2015 Annual Financial Report

Disclaimer

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FINMECCANICA

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Boards and Committees

BOARD OF DIRECTORS
(for the three-year period 2014 - 2016)

GIOVANNI DE GENNARO
Chairman

MAURO MORETTI
Chief Executive Officer and General Manager

GUIDO ALPA
Director (a, c)

MARINA ELVIRA CALDERONE
Director (b, c)

PAOLO CANTARELLA
Director (a)

MARTA DASSU'
Director (c, d)

ALESSANDRO DE NICOLA
Director (b, d)

DARIO FRIGERIO
Director (b, c)

FABRIZIO LANDI
Director (a, d)

SILVIA MERLO
Director (a, d)

MARINA RUBINI
Director (b, c)

****
LUCIANO ACCIARI
Secretary of the Board of Directors

BOARD OF STATUTORY AUDITORS *
(for the three-year period 2015 - 2017)

Regular Statutory Auditors

RICCARDO RAUL BAUER
Chairman

NICCOLÒ ABRIANI

LUIGI CORSI

FRANCESCO PERRINI

DANIELA SAVI

Alternate Statutory Auditors

STEFANO FIORINI

MARIA TERESA CUOMO

INDEPENDENT LEGAL AUDITORS
KPMG S.p.A.
(for the period 2012 - 2020)

* The previous Board of Statutory Auditors, whose term of office expired upon the Shareholders' Meeting of 11 May 2015, was composed as follows: REGULAR: Riccardo Raul Bauer (Chairman), Niccolò Abriani, Maurilio Fratino, Silvano Montaldo, Eugenio Pinto; ALTERNATE: Stefano Fiorini, Vincenzo Limone.

a. Member of the Control and Risks Committee
b. Member of the Remuneration Committee
c. Member of the Nomination Committee
d. Member of the Analysis of International Scenarios Committee

Report on operations at 31 December 2015

Group results and financial position

Key performance indicators ("KPI")

	2015	2014 (*)	Change
New orders	12,371	12,667	(2.3%)
Order backlog	28,793	29,383	(2.0%)
Revenue	12,995	12,764	1.8%
EBITDA	1,866	1,569	18.9%
EBITDA Margin	14.4%	12.3%	2.1 p.p.
EBITA	1,208	980	23.3%
ROS	9.3%	7.7%	1.6 p.p.
EBIT	884	597	48.1%
Net result before extraordinary transactions	253	15	n.a.
Net result	527	20	n.a.
Group Net Debt	3,278	3,962	(17.3%)
FOCF	307	65	n.a.
ROI	15.7%	12.7%	3.0 p.p.
ROE	6.2%	0.4%	5.8 p.p.
Workforce	47,156	54,380	(13.3%)

(*) *Figures restated (except for the workforce) as a result of the reclassification of the operations in the Transportation sector, which were disposed of in 2015, to discontinued operations*

Please refer to the section entitled "Non-GAAP performance indicators" for definitions".

From 2014 the Group data no longer include the contribution given by the Joint Ventures invested in by the Group (which mainly include ATR in the Aeronautics sector, MBDA in the Defence Systems sector and JVs in the Space sector). The Group's business conducted through the JVs and their strategic and financial importance remain unchanged, while for reporting purposes the JV's contribution is only recognised at the level of profitability ratios (EBITA, EBIT and Net Result) as a result of the valuation at equity and, from a financial point of view, limited to the dividends collected. In 2015 the main Group's JVs recorded total revenues of €bil. 2.9 as concerns Finmeccanica's share: as a result, the Group's aggregate pro-forma revenues come to about €bil. 15.9.

2015 was a turning point for Finmeccanica from the points of view of strategy and organisation, operations and cash flow. The first challenging objectives set in the January 2015 business plan were fully attained, including the disposals in the *Transportation* business, the adoption of the new operational and organisational model with the launching of the "One Company" and the attainment of distinctly better results which were higher than expectations.

The various initiatives are aimed at reconsidering the Group's positioning in terms of business areas and product portfolios, defining and implementing a new operational governance model and pursuing the Group's goals in terms of efficiency improvements, reorganisation and development. This occurs within the context of a different relationship with the market that is characterised by a greater attention to the selection of the contracts to be gained, which, together with improved industrial performances, ensures an increasing stability and quality of the order backlog. These actions fall within the scope of the Group's strategy to focus most of its efforts on the Aerospace, Defence and Security business that is more defined while ensuring adequate levels of profitability and cash generation.

