR KEY RESOURCES	63
People as a core value	65
Customer intimacy	72
Growing with the supply chain	77
ENVIRONMENTAL AND SOCIAL RESPONSIBILITY	83
Eco-efficiency of operations	85
Energy and carbon management	86
Health and Safety at work	90
Commitment to social issues	92
APPENDIX	95
The contribution to Sustainable Development Goals	96
Methodological note	97
GRI Content Index	103
Data and GRI indicators tables	116
Independent auditors' report	128

Introduction

The 2016 Sustainability and Innovation Report, the first to be published under the Leonardo brand, describes the first results of the implementation of the One Company model and the sustainable development path to create value in the long term, to the benefit of all stakeholders of the Group.

The document covers the following main aspects:

- › **governance of change** - presentation of the “Leonardo” identity and the new sustainability governance which delegated powers to a specific Board Committee and instituted the Sustainability Council, as well as the new materiality matrix;
- › **soundness of the responsible business conduct model** - describing the actions of the past few years aimed at strengthening appropriate behaviour and spreading the culture of risk management and prevention, by consolidating control systems and employee training;
- › **being at the forefront of innovation** - enhancing corporate know-how through the technological governance and the engagement of the various ecosystem research players using an open-innovation approach, focusing on the technological answers of Leonardo to security and protection needs, minimising the environmental impact and managing emergencies;
- › **effective management of key resources and industrial processes** - focusing on people, customers and suppliers, the lead players of Leonardo value chain: from the new system to assess and enhance employees, to the new launch of STEM activities to attract young people, to customer intimacy and capacity building in the supply chain;
- › **corporate responsibility** - management of environmental issues when conducting the business, using natural and energy resources and in the quality and safety of the workplace.

This document confirms the commitment of Leonardo to responsible business conduct which is further strengthened by the integration of sustainability in the 2017-2021 Industrial Plan, being the Group’s ability to contribute to the prosperity of the context it operates in, benefiting all stakeholders.

This report, which has been prepared in accordance with the G4 - Sustainability Reporting Guidelines, covers the aspects set out in Legislative Decree 254/2016 which implemented the European directive on non-financial reporting in Italy and connects Leonardo operations with the 2030 Sustainable Development Goals (SDGs), calling to action companies, institutional stakeholders and the civil society as a whole.



Giovanni De Gennaro
CHAIRMAN



Mauro Moretti
CHIEF EXECUTIVE OFFICER
AND GENERAL MANAGER

LETTER TO STAKEHOLDERS

This edition of the Sustainability and Innovation Report is the first with the new name Leonardo.

The change of name represents a fundamental identity step of that process of transformation that we have undertaken with great determination, commitment and passion and which reached a milestone on January 1, 2016 with the birth of the One Company.

Changing the name marks the completion of the transition to an integrated industrial company: the brand Leonardo strengthens the strategic vision of the company and defines a business organisation more consistent with the needs of customers and markets, with the specific objective to create value for all stakeholders.

During the three-year period 2014-2016, on the basis of the strategic and operational guidelines of the Industrial Plan, several activities have been successfully completed related to restructuring of the business portfolio and to the corporate governance redefinition, not only to improve the economic-financial soundness and the credibility of the Group, but mostly to restore the conditions for long-term sustainable growth and responsible business conduct.

The foundation of this renewed thrust lies above all on our idea of “sustainability”, which we interpret as the absolute excellence in managing all those levers that combine responsible development and competitiveness. To achieve this ambitious goal, in a scenario where boundaries between companies, customers and suppliers become blurry, it is necessary to redefine the value chain, offering to this ecosystem the most powerful weapons we have: technology and knowledge.

In Leonardo the most advanced technologies, the knowledge and the know-how converge in innovation pathways aimed at providing effective responses to pressing issues such as the growing need to feel secure, the need to make networks more resilient, the impacts of climate change and the protection against physical and cybernetic threats.

This Sustainability and Innovation Report shows the recovered vigor of an industrial Group with a large entrepreneurial tradition and with a wealth of experience globally recognised: the first results of the transformation process, the first year of Leonardo and the first tangible signs of a new approach based on a strategy that integrates even more effectively business and sustainability.

We describe what we have achieved through the experiences and competences of all our people: the advanced solutions, the consolidation of our strengths and the careful management of risk areas.

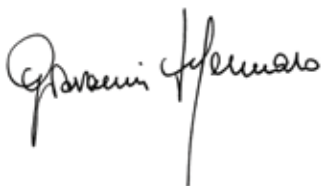
We share our commitment to enhance the culture of STEM disciplines and to strengthen the dialogue with the academic world, two factors that can make the difference in consolidating technology leadership and finding talents of tomorrow.

We show how we worked to bring together the interests of public and private stakeholders, institutions and companies, employees and students, with the objective to create shared value.

We have done this starting from our values, strengthening our processes and putting ourselves at the forefront of addressing some urgent needs. We are determined to continue our commitment with resolution and persistence and confident that we can rely on the fundamental contribution of all our people.

Because *Being Leonardo* means to valorise heritage and skills in order to head towards the future with enthusiasm, proud to put our ingenuity at the service of our stakeholders.

The Chairman
(Giovanni De Gennaro)



The Chief Executive Officer and General Manager
(Mauro Moretti)



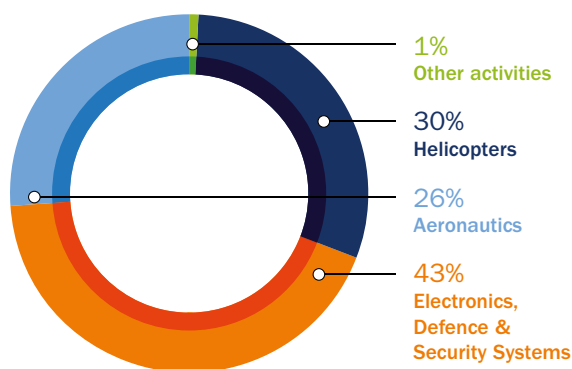
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Year Review 2016

Our performance

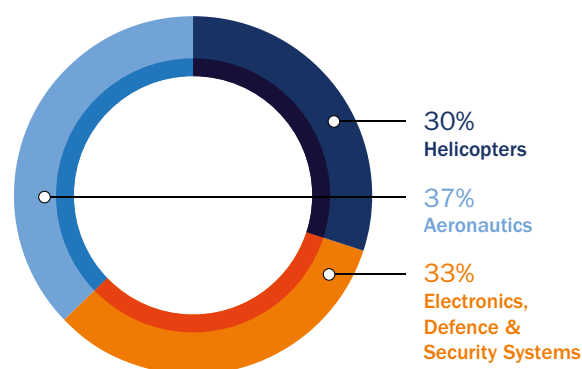
Group (€ millions)	2016	2015	Change
New orders	19,951	12,371	61.3%
Order backlog	34,798	28,793	20.9%
Revenues	12,002	12,995	(7.6%)
EBITDA	1,907	1,866	2.2%
EBITDA margin	15.9%	14.4%	1.5 p.p.
EBITA	1,252	1,208	3.6%
ROS	10.4%	9.3%	1.1 p.p.
EBIT	982	884	11.1%
EBIT margin	8.2%	6.8%	1.4 p.p.
Net result before extraordinary transactions	545	253	115.4%
Net result	507	527	(3.8%)
Group net debt	2,845	3,278	(13.2%)
FOCF	706	307	130.0%
ROI	16.9%	15.7%	1.2 p.p.
ROE	12.6%	6.2%	6.4 p.p.
Workforce	45,631	47,156	(3.2%)

2016 key figures

REVENUES BREAKDOWN BY SECTOR

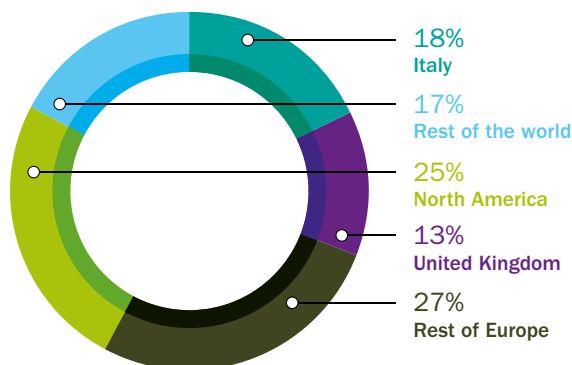


ORDER BACKLOG BREAKDOWN BY SECTOR*

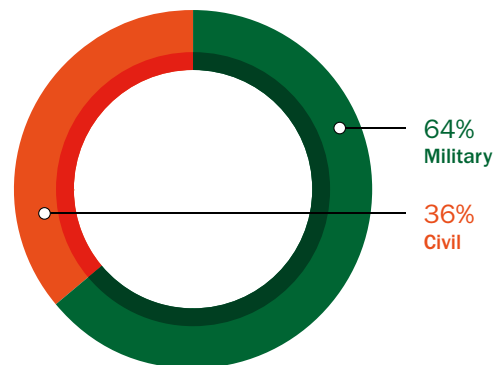


(*) Order backlog breakdown does not include eliminations.

REVENUES BREAKDOWN BY GEOGRAPHICAL AREA



REVENUES BREAKDOWN BY MARKETS

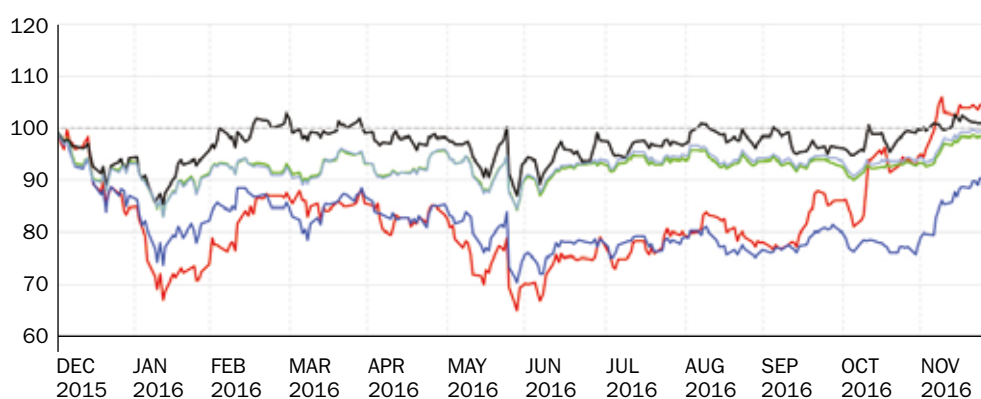


Breakdown of added value

G4-EC1 (€ millions)	2016	2015	2014
Revenues	12,002	12,995	12,764
Other revenues	742	823	611
Other operating costs and net accessory/extraordinary items	138	530	82
Total value generated	12,882	14,348	13,457
Suppliers (costs for the purchase of goods and services)	7,570	8,827	8,600
Employee remuneration	3,159	3,301	3,281
Loan capital remuneration	498	498	528
Public administration remuneration	122	117	109
Total donations and sponsorships	5	3	6
Total value distributed	11,354	12,746	12,524
Company remuneration	1,528	1,602	933

One year on the stock market

— Leonardo — FTSE-MIB Index — S&P600 Index — BEUAERO Index — DJSI Europe



In 2016, despite the weakness of European markets (S&P600 -1%), specifically Italy's (FTSE-MIB -10%), the Leonardo stock grew by 3%, performing above the European A, D&S average (BEUAERO +2%) and the Dow Jones Sustainability Index (unchanged)¹.

Credit rating

MOODY'S
Ba1 stable outlook

STANDARD & POOR'S
BB+ stable outlook

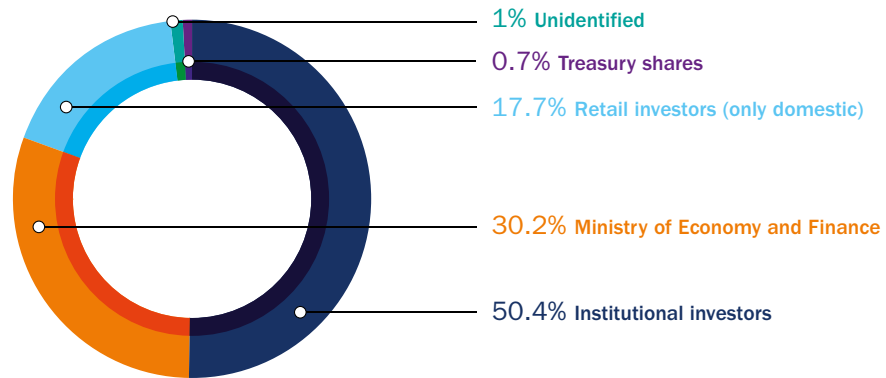
FITCH
BB+ positive outlook

1. Data refer to period 31 December 2015 - 31 December 2016.

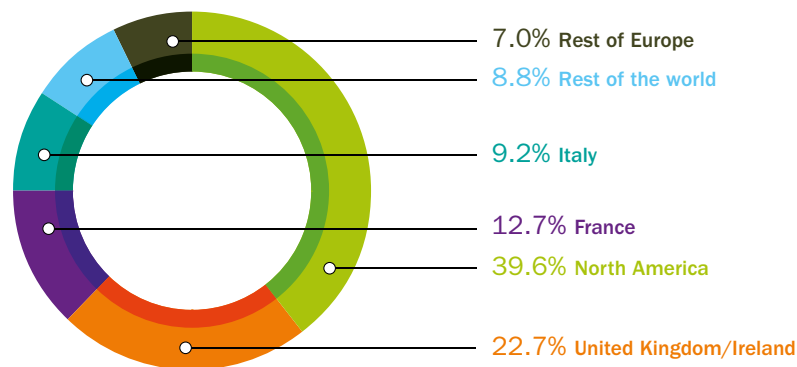
Leonardo institutional shareholders are mainly international.

The active participation of institutional funds at Shareholders' Meetings has more than doubled over the past five years, from approximately 13% to 30% of the share capital represented at the most recent Shareholders' Meeting.

DISTRIBUTION OF SHAREHOLDERS



GEOGRAPHICAL DISTRIBUTION OF INSTITUTIONAL SHAREHOLDERS FLOATING RATE



ENGAGEMENT WITH THE FINANCIAL COMMUNITY AND FIRST ONE COMPANY SITE VISIT

Over 100 institutional investors, financial analysts and investment banks participated in the first One Company event organised in March 2016 at the Vergiate-based Helicopters Division, in occasion of the 2015 annual results. During the day, the management of Leonardo presented the new Group structure, as well as the technological achievements and the integrated solutions developed in the various business sectors.

In 2016 the engagement activities with the financial markets mainly included institutional roadshows in London, Edinburgh, New York and Boston, many conference calls and telepresence meetings (+27% on 2015), individual and group meetings (+17%) and five financial conferences, of which one was devoted exclusively to a panel of Sustainable Responsible Investors to discuss ESG topics.

Recognition and awards

SUSTAINABILITY STOCK INDICES



For the seventh year in a row, Leonardo has been included in the Dow Jones Sustainability Index Europe.



For the second year in a row, Leonardo has been included in the ECPI World ESG Equity Index.

ESG DISCLOSURE



Leonardo's performance improved compared to the previous questionnaire from level C to level B.



Leonardo ranks at level B in the Transparency International's Defence Companies Anti-Corruption Index.

PEOPLE MANAGEMENT



In the United Kingdom, Leonardo achieved the Silver level in the Investors in People standard and is fifth in the RateMyApprenticeship ranking.



Leonardo DRS was awarded the prestigious Seal of Distinction, by the WorldatWork organisation.

INNOVATION AWARD

Leonardo received an award for innovation thanks to a project that prevents the risk of mid-air collisions between unmanned aircraft.

International Critical Communication Award (ICCA) for the best innovation.

—

Leonardo Profile

Profile

Who we are

Leonardo is one of the world's top ten leading players in the Aerospace, Defence and Security and the main Italian one.

Our commitment

Strengthening global security by supporting operational and logistical needs in military and peacekeeping operations.

Protecting people, territories, the flow of sensitive information, physical infrastructure and computer networks, with operating systems that integrate various tools, skills and technologies.

Improving quality of life with innovative solutions focused on the sustainable management of the environment, urban spaces, climate and natural resources.

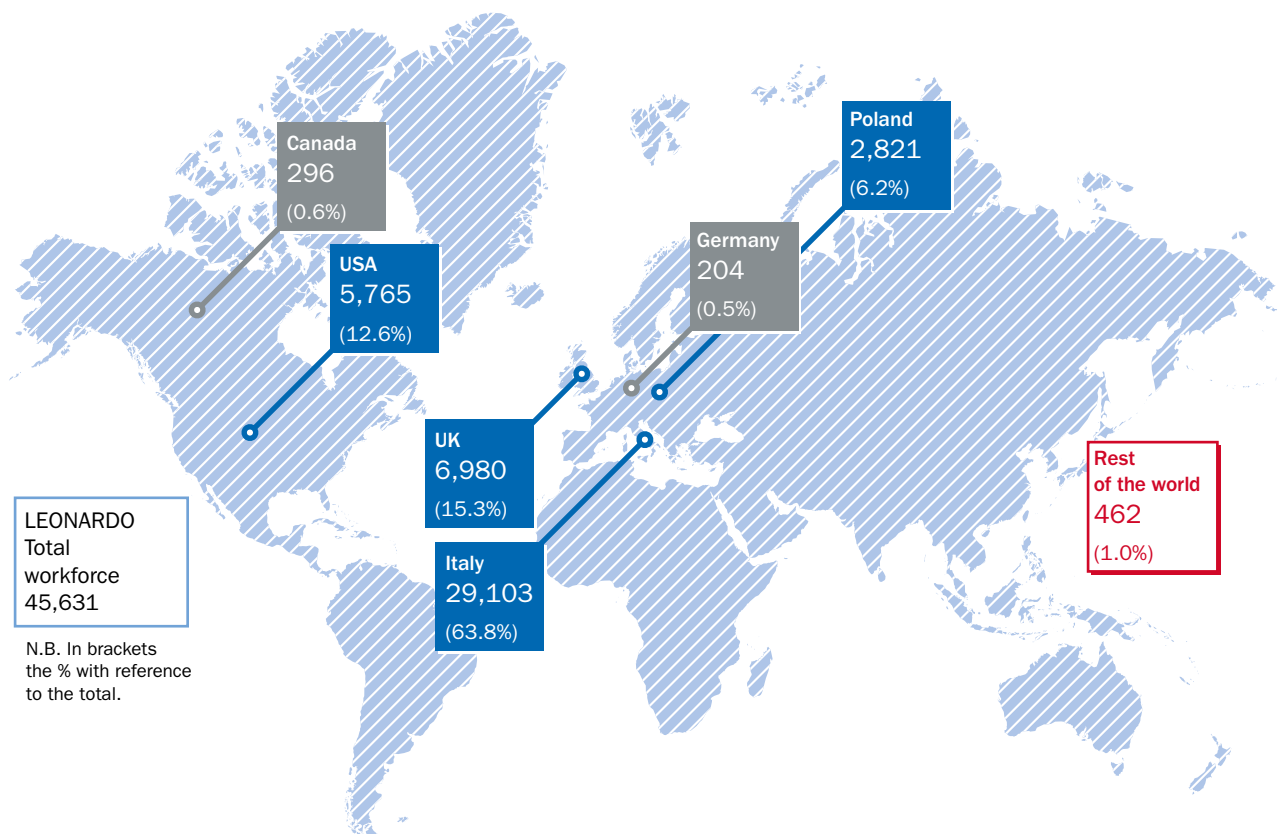
Contributing to scientific and technological research by developing skills and expertise within internal laboratories and by participating in major international programmes.

How and where we operate

Leonardo operates in the five continents and with a strong industrial presence in Italy, the United Kingdom, Poland and the United States, with an international network comprised of branches, joint ventures and strategic collaborations with institutions, government agencies and industrial partners in the world's main markets with a strong growth potential.

Leonardo products and solutions are used in 150 countries.

OUR INTERNATIONAL PRESENCE



The new identity

The name change marks the end of the transition to the new One Company model: the new name Leonardo strengthens the strategic vision and now identifies a business organisation that is more in line with customers' and markets' needs and, hence, able to create value for all stakeholders.

The name of Leonardo reflects deep roots, universality and a sense of future. Leonardo represents an Italian story characterised by scientific achievements and technological excellence, elaboration of the philosophical and mathematical thought, research applied to all fields of knowledge, from arts to architecture, science and music. At the same time, the principles that inspired Leonardo's and his contemporaries' works underlie the Group business development: a great business story that has contributed to shaping the economic and technological development of the countries in which it operates, generating jobs and innovation in strategic sectors and establishing a solid basis – in terms of intelligence, creativity and know-how – to export technological excellence to the world.

THE NEW PROFILE OF LEONARDO ON THE WEB

Leonardo has launched its new identity also on the new digital communication platforms to introduce the new company to stakeholders and describe the organisational change. The leonardocompany.com website is now the only point of reference of all its businesses.

Leonardo social media channels have been also reorganised to better reflect the new structure, centralising the communication regarding products, services, information and news on Twitter and LinkedIn with a renewed editorial project.

The followers of Leonardo have more than doubled on LinkedIn and increased by approximately 27% on the Twitter international channel in 2016.

ACCOMPANYING THE CULTURAL CHANGE

One Company... One Change - this is the first international change and training path offered to approximately 900 middle managers of Leonardo, designed to increase the knowledge of the new divisional organisational model and promote the beneficiaries' full awareness of the change underway.

One Company... One Change, organised between 2016-2017, comprised 36 sessions in Italy, 8 in the United Kingdom and 1 in Poland, for a total of approximately 41,000 hours of training.

Change in Action - through three Executive LABs lasting one-and-a-half day, and individual coaching sessions, this project intends to develop innovative proposals to manage key cross processes that make the change underway effective and sustainable.

The Change in Action project involved 50 executives who acted as "change agents".

The Group structure

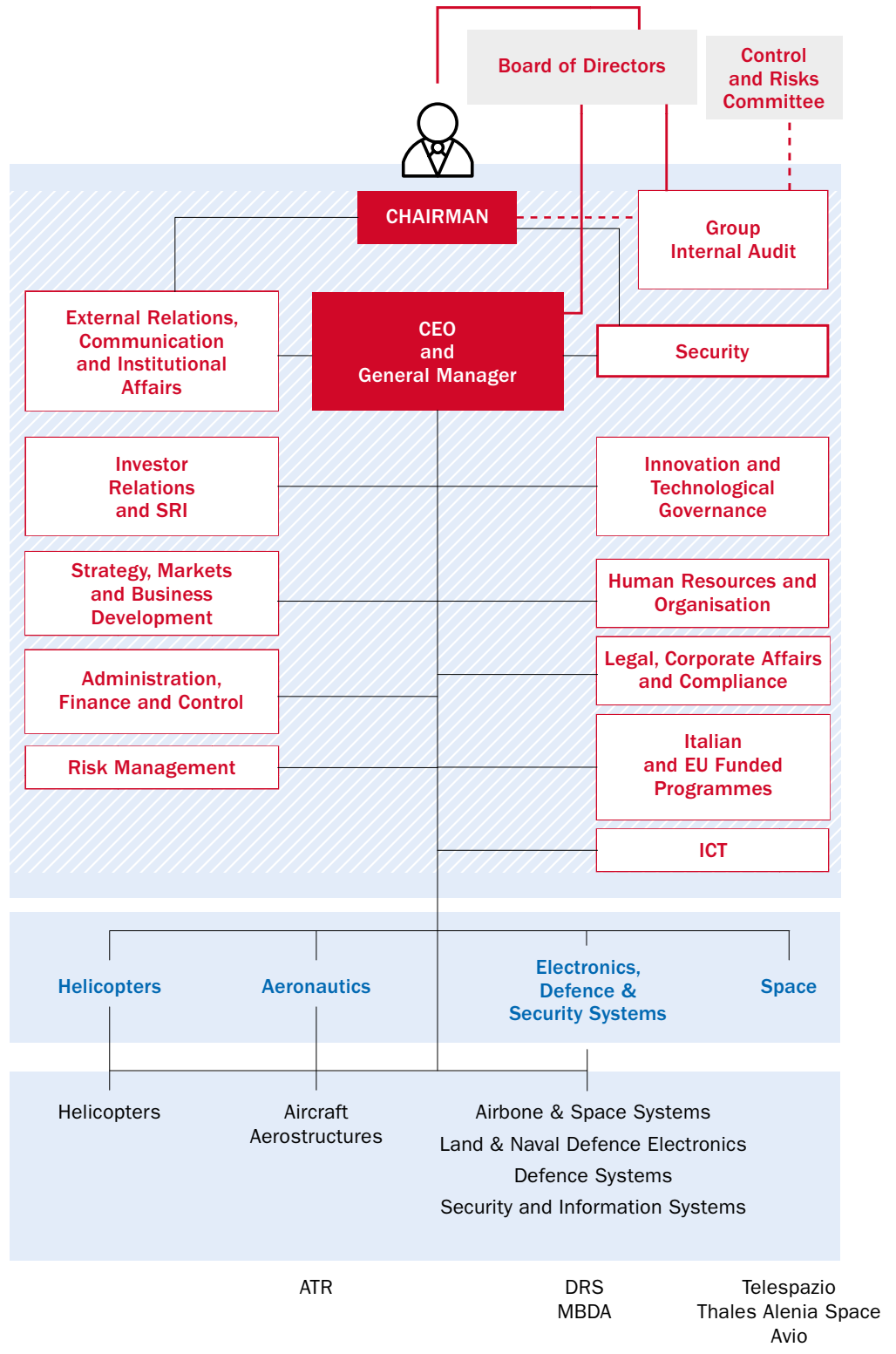
The central departments ensure the Group's guidance and control as well as a consistent management approach and corporate culture.

The Group includes Leonardo Global Solutions (LGS) that provides real estate management and enhancement services as well as purchase and facility management services.

The sectors coordinate the respective Divisions, joint ventures and equity investments.

The Divisions oversee the business activities end-to-end by managing levers and the necessary resources independently.

Joint ventures/Subsidiaries



LAUNCHING LEONARDO MW FOR THE ACTIVITIES IN THE UNITED KINGDOM

Since 1 January 2017, the UK activities of AgustaWestland Ltd, Selex ES Ltd, Finmeccanica UK Ltd and DRS Technologies UK Ltd have been merged into Leonardo MW Ltd, a new entity that groups a long-standing technological tradition in the helicopter and electronics field under the Leonardo brand.

Leonardo MW Ltd, with approximately 7,000 employees, is the second largest defence company operating in the country and one of the largest suppliers of the UK Ministry of Defence.

Business activities

Ingenuity at your service

Leonardo designs, manufactures and manages products, systems and integrated solutions for both defence and civil segments in order to meet the needs of Governments, institutions, companies and private citizens in every possible intervention scenario: airborne and terrestrial, naval and maritime, space and cyberspace.

What we do



MAIN PRODUCTS, SERVICES AND INTEGRATED SOLUTIONS

HELICOPTERS	Latest-generation helicopters for all main weight ranges, for civil and military applications and training and support services
AERONAUTICS	<p>Trainer aircraft and the related integrated systems to train pilots and ground staff, tactical transport and defence military aircraft</p> <p>Multi-role aircraft for special missions and unmanned systems</p> <p>Structures and components for the major civil aircraft programmes in Europe and North America</p> <p>Regional aircraft (ATR)</p>
ELECTRONICS, DEFENCE & SECURITY SYSTEMS	<p>Aircraft platforms that include integrated mission systems, airborne radars and sensors</p> <p>Simulation systems, advanced electronics, on-board avionics and aerial target systems</p> <p>Remotely Piloted Aircraft Systems (RPAS)</p> <p>Space systems that, in addition to the sensors and mission payloads, also include advanced robotic systems</p> <p>Systems integration, digital architectures, combat management systems and sensors, and communications</p> <p>Electro-optical fire control systems and infrared search and track, integrated logistics transport solutions</p> <p>Naval guns of any calibre and wheeled armoured vehicles</p> <p>Light and heavy torpedoes and anti-torpedo defence systems</p> <p>Sonar systems for underwater surveillance</p> <p>Marine propulsion system (Leonardo DRS)</p> <p>Solutions to monitor and protect territories and urban areas, critical infrastructure, sensitive areas and large events</p> <p>Air and maritime traffic control systems</p> <p>Cyber security integrated solutions and automation systems</p>
SPACE	<p>Satellites and orbiting structure</p> <p>Management of satellite services</p> <p>Tools, sub-systems and high tech sensors</p>

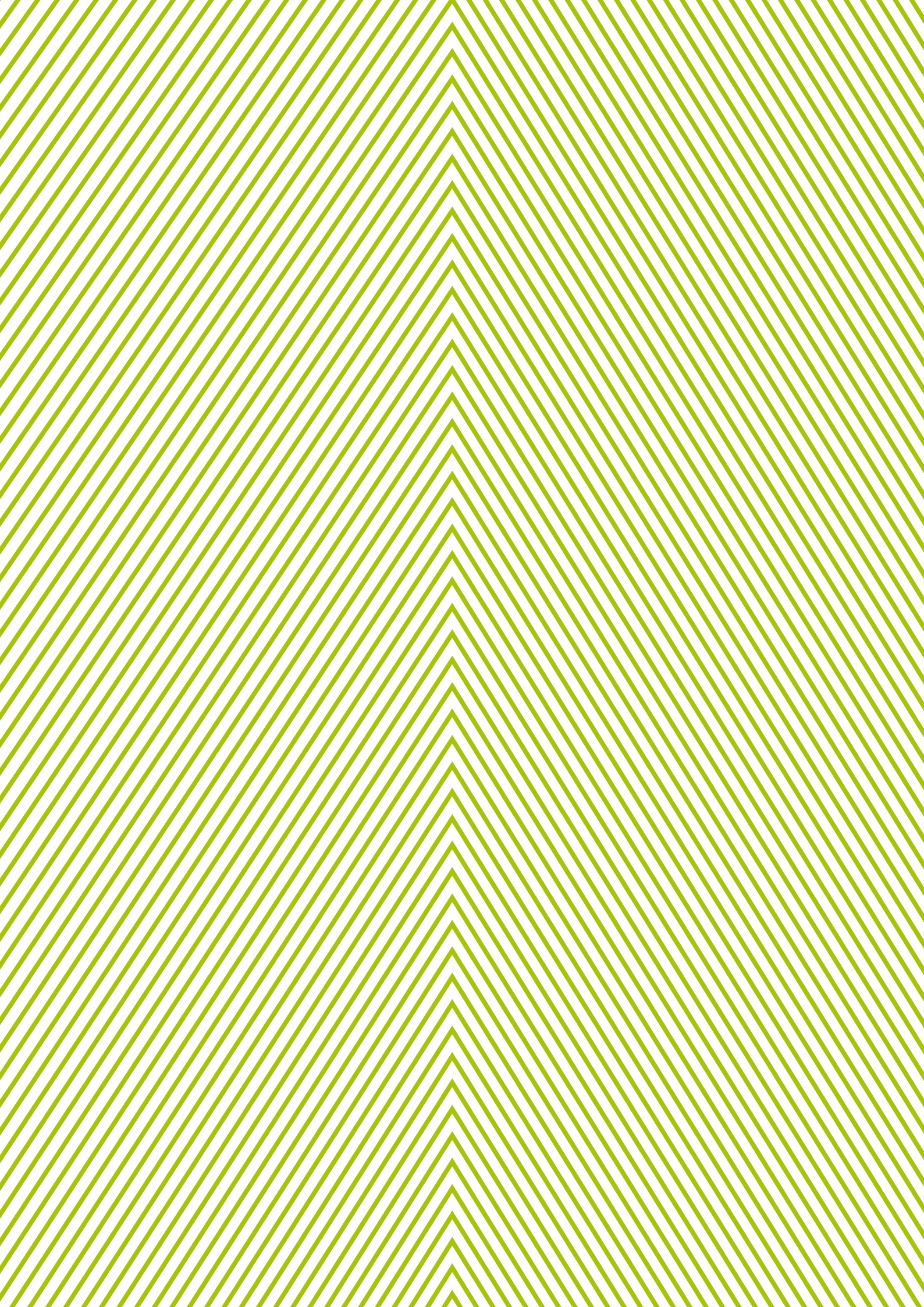
Leonardo participates in the main international programmes of the Aerospace, Defence and Security.

