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Oggetto : Leonardo: 2016 Preliminary results and
2017-2021 Industrial Plan focused on
development and growth

Testo del comunicato

Vedi allegato.

Leonardo: 2016 Preliminary results and 2017-2021 Industrial Plan focused on development and growth

- **2016 New Orders at around EUR 20 billion. Backlog at the end of 2016 at ca. EUR 35 billion, ensuring almost 3 years of production**
- **2016 Net Result before extraordinary transactions at more than EUR 500 million, more than double 2015 at EUR 253 million**
- **2016 FOCF at ca. EUR 700 million, more than double 2015 at EUR 307 million**
- **Industrial Plan targets presented in January 2015 exceeded, with EUR 2.8 billion Net Debt target achieved one year in advance**
- **2017-2021 Revenue CAGR of 3%-5%, with RoS expected to be at 11% by the mid-point of the Plan**
- **Disciplined financial strategy aimed at balancing leverage reduction, investments in the business and returns to shareholders, safeguarding Group financial solidity**

Rome, 23 February 2017 – Leonardo's Board of Directors, convened today under the Chairmanship of Gianni De Gennaro, approved the 2017-2021 Industrial Plan and examined the 2016 preliminary results. The Board of Directors will examine and approve the Draft Annual Report of 2016 on 15 March 2017.

Mauro Moretti, Leonardo CEO and General Manager commented "*The results achieved in the last three years – from 2014 to 2016 - confirm the effectiveness of the choices on which the Industrial Plan is based. Building on solid foundations from the turnaround phase, in continuity and consistency with what has been done, the 2017–2021 Industrial Plan will focus on the development and growth opportunities of the "One Company". Targets and actions for this Plan will be profitable growth and long-term business sustainability, also economic and financial. We will continue to build a solid and credible journey aimed at creating value for all the stakeholders of the company, including customers, shareholders, employees and the Italian industry*".

2016 preliminary results confirm Leonardo and its business' resiliency and the ability to achieve or exceed targets. It is even more evident considering the materially negative impact of the €/£ exchange rate and the challenging environment affecting some key markets, namely persisting difficulties in Oil & Gas and other civil Helicopter segments.

2016 Preliminary results

Group (Euro billion)	FY 2016*	FY 2015	Chg. %
New orders	ca. 20	12	>60%
Order backlog	ca. 35	29	>20%
Revenues	ca. 12	13	ca. (8%)
EBITA (*)	ca. 1.25	1.21	>4%
ROS	10.4%	9.3%	110bp
Net result before extraordinary transactions	ca. 0.5	0.25	>100%
Group Net Debt	ca. 2.8	3.3	ca. (15%)
FOCF	ca. 0.7	0.3	>120%

(*) Preliminary data unaudited

In more details, 2016 preliminary results show:

- **New Orders:** amounted to **ca. EUR 20 billion**, more than 60% higher than 2015, despite a negative impact from the €/£ exchange rate. Key orders include the contract for the supply of 28 Eurofighter Typhoon aircraft signed in April with the Kuwaiti Ministry of Defence, for an overall value of EUR 7.95 billion. 2016 book-to-bill ratio stands at 1.7.
- **Order backlog:** amounted to **ca. EUR 35 billion**, more than 20% higher compared to 2015. This is increasingly solid as it is built on a more rigorous selection of orders. The backlog ensures almost 3 years of equivalent production.
- **Revenues:** amounted to **ca. EUR 12 million**, ca. 8% lower compared to 2015, due to the negative impact of the €/£ exchange rate, the change in perimeter of the Electronics, Defence and Security Systems (in USA) and weaknesses in some key market segments in Helicopters
- **EBITA:** amounted to **ca. EUR 1.25 billion**, ca.4% higher compared to 2015, despite softer revenues and the negative impact of the €/£ exchange rate. RoS was 10.4%, 110 bp higher than the 9.3% of 2015.
- **Net Result before extraordinary transactions: in excess of EUR 500 million**, more than 100% higher than the EUR 253 million of 2015, thanks to the marked improvement of operating results and the improvement of both financial and tax management.
- **Free Operating Cash Flow (FOCF):** amounted to **ca. EUR 700 million**, more than 120% higher compared to the EUR 307 million of 2015. The figure for 2016 reflects the net impact of the first advance payment for the Eurofighter Kuwait, higher compared to the original 2016 expectation. However, the total cumulated net impact for the Eurofighter Kuwait for the two years 2016 and 2017 of approx. EUR 600 million is reconfirmed.
- **Group Net Debt:** amounted to **ca. EUR 2.8 billion**, ca. 15% lower compared to 3,278 million at 31 December 2015, notwithstanding widely negative exchange rate impact, mainly due to GBP/€. D/E ratio therefore reduced from 0.8 to 0.6