Main international programmes and partnerships	Partner	
Eurofighter Typhoon	Fourth-generation, multi-role, twin-engined aircraft, single-seat and two-seat version. In operation since 2003.	Airbus, BAE Systems
Joint Strike Fighter F-35	Fifth-generation, multi-role, single-seat aircraft with stealth propulsion. In operation since 2015.	Lockheed Martin
nEUROn	Technological demonstrator through which the European industry is exploring the new fields of stealth and unmanned air combat vehicles (UCAV).	Dassault Aviation, SAAB, Airbus Defence and Space, RUAG, HAI
NH90	Multi-role twin-engined helicopter in the 11 ton class, specifically developed to meet NATO's requirements.	Airbus Helicopters, Fokker
MALE 2025	Unmanned aerial system for medium altitude/long endurance missions to be used for ISTAR surveillance and defence (intelligence, surveillance, target acquisition and reconnaissance).	Airbus, Dassault Aviation
Aerostructures	Structural parts for 767, 777 and 787 Dreamliner.	Boeing
	Structural parts for A321, A340-500/600 and A380.	Airbus
NATO Cyber Security	System to guarantee the information security of approximately 50 NATO sites and offices in 28 countries around the world.	Northrop Grumman
FREMM	A joint Italian-French programme for the construction of ten naval frigates.	Fincantieri Thales
FNEC (Network Enabled Capability)	Programme for the digitalisation of the Italian land defence force, with the objective of enhancing the exchange of operative, tactical and logistical information between different units and members of the armed forces deployed in the field.	
COSMO-SkyMed	A constellation of four earth observation satellites for civil and military applications. The programme's main partners include the ASI (Italian Space Agency), the Italian Ministry of Defence and MIUR (the Italian Ministry of Education, University and Research).	

INTEGRATED SOLUTIONS AT THE HEART OF THE NEW PRODUCT CATALOGUE

With the One Company Leonardo enhanced the commonalities and the cross-cut skills of the Divisions, eliminating overlapping, in order to provide standard and modular solutions and dual use, increased internationalisation with a focus on selected target markets and expanding the offer in terms of integrated capabilities and servicing activities.

In the new **product catalogue based on five areas**, Air Mission & Air Transport, Land Strategic Battlefield & Air Defence Systems, Naval Superiority, Space Solutions and Security & Information Systems, Leonardo solutions are presented based on a cross-cut view in order to highlight the company's ability to meet the specific operational needs of its customers.



- The approach to sustainability



Our approach

In 2016, Leonardo started a new sustainability path for a more effective integration of the ESG (Environmental, Social and Governance) issues into business strategies to support industrial processes, thereby improving its competitiveness, the ability to innovate and, above all, to share common rules and values.

The updating of materiality matrix is the first step of this path. As part of this process, management evaluated the materiality of the various issues highlighted by the multi-dimensional analysis of the external environment, identifying the areas to be integrated with the Industrial Plan.

Through the evaluation of material issues, Leonardo subsequently identified the most significant integration aspects between sustainability factors and the key pillars of the Industrial Plan. These aspects, which are significantly linked to operational and business processes, include sustainability guidelines and priorities for action.

In order to ensure the ongoing commitment and action of the Group in the long term, a new sustainability governance was defined, introducing central coordination and organised and structured monitoring on several organisational levels.

With the new Industrial Plan, focused on growth and development, Leonardo set the goals and guidelines for the 2017-2021 period, based on innovation and a path towards increased transparency and accountability of its activities.

EXTERNAL DRIVERS: THE EVOLUTION OF ESG ISSUES

Responsible investors are increasingly important

1,400 signatories who manage investments worth USD59 trillion. These are the figures of the initiative launched by the UN to promote the six Principles for Responsible Investment, including institutional investors who hold approximately 20% of Leonardo share capital². Specifically, the second principle "incorporates ESG into our ownership policies and practices".

Growing demand for companies' accountability

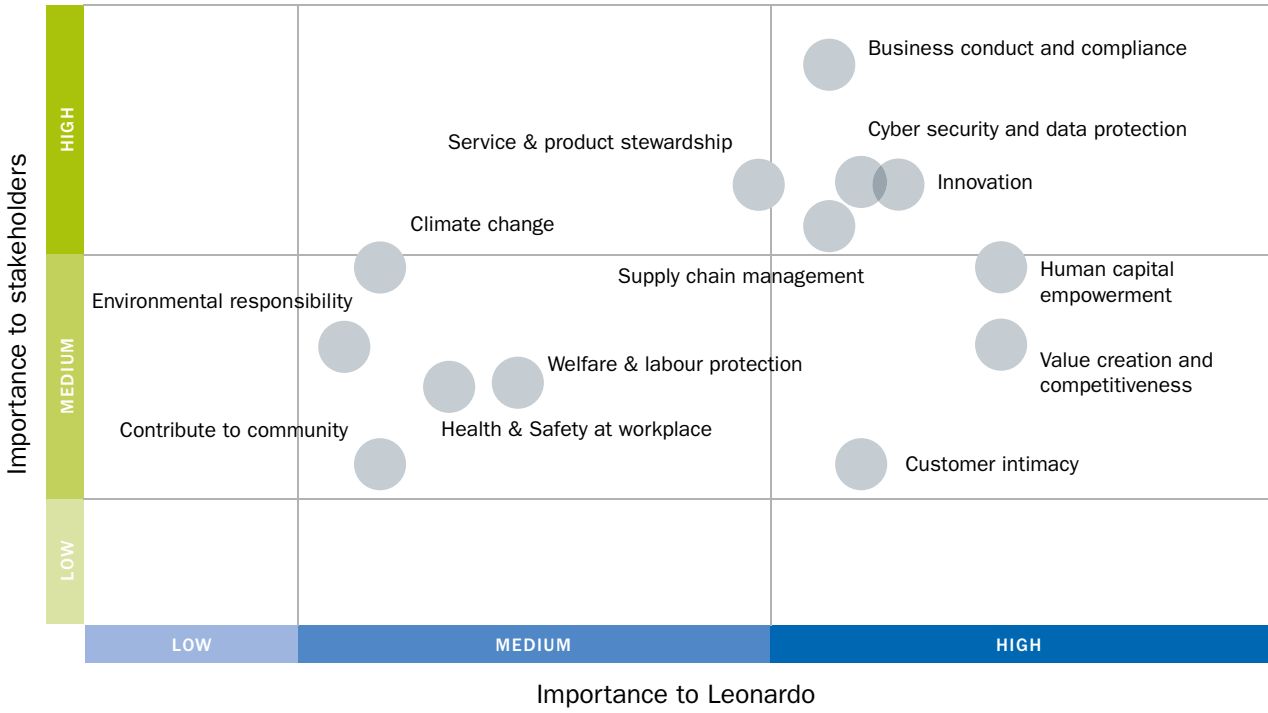
The EU directive "Non-financial and diversity information" also came into force in Italy. Under this directive, large companies/groups are now required to disclose non-financial information about the policies, risks and results on social and environmental issues and those related to the respect for human rights, anti-corruption and gender diversity in boards of directors.

Relaunching the global agenda of sustainable development

Fighting climate change, resilience of cities and infrastructures and conservation of terrestrial and marine ecosystems are among the 17 goals (Sustainable Development Goals) to be met by 2030 by the 193 countries members of the United Nations.

2. Shareholding structure at January 2017.

MATERIAL ISSUES: WHAT MATTERS FOR LEONARDO'S SUSTAINABILITY



MAIN STAKEHOLDERS

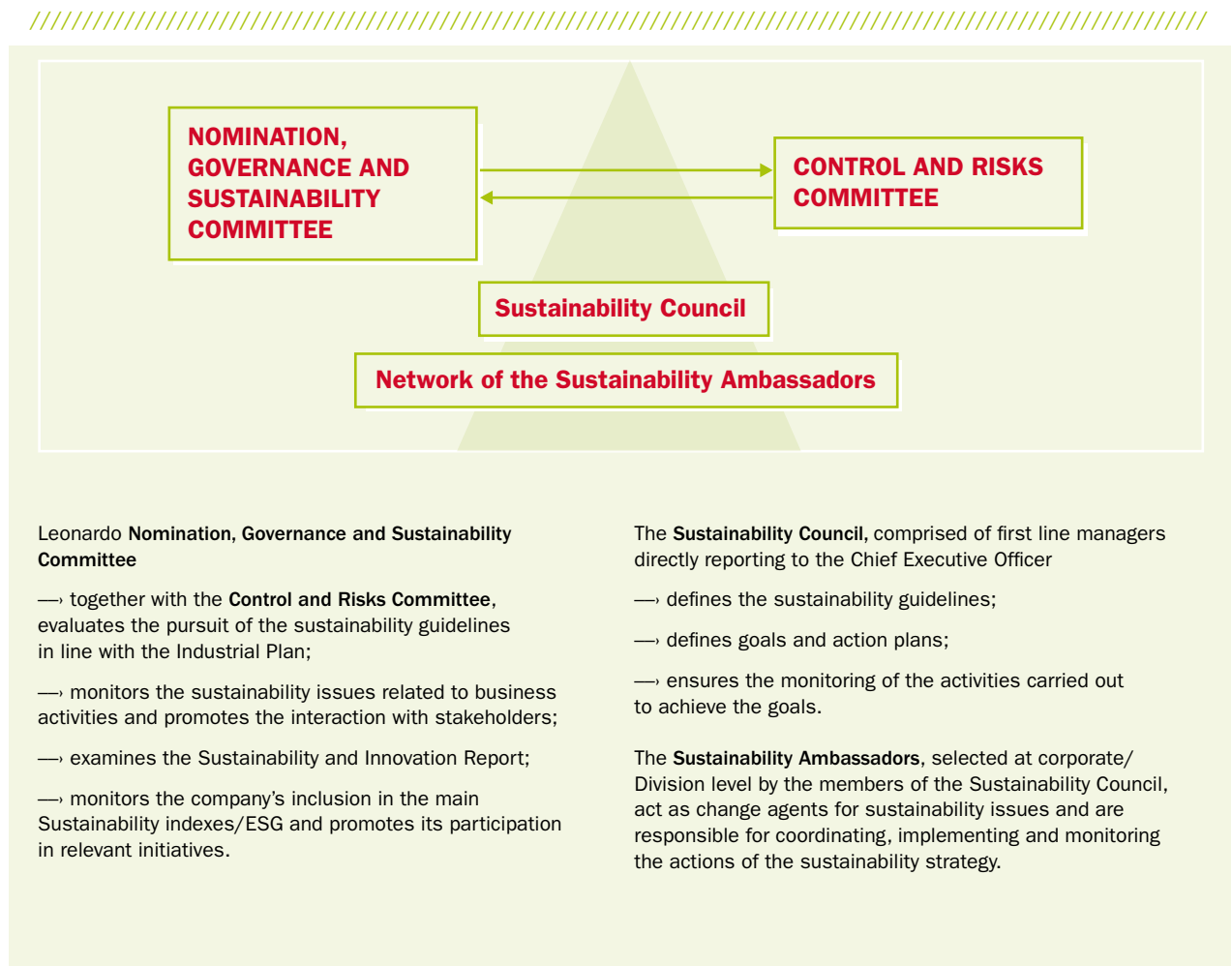


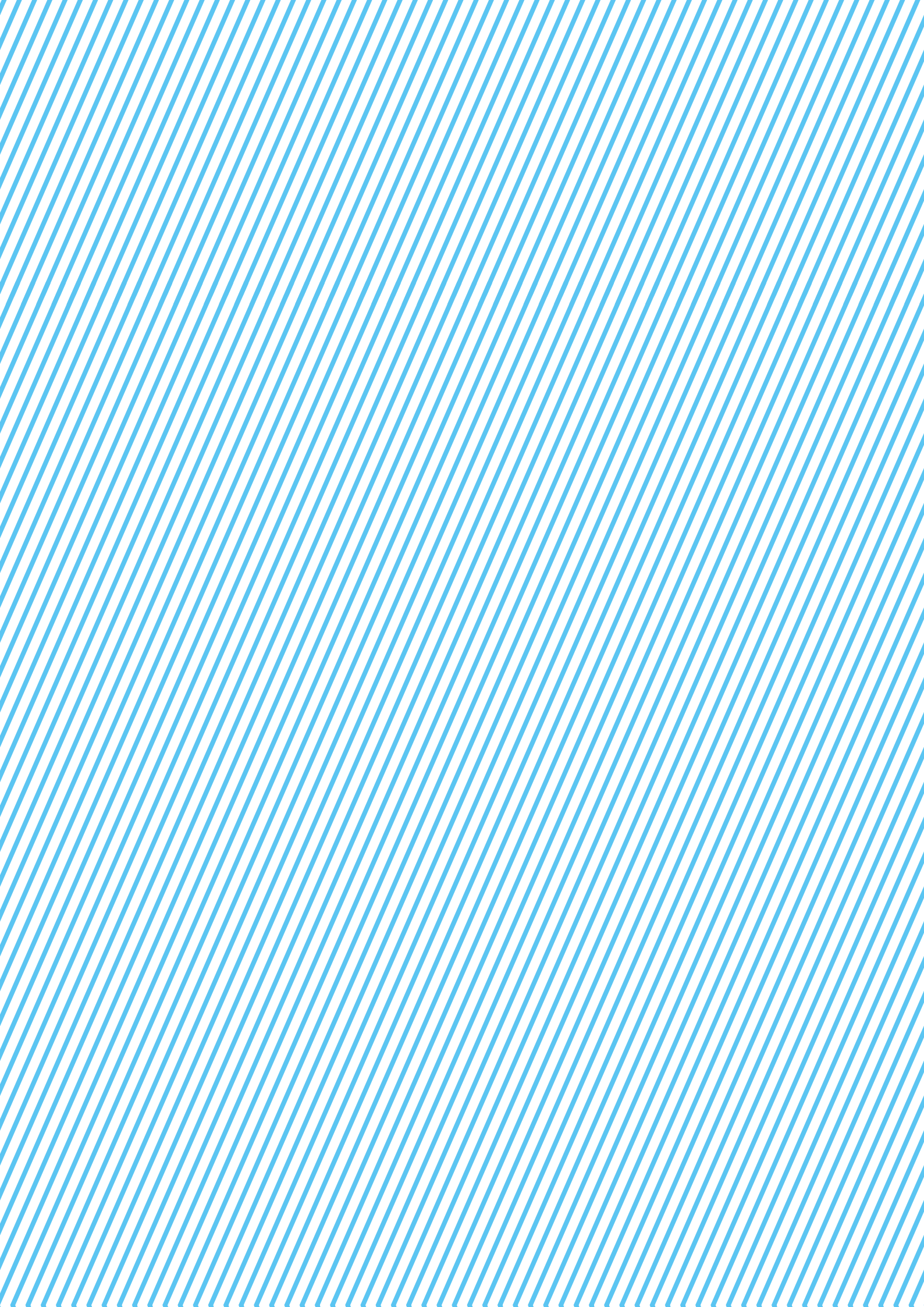
Sustainability governance

In order to complete the revision of the sustainability strategy, Leonardo established new controls, throughout the organisation, adapting the best governance practices to its organisational model.

In September 2016, the Board of Directors assigned sustainability and corporate governance responsibilities to a Board Committee, pursuing its path towards excellence in responsible business conduct. Therefore, the Nomination, Governance and Sustainability Committee, comprised of five independent, non-executive directors, is the highest supervisory body of sustainability strategic guidelines.

Consequently, the Sustainability Council was set up in order to implement the strategy. The Sustainability Council represents the entire company management (heads of central organisational units, Divisions and sectors and of the main subsidiaries) and is assigned guidelines and coordination tasks. Finally, the Sustainability Ambassadors operate within each operational structure as change agents, providing the necessary support for adopting guidelines and implementing sustainability actions, ensuring executive implementation.





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Compliance with standards and rules



NO STEP

NO STEP

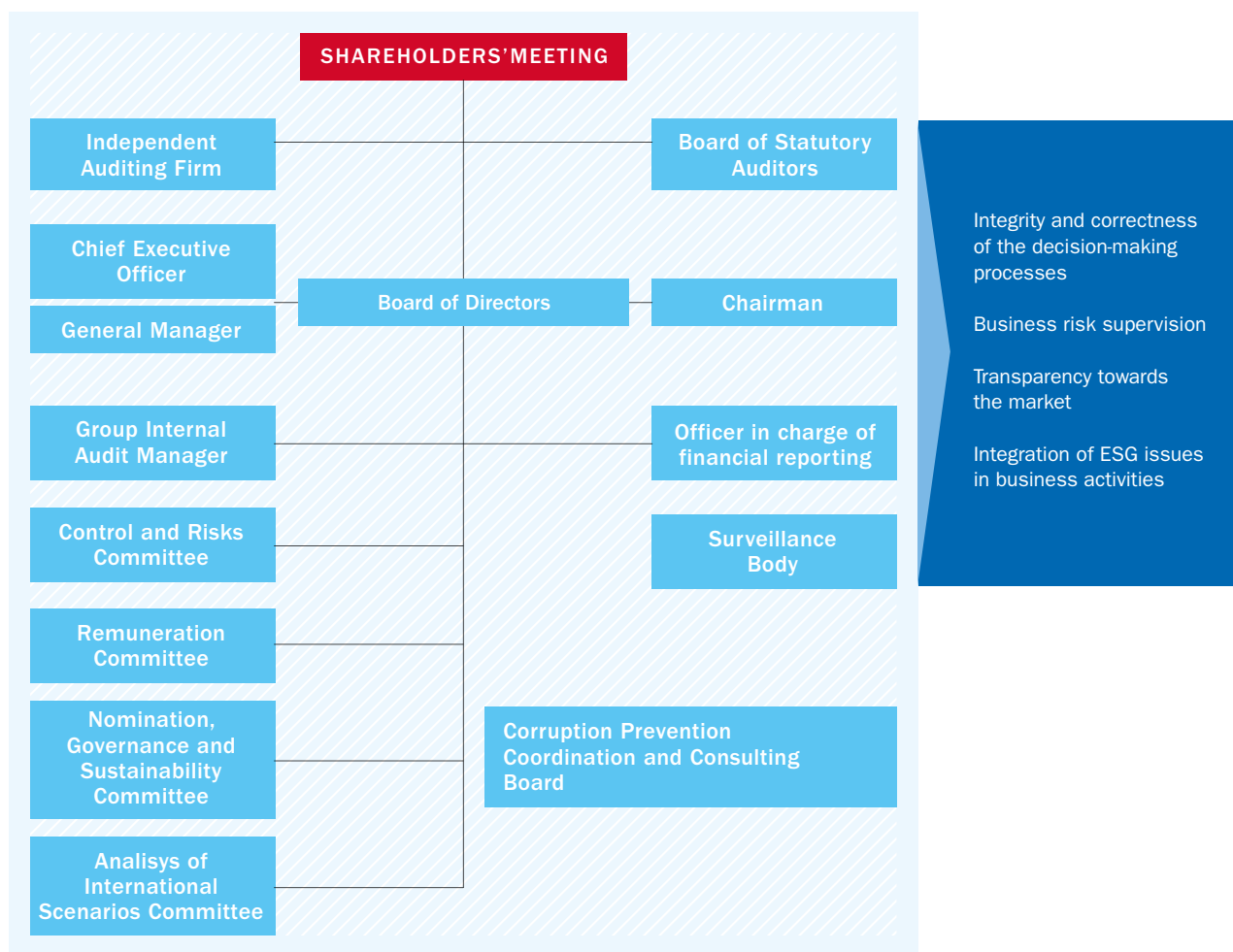
Corporate governance

The corporate governance system of Leonardo oversees the management and control of business activities and is the pillar of the creation of value for shareholders and all stakeholders.

The current system reflects the provision of the Corporate Governance Code for Listed Companies promoted, *inter alia*, by Italian Stock Market, and international best practices. As part of this system, the Board of Directors is the main body entrusted with the power to define business strategies and the company's organisational and control structure.

Leonardo General Counsel was awarded the TopLegal Corporate Counsel Award for having managed the extensive reorganisation of the Group, which recently culminated with the adoption of a new organisational and operational structure.

THE CORPORATE GOVERNANCE MODEL³

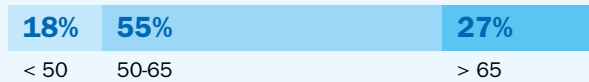


3. For further details see Corporate Governance Report.

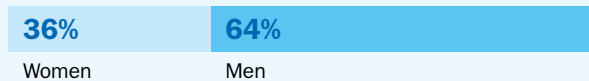
THE BOARD OF DIRECTORS' STRENGTHS

Leonardo Board of Directors' members have strong and diversified skills and experience.

AVERAGE AGE



GENDER 36% of directors are women. The number of women in the Board of Directors is higher than the average of Italy's (26%⁴) and UK (24%⁵) listed companies.



SIZE The Board of Directors comprises 11 directors.

INDEPENDENCE 81% of directors, except for the Chairman and the Chief Executive Officer and General Manager, meet independence requirements. The independent directors are coordinated by the Lead Independent Director.

SEGREGATION OF ROLES The Chairman position is segregated from that of Chief Executive Officer.

REPRESENTATION OF MINORITY SHAREHOLDERS 36% of directors was appointed as part of lists submitted by non-controlling shareholders.

LEONARDO COMMITMENT TO THE DISSEMINATION OF CORPORATE GOVERNANCE GOOD PRACTICES

The second edition of the "Italy Corporate Governance Conference", organised by Italy's investment manager association Assogestioni and Italy's association of joint stock companies Assonime, in collaboration with the OECD and Borsa Italiana, was held in Milan in December 2016, providing an opportunity to discuss the most significant corporate governance issues for both institutional investors and listed companies.

The main topics relating to the governance of listed companies were covered: from the process of appointing board members, to the instruments for the creation of long-term value for companies and the role that self-regulation has taken on in the markets. Considerable attention was also devoted to the stewardship issue: the greater requirement for accountability and transparency in managing investments, through greater engagement between funds and listed companies.

Leonardo Chief Executive Officer and General Manager Mauro Moretti participated in the discussion about the integrated evolution of corporate governance, deemed to be essential for the development of significant long-term relations between stakeholders and listed companies.

Management remuneration

All variable incentives (short and long-term) are subject to a claw-back clause whereby the company will be entitled to request the reimbursement of the variable remuneration paid if this was based on data that subsequently proved wrong or distorted.

Leonardo remunerates the Board of Directors, the general managers and other key managers based on policies that are consistent with the governance model and the Corporate Governance Code for Listed Companies, communicated to all stakeholders in the specific Remuneration Report.

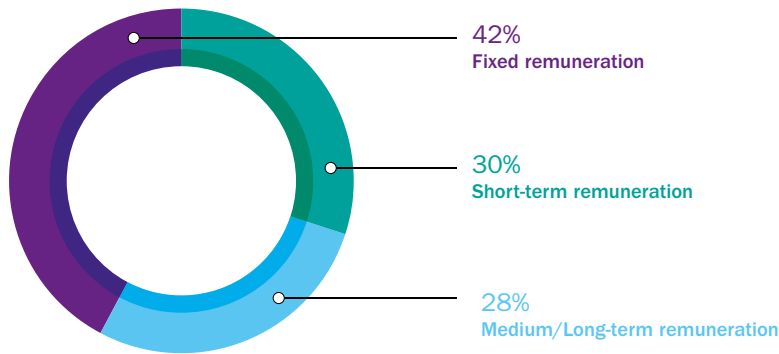
The Board of Directors set the remuneration policies assisted by the Remuneration Committee, comprised of independent directors.

4. 2016 Italy Board Index - Osservatorio sui Consigli di Amministrazione delle società quotate Italiane, Spencer Stuart.

5. Assogestione study - November 2016.

The 2016 variable remuneration of the Chief Executive Officer and General Manager is linked to objectively-measurable goals and is strictly related to the targets of the company's budget/plan as well as the strategically-relevant goals for the Leonardo Group.

PAY-MIX OF THE CHIEF EXECUTIVE OFFICER AND GENERAL MANAGER



Responsible business conduct

Reputation is a crucial asset to protect and develop the business of Leonardo. And a good reputation requires proper behaviours, in full compliance with laws and internal conduct rules.

The management of Leonardo is committed to promote the culture of legality and integrity as key factors to increase Leonardo's reliability and the confidence of customers, suppliers, industrial and commercial partners and all stakeholders.

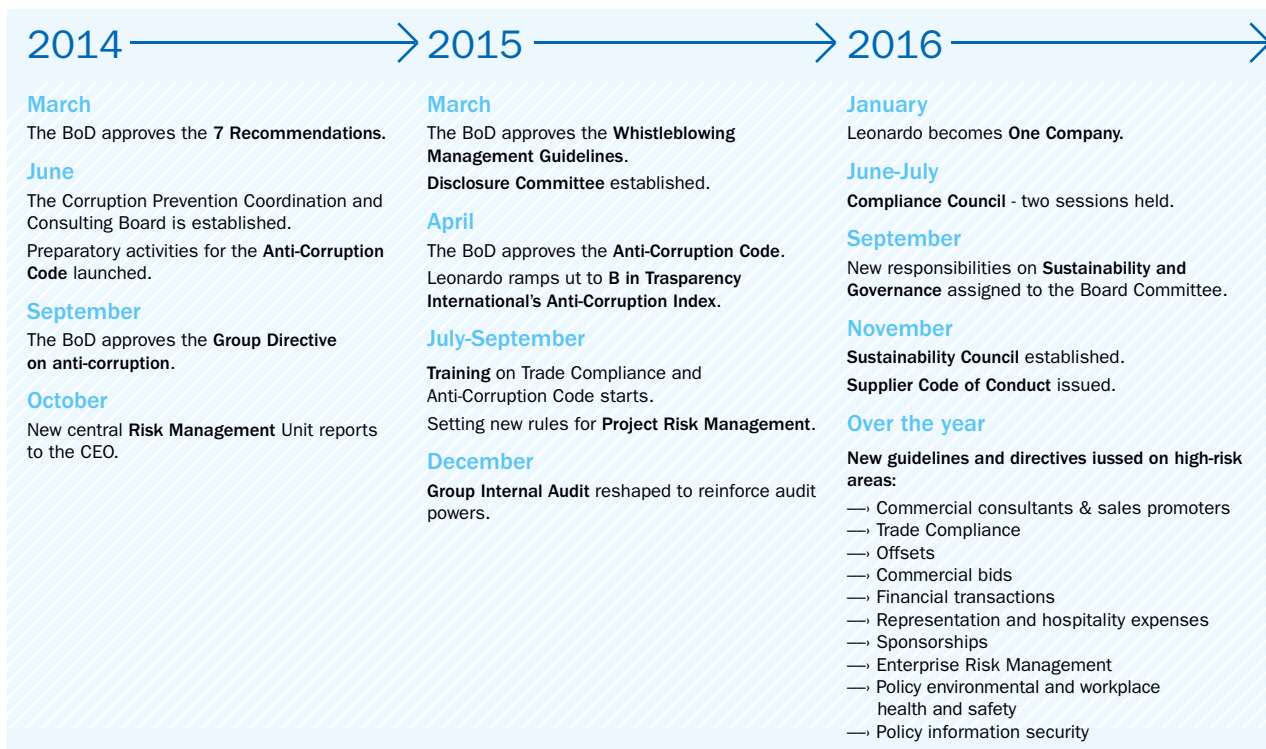
The business activities are carried out throughout the One Company in full and consistent compliance with a common set of rules and internal codes (including the Charter of Values, the Code of Ethics, the Anti-Corruption Code and the Organisational, Management and Control Model), which are aligned with the "Common Industry Standards" of the AeroSpace and Defence Industries Association of Europe (ASD) and with the "Global Principles for Business Ethical Conduct" of the International Forum for Business Ethical Conduct - IFBEC.

“

I care about Leonardo reputation as my own personal reputation and I have the expectation that any employee of the company follows the same approach. Compliance with ethics, laws and integrity, as well as competing fairly, induce trust and confidence in all the company's stakeholders and enable us to have success and expand our business all over the world”.

Mauro Moretti,
Chief Executive Officer and
General Manager

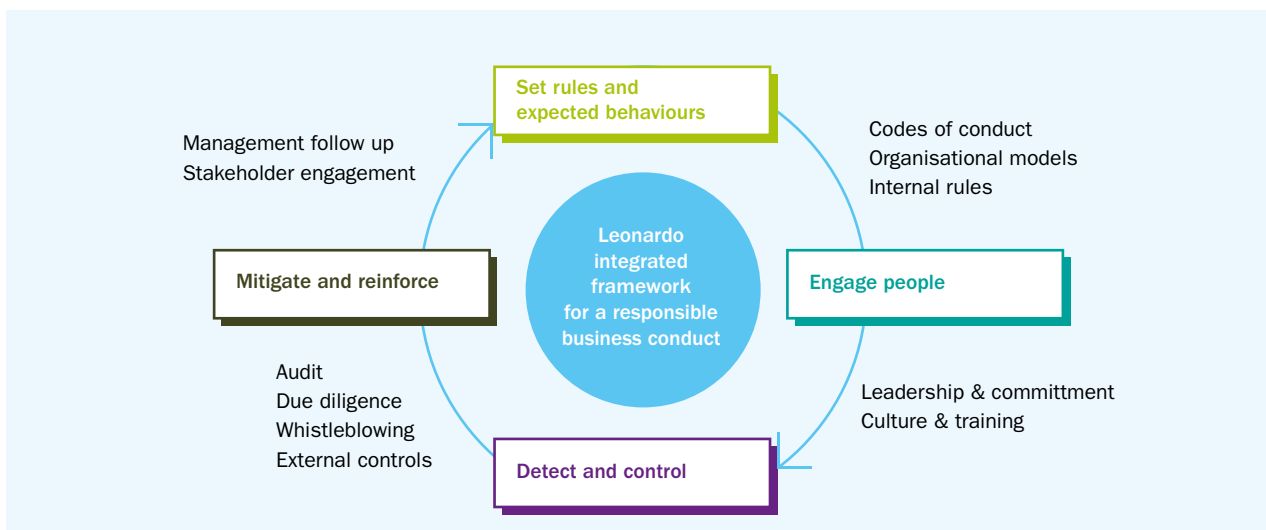
ROADMAP OF THE PAST 3 YEARS



The Group operates in accordance with the ruling regulations of each of the countries in which it is present, including Legislative Decree 231/2001 for Italy, the UK Bribery Act for the United Kingdom and the US Foreign Corrupt Practices Act in the United States.

With the aim to strengthen the responsible business conduct model, risks are constantly monitored and the management and control procedures are continuously updated, mainly through interactions and discussions within the company. Risk and opportunity management is critical for success and allows Leonardo to meet the needs of stakeholders who ask for the adoption of both measures to identify and manage risks and risk-based rules and regulations to control the business. In 2016, some activities were carried out to further increase the integration between risk management and operational processes, with a strong focus on the dissemination of a common risk culture.