2014-2016 Industrial Plan results

Results achieved over the past 3 years confirm the effectiveness of the choices on which the Industrial Plan presented in January 2015 is based. Despite the challenging market environment, the results achieved in many cases exceeded both expectations and guidance.

As expected, over 2014-2016, actions aimed at restructuring the business and rationalising governance to restore Group's economic and financial solidity have been successfully completed. Those actions include:

- Focus on the core Aerospace, Defence and Security business, with the disposal of non-core activities
- Rationalization of product portfolio
- Strengthening the order book with increased attention on the quality of orders
- Definition and implementation of the new organizational and operating model "One Company" and launch of the new "Leonardo" brand

Consequently, the comparison between 2016 preliminary results with 2014 clearly shows:

- **Material improvement in operating profitability** (EBITA +28% and RoS higher than 10%) with the marked growth of productivity ratios (EBITA per capita +35%), that, together with the material reduction in volatility and impact of the "below the line" items, led to a 2016 net result before extraordinary transactions now above EUR 500 million. This was more than 30 times 2014 figure
- **Marked improvement in financial strength** due to a significant reduction in net debt (from ca. EUR 4 billion to ca. EUR 2.8 billion), supported by improving cash flow generation and a careful financial strategy, combined with a reduction of invested capital. The Debt-to-Equity ratio therefore reduced from 1.0 to 0.6
- **Ability to continuously generate positive and progressively growing cash flows** (from EUR 65 million to ca. EUR 700 million) as a result of improved economic performance, stricter selection and focus of investments, based on economic and financial returns, as well as increased focus on working capital management

2017-2021 Industrial Plan medium-term targets: growth and development

Building on those solid industrial, economic and financial foundation from the turnaround phase, in continuity and consistent with what has already been done, the 2017-2021 Industrial Plan will focus on the development and growth opportunities of the "One Company", according to the following guidelines:

- Continuation and reinforcement of actions aimed at: improving industrial efficiency through the exploitation of technological commonalities and identification of cross-divisional centers of excellence, unification of the ICT systems and increasingly centralized procurement policy
- Focus on customers including:
 - optimizing presence in priority geographical areas with a unified and coordinated presence
 - proposing more competitive integrated and transversal offerings designed to fulfill requirements effectively, leveraging on each business contribution (i.e. focusing on service and through-life solutions), also to pursue customer loyalty

- Organic growth of the business through multi-purpose developments in areas of excellence
- External growth of the core business through a structured path of partnerships and acquisitions to ensure development of the Group in the medium-long term

The Plan envisages the achievement of the following targets over the next 5 years:

- **Book to bill** solidly at ca. 1
- **2017-2021 Revenues CAGR of 3%-5%**, supported by new order intake - notwithstanding challenges in some key markets – and a strong order backlog, with significant orders secured in Aeronautics and Electronics, Defence and Security Systems expected to contribute to revenues by 2018. Therefore, 2017 is expected to be a period of stabilization and consolidation with revenues broadly in line with 2016, reflecting also changes in perimeter aimed at the focusing on core business to ensure adequate profitability and cash flow generation
- **Continuous improvement in RoS**, also with higher volumes, driven by continued focus on efficiency. RoS is expected to be at 11% by the mid-point of the plan
- **Preservation of a solid and flexible financial structure**, resulting from the step change achieved in terms of cash flow generation improvement and material reduction in debt. We remain committed to a disciplined financial strategy, also with the objective of going back to an “investment grade” credit rating, while pursuing a better balance between reducing leverage, sustaining organic and external investment in the business and adequate returns to shareholders