RESPONSIBLE BUSINESS MODEL



THE INTEGRATED MODEL IN ACTION – 2016 REPORTING

Set rules and expected behaviours

In 2016, approximately 50 documents (including guidelines, procedures and codes) were issued, most of which related to environmental and compliance issues:

ENTERPRISE RISK MANAGEMENT

- › Guidelines, directive and manual

ANTI-CORRUPTION

- › Guidelines and Directive on commercial consultants' and sales promoters
- › Guidelines on selection and recruitment of staff
- › Guidelines on representation and hospitality expenses
- › Procedures on gifts, M&A transactions and sponsorships and donations to associations and institutions

TRADE & EXPORT CONTROLS

- › Guidelines and directive on Trade Compliance

PROCUREMENT AND SUPPLY CHAIN

- › Supplier Code of Conduct
- › Directive on procurement management

DATA PROTECTION

- › Policy information security

ENVIRONMENT AND H&S

- › Environmental and Health and Safety integrated policy
- › Guidelines on employees' travel security

Mitigate and reinforce

BOARD OF DIRECTORS ACTIVITIES

- › Board of Directors: 11 meetings (attendance 99%)
- › Control and Risks Committee: 10 meetings (attendance 90%)
- › Nomination, Governance and Sustainability Committee: advisory and proactive powers in the field of sustainability and corporate governance assigned to the Board Committee

RISK ASSESSMENT & MONITORING ACTIVITIES

174 managers, including risk owners and the risk specialists involved in business risks identification, analysis and evaluation and the half-year monitoring of the implementation status of the mitigation actions identified

ENGAGEMENT ACTIVITIES with institutional investors, financial and ESG analysts, rating agencies, non-governmental and non-profit associations, ethical committees

- › 3 institutional roadshows
- › 5 financial conferences, of which 1 dedicated on ESG topics
- › conference calls and telepresence meetings +27% on 2015
- › individual and group meetings +17% on 2015
- › questionnaire sent to 40 non-profit social stakeholders

Engage people

585,170 hours of training:

TRAINING ON ANTI-CORRUPTION

- › 81% of the population trained about the Anti-Corruption Code⁶
- › 84% of Italy trained about the Legislative Decree 231/2001 Model⁷ through one-to-one sessions for first-level managers, on-line sessions for junior managers and white collars and classroom sections for other managers and blue collars

SPECIALISED AND TAILORED TRAINING

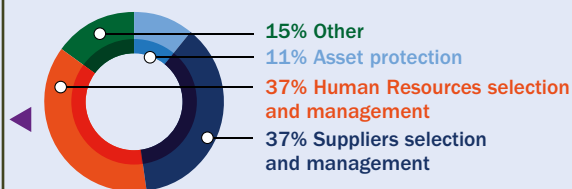
- › Business compliance: 17 days for business compliance officers to discuss best practices and find common solutions
- › Trade Compliance: 12,500 more risk-exposed resources trained
- › Enterprise Risk Management: for managers in charge of business line and support functions and those in charge of risk management units
- › Project Risk Management: for over 1,000 resources to ensure the dissemination of the rules established
- › Social Engineering Training:
 - for 1,600 employees from all Divisions and those that are mostly exposed to the risk of identity theft or manipulation
 - 2,000 brochures and 260 security gadgets distributed
- › Security Awareness:
 - 12 campaigns to raise awareness about threats to information security
 - more than 10,000 specific communication on social media security

Detect and control

WHISTLEBLOWING

- › 22 reports received, of which 16 anonymous and 63% well-founded based on checks carried out during the year by the Disclosure Committee

SCOPE OF REPORTS RECEIVED IN 2016



- › Audits: 131 audits/follow ups (see Focus on 2016 Audit Plan)
- › KPIs on due diligences:
 - 155 notifications for transactions in 31 sensitive countries
 - 97 evidence notices produced by intermediaries
 - extension of due diligence on players involved in sponsorships

6. At February 2017.

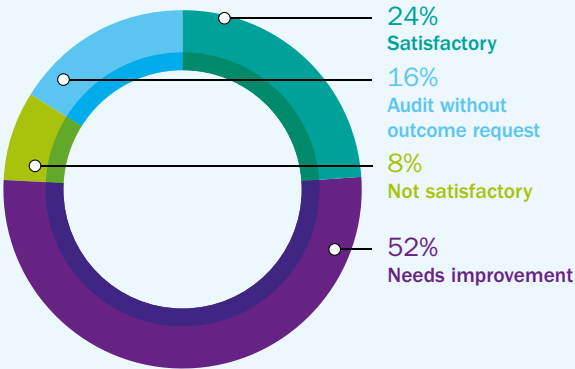
7. At February 2017.

FOCUS ON 2016 AUDIT PLAN

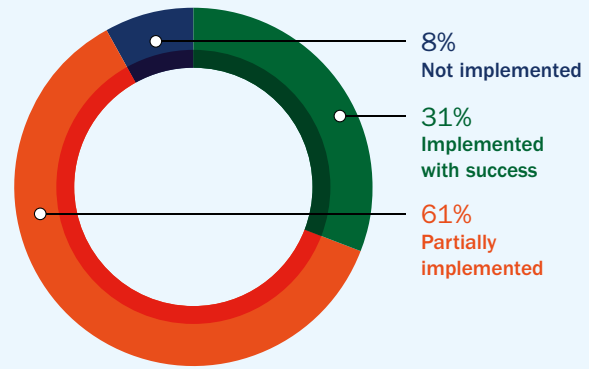
The 2016 Audit Plan included 131 audits (92) and follow ups (39), broken down into four areas: compliance (56%), operational (34%), financial (5%) and ICT (5%).

QUALITY ASSURANCE An independent verification carried out by third parties assessed internal audit activities of Leonardo in accordance with the International Standards for Professional Practice issued by the Institute of Internal Auditors (IIA) which resulted in an “overall compliance”, IIA’s highest positive evaluation.

AUDIT EVALUATIONS



FOLLOW UP EVALUATIONS



TRAINING ON TRADE AND BUSINESS COMPLIANCE

More than 200 managers of Leonardo divisions and Italian and foreign subsidiaries participated in the second edition of the Compliance Council.

The Compliance Council is one of the main events in relation to compliance and training programmes. The aim is to continue the standardisation and to increase the consistency of the various procedures, policies, cultures and sensibility of Divisions in order to arrive at a single cultural identity based on ethics and full compliance with regulations.

During the event, the Chief Executive Officer and General Manager Mauro Moretti and the Chairman Giovanni De Gennaro emphasised once again the importance of the zero-tolerance principle for corruption and for any other conduct that is unlawful or in contrast with the company’s values.

DUE DILIGENCE ON BUSINESS CONSULTANTS AND SALES PROMOTERS

Leonardo carries out due diligences on intermediaries supported by five different international specialist companies, selected by a tender procedure, which provide differentiated services based on the type of contract/engagement.

Through its Divisions and subsidiaries, prior to assigning an engagement, Leonardo carries out enhanced due diligences on potential business consultants and promoters, focusing, in particular, on their reputation and integrity in accordance with Leonardo guidelines, directives and codes of conduct.

With a view to consistently and unequivocally interpreting the data of the due diligences on business consultants and promoters, a periodically updated central database was set up which groups information from Divisions and Italian and foreign subsidiaries.

In order to strengthen the process to identify and manage risk factors (red flags), a process was defined which involves the Division’s Risk Management and is based on a “risk grid” to be applied to the results of the due diligence for the assignment of engagements to business consultants and promoters: each red flag is assigned a specific weight to determine the effectively overall associated risk factor and any decision “gates”.

Human rights protection

Leonardo is committed to protecting the universally recognised rights concerning personal and professional life and environmental protection. Consequently, it is committed to protecting these rights in all applicable situations in accordance with the principles set out in the Charter of Values and the Code of Ethics as well as the recommendations included in the OECD guidelines for multinationals.

In 2016, with the issue of the Supplier Code of Conduct, Leonardo extended the protection of human rights and the principles of responsible business conduct also to its supply chain.

OUR COMMITMENT TO:

People and labour protection	<ul style="list-style-type: none"> › Respect for the dignity of each individual and minorities › Equal opportunities, fair treatment for everyone based on merit, regardless of race, nationality, political creed, religion, gender, age, diverse ability, sexual orientation, personal or social condition › Respect of the regulations that govern employment relationships in each country and absolute prohibition of illegal employment › Recognition of the freedom of association and application of advanced policies for human resources’ management and development and industrial relations › Adoption of management systems for an health and safety workplace
Social security	<ul style="list-style-type: none"> › Application of advanced policies on welfare protection that consider individual needs, based on the various life cycles
Environmental protection	<ul style="list-style-type: none"> › Dissemination of environmental impact management systems › Implementation of long-term investment plans to improve production processes › Application of the precautionary approach by revising environmental risks on a quarterly basis

FOCUS ON DIVERSITY AND INCLUSION

The attention to the various forms of diversity is also part of procurement activities, where Leonardo DRS supports the small and medium enterprises of the supply chain managed by women and veterans.

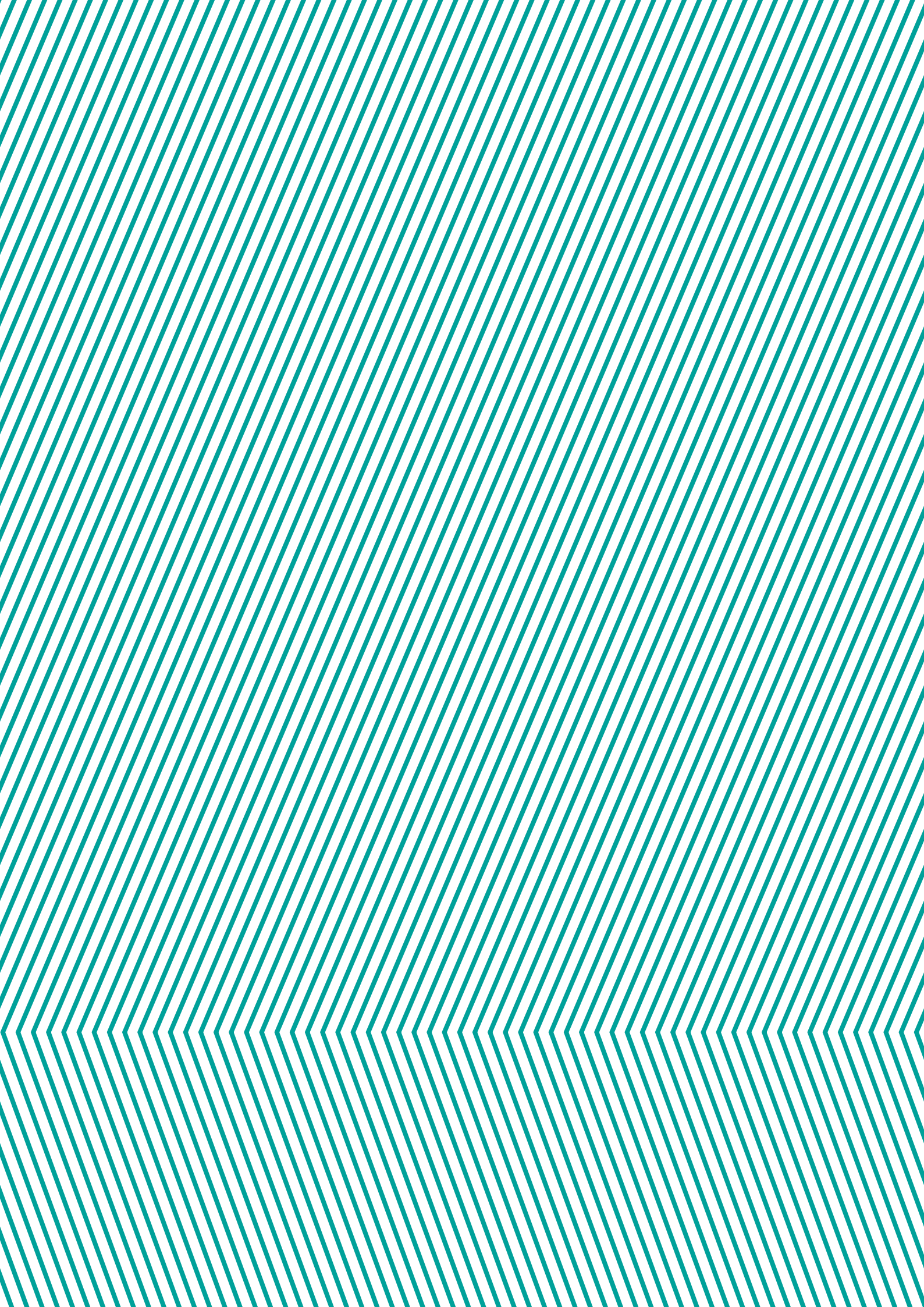
Leonardo DRS's myDIVERSITY programme aims at increasing the opportunities for inclusion for all forms of diversity that characterise the company population. The focus is on gender, ethnic and generational diversities.

The first actions implemented after the set-up of the Diversity Council related to training sessions for managers (Managerial Training on Unconscious Bias) and specific initiatives to raise employees' awareness.

DATA PROTECTION

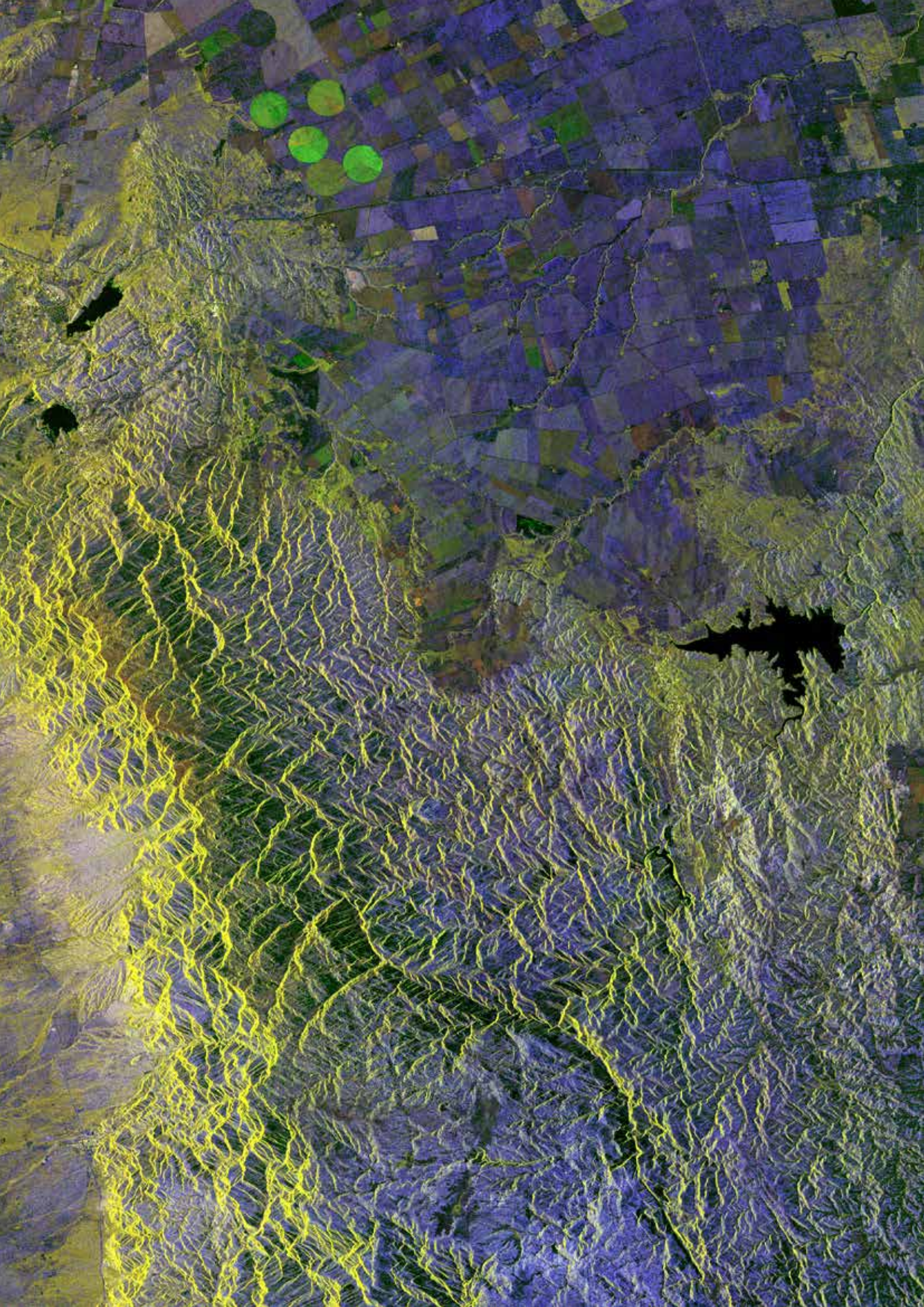
Leonardo is developing a specific training programme to inform, increase awareness and instruct the employees on privacy-related issues, also in view of the regulatory adjustment required by Regulation EU 679/2016 which will come into force in May 2018.

In 2016, Leonardo strengthened the data protection tools by introducing a new Privacy Organisational Model that combines business needs with the compliance of the guarantees required by data protection regulations applicable to employees, consultants and third parties. A Data Protection Officer (DPO) was introduced along with a Privacy Committee to identify the most adequate privacy governance guidelines, while promoting a consistent and centralised approach. In addition to this, a Data Protection Team ensures the integration with all company structures.



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Innovation for sustainable development



The sources and pathways of innovation

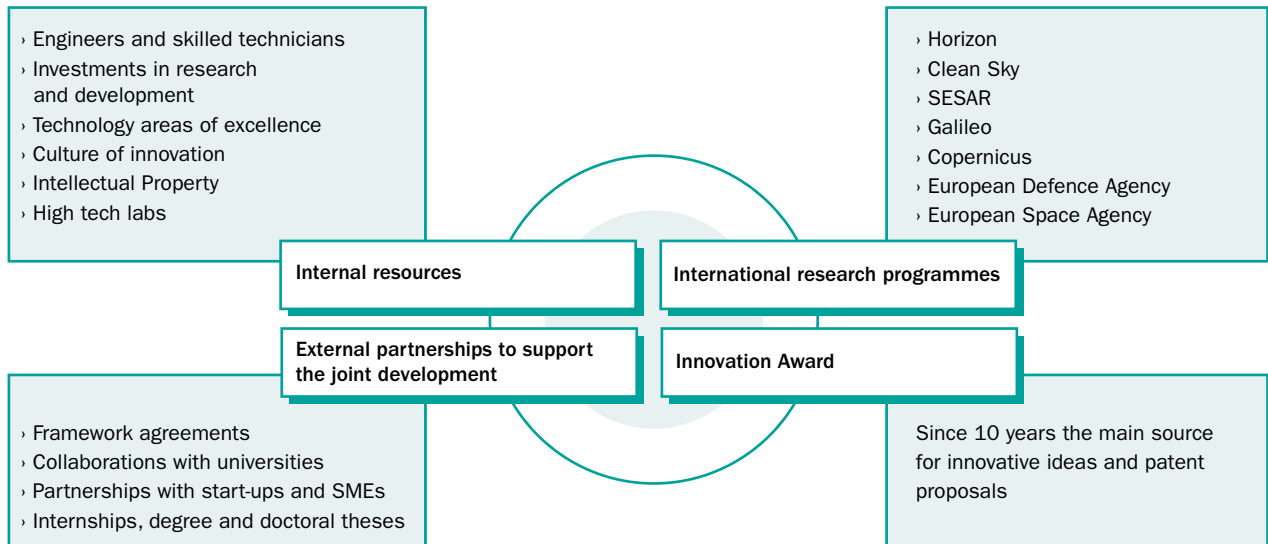
Leonardo pays the utmost attention on enhancing the creativity of its resources and facilitating the continuous sharing and ongoing circulation of knowledge within the Group.

Sharing the culture of innovation involves an extended network comprised of international universities, institutes and research centres, customers, suppliers and start-ups, according to the open-innovation model.

In conjunction with the vision and the goals of institutional stakeholders and the European technological roadmap, Leonardo is partner of excellence in national or European-funded projects which ensure the resources necessary for research and subsequently for implementing the derived innovation.

The EU Framework Programme for Research and Innovation Horizon 2020 is the key tool for reaching the goals set in the Europe 2020 Strategy, for a smart, sustainable growth via an economy developed based on knowledge and innovation.

THE OPEN INNOVATION MODEL



LEONARDO AS THE MADE-IN-ITALY SOURCE OF INNOVATION

In 2016, Leonardo was awarded the National Innovation Award, the most prestigious Italian prize dedicated to innovation Made in Italy, conferred at the presence of the President of the Italian Republic, thanks to a project that prevents the risk of in air collisions between manned and unmanned aircraft and that ensures the safety of the civil airspace.

Unmanned aircrafts represent the new business frontier of the Aerospace, Defence and Security. In this respect, Leonardo has a wide range of technologies. The full safety of their use and the overcoming of the current flight restrictions to separate “corridors” are fundamental to enable their integration into the airspace and to develop a sector that can offer many business and technological development opportunities to Italy.

In 2016, Leonardo also received an award for its “3D real-time acoustical imaging system”, a project that is part of the National operational programme for the preservation of underwater heritage. This system may have different applications in both the civil sector (exploring and maintaining underwater archaeological findings or inspecting underwater tunnels) and the military sector (detecting underwater explosives).

INNOVATION OF LEONARDO IN BRIEF

Internal resources

- › Approximately 11,000 engineers
- › Approximately 13,000 specialised technicians

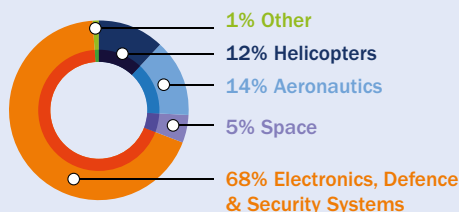
Key technologies

- › Software
- › Materials
- › Electronics
- › Optronics
- › Mechanics
- › Modelling and simulation
- › Systems design
- › Systems autonomy
- › Communication and cyber security

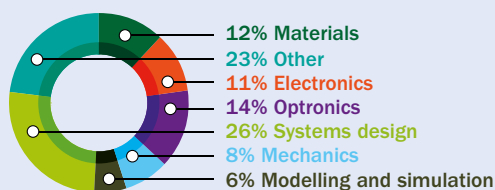
Intellectual Property Value Management

- › Diversified patent portfolio with a Compound Annual Growth Rate (CAGR) of 6.4% since 2006

BREAKDOWN OF PATENTS BY SECTOR



BREAKDOWN OF PATENTS BY KEY TECHNOLOGY



Investments in research and development

- › €1.4 billion invested in R&D, ~11% of revenues
- › Leonardo is the fourth company in Italy, the fifth in the A&D sector and the 99th in the world (top 100)⁸

Main collaborations with universities in 2016

The Turin Polytechnic, the Milan Polytechnic, Sapienza University of Rome, Bologna, Pisa, Genoa, L'Aquila, Trento, Federico II of Naples, Sant'Anna di Pisa, the National Council for Research, the National Institute of Astrophysics, the National Institute of Geophysics and Vulcanology, Edinburgh, Glasgow, Bristol, Heriot-Watt, Chapman University, University of Rochester, Rice University, University of Delaware, University of California San Diego, Lublin University of Technology, Warsaw University of Technology, Rzesów, Nanyang Technological University (NTU) of Singapore

Tools to spread the culture of innovation

POLARIS INNOVATION JOURNAL Quarterly journal focused on the technological developments in the company and the academic and scientific fields. In its seventh year of activity, for a total of 28 issues, in 2016 this journal featured more than 380 articles by over 1,400 authors, of which approximately 200 were not part of the company.

POLARIS PAPERBACKS Half-year monographs focused on specific technological matters related to innovation. Since its launch in 2015 to date, five paperbacks have been published, covering sustainability, intangible capital, software, UAV/RPAS and emerging technologies.

LUNCHTIME SEMINAR Short product or technology presentations held during lunch break. In 2016, 52 seminars were held, attended by over 6,000 participants in Europe.

In the United States, Leonardo DRS's Lunch & Learn numbered 12 in 2016.

8. The 2016 EU Industrial R&D Investment Scoreboard.

The roadmap of technological development

In order to effectively direct and focus its efforts into investments in research and development, Leonardo has evaluated the most significant innovation issues with an impact on technologies over the next ten years.

The analysis shows an updated vision of the technological trends of the Aerospace, Defence and Security sector, in addition to a perspective on the current technological situation of Leonardo and to the development priorities based on the future and open to the external environment.

The potential economic impact, the market requirements, the enabling technologies and the possible applications to current and future products have been identified for each aspect. In addition to this, the approach to acquire/develop and deploy technologies has been identified to ensure and maximise market return and business impact.

As part of its technological roadmap, Leonardo identified approximately 80 innovative technological aspects related to 15 different areas.

Management of these aspects will result in technological solutions or enablers for the future development of products as well as technological applications which can already be applied to the existing products. The main areas of interest about the new manufacturing processes and technologies are the advanced materials, Industry 4.0- and energy efficiency-related technologies, cyber security and platform autonomy technologies.

TELESPAZIO, A TV SUSTAINABLE INNOVATOR

As part of Eutelsat's Broadcast Seminar 2016, Telespazio and Sky Italia received an award as TV best innovators for having integrated a new solid state amplification technology for DBS (Direct Broadcasting Satellite) frequencies in Sky Italia's uplink systems, for the first time in the world.

This solution increases the reliability and operating efficiency of transmission systems while reducing CO₂ emissions and operating costs.

THE PUMA T4 - LTE AT THE INTERNATIONAL CRITICAL COMMUNICATIONS AWARDS (ICCA)

The innovative solution, which received the Best Innovation Award, has been developed by the Security & Information Systems Division and combines, for the first time, all safety features of TETRA (TErrestrial Trunked RAdio) with the new broadband LTE technology.

It is a professional telephone that offers the same usability of a common smartphone while maintaining all the safety features necessary for those operating critical communication systems.

THE ASTYANAX PROJECT AWARDED IN POLAND

The Polish Ministry of Defence awarded ASTYANAX project of Leonardo the second prize of the prestigious "Competition for the best scientific work and implementation in the area of defence". The project was carried out in collaboration with Polish and Spanish partners and focused on the development of a Structural Health Monitoring (SHM) methodology for fixed-wing and rotary-wing aircraft.

The Innovation Award

The ever growing number of participants confirms the success of the Innovation Award: in twelve years, over 9,000 technology innovation projects were submitted, involving more than 25,000 employees of every sector of Leonardo.

Innovation is a fundamental lever that drives the way to make business at Leonardo, constantly committed to enhancing and developing a unique and priceless wealth of knowledge which is cultivated with passion and determination. In this context, for over ten years, the Innovation Award has involved the Group' employees from all over the world including, for the second year in row, universities, in discussing the technological challenges of the future.

In 2016, Leonardo employees in Italy, the United Kingdom and the rest of the world submitted almost 700 projects. Students, newly graduates and post-graduate students of scientific disciplines from Italian universities participated, generating approximately 5,000 contacts on the specific online platform. Most of the successful projects have as common element the attention to environmental sustainability.

WINNING EMPLOYEES PROJECTS OF THE 2016 INNOVATION AWARD

Incremental innovation

Passive infrared system, hence that cannot be intercepted, to identify and trace targets (missile/naval/air) for naval frigates.

ADVANTAGES Sensor integration for constant 360° ship monitoring and immediate detection of the distance of possible threats.

Idea

Protective films in nano-composite material with graphene particles with superficial extension.

ADVANTAGES Prevents the intrusion of substances such as water or organic solvents in the composite structures, which reduce the properties or not permit the use for the structural applications.

Radical innovation

X and Ka bi-band antenna for radar applications developed for radar sensors used to control targeting naval systems which, otherwise, would use two separate antennas, one for each frequency.

ADVANTAGES Improved performance and reduced operating costs.

Best patent

Ground-air-ground unified communication system that uses the VHF data link mode 2 technology to integrate and optimise the various telecommunication networks used by the companies that operate air traffic control services.

ADVANTAGES Overcoming the telecommunication limits between control tower and aircraft, when these are managed by different operators.

LEONARDO AND THE POLYTECHNIC OF MILAN: A STEP FORWARD IN OPEN INNOVATION

The first project launched by Leonardo in collaboration with the Polytechnic of Milan is aimed at designing and building prototypes of devices to reduce noise and vibration both inside and outside the helicopter cabin.

Research, development, innovation and training activities are at the heart of the Innovation Hub project, in relation to which Leonardo and the Milan Polytechnic entered into a framework agreement for shared projects to create synergies between the Polytechnic and the Group.

The agreement initially covers nine technological areas: fluid-aerodynamics; structures and structural and multifunctional materials; mechanical and electrical systems; avionic components and systems; guidance, navigation and control electronic systems; software engineering; system engineering; audible and visible sensors; space robotics. In addition to this, collaborations will be forged for professional and management training.

WINNING UNIVERSITY PROJECTS

FIRST PRIZE TO POST GRADUATES

Solar-battery integration with photopolymers

Using innovative materials to develop devices that integrate photovoltaic power generation with the battery storage.

ADVANTAGES Photopolymers that, unlike those produced using industrial processes which entail a high environmental impact (high temperatures, use of chemicals or solvents), can be obtained through processes that only require a light source.

SECOND PRIZE TO POST GRADUATES

TIGRE: Tastiera GeneRa Energia (Energy generating keyboard)

Energy is recovered by converting the mechanical energy used to press the keys of a PC keyboard into electrical energy.

ADVANTAGES Through piezoelectric transducers, materials which can generate a voltage difference when subjected to mechanical strain, the keyboard can use the energy generated by the finger pressure to contribute to its own feeding.

THIRD PRIZE TO POST GRADUATES

Synthesis of carbon and silicon nanostructured materials for electrodes optimised for lithium batteries

Development of innovative electrodes using carbon and silicon nanostructures.

ADVANTAGES These electrodes improve electrical conductivity and the efficiency/life of batteries.

FIRST PRIZE TO STUDENTS/NEW GRADUATES

Low switching loss converter to feed high-speed 3-phase electric motors for aerospace applications

Low switching loss converter of electric power alternative to SiC (Silicon Carbide) MOSFET inverters.

ADVANTAGES Multidisciplinary application, of potential great interest for more/all electric vehicles.

SECOND PRIZE TO STUDENTS/NEW GRADUATES

Optimisation of the titanium alloy rotating parts' post-machining process

Study of the technical feasibility of a process concerning the final stage of mechanical processing, fully automated through the use of anthropomorphic robots.

ADVANTAGES Reduced production time, reduced spare parts inventory time, improved quality of product surface and reduction/elimination of defects in materials.

THIRD PRIZE TO STUDENTS/NEW GRADUATES

Energy Harvesting through magnetostrictive materials

Harvesting of electrical energy from the mechanical energy which would otherwise be lost to the environment, by using magnetostrictive materials.

ADVANTAGES Applications related to environmental sustainability and energy saving.

LEONARDO REWARDS ITALIAN EXCELLENCE

Leonardo financed a prize of the Leonardo Committee that promotes Italian economy, culture, science, technology and top quality products. In 2016, the Committee awarded the best degree thesis on the "Made in Italy" excellence in several sectors. The prize was awarded to a new graduate in aerospace engineering from the Milan Polytechnic for his degree thesis on an algorithm to protect against space debris. The degree thesis proposes the implementation of an algorithm that can estimate the position, speed, configuration and inertia properties of unknown objects which may collide against unmanned space vehicles, by processing the data provided by two cameras placed in stereoscopic set-up on the above vehicles.

Approximately 30,000 large space debris surround the earth resulting from disused satellites, rocket parts and objects lost by the astronauts during their missions.

INNOVATION HUB AT UK SITES

The Maker Space of Luton, inaugurated in June, and the Edinburgh Innovation Hub, opened in November, are areas at Leonardo available to all employees to explore innovative ideas. Employees enjoy free access to the Internet, information, tools and "making" resources (3D printers, Raspberry Pi kits, Software Defined Radio, 3D scanners, oscilloscopes and portable spectrum analyser) and can work on the "rapid prototyping".

All this facilitates a “can do” approach, disseminating and sharing skills, experience and plans that may turn into real business opportunities.

The members of the Fit For the Future (FFF) team of the Maker Space organised a series of preliminary workshops to the use of the devices, in addition to a series of exercises developed by Technical Fellows.

TOGETHER TO SPEED UP INNOVATION PROCESSES

Over 140 companies participated in the first edition of “PoliTo Techshare Day”, with approximately 300 “one to one” meetings between inventors and companies.

PoliTo and Leonardo made available to SMEs 26 and 9 patents, respectively.

Leonardo played a central role in the first edition of the “PoliTo Techshare Day”, an event organised by the Turin Polytechnic to strengthen the collaboration between universities, big companies and small and medium companies (SMEs).

Companies analysed the specifics of the patents made available online through a dedicated platform, and subsequently discussed the advantages and the possible application of technologies directly with the inventors. With this initiative, for the first time in Italy, the offer of industrial patents was in direct contact with demand for innovation of SMEs.

The patents made available by Leonardo include that related to the self-repairing composite material, also at low temperatures, that for recycling prepreg-scrap and that related to a surveillance system of an area crossed by people.

THE INNOVATION BOOST FROM START-UPS

This programme received 61 applications, of which 90% from people under 40, mainly related to advanced applications in ICT and Industry 4.0, systems and advanced systems for the safety of individuals and health systems and infrastructures.

Leonardo is one of the founding members of *Fondazione Ricerca ed Imprenditorialità* (Foundation Research & Entrepreneurship), a project launched and promoted jointly by four components of the innovation ecosystem: the scientific/academic world, industry, banks and institutions.

In 2016, Leonardo promoted the “*Programma Sviluppo Startup & PMI Innovative*” (Programme for the development of innovative start-ups and SMEs), which is aimed at developing start-ups by accelerating business projects and businesses already in place that intend to scale up their operations.

The 10 successful proposals joined the Foundation’s technological acceleration programme, which is aimed at providing knowledge and management skills in the preparation of the related business/industrial plan.

Contribution of Leonardo to sustainable development

In a global scenario where the challenges of the industry are increasingly revealing themselves, Leonardo works to interpret the needs of a fast-changing market and provide the most effective answers to the growing issues related to safety, efficiency in the use of natural resources and reduction of the environmental impacts.

THE PLANET'S LIFE AND RESOURCES

Through the COSMO-SkyMed system, Leonardo is committed to developing earth observation activities, the "new frontier" of space economy, in order to monitor terrestrial and marine ecosystems, ensure the sustainable management of natural resources and support rescue operations for victims of earthquakes and natural events.

THE NEED FOR SECURITY

Thanks to the dual-exploitation of its technologies, Leonardo is a leader in the systems and solutions for the resilience of critical infrastructures, ports and airports, and in monitoring the flow of people and goods, specifically in highly populated urban areas, where the need to feel safe from threats, including terrorist attacks, is stronger.

THE MOBILITY SOLUTIONS OF THE FUTURE

Thanks to its participation in the European Clean Sky and SESAR aerospace programmes, Leonardo is developing solutions that improve the sustainability of the air traffic of the future, assisting the entire sector in meeting the stringent abatement objectives concerning its CO₂ emissions.

DIGITALISATION PROCESSES

Thanks to the experience gained in the fields of communication, networking, cyber security and cyber intelligence, Leonardo provides the most effective solutions against IT threats, the economic and social development introduced by the industrial revolution 4.0 and the exponential growth of Internet of Things.

LEONARDO FIGHTING CLIMATE CHANGE⁹

The Paris Agreement and the conclusions of the COP22 in Marrakesh clearly indicated the degree of awareness reached in relation to the average global temperature increase and the higher reactivity of the international community compared to the past in confirming a less carbon intensive economic development strategy.

Thanks to the invitation to participate in the "Fighting Climate Change: Sharing Italy's Innovative Technologies" conference, organised by the Italian Permanent Representation at the United Nations in New York, Leonardo unveiled its technological and application solutions to tackle and prevent the harmful effects of climate change to the international community.

The NASA and US Federal Agency for Meteorology (National Oceanic and Atmospheric Administration - NOAA) confirmed that 2016 was the hottest year since 1880.

The satellite systems, a sector in which Leonardo has been at the forefront for over 30 years, enable accurate measurements of global changes.

LEONARDO FOR SUSTAINABLE TELECOMMUNICATIONS¹⁰

Leonardo is among the new members of the 5G IA (5G Industry Association), which is the industrial counterpart of the European Commission in the 5GPPP (5G Public Private Partnership).

The 5G IA puts forward the evolution strategies for the fifth generation of networks, defining with the European Commission the main technical and experimental issues to be pursued, including through European financing.

9. www.nasa.gov.

10. <https://5g-ppp.eu/>.

The goals of the 5G networks are:

- › increasing wireless capacity by 1,000 times on 2010;
- › connecting 7 trillion wireless devices with a catchment area of 7 billion people;
- › reducing energy consumption by 90%.

Most of the main targets of the new 5G networks are related to sustainability issues, including the reduction in network and terminal consumption, the optimisation of the use of the electromagnetic spectrum, and some vertical applications of new technologies, defined as part of the “Critical Communications” field, such as telemedicine, energy, public safety and monitoring of large areas.

Earth care and sustainability in the use of resources

The studies and research carried out on this issue show that 70% of the forest habitat is eroded or fragmented, with significant impacts on biodiversity.

In its most recent report on the state of world fisheries and aquaculture, the FAO indicates that almost one third of fish stocks is caught at a biologically unsustainable pace.

The FLEX mission of the European Space Agency will collaborate with Copernicus’ Sentinel-3 satellite on which the SLSTR radiometer, another tool developed by Leonardo, measures the surface temperature of land and oceans.

Thanks to the contract won in Brazil, Leonardo will monitor one million square kilometres in the Amazon area to fight deforestation.

Through Telespazio and e-Geos, Leonardo processes the combined information obtained from satellites, aircraft and unmanned aircraft for precision farming purposes. Measuring soil humidity and plant energy status allows the optimisation of irrigation, fertilisation and plant health treatments, contributing to the improvement of the consistency and quality of agricultural, foodstuff and forestry production.

Furthermore, oil spills can be monitored using radar satellite data which also enable the identification of the ships that may have caused them. The prompt identification of oil spills triggers the activation of containment and recovery measures, limiting the environmental damage. Again with respect to the marine sector, satellite technologies are being increasingly used to fight illegal fishing that, every year, withdraws valuable food resources from the planet¹¹.

Starting from 2022, the FLEX mission, which is part of the Earth Explorer programme supported by the European Space Agency (ESA), will open new frontiers in monitoring the health of vegetation, a fundamental element of ecosystems, which are essential for maintaining life on this planet. Leonardo will head a consortium of European industries to construct a spectrometer which, from an altitude of approximately 800 km and with absolute precision, will measure the fluorescence intensity, that is the faint reddish glow during chlorophyll photosynthesis invisible to the bare eye, which is a direct indicator of the health of vegetation. Indeed, the information about the health and the stress of the planet’s vegetation is important, given people’s increasing demand for the production of food for animals.

PROTECTING THE AMAZON RAINFOREST, OUR PLANET’S GREEN LUNG

Every year, forests globally absorb 2.4 billion tonnes of organic carbon with Amazon absorbing about a quarter of it. Through e-GEOS, Leonardo won the contract with the Brazilian-based Geoambiente called by the Amazon surveillance system centre (CENSIPAN) for the monthly acquisition of satellite data relating to about a 1 million square kilometres of the Amazon area to monitor deforestation. The radar sensors onboard satellites will provide ongoing monitoring, day and night and under all weather conditions,

11. FAO, The State of World Fisheries and Aquaculture, 2016.

representing the best solution for this area which shows frequent rains and constant cloudiness for most part of the year.

THE LARGEST PHOTOVOLTAIC GENERATOR IN THE HISTORY OF SPACE EXPLORATION ON THE JUICE PROBE

The ten panels to be built for the JUICE (Jupiter Icy Moon Explorer) mission, for a total surface of 97 square metres, will equip the largest generator in the history of the solar system exploration. This is a new record for Leonardo, which follows that of the supply of similar systems for many space missions, including Rosetta, whose 64-square meter solar panels currently hold the world record.

The Gallium Arsenide (GaAs) solar cell technology will be applied to the generator panels. This is a crystal that converts sunlight into electrical power with a yield per square meter that is almost twice that of the solar panels for terrestrial use. Solar cells can power the probe also when the sunlight, due to the great distance, will be less than a twenty-fifth of that reaching the earth and the solar panel will be exposed to a temperature of -230 °C.

Thanks to the study of materials and processes, Leonardo technology can operate in extreme conditions of temperature, radiation and the vacuum of space, ensuring energy autonomy to space missions throughout their useful life.

SUSTAINABLE DEVELOPMENT IN THE RESOURCES OF THE ARCTIC REGION

The Arctic region, one of the least accessible areas of the planet, may offer a new potential for the development and exploitation of energy resources, while tackling the issue of risk mitigation for the natural and human environment associated with these activities.

During the “Arctic council and Italy’s perspective” meeting organised by the Ministry of Foreign Affairs and Cooperation, in collaboration with the Institute for International Affairs, the National Research Council (CNR) and the Italian Society for International Organisation (SIOI), Leonardo unveiled its wealth of innovative solutions to tackle the challenges posed to the sustainable development of the region: environmental monitoring, safety of indigenous people and seaworthiness of Arctic routes.

More than sixty satellites and probes have been launched between the 90s and today and they operate in space thanks to the photovoltaic technology of Leonardo.

Using this highly-efficient technology, solar panels have become smaller and lighter, which represent a key competitive factor.

Every year, Leonardo integrates over 50,000 solar cells.

Sustainable mobility

Over the next few years, more people will fly than today, especially in emerging economies where the demographic growth is more marked. The design and construction of new aircraft and solutions shall meet the market's growing demand and optimise traffic volumes also in terms of sustainability.

The International Air Transportation Association (IATA) forecasts that the current 3.8 billion air transport passengers will double by 2035, with an average annual increase of 3.7%.

Europe is facing these sustainability challenges with ambitious aircraft programmes, of which Leonardo is the founding partner and leader in many areas. Specifically, Leonardo is currently implementing the demonstration phase, with in-flight and on-ground tests, of key technologies for the realisation of more efficient and more environmentally-friendly regional helicopters and aircraft.

ROLE OF LEONARDO IN EUROPEAN AIRCRAFT PROGRAMMES

	Development	Targets and benefits
Clean Sky	Technologies to improve helicopters' efficiency	ACTIVE ROTORS - Cutting vibrations by 90% and abating noise by six decibels. Improving performance of the rotor by between 3% and 5% THERMOPLASTIC ROOF PANEL - Cutting costs, weight and maintenance costs ELECTRIC TAIL ROTOR DRIVE - Improve flight and cruise performance by changing rotor speeds
	Development of "green" aircraft for regional traffic	GREEN REGIONAL AIRCRAFT - Reducing the product's environmental impact over the entire life cycle, from the design stage to the withdrawal of the aircraft from the market and the recycling of components. In July 2015 first demonstrator flew on an ATR 72 equipped with a multi-functional panel developed in the frame of Clean Sky ECODESIGN - Developing the Liquid Resin Infusion technology to produce monolithic wing structures in composite material and the process to recycle cured composite materials, reducing the environmental impact on the product's entire life cycle by more than 80%
Clean Sky 2	Demonstration of enabling technologies for a next-generation civil tilt-rotor aircraft, which can operate as both a helicopter and an aircraft	ADVANCED ENGINE INSTALLATION AND DRIVE SYSTEM - Reducing air resistance and emissions during advanced flight ADVANCED TILTING WING - Increasing the rotor's efficiency when hovering and decreasing consumption during cruise flight (CO ₂ : down by an overall 17%) ADVANCED PROPROPOTORS AND FLIGHT CONTROLS - Cutting the noise impact during critical flight phases by abating noise and optimising flight paths (-7%, -3 decibels overall) ADVANCED MATERIAL AND PROCESSES FOR DRIVETRAIN COMPONENTS - Eliminating harmful products from processing. Reducing the energy impact by integrating ALM (Additive Layer Manufacturing) processes for structural elements, decreasing the buy-to-fly ratio. Cutting maintenance expense and the related operational impact by using advanced materials for parts subject to wear
	Development of "green" aircraft for regional traffic	Developing, integrating and validating advanced technologies for future application on aircraft with the objective to reduce the environmental impact, while increasing industrial competitiveness
SESAR and SESAR 2020 (Single European Sky ATM Research)	Upgrading the European Air Traffic Management (ATM) system	Managing up to three times the current air traffic, while cutting costs by 50%, increasing flight safety by a 10 factor and contributing to the 10% reduction of the environmental impact for each flight (reducing fuel consumption, noise and emissions) The first stage of research and development (SESAR 1) was completed at the end of 2016. The next phase, SESAR 2020, started at the end of 2016 and will end in 2021

In civil aviation, in October 2016, the International Civil Aviation Organisation (ICAO) agreed a Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) whose aim is to integrate the measures that the air transport industry is already implementing to cut CO₂ emissions, with technical and operational improvements and developments for the production and use of sustainable alternative fuels for aviation. Leonardo collaborated with ICAO by sending its specialists to several international bodies (including the Montreal offices) to support Italy's National Civil Aviation Agency (*Ente Nazionale Aviazione Civile* - ENAC).

THE ECO-EFFICIENCY OF AEROSTRUCTURES FOR COMMERCIAL PLANES

New models of planes are progressively enriching the commercial aircraft sector with more sophisticated technical solutions, often developed for military platforms. With respect to materials, over the past few years, composites have been increasingly used in commercial programmes thanks to the possibility of significantly reducing the weight of the aircraft. Leonardo Aerostructures Division is a partner of Boeing in the 787 programme producing approximately 14% of the aerostructure in carbon fibre. Leonardo and Boeing have developed and integrated the one-piece-barrel technology in the production of aircraft fuselage, where fuselage sections are produced as single pieces, reducing the number of parts and assembly times as well as the related costs by 15-20%.

The potential weight reduction due to the use of composites in the aerostructures generates:

- › savings in fuel consumption (approximately 10-15%);
- › reduced CO₂ emissions (approximately 20%).

MAINTENANCE AND LIFE - Composites are extremely resistant to corrosion, fatigue and crack propagation, thereby extending structural life and reducing maintenance and related costs.

IMPROVEMENT OF THE PERFORMANCE - In addition to reducing the weight, the use of composites entails the construction of more aerodynamically-efficient surfaces, increasing the speed and range of the aircraft.

THE EUROPEAN COMMISSION APPROVED THE PROGRESS OF THE CLEAN SKY PROGRAMME

The site of Leonardo at Pomigliano d'Arco hosted the visit of the European Commission to evaluate the progress of the "Regional" Clean Sky Programme.

During the first work session (Intermediate Progress Review Meeting), the European Commission certified the results of the demonstrations completed as part of the first stage of the programme (Clean Sky 1), positively assessing the progress of the research activities to complete the Demonstration Contractual Plan by 2016.

The second session (First Annual Review) focused on the Clean Sky 2 Regional Innovative Aircraft Demonstration Platform (REG IADP), led by the Aircraft Division in collaboration with Airbus Defence & Space, Liebherr, many industries, universities, research centres and SMEs, associated as core partners.

SUCCESS OF LEONARDO AT SESAR'S OPEN DAY

Leonardo participated in the SESAR EXE-805 Open Day which completed the RTS (Real Time Simulation) validation campaign, the largest one conducted to date by SESAR in terms of system integration and complexity of the utilisation operational scenario: the three validation weeks at control centre of Ciampino involved ENAV, Leonardo Security & Information Systems Division and the partner Airbus.

The validation exercise was carried out in an extremely realistic environment, considering the air space of the control centre of Ciampino and the Terminal Manoeuvring Areas (TMA) of Milan and Padua using a significant traffic load generated by the two simulation rooms (20 controllers involved) and two pilot rooms (23 pilots involved).

DEVELOPMENT OF TECHNOLOGY AND PRODUCTION SKILLS IN THE HELICOPTER SECTOR

The collaboration agreement signed in February 2016 between Leonardo and the Nanyang Technological University of Singapore is aimed at contributing to the technological progress in the aerospace field by sharing talents and know-how, promoting scientific research and developing industrial and engineering skills.

This collaboration will explore new technological opportunities in the helicopter field, a sector that is rapidly evolving following the progress in composites, which are lighter and more robust, focusing on the reduction of hydraulic and dynamic components and the increase in the efficiency of industrial processes. It will also consider aerodynamic modelling that can ensure an overall improvement of the flight performance.

Prevention and management of emergencies

Collaborating in the prevention of landslides and flooding, coordinating relief efforts in the event of earthquakes or fires, monitoring the critical areas from above. These are just some of the applications of Leonardo Space sector technologies and solutions through COSMO-SkyMed, the most ambitious earth satellite observation programme ever developed to prevent environmental disasters, study the earth surface and for safety.

COSMO-SkyMed is based on a constellation of four identical satellites constructed by Thales Alenia Space Italia and a track-side system developed by Leonardo through Telespazio: four “eyes” to study the earth from space metre by metre, day and night, under all weather conditions.

COSMO-SkyMed operates as part of Copernicus, the programme coordinated and managed by the European Commission, in collaboration with the European Space Agency (ESA) and the European Environment Agency (EEA), to provide Europe with its own earth observation capacity.

LEONARDO FOR THE EARTHQUAKE EMERGENCY

After the earthquakes that devastated central Italy, the Rome and Matera e-GEOS centres worked to produce maps and detailed data about the quake-hit areas, in order to provide information about the damage and support the institutions, the Civil Protection and all those involved in providing relief.

This information was successfully used during past natural disasters, such as the earthquakes that hit L’Aquila in 2009 and Haiti in 2010, the Haiyan typhoon that devastated the Philippines in 2013 as well as in other emergencies where pictures were taken also at night using radar technologies.

THE MOST SOPHISTICATED EARTH OBSERVATION SYSTEM

COSMO-SkyMed’s strength lies in its extraordinary flexibility of use. Radars can operate in spotlight mode (focusing on few square kilometres areas and analysing it with a resolution of up to one metre), in stripmap mode (observing a continuous strip of land) or in scanSAR mode (covering an area of 200 km each side).

The configuration of the constellation to obtain the images of the relevant area takes a short time: from 72 hours when operating under routine conditions to less than 18 hours in emergencies.

Another strength of COSMO-SkyMed is the short interval between two passages on the same point, which is less than 12 hours. This enables constant monitoring of the development of the situation in a specific area.

The Copernicus Emergency Management programme provides the Civil Protection departments of EU member states with a mapping service for the production of maps to assess the damage caused by natural disasters around the world (earthquakes, flooding, fires) in rush mode.

This service is operated 24 hours a day and 365 days a year by e-GEOS as part of an international consortium.

Up to September 2016, it has been used 180 times and produced over 2,300 world maps for over 2,000,000 square kilometres acquired in 50 countries.

The Matera Space Centre, one of the three stations of the Copernicus’ Core Ground Segment, plans, acquires and processes information and delivers it to end users.

The Rome Emergency Mapping Centre coordinates, in particular, emergency-related operations.

COSMO-SkyMed’s system can film land surface up to 450 times a day, producing 1,800 radar images every 24 hours.

To date, no other satellite system has the same state-of-the-art characteristics.

People protection and land monitoring

HARMONISE (Holistic Approach to Resilience and Systematic Actions to Make Large Scale Urban Built Infrastructure Secure) is a collaboration research project set up as part of the Seventh Framework Programme for Research and Technological Development of the European Union.

Technologies of Leonardo support all institutions committed to meeting citizens needs for more safety, from controlling cities, which are increasingly complex and exposed to risks, to monitoring borders.

In this respect, by participating in the HARMONISE project, Leonardo has developed a Living Lab based on a simulation and security supervision system. Thanks to the combined action of its two sub-systems – crowd monitoring and flow analysis – this systems gathers and matches different data flows, producing a single integrated view of the monitored areas potentially affected by urban resilience issues (climate changes, safety during major events, mobility of large flows of people and urban regeneration).

The use of the dual technology applied to unmanned systems is also being expanded to land monitoring. Leonardo is the only European company operating in this sector that is able to provide solutions that integrate radar and electronic sensor platforms with mission and ground control systems.

SAFETY AT THE STADIUM

Leonardo intends to become the reference partner of football teams that want to deal with the growing demand for safety and use of the services of modern sports facilities by using sophisticated technologies.

By signing a three-year agreement with the B league, Leonardo will be the technological partner of the second-tier football league for the football stadiums of the new millennium, reinterpreting the concept of safety as the distinctive element of the new sports facilities. Leonardo will provide football teams with strategic advice and technologies as part of the projects to build new stadiums and renovating the existing ones, pursued by B Futura, the infrastructural platform which became the special-purpose entity of the B league, focusing, in particular, on safety, communication, mobility and environmental issues.

FALCO'S EYE FOR UN

The UN used FALCO unmanned aircrafts with a “turnkey” service whereby Leonardo managed the aircraft and provided the customer with the information gathered and processed.

During its three years of service in the United Nations’ MONUSCO mission in the Democratic Republic of Congo to monitor the rebels’ activities on the borders with Rwanda and Uganda, five FALCO UAVs of Leonardo operated under extreme climate conditions, with tropical temperatures and humidity, successfully penetrating the thickest bushes with their sensors.

According to the Secretary-General Ban Ki-moon, these vehicles “are reactive, can be perfectly controlled and are an immediate source of information to support the intelligence, surveillance and reconnaissance departments in monitoring any illegal activity by armed groups”¹².

12. *Aeronautica&Difesa*, October 2016, page 19.

LEONARDO SYSTEMS AND SOLUTIONS TO CONTROL BORDERS

During the workshop held in Warsaw and organised by Frontex, the European border and coast guards agency, the Border Guards met research and development experts to contribute to the evolution of Border Security systems and solutions, considering end users feedback.

During this event, Leonardo Divisions unveiled their sophisticated projects, products and technologies for the coordination and management of search and rescue operations, the optical tracking systems to be used in densely populated and congested areas and the day and night optical tracking systems using hyper-spectral technology.

In December 2016, Leonardo organised the third edition of the ISITEP (Inter System Interoperability for Tetra-TetraPol Networks) project at the Roma Tre university. This project, coordinated by Leonardo, defined and developed the intergovernmental agreements, procedures and technologies necessary to develop the cooperation of European police forces at field level.

Cyber security and protecting critical infrastructures

Leonardo participates in the NATO's Computer Incident Response - Full Operational Capability (NCIRC - FOC) programme, developed to ensure the security of information and ICT infrastructures in 52 NATO sites in 29 countries.

Safeguarding energy and transport infrastructures from cyber threats, as well as that of all networks underlying business and financial exchanges, based on national and supranational strategies, is a fundamental aspect in guaranteeing the growth and development prospects of each country.

Leonardo is the technological partner of several governmental institutions and trade and financial organisations for cyber safety prevention, monitoring and management. It is also part of many national and international institutes and networks operating in this sector. With the Chieti-based SOC/CSIRT, Leonardo developed one of the most sophisticated centres at European and international level in terms of variety of services and number of customers served.

Leonardo provides cyber protection services to over 1,500 Italian SMEs, one of the main targets of hackers.

Leonardo intends to strengthen its product portfolio by including the most qualifying aspects of Industry 4.0, including cyber security, digitalisation, automation, widespread sensor application and miniaturisation. These technological trends are the pillars for the creation of new economic, occupational and social value and must be accompanied by a specific and updated cyber security strategy.

EUROPEAN APPROACH OF LEONARDO TO CYBER SECURITY

The European cyber security market is worth €25 billion and €2.4 billion in Italy, with estimated annual growth of 9% for the next five years.

After the last edition held in Tel Aviv which saw the participation of over 10,000 delegates from 50 nations and hundreds of exhibiting companies, Cybertech, the largest cyber security event outside the United States, was held in September for the first time in Europe, specifically in Rome.

In this context, Leonardo presented a public-private cyber security partnership, similar to the "European Cyber Security Organisation" recently set up by Leonardo and other business and governmental partners, which will group leading players and institutions to create synergies with the European investment programmes and ensure the significant growth in size of the sector.

SHARING CYBER SKILLS WITH INSTITUTIONS

Leonardo organised the first Cyber Shield contest to check and assess the maturity and resilience level of the teams in charge of information security when resolving complex issues, by simulating practical incidents. The exercise also involved the personnel of governmental bodies and institutions.

As part of the development of public-private partnerships, Leonardo participates in the initiatives of the Companies's Technical Table, set up by the Department for Safety Information (*Dipartimento delle Informazioni per la Sicurezza* - DIS). The Technical Table "bases its operations on information sharing, in order to enable critical infrastructures and strategic companies member of the DIS to expand their knowledge and strengthen their cyber defence skills"¹³.

In collaboration with the DIS, Leonardo also launched the Malware Analysis laboratory and, in 2017, it will intensify its collaboration and information exchanges with governmental and/or supra-governmental bodies to strengthen the ability to identify and prevent cyber threats.

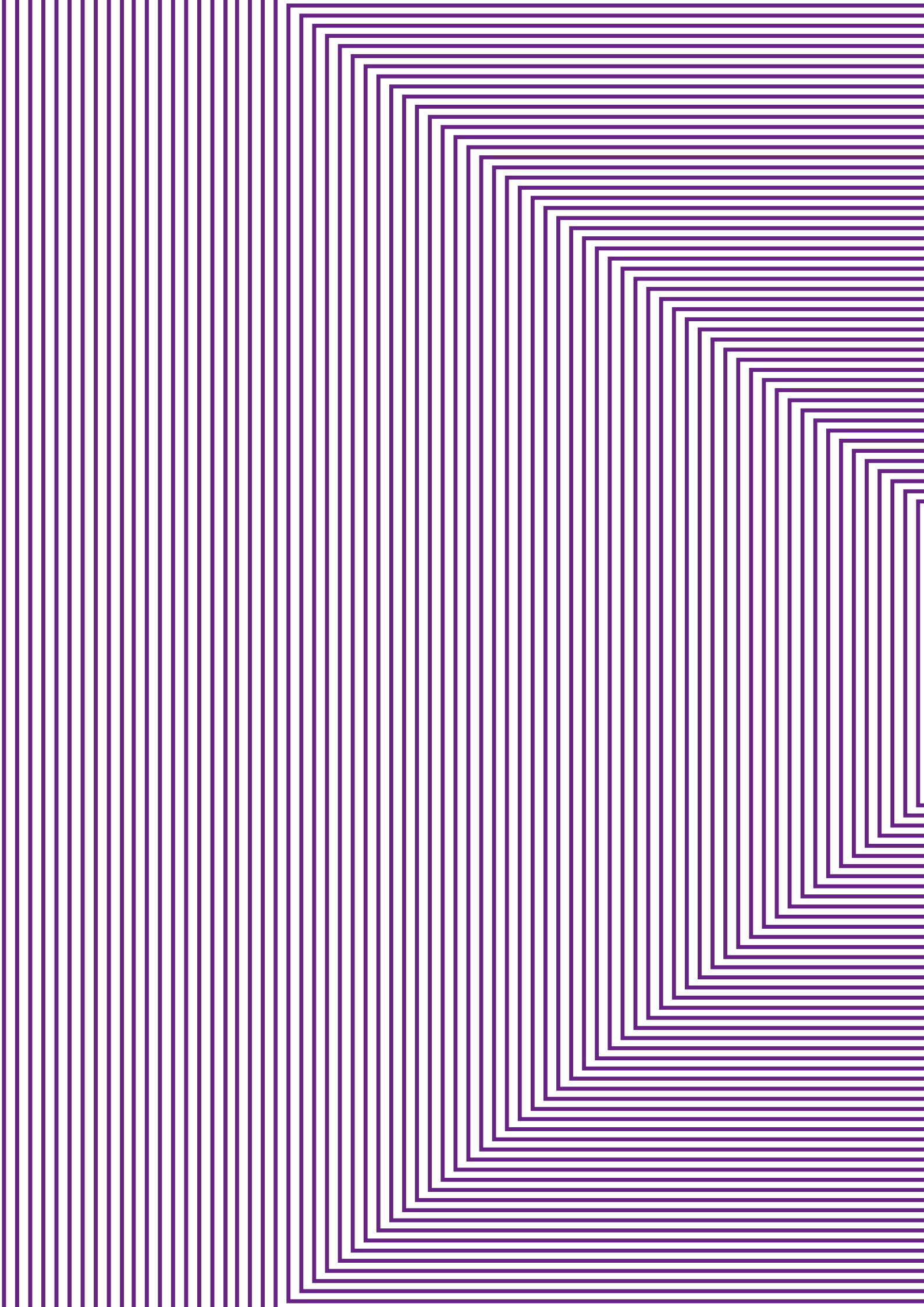
13. 2016 report on security information policies, pages 10-11.

“CYBER PROTECTED” INFRASTRUCTURES

The approach of Leonardo to safeguarding critical infrastructures is aimed at integrating the protection from physical threats with the cyber protection of data communication networks. With respect to airport safety, the heart of the solution lies in the command and control platform to flexibly and effectively manage the information and data gathered by different sensors, including cameras, infra-red thermal cameras and radars. This is a way to reply to critical situations, by planning the intervention of the operating forces on site and monitoring the evolution in real time. Furthermore, by modelling the actions to be taken in respect of the critical situations pre-identified, operators can minimise intervention times, limiting the damage caused by the threat.

Leonardo installed approximately 300 port and airport safety operation systems and logistic and physical safety systems in 150 countries around the world.

These include the Genoa port which covers an area of approximately 700 hectares of land and 500 hectares of water, with an extension of 22 kilometres along the coast and operating piers long 30 kilometres.



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Our key resources



People as a core value

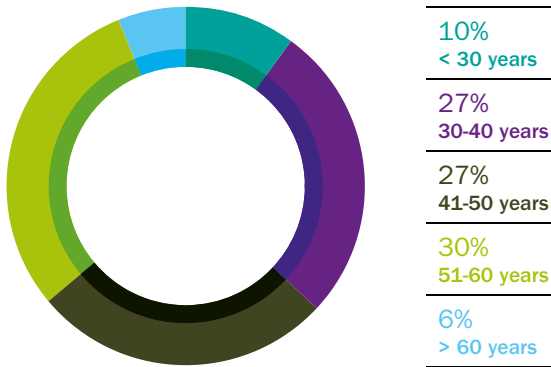
People are the best resources of Leonardo. Sharing the principles of ethics and transparency in conducting business activities, every day they contribute to the achievement of results that underpin the company's success and the creation of value in the long term.

Leonardo is committed to acknowledge and enhance professional skills and talent and support individual growth through transparent, fair and merit-based management, the best way to ensure the Group competitiveness and its future sustainability.

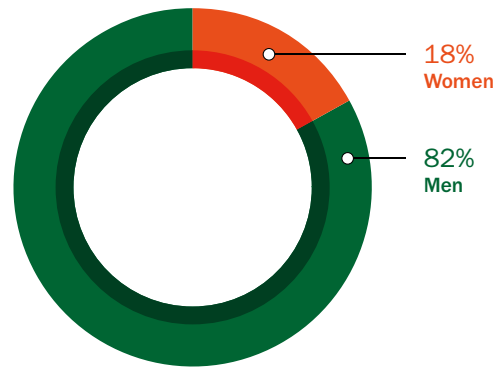
2016 saw the launch of HRevolution, the new IT platform common to all Leonardo Divisions that enables the application of the same HR processes and tools to the Group as a whole.