These Industrial Plan targets and actions are to deliver profitable growth and long-term business sustainability. We are continuing to build on our solid and credible journey to create value for all the stakeholders of the company. Employees will be able to count on a solid and sustainable company. The Italian industry, which has recovered a solid and reliable industrial asset able to compete in international markets and to be an engine for development of wealth and valuable competences. After a period of strong share price performance through the first phase of the Industrial plan we remain focused on continuing to deliver strong returns for shareholders into the future.

Leonardo will present FY2016 results and the new 2017-2021 industrial plan in London the 16th of March, the day after the approval by the Board of Directors of the draft annual report for 2016.

Update of the Code of Ethics

Furthermore the Board of Directors, strengthening its commitment to an organization based on solid and common rules of business conduct, has approved the update of the Code of Ethics. In particular such update integrates the Code of Ethics with more specific provisions on health and safety of the workplace and the environment, in light of the recent legislation on environmental offences, emphasizing the importance conferred on these matters by the Company, and strengthens - also pursuant to the adoption of the "One Company" operational model - specific provisions on the protection of Company assets, restating the concept of truthfulness, fairness and transparency of accounts, financial statements, reports and other corporate communications as a fundamental principle in the conduct of business. The Code of Ethics is available on Company website (About us/Ethics & Compliance)

During today's meeting the Board also resolved to renew the bond issue program EMTN (Euro Medium Term Note) for additional 12 months, leaving at 4 billion Euro the maximum amount (already used for a nominal amount of approximately 3.2 billion). The renewal is performed by Leonardo Group on a yearly basis, as part of its ordinary activities of financial management. As usual, credit rating will be assigned to the Program by Moody's, Standard & Poor's and Fitch.

Finally, at today's meeting, the Board of Directors determined that the Shareholders' Meeting (as partial amendment to the Financial Calendar released on December 23, 2016) will be called in ordinary session on 2 May and 3 May 2017, in first and second call respectively (as well as, in case, in extraordinary session on 2, 3 and 16 May 2017, in first, second and third call respectively).

The officer in charge of the company's financial reporting, Gian Piero Cutillo, hereby declares, in accordance with the provisions of Article 154-bis, paragraph 2, of the Consolidated Law on Finance, that the accounting information included in this press release corresponds to the accounting records, books and supporting documentation.

"Non-GAAP" performance indicators

In order to better assess the Group's performance, this press release includes a number of indicators that are not envisaged by the IFRSs. The explanation of all the indicators used is provided in the Annual Report and Interim Statement. Below is a description of the components of each of indicators included in this press release:

- **New orders:** contracts awarded during the period that satisfy the requirements for being recorded in the order book.
- **Order backlog:** this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.
- **EBITA:** it is arrived at by eliminating from EBIT, as defined below, the following items:
 - any impairment in goodwill;
 - amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;
 - restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.);
 - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.
- **EBIT:** this is obtained by adding to EBIT (defined as earnings before "financial income and expense", "share of profit (loss) of equity-accounted investees", "income taxes" and "result from discontinued operations") the Group's share of profit in the results of its strategic Joint Ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the "share of profits (losses) of equity-accounted investees".
- **Net Result before extraordinary transactions:** this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (main acquisitions and disposals).
- **Group Net Debt:** this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings the fair value of derivatives covering financial debt items and main non-current financial receivables.
- **Free Operating Cash-Flow (FOCF):** this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Group Net Debt), the cash flows generated by (used in) ordinary investing activities (investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments") and dividends.

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