Diversity at Leonardo

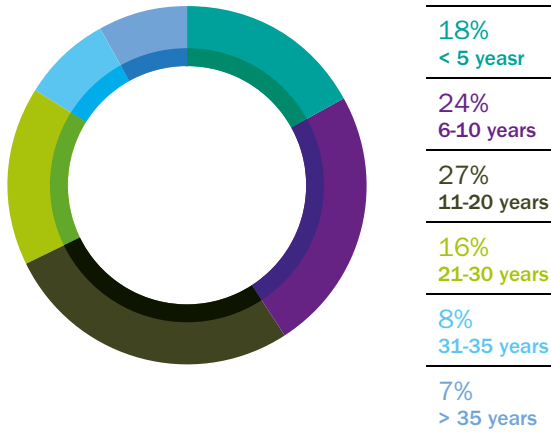
EMPLOYEES BY AGE



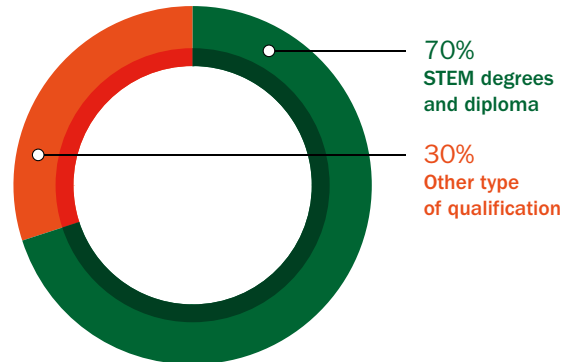
EMPLOYEES BY GENDER



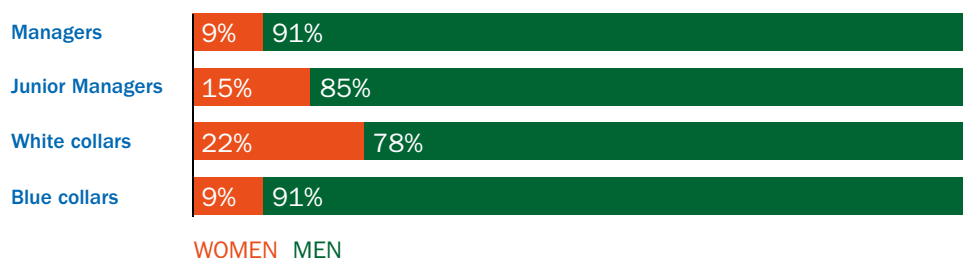
EMPLOYEES BY LENGTH OF SERVICE



EMPLOYEES BY QUALIFICATION



Focus on gender diversity of employees



SUCCESSION PLAN FOR THE BUSINESS CONTINUITY

Coverage of first level positions at Leonardo (Divisions and central organisational structures) and of the CEOs of the main investees was analysed in 2016.

The succession management project was launched with an in-depth analysis of the short/medium-term challenges for the company, carried out in collaboration with the Group's CEO & GM and top management, and identifying the main roles affected.

After identifying the roles, the "expected profiles" of successors were defined as well as the list of possible candidates for replacement by means of individual appraisal. The results were used to assess the organisational risks related to the succession of the various roles and to identify the best corrective measures to mitigate them.

REWARDING RESULTS AND RETAINING KEY PERSONNEL

The 2016-2018 remuneration system was launched in 2016, comprising several incentive tools that strengthen the alignment of individuals' interests with those of the company and shareholders.

CO-INVESTMENT PLAN It consists of the voluntary deferral of all or part of the annual bonus accrued as part of the management by objectives (MBO) plan, converting it into shares. The deferred portion of the bonus is converted into Leonardo ordinary shares for a three-year period. After such period of time has elapsed, if the performance threshold set out in the short-term variable remuneration plan has been achieved, shares will be assigned on a free basis in the ratio of one free share every three held.

LONG-TERM INCENTIVE PLAN This plan provides for the granting of incentives comprised of a monetary component and another made up of Leonardo ordinary shares, the proportion of which depends on the strategic importance of the position held and the impact on the creation of value for the company and shareholders. Once the three-year vesting period has elapsed, the plan provides for a 1-year lock-up period for the company's top management, executives with strategic responsibilities and other top managers, during which 50% of the shares assigned cannot be transferred.

HREVOLUTION TO ENHANCE PEOPLE

My Profile

This internal platform involves all employees of Leonardo holding a company's pc or e-mail, and enables them to share organisational contacts and information and provide the company with important information about their professional path in terms experience, skills and future aspirations: these data are useful to enhance people and set individual professional paths.

Individual Appraisal

In 2016, it involved 120 resources who are particularly important for the company. The appraisal integrates the PDM evaluation and, in specific moments of the professional life of resources, it provides an in-depth analysis of performance including comparison with similar professional skills on the external job market. The process is certified by an external body, ensuring an objective evaluation.

HR Review - from 2017

The various assessment processes of Leonardo's people (PDM and appraisal) will become available as of 2017. The HR Review will provide information useful to steer the processes to manage and enhance those resources who are particularly interesting for the company, and also to identify the new candidates (high potential) to be included in talent management programmes.

Performance & Development Management (PDM)

In the period July-November 2016, this process involved over 23,000 resources, with an attendance level of 98.5%. The individual performance evaluation process is transparent and, every year, it enables each employee to set with their managers the targets to be achieved in terms of expected behaviour and results, while offering the possibility of discussing their career development path.

Recruiting

The requirements for the digitalisation of internal and external recruitment processes were set in 2016. Specifically, the Job Posting module, which will go live in the first half of 2017, was launched as part of the HRevolution platform.

E-learning

This new system offers a virtual desk that comprises the training paths or courses recommended by direct managers and the mandatory courses prepared by HR Corporate on cross-wide issues. Furthermore, users will be able to choose directly from a training catalogue that will soon be enriched with new titles. The platform also manages classroom courses by sending notices of call, any materials, booking locations, recording users' attendance and the set of certifications/ attestations issued during the course, if any. Therefore, users will have all training activities traced in their own electronics record book, in a single information system. Four months after its launch, over 27,000 users have accessed the new system.

A SINGLE EMPLOYMENT CONTRACT FOR THE ONE COMPANY

In 2016, Leonardo paid its Italian employees performance bonuses worth approximately €91 million.

The single second-level supplementary contract was signed in 2016, after long negotiations with the Italy's trade unions. The contract, whose content was approved by the Italian employees, sets out the common rules governing the economic and regulatory treatment applicable within the One Company and represents an important element in the Group's transformation process.

The new contract acknowledges the right to training and introduces a welfare-protection expansionary model, which includes the promotion of part-time work and the introduction and development of smart work. The industrial relations system will also benefit from a Strategy Observatory which will be informed about and consulted on developments, company structure, internationalisation and alliances, investments and technologies.

Looking for the talents of the future

In all the communities in which it is active, Leonardo focuses its efforts and invests resources to spread the culture of innovation and bring young generations closer to science, technology, engineering and mathematics (STEM) issues and studies.

Nurturing talents, supporting their ability to imagine and forecast the future, is a way to ensure the actual renewal of knowledge and the development of new skills, which represent essential factors in ensuring the business sustainability and future growth of Leonardo.

In Italy, according to the 2016 figures unveiled by the Ministry of Labour, engineers carry out six of the first seven jobs which companies find it difficult to recruit¹⁴.

According to the Royal Academy of UK Engineering's estimates, by 2020, 1 million new engineers and technicians will be necessary to meet companies' demands¹⁵.

THE ITS (*ISTITUTI TECNICI SUPERIORI*) PROJECT

Leonardo collaborates to the project launched by the Ministry of Education, Universities and Research in agreement with the Ministry of Economic Development which enhances the industrial vocation of territories and the relaunch of technical jobs in Italy. In 2016, four technical secondary schools were involved: Novara, Brindisi, Rosignano (Livorno) and Case Nuove di Somma Lombardo (Varese).

In 2016, the project entailed the collaboration with ITS (*Istituti Tecnici Superiori*) secondary technical schools, involving 180 students and 150 teachers of Leonardo. At the end of the courses, over 150 internships were agreed.

ATTRACTING THE BEST RESOURCES: POSITIONING OF LEONARDO

In the United Kingdom, Leonardo belongs to the "5% Club", whose members are committed to promoting apprenticeship as a form of introduction to work. In this respect, Leonardo ranks fifth in the RateMyApprenticeship list, based on over 3,300 reviews, provided by young people about companies' ability to provide access to apprenticeship experience schemes and school/work programmes.

In 2016, in the United Kingdom, Leonardo offered the opportunity of participating in work placement schemes to over 400 young people.

14. www.unioncamere.gov.it/download/5360.html.

15. <http://www.independent.co.uk/>.

Leonardo STEM programmes and initiatives for young generations



INSPIRING
& ENGAGING

BIG BANG UK YOUNG SCIENTIST & ENGINEERS FAIR

In collaboration with Smallpiece Trust, Leonardo participated in the event that promotes science, technology, engineering and maths among young generations in the United Kingdom. Children and families tried to build a K'nex arm to overcome risks and eliminate cyber threats.

ROBOTIC GAMES

Edinburgh, Luton and Basildon sites participated in this event promoted by Rampaging Chariots, a non-profit organisation that trains young engineers. Young people of between 12 and 17 years old faced for the first time technological and electronic engineering issues through educational kits, designed by Leonardo engineers, to build robots.

NATIONAL WOMEN IN ENGINEERING DAY

Again in 2016 Southampton, Basildon, Luton and Edinburgh sites participated in this traditional event by organising visits, conferences and play activities to bring the young female students of the primary and secondary schools of these areas closer to the engineering and technical/scientific careers.

SCIENCE FESTIVAL IN GENOA

From 2003, this has been one of the main international events dedicated to scientific knowledge and information, with meetings and events for enthusiasts, schools and families. Thales Alenia Space and Telespazio participated in two events showing the role of space technology in daily life.

I.LAB FOR SCHOOLS

In collaboration with the Milan Science and Technology Museum, Leonardo is working on i.lab, an interactive lab on mathematical sciences and the design and development of educational activities for young students of primary and secondary schools, in addition to the Space area and the aeronautical area of the museum. Teaching and experimentation will be focused on fluid and aero-dynamics, the mathematical science at the basis of flight.

Based on the feedback received at the end of day, over 50% of participants increased their interest in engineering.

The partnership between Leonardo and the Milan Science and Technology Museum and the enhancement of the company museum system, unique in Italy, make Leonardo the main STEM player in the country.



EMPLOYER BRANDING

JOB MEETING & CAREER DAY

Leonardo participates in the events organised by the main Italian universities: Padua, Rome (Faculty of Engineering at the Sapienza University, LUISS), Bari (Polytechnic), Turin (Polytechnic), Naples (Faculty of Engineering at the Federico II University), Pisa (Job Fair of the Sant'Anna di Pisa University) and Milan (Polytechnic), collecting hundreds of applications.

SITE VISITS

In Italy, 50 students in the third year of the electronics and IT classes at the technical school *Istituto Tecnico Bernocchi* of Legnano visited the Airborne & Space Systems Division. In the United Kingdom, 45 promising aeronautical cadets from several European countries and Canada had the opportunity of exploring the technologies, skills and businesses developed at the Edinburgh site.



TALENT ATTRACTION

INNOVATION AWARD FOR YOUNG PEOPLE

Within Leonardo Innovation Award, for the second edition it is open to students, recent and post graduates of the faculties of engineering, maths, physics, IT and chemistry of all Italian universities.

The 2016 winners, who were awarded with an economic recognition and given the opportunity to get an internship at Leonardo, are from the Turin and the Bari Polytechnic, the Cassino e del Lazio Meridionale University, del Sannio University and the Sapienza University of Rome.

Three young secondary school students were rewarded for their project “Magnetic forces: nanotechnologies strategies for water treatment”, which was among the finalists of the “*I Giovani e le Scienze*” (Science and Young People) competition launched by the Italian Federation of the Scientific and Technical Associations (FAST).

AWARD TO UNDER-35 INNOVATORS

Leonardo was one of the sponsors of Italy's sixth edition of the award established by the MIT Technology Review, the MIT's journal for innovation, whose aim is to select young innovators from the academic research and corporate fields. After the United States, Italy was the first country to launch this initiative, which is now present in 12 countries around the world.

The on-line platform of the Innovation Award generated over 5,000 contacts, with the many universities involved in the campaign to promote the contest.

Customer intimacy

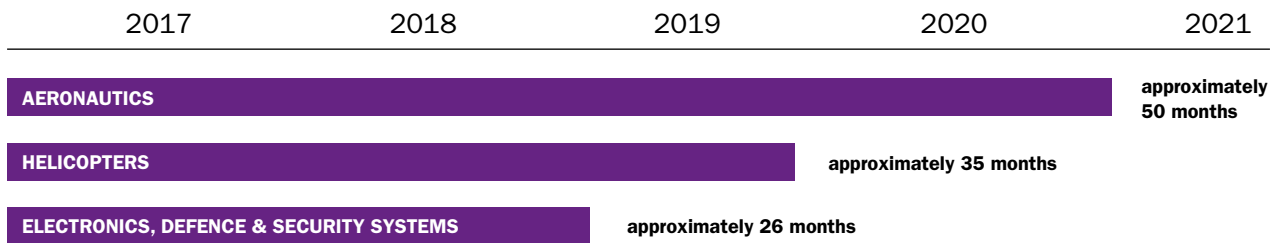
The project for the new Customer Relationship Management (CRM) system of Leonardo, which was launched in 2016, will contribute to supporting business activities, specifically the business to business (B2B) and, above all, the business to government (B2G) segments, where capitalising on prior customer experience, knowledge and the mutual trust developed over the years is fundamental.

Leonardo offers to its customers reliable, effective and concrete products and services, ensuring quality customised technological solutions.

Leonardo designs and implements these solutions every day, always close to the customer: from the design stage, to the on-time and on-budget execution of contracts, as well as the after-sale support, the aim is to maintain top performance throughout the years, always transferring value to the customer along the entire product life cycle.

COVERAGE ENSURED BY THE ORDER BACKLOG

(equivalent production months)



POWERED BY DRS - THE VALUE OF INGREDIENT BRANDING



Leonardo DRS is a leading product innovator in the field of state-of-the-art components and sensors (low power, compact size, high reliability and high performance) for thermal imaging applied to industrial processes, surveillance, emergency management and defence. In this sector, Leonardo DRS acts as a partner for its customers who, in turn, develop integrated solutions. Customers can access an accreditation scheme based on the evaluation of the quality of the integration achieved, eventually obtaining the right to use the DRS brand, which indicates a premium product in the thermal imaging camera and infrared detectors segment. This generates a market synergy based on the mutual cooperation and acknowledgement of the respective capabilities.

From co-creation to excellence in execution

In order to maintain leadership in highly customised segments, times must be optimised and development risks mitigated, using project and risk management techniques, involving customers in checking that the products and solutions comply with the operational requirements way before the final testing and validation stages.

By using co-creation and lean engineering methodologies, Leonardo Divisions intend to shorten the flows between the engineering and the other company functions in order to benefit from cutting development costs and complying with the contractual milestones of the new programmes.

Leonardo invests in the improvement of the skills of its project management professionals through the Project Management E2-PM programmes for project managers, risk managers and contract team members in order to improve its delivery capacity and maintain top quality and execution standards.

Leonardo has approximately 350 project managers certified by PMI (Project Management Institute) and IPMA (International Project Management Association).

In 2016, the second edition of the Project Management E2-PM programme involved 450 people and marked the beginning of the accreditation process for 100 new project managers.

COMMITMENT TO QUALITY

Leonardo is a member of the International Aerospace & Defense Quality Group (IAQG), the most important sector association in terms of quality. IAQG develops and manages the “series 9100” standards for the ongoing improvement of product and service quality and, today, it represents the most sophisticated certification scheme for sector companies. The new 9100:2016 edition will further increase the excellence standards for business processes.

The IAQG association promotes the ongoing improvement of product and service quality through increasingly reliable, effective and efficient management of all processes that make up the value chain.

QUALITY OF ENGINEERING Within IAQG, in 2016, Leonardo promoted and launched specific initiatives for a more focused application of the 9100 standards already in the individual stages of product development to ensure the internal control of design processes and preventing non-quality in downstream processes. This led to the preparation of specific instructions and recommendations for the application of the 9100:2016 series, to be used by the accredited certification bodies when certifying engineering processes.

Approximately 80% of Leonardo employees operates in sites where the industrial processes are certified in accordance with the series 9100.

MEMBERSHIP LEAD Leonardo has radically revised its EAQG (the IAQG European sector) Membership Policy to embrace new members, contribute with more experience and for the purposes of a more effective and proactive collaboration by the European companies that are members of the association. As a result of this process, the Group became “Membership Lead”.

COLLABORATIVE INNOVATION IN THE NAVAL LAW

Leonardo Divisions, committed to providing the electronic systems for the missions of the Italian Navy ships (command and control systems, radar and optronic sensors, communication equipment, fire control systems), have implemented new co-creation methods through which the customer

and the company operate side by side since the very first stages of the design process, to develop increasingly innovative solutions.

These include the new ship control board, whose design is similar to that of airplane cockpits, and the radar suite integrated in the ship deck which, in some cases, is equipped with multifunctional, multi-band radars. Customers are involved from the first stages of development thanks to the application of sophisticated development methodologies (System Engineering), which provide for the adoption of collaborative environments, system modelling and fast prototyping tools.

Teaming up with institutions and the country system

The Defence Procurement agency of the British Government showed its satisfaction after the first flight of the Merlin Mk4 AW101, noting the enormous team work with Leonardo.

To emerge on the Aerospace, Defence and Security markets, where the national interests are at stake, innovation must be translated into attractive products and services and, above all, it is necessary to contribute to the construction of an ecosystem where all companies, political and economic institutions and the world of science and culture collaborate successfully, agreeing international business strategies together and strengthening the competitiveness of the production system of the country.

ONBOARD THE CARABINIERE FRIGATE

The Carabiniere Frigate is the fourth unit of the Italian-French FREMM (Multi Mission European Frigate) programme.

Ensuring the maritime surveillance in strategically-important business flow areas, strengthening the international cooperation and, above all, being the “ambassador” of the Italy-country system and its technological excellences are the main goals of the naval campaign launched by the Italian Navy’s Carabiniere Frigate. This vessel, which is considered one the most recent jewels of Italy’s Defence industry, will operate in South East Asia and Australia as of December 2016.

In approximately four months, the vessel will stop at more than ten harbours, in eight countries and two continents: Saudi Arabia, Australia, Indonesia, Malaysia, Oman, Pakistan, Singapore and Sri Lanka, covering about 20,000 nautical miles.

Leonardo has provided all the technological equipment that characterises the performance of this vessel which will conduct training activities jointly with local Navies and will cooperate in humanitarian assistance and support.

During its stop in Malaysia, the vessel will participate in the Langkawi International Maritime and Aerospace Exhibition 2017, the main exhibition of the Defence sector in South East Asia.

THE STRATEGIC PARTNERING ARRANGEMENT WITH THE UK’S MINISTRY OF DEFENCE

By renewing the first Strategic Partnering Arrangement (SPA) signed in 2006, the UK’s Ministry of Defence and Leonardo entered into a new agreement in 2016 whereby they committed to working together in the next ten years to enhance national prosperity, generating revenues and supporting the creation of UK jobs and skills.

In the United Kingdom, Leonardo Helicopters plays a vital role in supporting helicopter fleets of the Armed Forces and substantially contributes to the economy of the South West of the country.

Therefore, the SPA represents shared commitments to transparency and joint work that should bring benefits to the Armed Forces, the UK taxpayers and the company¹⁶.

The new frontiers of training

Leonardo provides its customers with high added value solutions thanks to a business offer where training services are a distinctive success factor.

Specifically, in the aeronautics and helicopters sectors, Leonardo invests to maintain its leadership in training future pilots, using new approaches that combine technology, efficiency and sustainability, also developed through the ability to integrate its skills with those of institutional parties, such as the Italian Air Force.

TRAINING: AN INTERNATIONAL SCHOOL FOR THE PILOTS OF THE FUTURE

The Galatina school is a real flight academy which comprises classrooms, simulators, mission planning and debriefing stations. Leonardo Aermacchi M-346 trainers and the years of experience in training student pilots from all over the world make the 61st Stormo of Italy's Air Force a global centre of excellence to train the pilots of the future. The school has a new integrated system that brings forward as much as possible the training of pilots at the operational conversion squadrons, while keeping the costs low by using different simulation systems.

The key element of the integrated training system is the possibility of interconnecting several simulators to the aircraft in flight in real-time for assigned training sessions, during which one or more instructors within the simulator can perform joint missions with the students "up in the air".

TRAINING FOR THE PRODUCTION OF SOLAR PANELS IN SAUDI ARABIA

During the 14 weeks of classroom training provided to the Saudi employees of KACST (King Abdulaziz City for Science and Technology) in 2016, Leonardo and the Polytechnic of Milan transferred their knowledge about the production of solar panels for small satellites.

Based on the agreement signed between the Riyadh company and the Airborne & Space Systems Division for the production of solar panels for small satellites, classroom sessions were organised in collaboration with the Polytechnic lecturers. Training also entails a second stage consisting of a hands-on course of 21 weeks at clean rooms to teach practical processes for the production and checking of solar panels. The skills acquired will enable the customer to independently manage solar panel production at its premises.

“

The Strategic Partnering Arrangement signed today with Leonardo Helicopters is designed to ensure that we continue to work together to enhance national prosperity through export success, and ensure the right innovation and technologies are available in the UK to meet tomorrow's defence requirement”.

Philip Dunne,
UK's Minister for Defence
Procurement - 11 July 2016

Of the 180 events included in the school's training programme, only 50% takes place in the air. Indeed, the rest of training is carried out on the ground using simulators, generating a significant reduction in costs and environmental impact.

During the closing ceremony of the programme, the Saudi staff expressed satisfaction about the content, the quality and the organisation of the courses provided by Leonardo.

16. <https://www.gov.uk/government/news/mod-signs-new-partnering-arrangement-with-leonardo-helicopters-uk>.

Close to customers during rescue operations

Over the past few years, many countries have developed increasingly integrated healthcare systems and the use of helicopters in Search and Rescue (SAR) missions and in Emergency Medical Services (EMS) has grown considerably.

Leonardo contributes to the success of this type of missions by combining its knowledge of the areas of intervention and the quality of its helicopters and by subsequently developing the most effective mission management solutions in collaboration with the customer. This approach includes the new agreement reached between Leonardo and the National Alpine Rescue and Speleology Corps (*Corpo Nazionale Soccorso Alpino e Speleologico - CNSAS*) to further improve the technologies used to save human lives and develop new operational and training solutions enhancing the efficiency of helicopter rescue services, while ensuring maximum safety for personnel.

LEONARDO AND CNSAS: LAYING THE BASIS FOR THE HELICOPTER RESCUE SERVICES OF THE FUTURE

Italy is a world reference for mountain activities and, consequently, a model for rescue skills.

In 2015 alone, in Italy, helicopter rescue missions in the mountains numbered 2,800. This figure increased in 2016 due to the many interventions required by the earthquake that hit Central Italy.

Leonardo and the National Alpine Rescue and Speleology Corps have collaborated on the field for several years, since the time CNSAS's personnel began to operate onboard Leonardo helicopters.

The new agreement entails the joint evaluation of the technical specifications of Leonardo rescue helicopters, their mission equipment and the cabin configuration, to further improve efficiency and effectiveness. The two partners will also examine together the new rescue techniques and the adaptation of helicopters to modern operational needs.

The agreement also provides for the definition of standards and protocols to train CNSAS's personnel as well as health care and emergency crews operating by helicopter, combining Leonardo's and CNSAS's sector expertise, with a special focus on team work, the relationship between rescuers and aeronautics and the approach to the patient transported.

LEONARDO EQUIPS THE LARGEST HELICOPTER RESCUE SERVICE IN CHINA

In early 2016, Sino-US had already signed a contract for 25 AW119Kx, paving the way for the creation of the largest helicopter rescue service in China.

As per the contract signed with the Chinese Sino-US Intercontinental Helicopter Investment, 30 AW139 and AW169 helicopters will be delivered in 2017, to be used by the parent Kingwing General Aviation for rescue missions.

Sino-US Intercontinental has placed orders for more than 80 AW119Kx, GrandNew, AW169, AW139 and AW189 helicopters. The fleet also benefits from the increase in support services in relation to which an important structure for the supply of spare parts was opened in Shanghai.

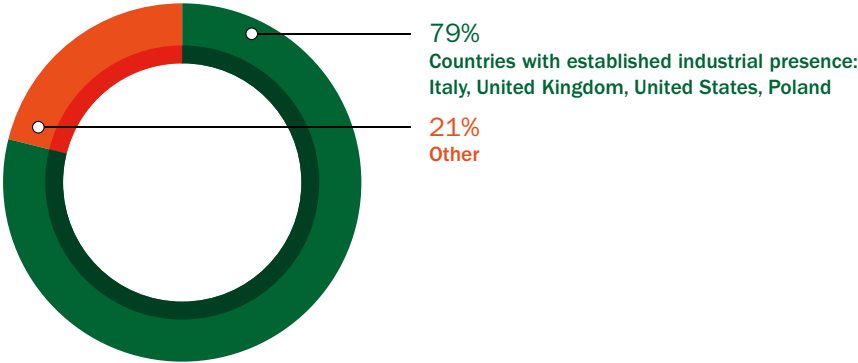
Growing with the supply chain

The supply chain of Leonardo is marked by a large presence of high-tech industry and high-expertise services. As well as being significant for economic and social development, they are increasingly more strategic in competitive dynamics in the Aerospace, Defence and Security sector, where the purchases have a significant impact on revenues.

In this respect, “make or buy” strategies had a direct impact on the quality of products and solutions and the ability to execute contracts, two fundamental factors in the creation of sustainable value for the company, its customers and the areas where these industries are based.

Leonardo 2017-2021 Industrial Plan remains focused on improving supply chain performance, in both economic terms and as ability to resist and adapt to competitive and technological scenarios.

GEOGRAPHICAL BREAKDOWN OF PURCHASES



Transparency and procurement accuracy

By accessing the Procurement Portal, suppliers read and accept the provisions of Leonardo Code of Ethics, Anti-Corruption Code, Supplier Code of Conduct and Organisational, Management and Control Model.

The Group’s directive on procurement management and the guidelines on Group procurement became fully operational in 2016, strengthening the application of the ethical principles of transparency, correctness and equal treatment of the suppliers operating with Leonardo.

Suppliers are now managed through the Leonardo Single Register which includes IT tools and management centralised processes that enable suppliers to apply, pre-qualify, checking ethical-legal and economic-financial requirements, and, finally, be assessed in respect of the services provided. Supply agreements are also governed by standard Terms and Conditions common to all Divisions.

APPLYING PROCUREMENT REGULATIONS

	Actions implemented in 2015	Progress KPIs for 2016
SUPPLIER SELECTION AND QUALIFICATION	<p>Pre-qualification is mandatory for all suppliers eligible to participate in tenders, unless they are already included in the Single Register.</p> <p>Prohibition of awarding contracts or orders to suppliers which are not eligible after pre-qualification.</p> <p>Limits related to supplier’s sales coming from Leonardo.</p>	<p>12,669 suppliers recorded on the portal, almost 6 times more than in 2015.</p> <p>A standard questionnaire has been prepared, comprised of specific sections on environmental certifications (ISO 14001), health and safety at work certifications (OHSAS 18001) and CSR management systems certification (SA 8000).</p>
TRANSPARENT TENDER MANAGEMENT	<p>Value grids for the application of different tender procedures.</p> <p>Prevalence of public tenders.</p> <p>Limitations to the circumstances when private negotiations are admitted.</p> <p>Setting the minimum number and rotation of the suppliers participating in invitations to tenders.</p>	<p>5,429 transactions managed through the procurement platform (up 21% on 2015).</p>
BLACK LIST	<p>Black list mechanism for:</p> <ul style="list-style-type: none"> › serious contractual breaches that damaged Leonardo; › violation of the provisions of the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001, the Code of Ethics, the Anti-Corruption Code; › existence of judgements convicting the parties acting in the name and on behalf of the supplier, for tax offences, crimes involving bribery among private parties, predicate offences determining the administrative liability of companies pursuant to Legislative Decree 231/2001. 	<p>3 suppliers blacklisted.</p> <p>149 suppliers with denied or revoked pre-qualification, which can be used subject to derogation.</p>

THE CODE OF CONDUCT FOR RESPONSIBLE SUPPLIERS

The supply chain plays a fundamental role in Leonardo business model and is used to build relationships based on the principles of transparency, integrity and confidence to create economic and reputational value in the long term.

Already in the pre-qualification stage, Leonardo requires that its suppliers act in accordance with the values and conduct set out in the Supplier Code of Conduct, in addition to the Code of Ethics and the Anti-Corruption Code, with which the company also complies. Suppliers can report potential or grounded ethical issues, including anonymously and without fear of retaliation, through the whistleblowing system.

Leonardo Supplier Code of Conduct makes reference to the respect for human rights, compliance with import/export regulations and the originality of supplies which must not include second-hand, counterfeit or replica parts.

Environmental and social sustainability of the supply chain

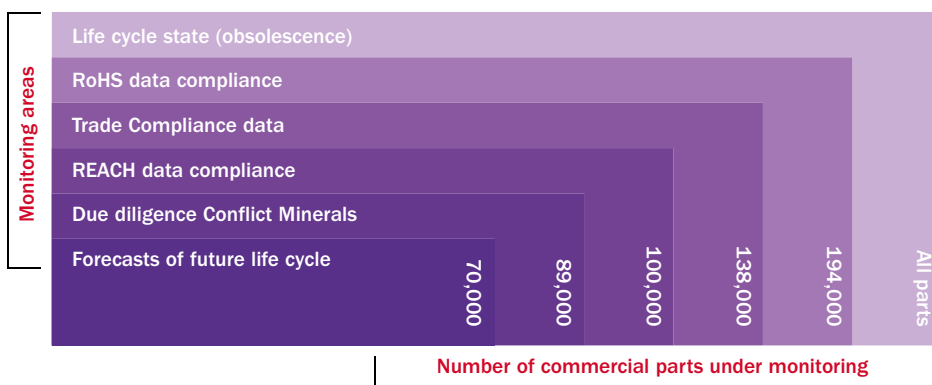
Leonardo is investing in the control and resilience of the supply chain by implementing specific actions that ensure compliance with existing environmental and social regulations and prevent procurement issues or risks starting from the project stages.

Leonardo DRS is committed to working with its own supply chain to increase the traceability of the minerals included in each product.

Since 2016, the engineering functions and the entire supply chain of the Electronics, Defence & Security Systems sector can check the requirements applicable to direct standard materials (components, chemicals, COTS - Commercial Of The Shelf) used in products through the new Components Management System (CMS) which operates as a database and as integrated application to product development and company ERP (Enterprise Resources Plan) systems¹⁷.

In this respect, Leonardo DRS joined the Conflict-Free Sourcing Initiative that provides information about the origin of minerals from production sites validated by the Conflict-Free Smelter Programme.

THE NEW COMPONENT MANAGEMENT SYSTEM



The CMS used to trace direct standard materials is constantly enriched with new information obtained from the compliance checks carried out by the Components and Software Standardisation group which is also responsible for managing the entire IT tool.

17. Requirements are checked based on the 2010 Dodd-Frank Act for Conflict Minerals; 173 hazardous substances whose use must be traced and, in some instances, authorised or prohibited for REACH; 10 types of hazardous materials prohibited in electronic equipment and devices not specifically intended for military purposes for RoHS.

CONTROL OF SUPPLIES IN INDIRECT PURCHASES

In 2016, more than 1,400 facility management services were inspected, including canteen and sanitation-environmental services. Of these, 64 were inspected by an independent body. Suppliers’ monitoring includes checking the expected service levels and, where applicable, environmental sustainability aspects, such as correct management of waste and hazardous substances and compliance with the safety provisions and procedures. Where contractually provided for, KPI monitoring is associated with the calculation of penalties.

Capacity building with suppliers

In Italy, high-tech and knowledge-intensive services account for approximately 60% of the total companies operating in the Aerospace, Defence and Security sector, compared to an average national presence in other sectors of 16%.

Leonardo purchases approximately 80% of the goods and services from suppliers based in the main countries where it operates, supporting local areas. An effective use of skills and resources, the development of sophisticated technologies and the exchange of knowledge and experience are the goals of the clusters on which Leonardo invests, by participating in capacity building industry programmes and projects.

ITALY

Leonardo leads Italy’s Aerospace, Defence and Security industry, which employs almost 45 thousand people, contributing by approximately €1.8 billion to direct tax revenue and over €9 billion to exported goods. Industry companies, with an average of 8.5 registered patents compared to the national average of 1.5 of the capital goods sector, can generate knowledge with a high added value. Indeed, the added value per worker is approximately €100,000, 67% more than the national average¹⁸.

UNITED KINGDOM

Leonardo’s supply chain comprises approximately 1,300 SMEs in the United Kingdom.

Over 150 Leonardo’s suppliers, 34 of which directly sponsored, participate in the 21st Century Supply Chains programme, a sector initiative that helps SMEs improving their performance in terms of resilience, in order to build a more competitive and sustainable supply chain.

UNITED STATES

42% of Leonardo DRS’s procurement value pertains to SMEs.

By pursuing a specific policy that supports SMEs, Leonardo DRS focuses, in particular, on enterprises managed by women, veterans, disabled people and native Americans. It also carries out mentorship activities to search for opportunities and improve the competitiveness of SMEs.

POLAND

PZL-Świdnik, one of Lublin’s largest employers, set up the Lublin Cluster for Advanced Aerospace Technology whose aim is to increase the region’s contribution to the development of Poland’s aerospace sector, by forging collaborations with companies, local governments and universities.

18. Prometeia for AIAD, The industrial system to defend the country system - 2015 results.

MANAGING SUPPLY CHAIN RISKS

In 2016, Leonardo strengthened some aspects of its relationship with suppliers.

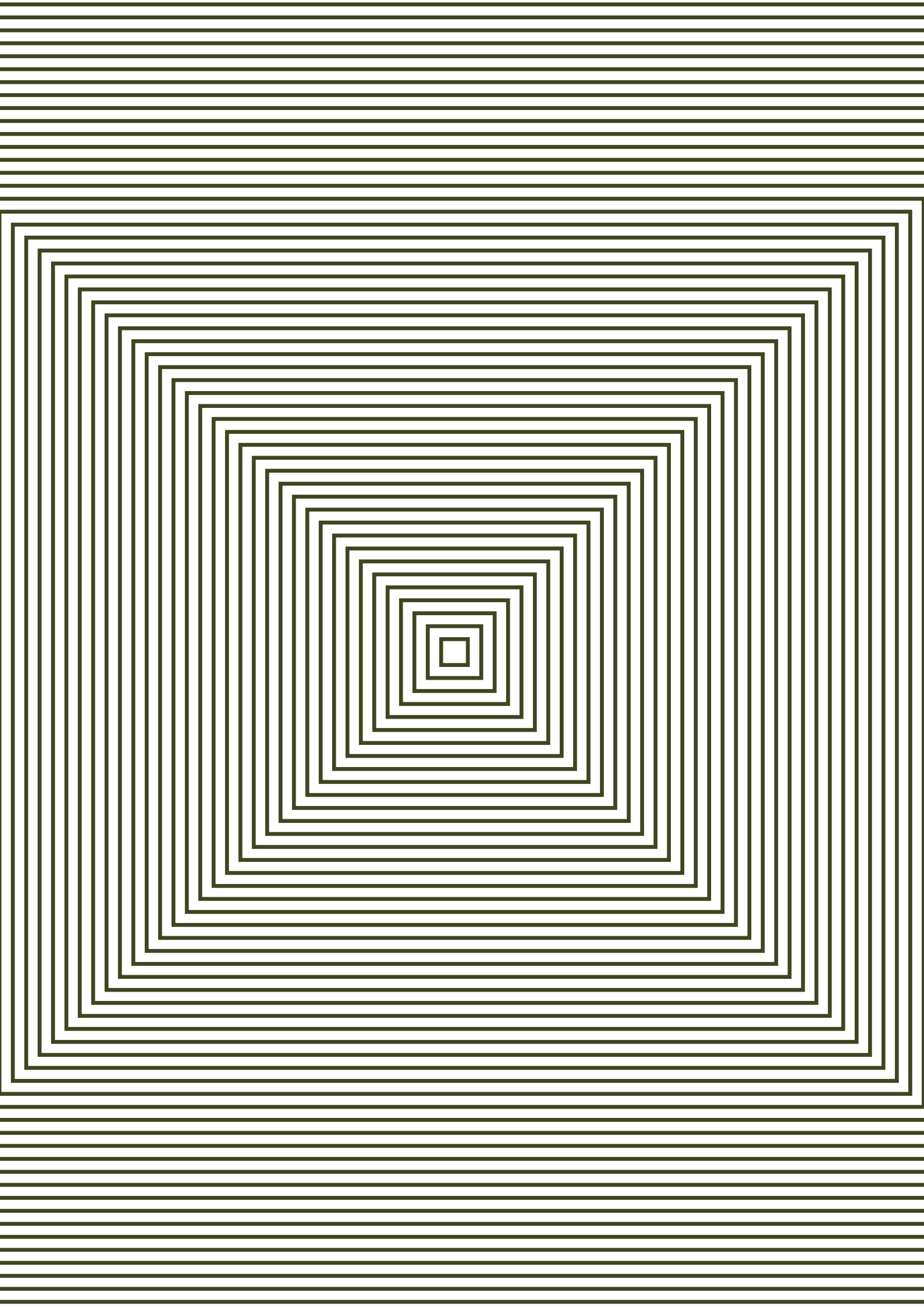
CYBER SECURITY FOR SUPPLY CHAIN This process describes Leonardo's approach to dealing with cyber security requests from customers and governmental bodies.

NEW NDA (NON DISCLOSURE AGREEMENT) A new version of the NDA document for suppliers was prepared in collaboration with the Purchasing Commission, governing the protection of Leonardo's or its customers' sensitive information should it be transferred to suppliers.

RISK MANAGEMENT Leonardo launched a plan to identify, by the first half of 2017, a process to manage the risks and opportunities related to the supply chain which have an impact on the performance of Leonardo projects. This activity is aimed at defining a systematic, open and transparent exchange of information between Leonardo and its supply chain, using a win-win approach that also increases the quality and competitive level of the entire industry.

According to the survey conducted in 2015 by the Business Continuity Institute, supply chain interruptions can be extremely costly and cause serious reputational damage.

The results of the survey indicate the growing awareness of the role of business continuity in improving supply chain resilience.



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Environmental and social responsibility



Eco-efficiency of operations

For Leonardo, responsible operations mean conducting business while safeguarding the environment and natural resources, in an integrated logic to create value involving all supply chain players.

The core elements of environmental management are the operational activities carried out by Leonardo Divisions and its other subsidiaries. These are responsible for setting and implementing the environmental management systems that best suit the specific features of the business, while performing compliance checks and implementing environmental risks control plans and programmes.

The founding principles of the environmental and health and safety responsibility of Leonardo are described in the Environmental, Health and Safety Integrated Policy.

ENVIRONMENTAL INVESTMENTS AND TRAINING

The Divisions planned, launched and completed, in part, approximately 50 initiatives worth about €12 million, of which 60% related to energy efficiency and 40% to improve waste and water cycle management. Furthermore, over €19 million was invested in property management activities, of which one third had an impact on the reduction of the environmental impact.

13,600 environmental specialist training hours were provided.

ENVIRONMENTAL MANAGEMENT SYSTEMS (EMS)

Leonardo has 47 sites ISO 14001:2004 certified and an EMAS-compliant site. 67% of its workers included in the environmental reporting scope operates from these sites.

Leonardo's sites are progressively launching the transition to ISO 14001:2015, which will become the only valid ISO standard as of 2018.

In 2016, a total of 148 environmental audits were carried out in order to obtain or maintain the certifications of sites' management systems, and for the purposes of checking and assessing environmental risk management. Of these, 71 were conducted by Leonardo Global Solutions (LGS) on Italian sites (16 more than in 2015).

The environmental management of Leonardo increasingly relies on web-based IT solutions to trace operations. In 2017, two other applications for Environmental Audit Programme Management and Contaminated Sites Management (CMS) will complement the existing environmental reporting application. Specifically, the CMS will enable real-time control and management of the entire environmental reclamation administrative and operational process.

LGS set up the environmental operations department which identifies, assesses and manages the environmental risks associated to its operating activities.

15 YEARS OF INNOVATION IN LEONARDO'S ENVIRONMENTAL MANAGEMENT

Leonardo Global Solutions analyses, puts forward and implements projects that identify innovative and sustainable solutions, which are then communicated and circulated to spread the environmental management culture throughout the Group. In this respect, in 2016, LGS published "The Environmental Blue Book", the first publication that completely focuses on environmental issues.

This publication covers over 15 years of Leonardo's environmental history: it describes the ideas and projects implemented and in progress, the current and future challenges, and pictures environment and sustainability as the elements to be integrated in all business areas which can transform risks in real and long-lasting opportunities for development and creation of value.

Energy and carbon management

The new energy management single model of Leonardo will be fully up and running as of 2017.

The energy management of Leonardo is aimed at reducing site consumption from a structural point of view through a new central governance structure: the energy management model launched in 2016 complements the consolidated energy procurement activities with a single and structured unit that monitors all efficiency initiatives to progressively reduce the Group carbon footprint.

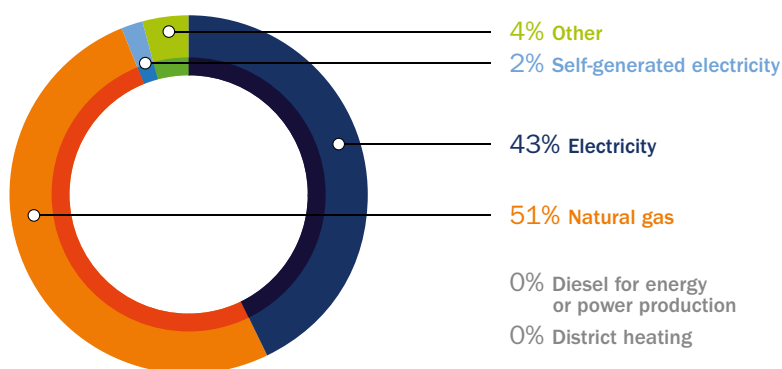
ENERGY POLICY AND GOVERNANCE GUIDELINES	ENERGY EFFICIENCY PROGRAMME
<p>Each Division contributes to the common goal of reducing Leonardo's sites' energy absorption from a structural point of view and, consequently, the related emissions.</p>	<p>This tool is used for central monitoring of efficiency interventions measured based on a standard technical/ economic model that is being implemented by the sites' Divisions.</p>
<p>These initiatives are coordinated by Leonardo's Energy Manager who collaborates with the energy contacts of each Division, assisted by a LGS dedicated specialist structure.</p>	<p>Since 2016, the Foggia, Grottaglie and Pomigliano sites of the Aerostructures Division have installed new LED industrial lighting systems which will generate average energy savings of over 40%.</p>
<p>At Leonardo, six sites have implemented an ISO 50001:2011-certified energy management system.</p>	

Natural gas and renewable energy in the energy mix

In 2016, the Group's energy consumption was equal to 5,824 TJ (over 5% below 2015), 2.5% of which is attributable to the self-produced electrical energy (in 2015, it accounted for 1.7% of the Group's total consumption).

The energy mix for 2016

ENERGY CONSUMPTION DISTRIBUTION BY SOURCE

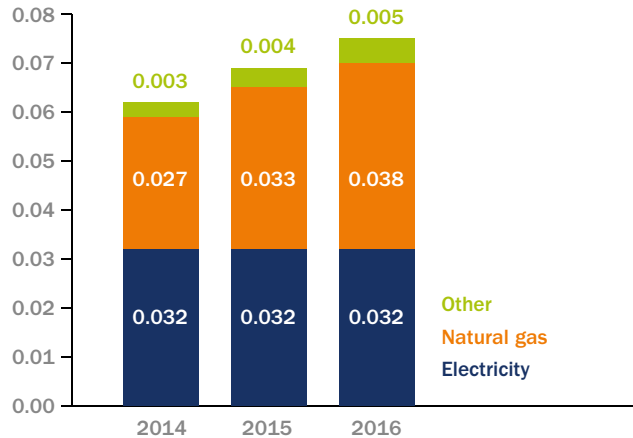


Natural gas is the Group's main source of energy (51% of the total). In 2016, it was unchanged from 2015.

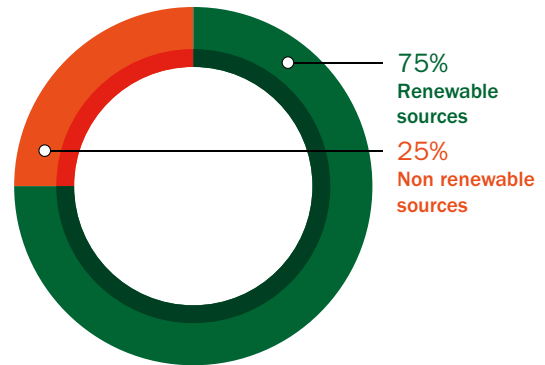
The electrical energy purchased covers 43% of total consumption and decreased by almost 13% on 2015, as a result of the increase, in certain sites, of natural gas consumption.

75% of electrical energy purchased is covered by Guarantees of Origin (GO) of renewable energy (73% in 2015). For Italy's sites, the purchases of the GO cover almost 100% of the electrical energy purchased and this commitment is confirmed also for 2017.

ENERGY CONSUMPTION BY SOURCE (GJ/HOUR WORKED)



ELECTRICITY



Carbon footprint

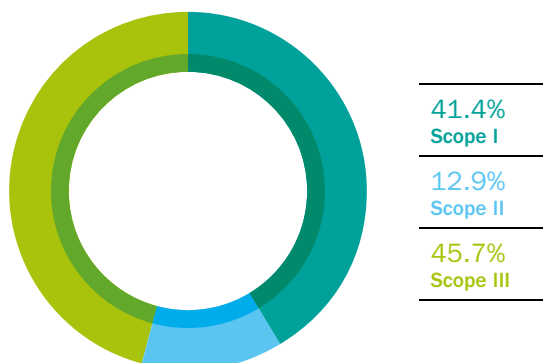
In 2016, the increased presence of low-carbon sources in the energy mix resulted in the reduction of CO₂ equivalents (CO₂e)¹⁹ produced, equal to approximately 654,000 tons, over 4% less than in 2015.

Carbon intensity, being the ratio between the CO₂e produced during the year and revenue, is approximately 54 tons per million euros, up by 1.8%. The same parameter, measured in relation to the hours worked at the sites included in the environmental reporting scope, rose by 10% on 2015.

Greenhouse gas emissions are reported via the Carbon Management System, pursuant to the Greenhouse Gas Protocol.

CO₂e emissions by scope

DISTRIBUTION OF CO₂e EMISSIONS



19. Scope I, direct emissions deriving from own sources or controlled by the company; Scope II and III, indirect emissions related, respectively, to the generation of electrical energy purchased and deriving from sources not controlled by the company, for instance, extraction of raw materials, transport of goods and employee travel.

SCOPE I Emissions approximated almost 271,000 tons, substantially unchanged on 2015, in line with the stable consumption levels of natural gas.

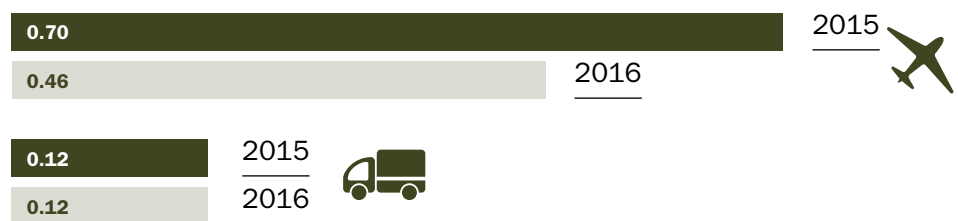
SCOPE II Emissions approximated 85,000 tons, recording a considerable decrease of 21% on 2015 thanks to the rise in the portion of electrical energy purchased from renewable sources.

SCOPE III Emissions approximated 298,000 tons, down by about 3% on 2015, thanks to the efficiency performance of the supply chain and business travel management.

Containing indirect emissions (Scope II and III)

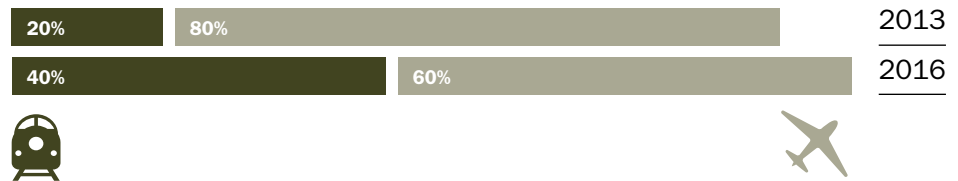
SUPPLY CHAIN

Performance of CO₂ emissions per kg handled by air improved. Emissions related to goods handled by land are stable.



BUSINESS TRAVEL

Increase in the kms travelled by train compared to planes after the issue of the travel policy in 2014.



- The first pilot project for an electric shuttle bus for Rome's central office was implemented
- Inclusion of hybrid cars in the company car fleet
- Promotion of car pooling initiatives at production sites

ENERGY

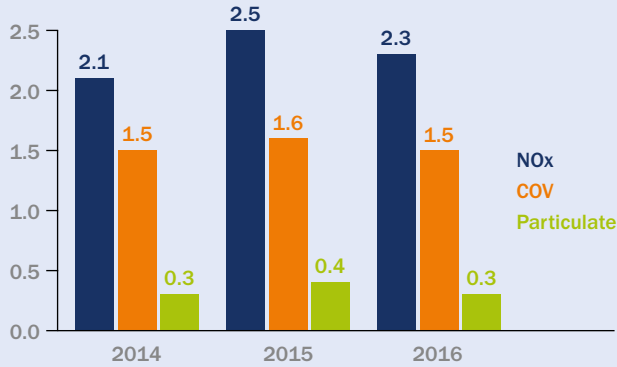


Guarantees of purchases from renewable sources for 75% of the energy consumed (almost 100% for Italian sites).

MAIN ENVIRONMENTAL HIGHLIGHTS

Atmospheric emissions

AIR EMISSIONS (G/HOUR WORKED)

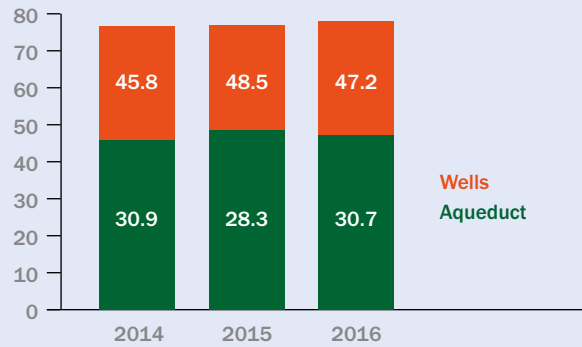


NO_x, Volatile Organic Compounds (VOC) and Particulate emissions decreased by 19%, 18% and 39% on 2015, respectively.

Thanks to the performance measures applied to industrial processes, SO₂ emissions, related to the consumption of diesel oil, the quantitative of Volatile Inorganic Compounds (VIC) and heavy metal have become a negligible part of total emissions, closely related to the performance of specific production activities, in particular in the Helicopters and Aircraft Divisions.

Water withdrawal and wastewater

WATER WITHDRAWAL BY SOURCE (LITERS/HOUR WORKED)

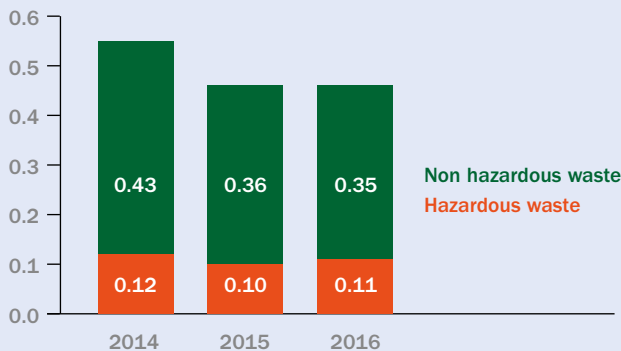


WATER WITHDRAWAL BY SOURCE Approximately 6.35 million cubic metres of water were withdrawn, down by 11% on the previous year: 58% comes from wells (3.67 million cubic metres), while 38% from water supply systems (2.39 million cubic metres) and 4% (roughly 0.3 million cubic metres) mainly from rain water collected in storage tanks or reservoirs.

WASTEWATER DISPOSAL Approximately 4.6 million cubic metres of wastewater were generated, 60% of domestic and similar origin and 40% for industrial activities and processes. 74% goes to public sewers, while 25%, which does not require additional purification treatment, is discharged in surface waterways and a small remaining portion (1% of the total) is disposed of in another way (disposed of as waste; soil, after purification, pursuant to the authorisations issued by the supervisory and control bodies).

Waste generation

WASTE GENERATED (KG/HOUR WORKED)

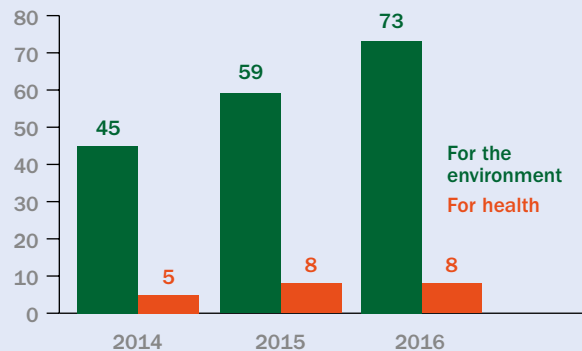


WASTE Approximately 35,837 tons was generated (15% less than in 2015). Of this, 46% for recycling and the residual 54% disposed of.

In accordance with the classification of the regulations currently in force, in 2016, 75% of waste is not hazardous (approximately 26,908 tons), while the residual 25% is classified as hazardous (roughly 8,928 tons).

Hazardous substances

TOTAL CONSUMPTION OF HAZARDOUS SUBSTANCES (G/HOUR)



FOR THE ENVIRONMENT Approximately 5,680 tons of substances dangerous for the environment were consumed (5,300 tons in 2015).

FOR HEALTH 593 tons of substances dangerous for health were consumed (710 tons in 2015).

Health and Safety at work

Since 2009, the accident frequency rate of Leonardo employees decreased by more than 50%.

Leonardo has always been strongly committed to protecting the health and safety of people in workplaces, as confirmed by its Environmental, Health and Safety Integrated Policy.

Similarly to environmental issues, the approach to accident prevention is based on the implementation of management systems that comply with international standards, including significant investments and ongoing specific awareness-raising and training activities for employees.

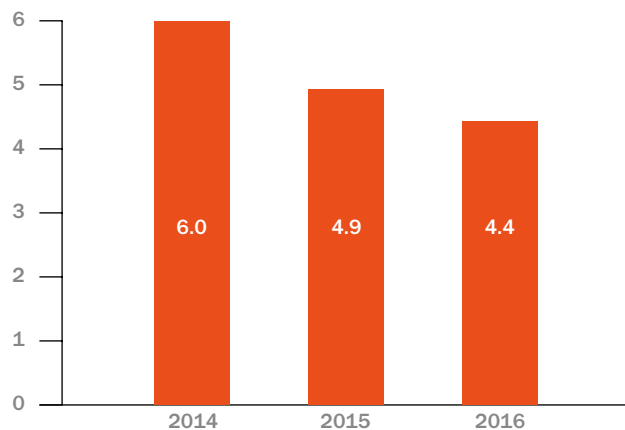
INVESTMENTS AND TRAINING

€8 million in 2016 and over €23 million in the 2015-2016 two-year period.
114,000 hours provided in 2016, 2.5 hours a year per employee.

OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEMS

Leonardo has 38 sites which have implemented an OHSAS 18001-certified occupational health and safety management system. 57% of the workers included in the environmental reporting scope operate from these sites.

INJURY RATE



EMPLOYEES In 2016, the number of accidents at work²⁰ decreased considerably: 346 compared to 443 in 2015 (-22%), as well as the frequency rate²¹, which was equal to 4.4, slightly more than four accidents every million hours worked (down 10% on 2015). In 2016, there were no deaths.

SUPPLIERS' PERSONNEL The services provided by third parties (e.g., global service, logistic, ICT companies, etc.) were monitored at 33 sites, for a total of 393 suppliers and 134 accidents occurred (2015: 345 suppliers and 143 accidents).

20. An accident is an incident that causes the inability to work for one or more days, excluding the day of the accident itself. Accidents on the way to and from work are excluded.

21. The frequency rate is calculated as the ratio of the number of accidents in the year to hours worked. To make the result easier to understand, it is multiplied by a factor of 10⁶.

THE COMMITMENT TO SECURING BUILDINGS

Protecting people's safety is also part of the responsible management of the real estate assets where Leonardo employees operate.

LGS analysed the seismic risk related to own buildings which resulted in a first evaluation of the buildings conditions and the proposal of an adaptation and improvement plan to be implemented in the 2017-2021 period, with priority interventions set by a specific task force.

Over 800 buildings owned by Leonardo were considered in the preliminary analysis of the seismic risk.

THE PROTECTION OF PEOPLE WORKING IN COUNTRIES AT RISK

The Travel Security System (TSS) of Leonardo is the new application launched in 2016 to assist and protect employees travelling for work or seconded abroad.

The system's graph shows the risk level of each country, updated every week, suggesting mitigation actions. Furthermore, it shows Leonardo sites and personnel around the world also facilitating the registration process with the "*Dove siamo nel mondo*" (where we are in the world) service managed by Italy's Ministry for Foreign Affairs.

Seconded personnel receive warnings about events that may affect their safety and security and can also rely on a 24/7 help desk.

Wellness projects

With a view to improving people's well-being, in 2016, several medical prevention campaigns were launched in addition to the promotion of correct dietary education.

Specifically, Leonardo DRS carried out a vast biometrics screening programme, which included measuring the cholesterol level and the body mass index of approximately 700 employees at 19 sites, a third of whom were women.

Group's canteens have started serving low-fat and low-calorie meals. Furthermore, seven canteens were restructured to improve acoustics, decreasing noise in the restaurant area by an average of 68%.

The satisfaction survey about the restaurant service carried out at 34 Italian sites' canteens involved 23,000 employees with a participation rate of 84%. The average score obtained was 62/100.

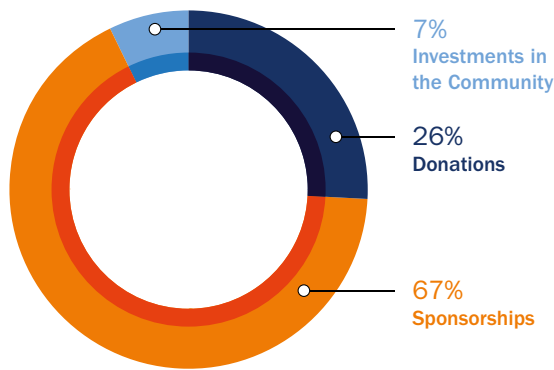
Commitment to social issues

Since November 2016, Leonardo has carried out preliminary due diligences on the counterparties which benefit from sponsorship contracts, suppliers involved in sponsored events and grants' recipients.

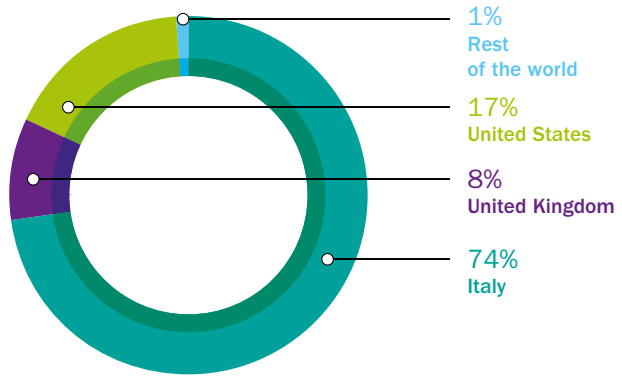
Leonardo confirms and strengthens its corporate citizenship in the communities and the areas in which it operates, collaborating with bodies, associations and foundations, non-profit organisations and other entities with which it implements social, cultural, environmental protection and welfare projects and initiatives.

In 2016, approximately €5 million was invested in the various areas of focus, including sponsorships (with or without return in terms of image) and donations.

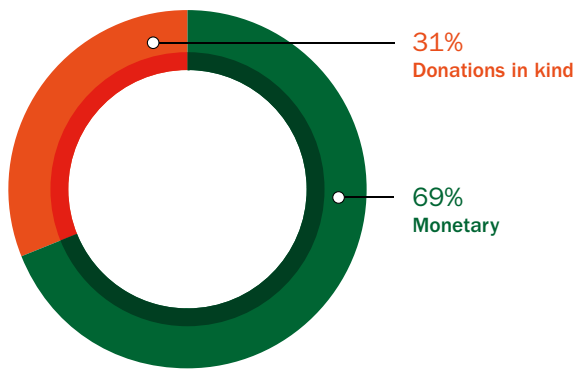
MOTIVATION



GEOGRAPHICAL BREAKDOWN



TYPE OF CONTRIBUTION



SOCIAL STAKEHOLDER ENGAGEMENT IN ITALY

Leonardo developed long-standing relationships with approximately 40 non-profit organisations which participate in the Responsible Canteen Programme.

In 2016, feedback and dialogue activities continued with the organisations involved in the Responsible Canteen Programme, with which Leonardo established a consolidated relationship, and with those whose employees offered to carry out individual voluntary work. The engagement was based on a questionnaire from which derived important suggestions on how to obtain a better and more constructive collaboration with the company.

In this respect, in order to meet the requests from the voluntary organisations and bring together the demand and supply of time, skills and goods, the voluntary activity board will be launched, using a dedicated IT platform.

MAIN SOCIAL INNOVATIONS

Solidarity

RESPONSIBLE CANTEEN PROGRAMME Leonardo is pursuing and developing the Responsible Canteen Programme which was launched in 2013 to recover the food surplus of the 25 canteens of the Group's largest Italian sites and donate it to charities. Consequently, this food is transformed into resources for those most in need.

The programme is managed in partnership with the *Fondazione Banco Alimentare Onlus* - Siticibo programme and in collaboration with canteen services' suppliers. Based on the latter's strong experience, programmes and initiatives are being designed to promote dietary education, both within canteens and by opening a phone desk for employees.

In 2016, as part of the Responsible Canteen Programme and the food collection scheme, 200,000 meals and approximately 11 tons were distributed, worth an estimated total of €400,000.

SOLIDARITY WITH EARTHQUAKE VICTIMS In agreement with the trade unions, Leonardo's employees expressed their solidarity with the victims of the earthquake that hit Central Italy by donating an amount equivalent to one hour of their remuneration. Leonardo committed to donating an amount equal to the amount raised by its employees.

This solidarity initiative led to the collection of a total of more than €150,000.

SUPPORT TO US AND UK MILITARY AND VETERANS

Leonardo DRS pursues many initiatives to support US Armed Forces' members and their families, in addition to a series of activities to improve the education of their children and many health and social care plans for veterans and their families.

One of the main events of 2016 was the "Armed Services YMCA of the US", a non-profit organisation that provides specialist programmes and support services to military members and their families, focusing, in particular, on recently enrolled men and women. Furthermore, the "Fisher House" is responsible for finding comfortable houses for military members to enable them to be close to a loved one during a period of hospitalisation.

Environment

A TREE TO ADOPT On Christmas 2016, through the online Treedom platform, Leonardo gave some stakeholders a tree to be planted in order to start a reforestation project in Kenya, in the Kisii district. Those who received the gift voucher were able to plant their tree and join Leonardo's forest by activating the free code. Each planted tree is photographed, geo-localised and can be seen by those who planted it through a dedicated page, monitoring its growth. The project also involves the local agricultural community that looks after the trees and the forest.

GREEN DAY Leonardo participated in the event held by the Rome LUISS University dedicated to sustainable development and environmental policies. During the event, it discussed how universities, institutions and companies can play a central role in educating and training young managers, to promote the pro-active participation of future citizens and to help in developing smart cities.

Culture

LEONARDO'S MUSEUM SYSTEM Through its four company museums, Leonardo is committed to promoting, enhancing and safeguarding the culture, history, experience and industrial traditions which, in past decades, contributed to make it what it looks today. Leonardo's museums are lively and dynamic structures that act as a reference point for the inclusivity of communities and the reference areas and whose management involves employees, volunteers and senior members.

The aim is to transform them into industrial culture hubs, increasingly open to visitors, researchers, students, economic and cultural operators.

Leonardo's museum system comprises the following company museums:

- Agusta Museum - Cascina Costa (Varese);
- Melara Museum Association - Brescia;
- Officine Galileo Museum - Campi Bisenzio (Florence);
- Radar Museum - Fusaro (Naples).

SPONSORING ACADEMIES, THEATRES AND FOUNDATIONS

In 2016, the main sponsorships were those in favour of the Santa Cecilia Academy in Rome, the San Carlo Theatre in Naples, the Museo del Novecento and the Galleria d'Arte Moderna (GAM) in Milan, the Regio Theatre in Turin, the Renato Guttuso exhibition at the Quirinale palace, the Jewish Literature and Culture Festival in Rome, Leonardo's Award for Music, during Antonio Pappano's concert at the Parco della Musica Auditorium in Rome, and Leonardo's "La Milanese" award, assigned to the US writer Michael Cunningham.

180 events and 100 guided tours were offered to Leonardo's employees, benefiting from the free entrances.

FIRST LEONARDO AWARD FOR MUSIC

During the symphonic concert of 15 December 2016 at the Parco della Musica Auditorium in Rome, the first Leonardo Award for Music was assigned. It was up to promote and enhance the talent of young musicians.

This award is a meeting point with the young generations, an incentive to grow, a recognition of excellence and another way for Leonardo to “communicate” with the area in which it operates.

MARS - CLOSE ENCOUNTERS WITH THE RED PLANET

During the event, Mars - Close encounters with the Red Planet were unveiled the signing of the final contract between Thales Alenia Space and ESA to complete the activities related to the ExoMars 2020 mission.










Leonardo sponsored the exhibition promoted by Italy's Space Agency and the Ministry of Cultural Heritage and Activities and Tourism, in collaboration with the European Space Agency (ESA) and INAF (Italy's Institute for astrophysics) at the Octagonal Room of the Rome's National Museum at the Terme di Diocleziano.

An exhibition itinerary on the fourth planet of the solar system was prepared, divided into seven sections, that combines past and future, science and art, science fiction and local culture and that enhances Italy's technical/scientific excellence in the field of planetary exploration.

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Appendix

The contribution to Sustainable Development Goals

The 2016 Sustainability and Innovation Report describes some of the Group's business initiatives and activities that contribute to the goals set by the Organisation of the United Nations in its 2030 Agenda (Sustainable Development Goals - SDGs), in order to call companies, institutional stakeholders and the entire civil society to contribute to sustainable development and global prosperity²².

INDEX OF THE 2016 SUSTAINABILITY AND INNOVATION REPORT	GOALS
Compliance with standards and rules	<p>17 PARTNERSHIPS FOR THE GOALS</p>  <p>Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries. Substantially reduce corruption and bribery in all their forms (in line with goal 16).</p>
Innovation for sustainable development	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>  <p>Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.</p> <p>13 CLIMATE ACTION</p>  <p>Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.</p> <p>14 LIFE BELOW WATER</p>  <p>Effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices.</p> <p>15 LIFE ON LAND</p>  <p>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.</p>
Our key resources	<p>8 DECENT WORK AND ECONOMIC GROWTH</p>  <p>Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.</p> <p>4 QUALITY EDUCATION</p>  <p>Substantially increase the number of youths and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.</p> <p>5 GENDER EQUALITY</p>  <p>Ensure women's full and effective participation and equal opportunities for leadership at all levels of decisionmaking in political, economic and public life.</p>
Environmental and social responsibility	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>  <p>Ensure sustainable consumption and production patterns.</p>

22. The selection of the goals associated with the chapters of the 2016 Sustainability and Innovation Report is not exhaustive of all Leonardo's initiatives.

Methodological note

Leonardo 2016 Sustainability and Innovation Report is prepared in accordance with the GRI - Global Reporting Initiative G4 - Sustainability Reporting Guidelines “core” reporting option.

The Sustainability and Innovation Report is prepared annually. This document covers 2016 (1 January 2016 - 31 December 2016) and was been submitted to Leonardo SpA’s Board of Directors on 15 March 2017.

Updating on materiality

The aspects reported in this document were identified in accordance with the principle of materiality and considering the principles that set the content and the quality of sustainability reporting (stakeholder inclusiveness, completeness of information, sustainability context, balance, comparability, clarity, timeliness, reliability and accuracy). The materiality matrix updating process is based on the review of the analysis conducted in 2015, carried out by involving the company’s structures that interface with and listen to stakeholders’ needs.

The external context was subsequently analysed through an industry benchmark and the specific documents of the Aerospace, Defence and Security sector²³. A media analysis was then performed over approximately 7,400 press releases related to the Group. This in-depth analysis was integrated by an analysis of Leonardo ESG (Environmental, Social and Governance) performance reports, issued by independent assessment companies.

Finally, with a view to identifying reporting priorities, the internal and external relevance of each issue was defined, considering, to the extent of stakeholders, the combined results of the analysis of the external context and, for Leonardo, the results of the interviews with the managers of the various Divisions and organisational units.

The results of the analysis were validated by the top management of Leonardo and included in the materiality matrix on page 28.

Material topics	GRI G4 indicators
Business conduct & Compliance	Anti-corruption - S04, S05 Public Policy - S06 Anti-competitive behavior - S07 Marketing communications - PR6 Compliance - EN29 Compliance - S08
Cyber security and data protection	Customer Privacy - PR8
Supply chain management	Supplier environmental assessment - EN32 Supplier assessment for labor practices - LA14 Procurement practices - EC9
Value creation and competitiveness	Economic performance - EC1 Procurement practices - EC9
Innovation	-

23. “Sustainability Topics for Sectors: What do stakeholders want to know?” for the Aerospace and Defense sector of the GRI; “RobecoSAM: sustainability yearbook 2016”, for the section on the Aerospace & Defense sector; “Global principles of business ethics for the aerospace and defence industry” of the Aerospace Industries Association of America (AIA) and the AeroSpace and Defence Industries Association of Europe (ASD); Materiality Map for SASB’s Aerospace and Defense.

Material topics	GRI G4 indicators
Contribute to community	Indirect economic impacts - EC7 Procurement practices - EC9 Employment - LA1, LA3
Service & product stewardship	Customer Health and Safety - PR1 Products and services - EN27
Health & Safety at workplace	Occupational Health and Safety - LA6
Welfare & labour protection	Employment - LA1, LA3 Freedom of Association and Collective Bargaining - HR4 Labor/Management Relations - LA4
Human capital empowerment	Training and education - LA9, LA10, LA11 Diversity and Equal Opportunity - LA12 Economic Performance - EC3 Employment - LA1, LA3 Equal Remuneration for Women and Men - LA13
Customer intimacy	Customer Health and Safety - PR1 Customer Privacy - PR8
Climate change	Products and services - EN27 Energy - EN3, EN5
Environmental responsibility	Energy - EN3, EN5 Emissions - EN15, EN16, EN17, EN18, EN19, EN21 Supplier environmental assessment - EN32 Effluents and waste - EN22, EN23 Water - EN8 Biodiversity - EN11 Overall - EN31

Reporting scope

The reporting scope of the 2016 Sustainability and Innovation Report matches that of the Annual Financial Report at 31 December 2016.

Personnel data refer to 99.5% coverage of the 2016 Annual Financial Report perimeter. Possible restrictions are specified each time within this document.

The scope of environmental figures²⁴ and paragraph “Health and Safety at work” is based on the number of employees and the materiality of Leonardo SpA operating sites (plants/offices) and its subsidiaries. This reporting covered approximately 92 Group sites around the world (13 fewer than in 2015 due to the sale and closing of sites and the company reorganisations that affected, in particular, the Electronics, Defence & Security Systems sector as well as due to the deconsolidation of the Transportation sector.

24. The environmental figures, reported through the Group's web-based system (specifically those on energy consumption), were derived from:

- › 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 performed.

Specifically, when the sites have atmospheric emission monitoring systems (e.g., industrial sites), these are calculated using the laboratory analyses performed during the year. When the analyses are not available (e.g., sites housing offices and/or when the production processes do not give rise to atmospheric emissions), the Group's reporting system automatically calculates the NO_x and SO₂ emissions considering the annual consumption of natural gas and diesel oil to generate energy/heat and emission ratios available from public reports.

In order to ensure consistency with the consolidation criterion of the 2016 Annual Report, the environmental figures for the year do not include those of the MBDA and Telespazio joint ventures. Prior year figures include joint ventures. Reference should be made to page 102 for detailed information about MBDA's and Telespazio's environmental figures for the past three years.

These changes generated a considerable decrease in the number of employees included in the Leonardo SpA's environmental scope (down from approximately 53,000 in 2015 to about 44,430 in 2016) and resulted in the reduction in worked hours (from approximately 90 million hours in 2015 to less than 80 million hours in 2016). Figures about hours worked are used in the calculation of the main performance indicators.

Change in the 2016-2015 environmental figures included in the scope

Number of sites covered by environmental reporting	2016	2015	2014	Geographical segment	2016	2015	2014
Total Sustainability and Innovation Report	92	105	127	Italy	48	59	66
MBDA and Telespazio ²⁵	6	7	7	United Kingdom	9	10	10
TOTAL	98	112	134	United States	27	27	32
				Rest of the world	8	9	19
				Total Sustainability and Innovation Report	92	105	127
				Italy (MBDA and Telespazio)	6	7	7
				TOTAL	98	112	134

25. 2016 data related to JVs MBDA and Telespazio are reported in the specific environmental disclosure.

Leonard Division	2016 scope	Former company	2015 scope
Helicopters	Yeovil, Cascina Costa di Samarate, Vergiate, Frosinone, Brindisi, Lonate Pozzolo, Anagni, Sesto Calende, Venice, Benevento, Philadelphia	AgustaWestland	Yeovil, Cascina Costa di Samarate, Vergiate, Frosinone, Brindisi, Lonate Pozzolo, Anagni, Sesto Calende, Venice, Benevento, Philadelphia
Aircraft	Venegono Superiore, Campo Volo, Caselle Nord and Caselle Sud, Turin, Venice, Cameri	Alenia Aermacchi	Venegono Superiore, Campo Volo, Pomigliano, Caselle Nord and Caselle Sud, Turin, Foggia, Nola, Grottaglie, Venice, Cameri
Aerostructures	Pomigliano, Foggia, Nola, Grottaglie		
Airborne & Space Systems	Pomezia - via dell'Industria, Cisterna di Latina, L'Aquila, Nerviano, San Maurizio Canavese, Ronchi dei Legionari, Palermo, Edinburgh, Luton	Selex ES	Genoa - via Puccini, Rome - via Laurentina, Abbadia San Salvatore, Pomezia - via dell'Industria, Cisterna di Latina, Genoa Ancifap , L'Aquila, Chieti, Catania, Pisa, Basildon Lambda House, Filton , Campi Bisenzio, Nerviano, San Maurizio Canavese, Ronchi dei Legionari, Palermo, Carsoli, Edimburgo, Luton, Basildon Sigma House, Southampton, Portsmouth, Fusaro Bacoli, Giugliano, Rome - via Tiburtina, La Spezia , Taranto, Bristol Building 430
Land & Naval Defence Electronics	Abbadia San Salvatore, Catania, Pisa, Basildon Lambda House, Campi Bisenzio, Carsoli, Basildon Sigma House, Southampton, Portsmouth, Fusaro Bacoli, Giugliano, Rome - via Tiburtina, Taranto		
Security and Information Systems	Genoa - via Puccini, Rome - via Laurentina, Chieti, Bristol Building 430		
Defence Systems	La Spezia, Brescia	OTO Melara	La Spezia, Brescia
	Livorno, Pozzuoli	WASS	Livorno, Pozzuoli

Subsidiaries/Other	2016 scope	Former company	2015 scope
Leonardo Corporate Center	Rome	Finmeccanica	Rome
Leonardo Global Solutions	Rome	Finmeccanica Global Services	Rome
Selex Service Management	Rome	Selex Service Management	Rome
Leonardo DRS	Fort Walton Beach - Anchor St., St. Louis, Melbourne Babcock St., Dallas Expressway, Dallas Sherman, Johnstown Airport, Huntsville, Milwaukee, Bridgeport North Av., West Plains, Elizabeth City, Danbury, Herndon Ds, Florence, Cypress, Hauppauge, High Ridge, Dayton, Largo, Fitchburg, Cincinnati, Farnham, Chesapeake, Arlington, Bedford, Lemont Furnace, Germantown, Ottawa (joined the scope in 2016)	DRS Technologies	Fort Walton Beach - Anchor St., St. Louis, Melbourne Babcock St., Dallas Expressway, Dallas Sherman, Johnstown Airport, Huntsville, Milwaukee, Bridgeport North Av., West Plains, Elizabeth City, Danbury, Herndon Ds, Florence, Cypress, Kanata , Hauppauge, Carleton Place , High Ridge, Dayton, Largo, Fitchburg, Cincinnati, Farnham, Chesapeake, Arlington, Bedford, Lemont Furnace, Germantown
Agusta Aerospace Services	Grâce Hologne	Agusta Aerospace Services (included in AgustaWestland)	Grâce Hologne
PZL-Świdnik	Świdnik	PZL-Świdnik (included in AgustaWestland)	Świdnik
Larimart	Rome	Larimart (included in Selex ES)	Rome
Sirio Panel	Montevarchi	Sirio Panel (included in Selex ES)	Montevarchi
Selex ES Inc.	Overland Park	Selex ES Inc. (included in Selex ES)	Overland Park
Selex ES Romania	Ploiesti	Selex ES Romania (included in Selex ES)	Ploiesti
Selex ES Turkey	Ankara	Selex ES Turkey (included in Selex ES)	Ankara
Selex ES GmbH	Neuss	Selex ES GmbH (included in Selex ES)	Neuss
OTO Melara Iberica	Loriguilla	OTO Melara Iberica (included in OTO Melara)	Loriguilla
Other	-	FATA	Pianezza
Transportation	-	AnsaldoBreda	Pistoia, Naples, Reggio Calabria, Carini
	-	Ansaldo STS	Tito Scalo, Genoa, Piosasco, Naples
TOTAL 2016	92	TOTAL 2015	105

Sites which are no longer included in the 2016 environmental report are in **bold**.

Environmental disclosure about MBDA and Telespazio. Scope and main environmental KPIs

Company	2016 Certifications	2016 scope	2015 scope	2014 scope
Telespazio	ISO 14001; OHSAS 18001	Rome, Fucino, Lario	Rome, Fucino, Lario, Naples	Rome, Fucino, Lario, Naples, Scanzano
MBDA	ISO 14001; OHSAS 18001	Rome, Bacoli, La Spezia	Rome, Bacoli, La Spezia	Rome, Bacoli, La Spezia

Company	2016	2015	2014
Energy consumption (TJ) – Electrical energy and natural gas			
MBDA	66	87	92.7
Telespazio	127.6	129.5	136.4
Water withdrawal (cubic metres)			
MBDA	37,165 (of which 29,899 from water supply systems and 7,266 from wells)	37,832 (of which 26,726 from water supply systems and 11,106 from wells)	42,033 (of which 29,087 from water supply systems and 12,946 from wells)
Telespazio	65,379 (of which 59,668 from water supply systems and 5,711 from wells)	58,860 (of which 53,318 from water supply systems and 5,542 from wells)	64,653 (of which 61,067 from water supply systems and 3,586 from wells)
Total waste generated (tons)			
MBDA	381.82 (of which 101.79 hazardous and 280.03 non-hazardous)	360.05 (of which 227.52 hazardous and 132.53 non-hazardous)	262.57 (of which 114.71 hazardous and 147.86 non-hazardous)
Telespazio	115.92 (of which 6.00 hazardous and 109.92 non-hazardous)	241.80 (of which 50.35 hazardous and 191.45 non-hazardous)	229.03 (of which 17.39 hazardous and 211.64 non-hazardous)
CO₂ equivalent (tons)			
MBDA	8,222.8	9,459.9	7,259.7
Telespazio	3,304.6	2,835.9	2,837.4

GRI Content Index

The following table provides specific references to the disclosures required by the GRI's G4 - Sustainability Reporting Guidelines. They are included in the 2016 Sustainability and Innovation Report as well as in other reporting documents of the company (see the relevant key) and the company's and external websites.

KPMG SpA carried out a limited assurance engagement on the 2016 Sustainability and Innovation Report, as a whole, of the Leonardo Group as at and for the year ended 31 December 2016, in accordance with the criteria established by ISAE 3000 (revised). For additional information about the scope of work and the procedures performed by the independent auditors, reference should be made to the "Independent auditors' report on the Sustainability and Innovation Report". The information summarised in the GRI Content Index is included in the scope of the limited assurance engagement. No other information was covered by the engagement.

KEY:

SIR = Sustainability and Innovation Report 2016

AFR = Annual Financial Report 2016

CGR = Corporate Governance Report 2017 (2016)

RR = Remuneration Report 2016

General standard disclosures		Reference	Page/note
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-maker about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability	SIR	pp. 6-8
ORGANISATIONAL PROFILE			
G4-3	Name of the organisation	Leonardo SpA	
G4-4	Brands, products and services	SIR	pp. 21-23 For further details see: http://www.leonardocompany.com/chi-siamo-about-us/nostra-identita-our-identity/storia-del-marchio http://www.leonardocompany.com/product-services
G4-5	Location of the organisation's headquarters	Leonardo SpA's registered office is in Piazza Monte Grappa, 4 - Rome (Italy)	
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	SIR	p. 18
G4-7	Nature of ownership and legal form	SIR	Leonardo is a limited company, whose majority shareholder is the Italian Ministry of Economy and Finance that holds around 30.2% of shares. See p. 14
G4-8	Markets served	SIR	pp. 12; 18; 21-23
G4-9	Scale of the organisation	SIR	pp. 12-13; 18
G4-10	Total number of employees by employment contract, gender, region and employment type	SIR	pp. 65-71; 118-119 Data on supervised workers are not available for this year.
		AFR	pp. 73-80
G4-11	Percentage of total employees covered by collective bargaining agreements	In 2016, the percentage of total employees covered by collective bargaining agreements in the main countries where the Group operates was around 80% (100% in Italy). Of these, approximately 35% is registered with trade unions.	
G4-12	The organisation's supply chain	SIR	pp. 77; 80-81
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership or its supply chain	SIR	pp. 18-23; 77-78; 97-101
G4-14	How the precautionary approach is addressed by the organisation	SIR	When assessing economic, environmental and social risks, Leonardo adopts a precautionary approach. See pp. 35-40
		AFR	pp. 65-71
		http://www.leonardocompany.com/investors-investors/risk-management-gestione-risks	

General standard disclosures		Reference	Page/note
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	<ul style="list-style-type: none"> › Corporate Governance Code for Listed Companies - Borsa Italiana › Global Principles for Business Ethical Conduct - IFBEC › Common Industry Standards - Aerospace Defence Security and Space (ASD) 	
G4-16	List of memberships of associations	<ul style="list-style-type: none"> › International Forum on Business Ethical Conduct - IFBEC (Steering Committee Member) › Italian industries federations for aerospace, defence and security (AIAD) - The Chief Executive Officer and General Manager of the Leonardo Group is Honorary Chairman of AIAD and other employees of the Group are appointed as Councilors › Aerospace Defence Security and Space (ASD) - The Chief Executive Officer and General Manager of the Leonardo Group is President & Chairman of the Board of ASD for the period 2015-2017 › International Aerospace & Defense Quality Group (IAQG) › Aerospace Industries Association (AIA) › Royal aeronautical society 	

MATERIAL ASPECTS AND BOUNDARIES

G4-17	List of all entities included in the organisation's consolidated financial statements and those not covered by the sustainability report	SIR	pp. 97-101
		AFR	pp. 188-194
G4-18	Explanation of the process for defining the report content and how the organisation has implemented the applicable reporting principles	SIR	pp. 97-101
G4-19	List of all the material aspects identified	SIR	pp. 27-28
G4-20	For each material aspect, report the aspect boundary outside the organisation	<p>In accordance with the "G4 - Sustainability Reporting Guidelines", for each GRI aspect related to the material aspects identified, the related impacts, current or potential, were considered, depending on whether they took place within or outside the Group.</p> <p>This analysis considered the significant impacts generated by Leonardo's value chain that take place outside the Group's action area (e.g., outsourced activities) as "external".</p>	
G4-21	For each material aspect, report the aspect boundary within the organisation	<p>The impacts on the material aspects set out in the matrix, on page 28, are all referred to within the Group. For the following aspects, the impacts outside the Group were also considered:</p> <ul style="list-style-type: none"> › "Occupational Health & Safety" for the suppliers operating at Leonardo's sites, whose health and safety performance is reported (LA6, LA14, EN32 indicators, pp. 90-91); › "Anti-corruption" for suppliers, consultants and business promoters operating on behalf of Leonardo, whose activities carried out during the year are reported (pp. 37; 78-79). 	
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	SIR	pp. 97-102
		Any restatements or adjustments of information are indicated in the document from time to time.	
G4-23	Significant changes to the scope and aspect boundaries	SIR	pp. 97-102

STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholder groups engaged by the organisation	SIR	p. 28
G4-25	Basis for identification	SIR	Stakeholders identification was based taking into consideration following aspects: responsibility, influence, proximity, vicinity, dependence, representativeness. See pp. 97-102
G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by type	Stakeholders are regularly engaged in ordinary business activities, through the competent structures and using frequencies and approaches based on the type of stakeholders and the engagement tools used. See p. 37	
G4-27	Key topics that have been raised through stakeholder engagement, and how the organisation has responded	In 2016, no issue has been reported regarding stakeholder engagement activities.	
		SIR	pp. 27-28

REPORT PROFILE			
G4-28	Reporting period for information provided	SIR	pp. 97-102
G4-29	Date of most recent previous report	The most recent report is the 2015 Sustainability and Innovation Report, published in April 2016.	
G4-30	Reporting cycle	Annual	
G4-31	Contact point for questions regarding the report	ir@leonardocompany.com	
G4-32	The "in accordance" option the organisation has chosen and GRI Content Index for the chosen option	SIR	GRI "in accordance core" pp. 97-102
G4-33	Assurance	SIR	pp. 97-102 pp. 128-130

GOVERNANCE			
G4-34	Governance structure of the organisation, including committees of the highest governance body. Committees responsible for decision-making on economic, environmental and social impacts	SIR	pp. 29; 33-35
G4-35	The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	SIR	p. 29
G4-36	Appointment of an executive-level position with responsibility for sustainability and relevant reporting line	SIR	p. 29
		The Sustainability Council, a collegiate body comprised of the Chief Executive Officer and General Manager's first report persons, is responsible for defining the Group sustainability strategy, governance and action plans to implement management bodies' decisions about sustainability and ESG aspects	
G4-37	Processes for consultation between stakeholders and the highest governance body on sustainability topics. If consultation is delegated, how the feedback processes are managed	Aspects relevant to stakeholders are assessed by the competent organisational structures and, based on their relevance, are specifically disclosed to the Chief Executive Officer and the General Manager who consider the opportunity of including the Board of Directors.	

G4-38	Composition of the highest governance body and its committees (executive or non-executive, independence, other tenures, etc.)	SIR	pp. 29; 33-35
		CGR	pp. 7; 31-39; 60-69
G4-39	Executive functions of the Chairperson	Leonardo SpA's Chairman has no executive functions.	
G4-40	Selection processes for the highest governance body and its committees, including whether diversity and independence are considered	CGR	pp. 25-31; 65-68 When selecting the Group's Board of Directors members, diversity is included (in accordance with ruling regulations on gender balance) as well as independence (at least two directors must meet the independence requirements).
		Reference should be made to the opinions for the shareholders for the 2017-2019 three-year period http://www.leonardocompany.com/chisiamo-aboutus/corporate-governance/bod/composizione .	
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	CGR	pp. 57-60; 112
G4-42	The highest governance body's and senior executives' roles in the development of the organisation's purpose, value or mission statements, policies and goals	SIR	p. 29
G4-48	The highest committee that approves the Sustainability and Innovation Report and ensures that all material aspects are covered	The Nomination, Governance and Sustainability Committee examines the overall structure of the Sustainability and Innovation Report, as well as the completeness and transparency of information, expressing a preliminary opinion thereon for the Board of Directors' approval.	
G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanisms used to address and resolve them	SIR	p. 37
		For further details see the Whistleblowing management guidelines (http://www.leonardocompany.com/chisiamo-aboutus/etica-compliance/linee-indirizzo-whistleblowing-guidelines).	
G4-51	Remuneration policies for the highest governance body and senior executives and if they relate to sustainability performance	RR	pp. 18-26
		CGR	pp. 70-73
G4-52	Process for determining remuneration, whether remuneration consultants are involved in determining remuneration and whether they are independent of management	RR	pp. 6-17
G4-53	How stakeholders' views are sought and taken into account regarding remuneration	In accordance with applicable regulations, also in 2016, Leonardo shareholders expressed an advisory vote on the Remuneration Report. There were 86.8% favourable votes, accounting for 59.3% of share capital.	

ETHICS AND INTEGRITY			
G4-56	The organisation's values, principles and norms of behaviour	SIR	pp. 35-40
		Charter of Values: http://www.leonardocompany.com/chisiamo-aboutus/etica-compliance/carta-calori-charter-values .	
G4-58	Mechanisms for reporting concerns about unethical or unlawful behaviour and for promoting ethical behaviour	For further details see the Whistleblowing management guidelines (http://www.leonardocompany.com/chisiamo-aboutus/etica-compliance/linee-indirizzo-whistleblowing-guidelines). 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: https://drs.alertline.com/gcs/welcome . For additional information about the training campaigns conducted, reference should be made to the paragraph Responsible business conduct on pages 35-40.	

Specific standard disclosures	Reference	Page/notes
LABOUR PRACTICES AND DECENT WORK		
ECONOMIC PERFORMANCE		
DMA	Leonardo operates with the aim to creating shared value for the company and all stakeholders in order to guarantee economic and sustainable development in the middle and long term.	
	Leonardo is committed to respect 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. To further confirm its commitment, Leonardo has an open and transparent dialogue with the Tax authorities through: <ul style="list-style-type: none"> › compliance with the rules and standards for financial reporting to provide information and communications; › definition of decision-making procedures for investments in tax havens, based on compliance with the principle that these investments must have valid economic reasons and not be made for tax evasion and/or planning purposes; › adoption of transfer pricing policies that comply with the ruling regulations; › compliance with regulations about tax returns and payments, both of which are checked by the independent auditors. 	
	SIR	pp. 6-8; 12-15

EC1	Direct economic value generated and distributed	<p>In 2016 the Group has produced value for approximately €13 billions, recording a decrease of around €1.5 billions (-10%) from 2015, mainly due to a reduction of revenue caused by difficulties in the Helicopters sector and, for a minor extent, in the Electronics, Defence & Security System sectors.</p> <p>Distributed economic value (around 88% of the economic value generated) mainly consists of the following items:</p> <ul style="list-style-type: none"> › Suppliers (around €7.6 billions): this item represents the portion of economic value generated that the Group invested in the economic system, through the purchase of raw materials, goods and services; › Employees (around €3.2 billions): this item represents the portion of economic value generated that the Group provided to its employees, in the form of salaries and other associated benefits; › Lenders (investors) (around €498 millions): this item represents the portion of economic value generated that the Group provided to its lenders as interest on loans received; › Public Administration (around €122 millions): this item represents the portion of economic value generated that the Group distributed to Public Administrations, both central and local, through tax withholdings and contributions (direct and indirect taxes and levies paid); › Donations and sponsorships (community) (around €5 millions): this item represents the portion of economic value generated that the Group distributed to the community to support the organisation of social, environmental and cultural initiatives. <p>The value that the Group did not distribute to its stakeholders (around €1.5 billions) was kept internally in the form of amortisation/depreciation and allocation to reserves, to be reinvested to guarantee business continuity and sustainability in the middle-long term.</p>	
		SIR	p. 13
EC3	Coverage of the organisation's defined benefit plan obligations	AFR	The pension plans offered to employees are of a defined benefit nature. For additional information, reference should be made to the "Employee benefit obligations" section of the 2016 annual report on pp. 120-121.
INDIRECT ECONOMIC IMPACTS			
DMA	<p>In the Aerospace, Defence and Safety sector, the offer of industrial offsetting often plays a significant role in the contract awarding process, especially in emerging markets.</p> <p>In accordance with its international growth strategy, Leonardo developed a considerable ability of meeting the industrial return needs of its customers, by selecting the most suitable types of collaborations. Many successful projects were carried out directly in relation to the core business, including the co-production or the co-development of products, or the transfer of technology or know-how to local companies which became part of Leonardo's supply chain. In other cases, the Group pursued mutually fruitful investment opportunities and collaborations with universities. Leonardo implemented offsetting activity management structures and processes to ensure commercial effectiveness, while pursuing risk mitigation (including in terms of compliance) and cost savings goals.</p>		
EC7	Development and impact of infrastructure investments and services supported	pp. 13; 92-94	
PROCUREMENT PRACTICES			
DMA		Leonardo' supplier selection is based on criteria based on the law and/or internal procedures with the aim to guarantee equal opportunities, transparency, quality, environmental sustainability and economic aspects.	
		SIR	pp. 78-79
EC9	Policies, practices and proportion of spending on local suppliers	SIR	pp. 78-81 Local suppliers are intended as those with a registered office in countries with a well-established industrial position: Italy, the United Kingdom, the United States, Poland.

ENVIRONMENTAL			
ENERGY			
DMA		SIR	Leonardo operates trying to minimise its environmental footprint by managing environmental impacts and a sustainable consumption of natural resources, water and energy. pp. 86-89
EN3	Energy consumption within the organisation broken down by primary source	SIR	p. 117
EN5	Energy intensity	SIR	p. 117
WATER			
DMA		SIR	Leonardo operates trying to minimise its environmental footprint by managing environmental impacts and a sustainable consumption of natural resources, water and energy. p. 85
EN8	Total water withdrawal by source	SIR	pp. 89; 117
BIODIVERSITY			
DMA	While performing its activities, Leonardo is committed to protect natural areas and animal species living close to the area where it operates. Biodiversity data collection and analysis is functional to identify and monitor environmental impacts on protected and/or high biodiversity areas.		
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Leonardo's 92 sites included in the environmental reporting scope cover a total of almost 12 square kilometres, of which over 40% is covered by green areas (approximately 5 square kilometres). Of these, 30 are located in, or adjacent to, protected areas or areas of high biodiversity (16 in Italy; 4 in the United Kingdom; 7 in the USA and 3 in the rest of the world). The in-depth analyses carried out in 2016 identified 13 additional owned sites located within 2 kilometres of Natura 2000 sites, national and regional parks, regional and national natural reserves, including landscape restrictions, also of an archaeological nature.	
EMISSIONS			
DMA		SIR	Leonardo operates trying to minimise its environmental footprint by managing environmental impacts and a sustainable consumption of natural resources, water and energy. pp. 85; 87-88
EN15	Direct greenhouse gas emissions (Scope I)	SIR	p. 117 Source: GHG Protocol Global.
EN16	Energy indirect greenhouse gas emissions (Scope II)	SIR	p. 117 Reporting method based on the principles of the GHG Protocol new Scope 2 reporting guidance, in line with Directive 2009/28/EC of the European Parliament and Council of 23 April 2009 on the promotion of the use of energy from renewable sources, following the amendment and subsequent repeal of Directives 2001/77/EC and 2003/30/EC.
EN17	Other indirect greenhouse gas emissions (Scope III)	SIR	p. 117 Source: GHG Protocol Global.
EN18	Greenhouse gas emissions intensity	SIR	p. 117
EN19	Reduction of greenhouse gas emissions and reductions achieved	SIR	pp. 85; 87-88

EN21	NO _x , SO _x and other significant air emissions by type and weight	SIR	pp. 117-118 Source: GHG Protocol Global.
EFFLUENTS AND WASTE			
DMA		SIR	Leonardo operates trying to minimise its environmental footprint by managing environmental impacts and a sustainable consumption of natural resources, water and energy. pp. 85; 89
EN22	Total water discharge by quality and destination	SIR	p. 118
EN23	Total weight of waste by type and disposal method	SIR	p. 118
PRODUCTS AND SERVICES			
DMA		SIR	pp. 45-61
EN27	Extent of impact mitigation of environmental impacts of products and services		The mitigation of the main environmental impacts is related to the technological developments of research and development projects, usually of a long-term nature. Progresses and impact mitigation goals are regularly checked. Reference should also be made to the paragraph <i>Sustainable mobility</i> on pp. 54-56. For information on the mitigation of the environmental impacts related to service provision, reference should be made to the paragraph <i>Training: an international school for the pilots of the future</i> on p. 75.
COMPLIANCE			
DMA			Leonardo is committed to operate in compliance with laws, legislations and regulations applicable to environmental and Health&Safety aspects.
		SIR	p. 85
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		In 2016, the control bodies identified three violations (10 in 2015). None of them resulted in fines.
OVERALL			
DMA		SIR	p. 85
EN31	Total environmental protection expenditures and investments		In 2016, environmental protection expenditures totalled €6.9 million (Italy). They included waste management, the costs for the personnel in charge of environmental management and those related to environmental training, environmental certifications, external consultancies and the purchase/sale of greenhouse gas emission allowances. For information about the investments with an environmental impact, reference should be made to the paragraph <i>Eco-efficiency of operations</i> on p. 85.

SUPPLIER ENVIRONMENTAL ASSESSMENT			
DMA		Leonardo assesses the direct, indirect and consequential impacts of its supply chain and takes specific actions to ensure that supplies comply with the ruling regulations concerning the environment and social responsibilities, including the RoHS (Restriction of Hazardous Substance) directive, the REACH (Registration, Evaluation, Authorisation of Chemicals) directive and the WEEE (Waste Electrical and Electronic Equipment) directive, which set the standards for managing hazardous materials and eco-design principles.	
		SIR	pp. 79-80
EN32	Percentage of new suppliers that were screened using environmental criteria	100% of the new suppliers that underwent pre-qualification procedures in 2016 must comply with the principles and regulations set out in the Code of Ethics, the Anti-Corruption Code, the Organisational, Management and Control Model and the Supplier Code of Conduct. During the pre-qualification stage and through self-certification, each new supplier must meet the necessary ethical-legal, environmental, social and health and safety requirements. Later on, during the qualification stage, additional checks are performed based on the product category.	
LABOUR PRACTICES AND DECENT WORK			
EMPLOYMENT			
DMA		SIR	pp. 65-66
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	SIR	pp. 120-121
LA3	Return to work and retention rates after parental leave, by gender	SIR	p. 121 In Italy, parental leave related aspects are ruled by the Legislative Decree 151/2001 and other laws on the matter.
LABOR/MANAGEMENT RELATIONS			
DMA		SIR	pp. 65; 68
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	In order to ensure the protection of the rights of those affected by the business restructuring and organisational streamlining activities, both in Italy and abroad, Leonardo applies the mechanisms allowed by the regulations and the agreements with the trade unions. In Italy, this topic is covered by and managed as part of the national collective labour agreements and any supplementary-company level agreements.	
OCCUPATIONAL HEALTH & SAFETY			
DMA		SIR	Leonardo is committed to guarantee a safe and healthy work environment for its employees and everybody who works in the sites. Moreover, the Group is committed to identify and assess environmental and Health&Safety risks associated to its activities. pp. 90-91
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism and total number of work-related fatalities, by region	SIR	p. 122

TRAINING AND EDUCATION			
DMA		SIR	pp. 65-68
LA9	Average hours of training per year per employee by gender and by employee category	SIR	p. 124
LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	SIR	pp. 19-21; 37; 65-68; 73-74; 85; 90-91
		AFR	pp. 79-80
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Implemented in 2016, the Performance & Development Management (PDM) scheme involved more than 23,000 group resources, including managers, junior managers and white collars (up to the VI level in Italy). In some areas, especially abroad, the PDM was also immediately extended to all white and blue collars. The breakdown by gender and by employee category is not currently available.	
		SIR	p.67
DIVERSITY AND EQUAL OPPORTUNITY			
DMA		SIR	pp. 39-40
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	SIR	pp. 125-126
EQUAL REMUNERATION FOR WOMEN AND MEN			
DMA		The Leonardo Group guarantees and promotes human rights in all contexts in which it operates; it creates equal opportunities for its personnel and fair treatment for everyone, regardless of race, nationality, public opinion, religion, gender, age, different abilities, sexual orientation, personal or social conditions; it always respects the dignity of each individual and worker, encouraging the inclusion of minorities, ensuring freedom of association and complying with the ban on irregular work (Principle no. 5, Charter of Values).	
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	SIR	pp. 126-127
SUPPLIER ASSESSMENT FOR LABOR PRACTICES			
DMA		The Leonardo Group requires all suppliers to be compliant with the Supplier Code of Conduct.	
LA14	Percentage of new suppliers that were screened using labor practices criteria	100% of the new suppliers that underwent pre-qualification procedures in 2016 must comply with the principles and regulations set out in the Code of Ethics, the Anti-Corruption Code, the Organisational, Management and Control Model and the Supplier Code of Conduct. During the pre-qualification stage and through self-certification, each new supplier must meet the necessary ethical-legal, environmental, social and health and safety requirements. Later on, during the qualification stage, additional checks are performed based on the product category.	

HUMAN RIGHTS			
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
DMA	Leonardo works to prohibit any kind of discrimination, corruption, exploitation of child or forced labour and, more generally, to promote the dignity, health, freedom and equality of workers, in line with the reference regulations (such as the United Nation's Universal Declaration of Human Rights, the fundamental Conventions of the International Labour Organization and the OECD's Guidelines etc.). All contracts of the Group include the full subscription to the Group's Code of Ethics.		
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	Code of Ethics	p. 6
		SIR	pp. 39-40
		Approximately 99% of Leonardo's employees is based in OECD countries and roughly 96% of the purchases are made from the EU, United States and Canada.	
SOCIETY			
ANTI-CORRUPTION			
DMA	The Leonardo Group, in the carrying out its business activities, is committed to fight against corruption and to prevent the risk of illegal practices at all work levels and in any geographical area, by disseminating and promoting ethical values and principles, as well as by the implementation of rules of conduct and effective control processes, in line with the requirements set forth by applicable laws and international best practices		
		SIR	pp. 35-39
SO4	Communication and training on anti-corruption policies and procedures	SIR	pp. 35-39
		81% of the population was trained on the Group's Anti-Corruption Code. In the main countries in which it operates, Leonardo also provides anti-corruption training in compliance with the ruling regulations and governance systems, including: <ul style="list-style-type: none"> › in Italy, in accordance with the 231/2001 Organisational, Management and Control Model; › in the United States, in accordance with the US Federal Acquisition Regulation (FAR) Mandatory Disclosure Rule; › In the United Kingdom, in accordance with the UK Bribery Act. 	
SO5	Confirmed incidents of corruption and actions taken	SIR	pp. 35-39
		AFR	pp. 150-159
PUBLIC POLICY			
DMA	The Leonardo Group does not make any direct or indirect contributions whatsoever to political parties, movements, committees and political or trade union organisations, to their representatives and candidates, except as set forth in specific laws.		
SO6	Total value of political contributions by country and recipient/beneficiary	Code of Ethics	p. 14

ANTI-COMPETITIVE BEHAVIOUR		
DMA	The Leonardo Group operates in line with the requirements set forth by applicable laws and international best practices.	
S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	No legal actions were commenced in 2016 related to anti-competitive behaviour, anti-trust and monopoly practices.
COMPLIANCE		
DMA	The Leonardo Group operates in line with the requirements set forth by applicable laws and international best practices.	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	For a description of the proceedings currently underway, detailed information about the main disputes and the utilisation of the accrued provisions, reference should be made to the notes of the 2016 annual report, paragraph <i>Provisions for risks and charges and contingent liabilities</i> , pp. 150-159.
PRODUCT RESPONSIBILITY		
CUSTOMER HEALTH AND SAFETY		
DMA	Leonardo ensures the highest qualitative and safety standards, required by legislation and sector certifications (e.g., EASA; IATA; ICAO) and end customers.	
PR1	Percentage of significant product and service categories for which health and safety impacts are assessed	All products are subjected to health and safety checks at all stages of their production cycle.
		SIR p. 73
MARKETING COMMUNICATIONS		
DMA	The Leonardo Group operates in line with the requirements set forth by applicable laws on the matter.	
PR6	Sale of banned or disputed products	Although it mainly operates in the Defence and Security sectors, Leonardo is not involved in the production, development, stocking and/or sale of non-conventional weapons (e.g., cluster bombs, mines, chemical weapons, etc.) and only carries out operations authorised by Italian and foreign governmental authorities, in accordance with applicable legislation.
CUSTOMER PRIVACY		
DMA		SIR pp. 39-40
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	No complaints about privacy violations were reported by customers in 2016.

Data and GRI indicators tables

GOVERNANCE INDICATORS

Governance bodies and committees				G4-34
Board of Directors	Unit	2016	2015	2014
N. of members	N.	11	11	11
<i>of whom, non-executive</i>	N.	10	10	10
<i>of whom, independent</i>	N.	9	9	9
<i>of whom, without voting rights</i>	N.	-	-	-
<i>of whom, appointed from minority lists</i>	N.	4	4	4
Meetings held	N.	11	14	13
Attendance rate (*)	%	99	95	95
Meetings held by the group of independent directors	N.	3	5	2
Control and Risks Committee	Unit	2016	2015	2014
N. of members	N.	4	4	4
Meetings held	N.	10	8	7
Attendance rate (*)	%	90	88	90
Analysis of International Scenarios Committee	Unit	2016	2015	2014
N. of members	N.	4	4	4
Meetings held	N.	3	3	3
Attendance rate (*)	%	83	92	92
Remuneration Committee	Unit	2016	2015	2014
N. of members	N.	4	4	4
Meetings held	N.	5	6	7
Attendance rate (*)	%	100	88	92
Nomination, Governance and Sustainability Committee (**)	Unit	2016	2015	2014
N. of members	N.	5	5	5
Meetings held	N.	6	3	1
Attendance rate (*)	%	97	87	100
Board of Statutory Auditors	Unit	2016	2015	2014
Members (standing)	N.	5	5	5
<i>of whom, appointed from minority lists</i>	N.	2	2	2
Meetings held	N.	20	19	20
Attendance rate (*)	%	94	95	94

(*) Calculated as the number of attendees/number of meetings.

(**) On 29 September 2016, the functions of the Nomination Committee were integrated with additional advisory and recommendation duties about sustainability and corporate governance.

ENVIRONMENTAL INDICATORS

Energy					
Energy consumption within the company	Unit	2016	2015	2014	G4-EN3
Consumption of non-renewable energy	TJ	3,178	3,184	2,913	
Natural gas	TJ	2,953	2,931	2,616	
Diesel oil for energy and/or heat generation	TJ	5	9	10	
Fuel oil	TJ	-	-	2	
Other (LPG, fuels used for product tests)	TJ	220	244	285	
Energy purchased for electricity and district heating	TJ	2,497	2,873	3,065	
Electrical energy from conventional sources	TJ	609	784	833	
Electrical energy from renewable sources	TJ	1,876	2,070	2,211	
District heating	TJ	12	19	21	
Self-generated electrical energy	TJ	149	107	-	
Energy sold	TJ	-	-	-	
Total	TJ	5,824	6,164	5,978	
Energy intensity					
Energy intensity	Unit	2016	2015	2014	G4-EN5
Energy consumption/worked hours	GJ/worked hours	0.075	0.069	0.063	
Water withdrawals by source					
Water withdrawals by source	Unit	2016	2015	2014	G4-EN8
Water supply systems	thousands of m ³	2,390	2,543	2,945	
Wells	thousands of m ³	3,666	4,363	4,362	
Other sources	thousands of m ³	298	-	-	
Total	thousands of m³	6,355	6,906	7,307	
Emissions					
CO ₂ e Emissions	Unit	2016	2015	2014	G4-EN15/16/17
Direct emissions (Scope I)	ton CO ₂ e	270,689	272,914	245,102	
Indirect emissions (Scope II)	ton CO ₂ e	84,668	107,315	116,643	
Other indirect emissions (Scope III)	ton CO ₂ e	298,698	307,009	379,458	
Total scopes I, II, III	ton CO₂e	654,055	687,238	741,203	
CO ₂ e emission intensity					
CO ₂ e emission intensity	Unit	2016	2015	2014	G4-EN18
Direct emissions (Scope I)/worked hours	Kg/worked hour	3.48	3.04	2.60	
Total emissions (Scope I - Scope II - Scope III)/worked hours	Kg/worked hour	8.41	7.64	7.80	
Other emissions					
Other emissions	Unit	2016	2015	2014	G4-EN21
NO _x	tons	179	221	200	
SO ₂	tons	3	4	3	
VOC	tons	117	143	147	

VIC	tons	5	2	6
Heavy metal	tons	1	0.1	0.1
Particulate	tons	20	33	26

Wastewater and waste					
Total wastewater by use	Unit	2016	2015	2014	G4-EN22
Sewers	thousands of m ³	3,438	3,470	3,800	
Surface water	thousands of m ³	1,144	1,900	1,990	
Other use	thousands of m ³	78	40	36	
Total	thousands of m ³	4,660	5,410	5,826	

Waste produced by use	Unit	2016	2015	2014	G4-EN23
Non-hazardous	tons	26,908	32,657	41,237	
Recovered	tons	14,497	18,638	23,974	
	%	54	57	58	
Disposed	tons	12,412	14,019	17,263	
	%	46	43	42	
Hazardous	tons	8,928	9,368	11,252	
Recovered	tons	1,826	2,118	1,928	
	%	20	23	17	
Disposed	tons	7,102	7,249	9,324	
	%	80	77	83	
Total waste produced (hazardous and non-hazardous)	tons	35,837	42,025	52,489	

EMPLOYEE INDICATORS²⁶

Employment					
Total number of employees by employment type, employment contract, gender and region	Unit	2016	2015	2014 (*)	G4-10
Total employees	N.	45,402	41,379	54,380	
Men	N.	37,441	34,521	44,962	
Women	N.	7,961	6,858	9,418	
Permanent employment contracts	N.	44,647	40,438	47,518	
Men	N.	36,837	33,673	39,565	
Women	N.	7,810	6,765	7,953	
Fixed-term contracts	N.	755	941	1,276	
Men	N.	604	848	1,151	
Women	N.	151	93	125	
Full-time contracts (permanent)	N.	43,568	40,425	47,653	
Men	N.	36,683	34,431	40,558	

26. The 2016 figures refer to 99.5% coverage of the Group's entire scope. The 2015 figures refer approximately to 88% coverage of the Group's entire scope. For additional information, reference should be made to the 2015 Sustainability and Innovation Report.

Women	N.	6,885	5,994	7,905
Part-time contracts (permanent)	N.	1,079	954	1,141
Men	N.	154	90	158
Women	N.	925	864	983

(*) 2014 figures refer approximately to 90% coverage of total employees.

Employees by country and gender	Unit	2016	2015	2014 (*) (**)
Manager	N.	1,081	1,065	1,328
Men	N.	982	971	1,210
Women	N.	99	94	118
Junior managers	N.	5,249	4,448	4,969
Men	N.	4,450	3,821	4,296
Women	N.	799	627	673
White collars	N.	26,881	24,809	28,646
Men	N.	20,905	19,403	22,400
Women	N.	5,976	5,406	6,246
Blue collars	N.	12,150	11,018	12,535
Men	N.	11,063	10,287	11,665
Women	N.	1,087	731	870
Pilots	N.	41	39	40
Men	N.	41	39	40
Women	N.	-	-	-

Employees by country and gender	Unit	2016	2015	2014 (**)
Italy	N.	29,103	29,271	34,114
Men	N.	24,374	24,499	28,686
Women	N.	4,729	4,772	5,428
USA	N.	5,555	1,006	6,984
Men	N.	4,234	779	1,342
Women	N.	1,321	227	437
UK	N.	6,976	7,296	7,500
Men	N.	5,900	6,147	6,347
Women	N.	1,076	1,149	1,119
Poland	N.	2,821	3,044	3,135
Men	N.	2,261	2,460	2,515
Women	N.	560	584	620
Other countries	N.	947	762	2,341
Men	N.	672	636	1,867
Women	N.	275	126	474

(*) 2014 figures only refer to employees with an open-ended contract.

(**) With respect to 2014, the breakdown by gender for the United Kingdom, the United States and Canada does not include DRS.

Total number and percentage of new employee hires and employee turnover by age group, gender and region	Unit	2016	2015	2014*	G4-LA1
Total hires and gender breakdown	N.	2,016	1,124	1,690	
Percentage of hires on total employees	%	4	3	3	
Men	N.	1,615	938	1,410	
	%	80	83	83	
Women	N.	401	186	280	
	%	20	17	17	
Number and percentage of hires by age group					
< 30 years	N.	631	587	772	
	%	31	52	46	
30-50 years	N.	883	424	770	
	%	44	38	46	
> 50 years	N.	502	113	148	
	%	25	10	8	
Number and percentage of hires by country					
Italy	N.	646	328	606	
	%	32	29	36	
USA	N.	718	141	174	
	%	36	13	10	
UK	N.	498	477	533	
	%	25	42	32	
Poland	N.	39	96	134	
	%	2	9	8	
Other countries	N.	115	82	243	
	%	6	7	14	
Total employees leaving	N.	3,123	2,393	3,234	
Percentage of employees leaving on total employees	%	7	6	6	
Men	N.	2,560	2,016	2,670	
	%	82	84	83	
Women	N.	563	377	564	
	%	18	16	17	
Employees leaving by age					
< 30 years	N.	305	275	523	
	%	10	12	16	
30-50 years	N.	1,050	769	945	
	%	34	32	29	
> 50 years	N.	1,768	1,349	1,766	
	%	57	56	55	
Employees leaving by country					
Italy	N.	1,276	1,236	1,661	
	%	41	52	51	
USA	N.	870	143	186	
	%	28	6	6	

UK	N.	582	680	741
	%	19	28	23
Poland	N.	267	186	170
Percentage of employees leaving in Poland on total employees	%	9	8	5
Other countries	N.	128	148	476
Percentage of employees leaving in othe on total employees	%	4	6	15

(*) 2014 figures refer approximately to 86% coverage of total employees.

Return to work and retention rates after parental leave, by gender	Unit	2016	2015	2014 (**)	G4-LA3
Rate of return to work by gender	%	96	87	97	
Men	%	97	87	99	
Women	%	95	87	96	
Retention rate by gender (*)	%	97	98	95	
Men	%	95	98	96	
Women	%	99	98	95	
Employees who took parental leave during the reporting period	N.	1,728	1,010	1,065	
Men	N.	997	516	561	
Women	N.	731	494	504	
Employees who returned to work at the end of the parental leave during the reporting period, by gender	N.	1,553	1,125	1,038	
Men	N.	930	534	556	
Women	N.	623	591	482	
Employees who returned to work at the end of the parental leave and continued to work 12 months after their return	N.	1,020	830	988	
Men	N.	464	410	531	
Women	N.	556	420	457	

(*) 2016 figures refer approximately to 98% coverage of total employees

(**) 2014 figures refer approximately to 90% coverage of total employees.

Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities, by gender and by region					
RATE OF INJURY (RI)	Unit	2016	2015	2014 (*)	G4-LA6
Total Group rate	i	0.9	1.6	1.6	
Men	i	0.9	1.7	1.7	
Women	i	0.7	1.5	1.0	
Italy					
Rate	i	0.9	2.0	2.2	
Men	i	0.9	2.1	2.3	
Women	i	0.7	1.3	1.4	
USA					
Rate	i	1.5	0.9	n.a.	
Men	i	1.5	0.5	n.a.	
Women	i	1.3	2.2	n.a.	
UK					
Rate	i	0.4	1.0	0.4	
Men	i	0.4	0.7	0.4	
Women	i	0.3	2.6	0.5	
Poland					
Rate	i	0.7	0.7	0.7	
Men	i	0.8	0.7	0.7	
Women	i	0.2	0.8	0.6	

(*) 2014 figures refer approximately to 89% coverage of total employees.

The accident frequency rate is calculated using the following formula: $RI = (\text{Total accidents} / \text{Total worked hours}) * 200,000$.

OCCUPATIONAL DISEASES					
Occupational disease rate (ODR)	Unit	2016	2015	2014 (*)	
Total Group rate	i	0.10	0.02	0.07	
Men	i	0.09	0.02	0.08	
Women	i	0.14	0.02	-	
Italy					
Rate	i	0.04	0.03	0.10	
Men	i	0.04	0.03	0.12	
Women	i	-	-	-	
USA					
Rate	i	-	-	n.a.	
Men	i	-	-	n.a.	
Women	i	-	-	n.a.	

UK				
Rate	i	0.48	0.02	n.d.
Men	i	0.40	-	n.d.
Women	i	0.96	0.11	n.d.
Poland				
Rate	i	-	-	n.d.
Men	i	-	-	n.d.
Women	i	-	-	n.d.

(*) 2014 figures refer approximately to 89% coverage of total employees.

The occupational disease rate is calculated using the following formula: $ODR = (\text{Total cases of occupational disease} / \text{Total worked hours}) * 200,000$.

LOST DAYS				
Lost Days Rate (LDR)	Unit	2016	2015	2014 (*)
Total Group rate	i	46.2	111.5	54.7
Men	i	48.2	105.4	55.4
Women	i	35.3	145.3	51.0
Italy				
Rate	i	58.3	48.3	71.6
Men	i	60.8	53.9	71.1
Women	i	42.9	15.9	74.8
USA				
Rate	i	23.0	6.5	12.8
Men	i	23.8	8.4	15.8
Women	i	20.2	-	4.3
UK				
Rate	i	11.0	402.0	10.7
Men	i	9.7	345.2	12.1
Women	i	18.4	747.2	2.3
Poland				
Rate	i	20.9	11.2	9.7
Men	i	24.8	11.7	10.8
Women	i	4.2	8.9	5.5

(*) 2014 figures refer approximately to 79% coverage of total employees.

The severity rate is calculated using the following formula: $LDR = (\text{Total days of work lost} / \text{Total worked hours}) * 200,000$.

ABSENTEEISM RATE (AR)	Unit	2016	2015	2014 (*)
Total Group rate	i	3.1%	2.9%	3.6%
Men	i	3.0%	2.8%	4.4%
Women	i	3.8%	3.7%	4.9%
Italy	i	4.1%	7.3%	4.0%
Men	i	3.7%	7.0%	3.8%
Women	i	6.0%	9.3%	5.5%
USA	i	0.1%	0.2%	0.9%
Men	i	0.1%	0.2%	0.6%
Women	i	0.1%	0.1%	2.0%
UK	i	3.5%	0.4%	2.7%
Men	i	3.5%	0.3%	2.6%
Women	i	3.9%	0.6%	3.2%
Poland	i	2.8%	4.1%	4.4%
Men	i	2.8%	4.0%	4.0%
Women	i	2.8%	4.8%	6.1%

(*) 2014 figures refer approximately to 75% coverage of total employees.

The absenteeism rate is calculated using the following formula: $AR = (\text{Total days of absence} / \text{total work days}) * 100$.

WORK-RELATED FATALITIES	Unit	2016	2015 (*)	2014
Total Group	N.	-	2	-
Men	N.	-	2	-
Women	N.	-	-	-
Italy	N.	-	2	-
Men	N.	-	2	-
Women	N.	-	-	-

(*) The two accidents occurred in 2015 relate to an aircraft accident while testing prototypes.

Training					
Average hours of training per employee by gender and by employee category					
	Unit	2016	2015	2014	G4-LA9
Training hours					
Men	average hours	13	18	15	
Women	average hours	13	17	40	
Managers	average hours	44	18	11	
Junior managers	average hours	12	33	17	
White collars	average hours	10	20	19	
Blue collars	average hours	16	35	22	
Pilots	average hours	128	-	8	

Diversity and equal opportunities					
Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity					
Composition of governance bodies	Unit	2016	2015	2014	G4-LA12
Men	%	64	64	64	
Women	%	36	36	36	
< 30 years	%	-	-	-	
30-50 years	%	18	27	27	
> 50 years	%	82	73	73	
Breakdown of employees per category and gender					
	Unit	2016	2015	2014	
Men					
Managers	%	91	91	92	
Junior managers	%	85	86	86	
White collars	%	78	78	78	
Blue collars	%	91	93	91	
Pilots	%	100	100	100	
Women					
Managers	%	9	9	8	
Junior managers	%	15	14	14	
White collars	%	22	22	22	
Blue collars	%	9	7	9	
Pilots	%	-	-	-	
Breakdown of employees per category and age group					
	Unit	2016	2015	2014	
< 30 years					
Managers	%	-	-	n.a.	
Junior managers	%	1	1	n.a.	
White collars	%	8	12	n.a.	
Blue collars	%	18	28	n.a.	
Pilots	%	2	3	n.a.	
30-50 years					
Managers	%	33	38	n.a.	
Junior managers	%	44	47	n.a.	
White collars	%	58	58	n.a.	
Blue collars	%	52	50	n.a.	
Pilots	%	49	62	n.a.	
> 50 years					
Managers	%	67	62	n.a.	
Junior managers	%	55	52	n.a.	
White collars	%	34	30	n.a.	
Blue collars	%	29	22	n.a.	
Pilots	%	49	36	n.a.	

Employees belonging to minorities, by category and gender	Unit	2016	2015	2014
Managers	%	1	7	n.a.
Junior managers	%	3	7	n.a.
White collars	%	5	9	n.a.
Blue collars	%	6	6	n.a.
Pilots	%	n.a.	-	n.a.

Equal remuneration for women and men					
Ratio of basic salary of women to men by employee category	Unit	2016 (*)	2015	2014 (**)	G4-LA13
Italy					
Managers	%	78	n.a.	n.a.	
Junior managers	%	97	n.a.	n.a.	
White collars	%	98	n.a.	n.a.	
Blue collars	%	96	n.a.	n.a.	
Pilots	%	-	n.a.	n.a.	
USA					
Managers	%	92	n.a.	n.a.	
Junior managers	%	85	n.a.	n.a.	
White collars	%	71	n.a.	n.a.	
Blue collars	%	84	n.a.	n.a.	
Pilots	%	-	n.a.	n.a.	
UK					
Managers	%	90	n.a.	n.a.	
Junior managers	%	97	n.a.	n.a.	
White collars	%	80	n.a.	n.a.	
Blue collars	%	84	n.a.	n.a.	
Pilots	%	-	n.a.	n.a.	
Poland					
Managers	%	87	n.a.	n.a.	
Junior managers	%	113	n.a.	n.a.	
White collars	%	86	n.a.	n.a.	
Blue collars	%	95	n.a.	n.a.	
Pilots	%	-	n.a.	n.a.	

(*) 2016 figures refer approximately to 95% coverage of total employees in Italy and 93% coverage of total employees in the United Kingdom.

(**) 2014 figures refer approximately to 90% coverage of total employees.

Ratio of remuneration of women to men by employee category	Unit	2016 (*)	2015	2014 (**)	G4-LA13
Italy					
Managers	%	74	80	81	
Junior managers	%	96	97	88	
White collars	%	92	96	94	
Blue collars	%	85	92	97	
Pilots	%	-	-	-	
USA					
Managers	%	93	72	71	
Junior managers	%	90	82	76	
White collars	%	72	75	77	
Blue collars	%	88	76	76	
Pilots	%	-	-	-	
UK					
Managers	%	78	88	97	
Junior managers	%	92	91	89	
White collars	%	70	75	75	
Blue collars	%	76	81	82	
Pilots	%	-	-	-	
Poland					
Managers	%	87	81	73	
Junior managers	%	111	113	94	
White collars	%	77	85	76	
Blue collars	%	91	96	87	
Pilots	%	-	-	-	

(*) 2016 figures refer approximately to 95% coverage of total employees in Italy and 93% coverage of total employees in the United Kingdom.

(**) 2014 figures refer approximately to 90% coverage of total employees.



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Independent auditors' report on the sustainability report

To the board of directors of
Leonardo S.p.a.

We have carried out a limited assurance engagement of the 2016 sustainability report of the Leonardo Group (the "Group").

Directors' responsibility for the sustainability report

The parent's directors are responsible for the preparation of the sustainability report in accordance with the "G4 Sustainability Reporting Guidelines", issued in 2013 by GRI – Global Reporting Initiative, that are detailed in the "Methodological note" section of the sustainability report, as well as for that part of internal controls that they consider necessary for the preparation of a sustainability report that is free from material misstatement, including due to fraud or unintentional conduct or events. They are also responsible for defining the Group's objectives regarding its sustainability performance, the reporting of the achieved results and the identification of the stakeholders and the significant matters to report.

Auditors' responsibility

Our responsibility is to issue this report based on our procedures. 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)", issued by the International Auditing and Assurance Standards Board (IAASB) applicable to limited assurance engagements. This standard requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the report is free from material misstatement. These procedures include inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

The procedures we performed on the sustainability report aimed at checking that its content and quality complied with the "G4 Sustainability Reporting Guidelines" and may be summarised as follows:

- comparing the information and data presented in the "Breakdown of added value" section of the sustainability report to the corresponding financial information and data included in the Group's consolidated financial statements as at and for the



Leonardo Group

*Independent auditors' report on the sustainability report
31 December 2016*

year ended 31 December 2016, on which we issued our report dated 21 March 2017 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;

- holding interviews aimed at analysing the governance system and the process for managing the sustainable development issues relating to the Group's strategy and activities;
- analysing the reporting of significant matters process, specifically how these matters are identified and prioritised for the each stakeholder category and how the process outcome is validated internally;
- analysing how the processes underlying the generation, recording and management of quantitative data included in the sustainability report operate. In particular, we have performed the following:
 - interviews and discussions with management personnel of Leonardo S.p.a. and personnel of DRS Technologies Inc, Leonardo Global Solution S.p.A., Leonardo MW Ltd, W.S.K. PZL-Swidnik S.A., to gather information on the IT, accounting and reporting systems used in preparing the sustainability report, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the office that prepares the sustainability report;
 - sample-based analysis of documentation supporting the preparation of the sustainability report to confirm the existence and adequacy of processes and that the internal controls correctly manage data and information in relation to the objectives described in the sustainability report;
- analysing the compliance and overall consistency of the qualitative information included in the sustainability report with the guidelines referred to herein in the "Directors' responsibility for the sustainability report" paragraph;
- analysing the stakeholder involvement process, in terms of methods used, by reading the minutes of the meetings or any other information available about the salient features identified;
- obtaining the representation letter signed by the legal representative of Leonardo S.p.a. on the compliance of the sustainability report with the guidelines indicated in the "Directors' responsibility for the sustainability report" paragraph and on the reliability and completeness of the information and data contained therein.

As required by the "G4 Sustainability Reporting Guidelines", the data and information covered by our procedures are set out in the "GRI Content Index" table of the sustainability report.

A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000, and, therefore, it does not offer assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.



Leonardo Group
Independent auditors' report on the sustainability report
31 December 2016

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2016 sustainability report of the Leonardo Group has not been prepared, in all material respects, in accordance with the "G4 Sustainability Reporting Guidelines", issued in 2013 by GRI – Global Reporting Initiative, that are detailed in the "Methodological note" section of the sustainability report.

Rome, 18 April 2017

KPMG S.p.A.

(signed on the original)

Marco Maffei
Director of Audit

CONCEPT AND GRAPHIC PROJECT

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