In particular, with reference to the main events that marked the 2015 financial year, the following must be noted:

- On 2 November 2015 Finmeccanica completed the sales in the Transportation business to Hitachi. The transactions, which take at completion Finmeccanica's disposal plan launched since 2011, required that Finmeccanica transfers to Hitachi its stake in Ansaldo STS (equal to 40% of the share capital), AnsaldoBreda's businesses in the rolling stock segment and the facilities held by the subsidiary FGS. All this, together with the agreement reached at the end of 2014 for the sale of the BredaMenarinibus business to Industria Italiana Autobus, as well as with that reached with the Danieli group in relation to Fata and those relating to the transfer of some non-strategic operations falling within the scope of DRS's business, made it possible for Finmeccanica to focus on its core Aerospace, Defence & Security activities. At closing, Finmeccanica received €mil. 761 for the sale of AnsaldoSTS shares and €mil 68 for the facilities sold by FGS, whereas the value of the AnsaldoBreda going concern was negative by €mil. 38. Therefore, the total cash-in of about €mil. 790 allowed Finmeccanica to reduce its Group Net Debt by around €mil. 600 (considering the deconsolidation of the overall positive net financial position of the businesses sold) and to generate a capital gain of €mil. 248 in the 2015 income statement;
- in the process of turning the Group companies into divisions in order to give it more effective governance and better industrial efficiency, on 24 September 2015 Finmeccanica's Board of Directors approved the transactions to merge OTO Melara S.p.A. and Whitehead Sistemi Subacquei S.p.A. by incorporation into Finmeccanica and to partially spin-off Alenia Aermacchi S.p.A., AgustaWestland S.p.A. and Selex ES S.p.A. into Finmeccanica S.p.A., the legal prerequisite for the completion of the evolution of Finmeccanica, which, consistent with the new organisational and operating model, has transformed itself from a holding company managing a number of legally separate operating companies to a single company that, using a division-based structure, will be able to fuse their industrial profiles with its own direction and control activities. These corporate transactions became effective (in terms of accounting and tax) on 1 January 2016, giving rise to a legal entity with about €bil. 8 in revenues and about 28,000 employees (€bil. 11 and about 40,000 employees, respectively, when considering the foreign subsidiaries falling within the scope of the "One Company" organisation). In accordance with the Group's new governance, direction and control are centralised while business operations have been decentralised into seven divisions (*Helicopters*, *Aircraft*, *Aerostructures*, *Airborne & Space Systems*, *Land & Naval Defence Electronics*, *Defence Systems*, *Security & Information Systems*), which have been provided with powers and resources so as to ensure a complete end-to-end management of the related scope of business, with consequent full responsibility of the relevant income statement and which operate, together with the entities outside the One Company perimeter – (mainly DRS, which is

subject to a Proxy regime and the JVs) within four sectors (*Helicopters*, *Aeronautics*, *Electronics*, *Defence & Security Systems*, *Space*) which are assigned coordination functions and tasks;

- in terms of results of operations and cash flows, Finmeccanica recorded a considerable growth in its profitability in 2015, with increased EBITDA of around 20% compared to 2014, an improved EBITA of about 25.0%, an EBIT that nearly doubled and a Net Result before Extraordinary Transactions, obtained by subtracting the capital gain from the sales onf the *Transportation* sector from the result, which was 17 times higher than that recorded in 2014 (€mil. 253 against €mil. 15 in 2014). The increase was even more significant at the Net Result level (including the abovementioned capital gain), which came to 26 times the 2014 profit, passing from €mil. 20 a €mil. 527. Similarly, free operating cash flow achieved €mil. 307 compared with €mil. 65 in 2014, with a 372% increase, which, with the successful disposals in the *Transportation* business, contributed to slashing the Group's debt to under €bil. 3.3 (down by 17.0% compared to the end of 2014), with a debt-to-equity ratio coming back to a level of below 1.

The actions referred to above were accompanied by a review of Finmeccanica's funding sources in order to take advantage of favourable market conditions and of the strengthening in the Group's industrial fundamentals. This gain of strength was also demonstrated by the upward revision of the outlook (from negative to stable) assigned to Finmeccanica by all the ratings agencies. With this in mind, in July Finmeccanica finished renegotiating its five-year revolving credit line (due date extended to July 2020), obtained in September 2014, receiving a sizable reduction in the margins, which is expected to have a positive impact on future borrowing costs, and reducing the credit limit from €bil. 2.2 to €bil. 2.0, in line with the goal of gradually lessening the working capital financing needs as set out in its industrial plan. Furthermore, in the course of the financial year, we completed the repurchase (totalling a nominal amount of €mil. 515) of a portion of the Group's outstanding bonds, which has significantly reduced the gross debt (equal to about 8.0% compared to 2014, despite an unfavourable exchange rate effect on the debt denominated in USD and GBP) and has improved the projected borrowing costs for the next few years.

The primary changes that marked the Group's performance compared with that of the previous year are described below. A more thorough analysis can be found in the section covering the trends in each business segment. As far as this is concerned, the breakdown by sector set out below fits in with the structure adopted on the reporting date, so *Defence Systems* are shown as a sector in itself and not within *Defence and Security Electronics*, as will be the case from 2016 onwards after the new organisational model described above is adopted. Furthermore, it should be noted that, as a result of the transactions with Hitachi, the comparative data relating to the 2014 financial year have been restated, including the results of Ansaldo STS and of the businesses sold by AnsaldoBreda under the item "discontinued operations".

	December 2015					December 2014 (restated)					Change %				
	New orders	Order backlog	Revenues	EBITA	ROS %	New orders	Order backlog	Revenues	EBITA	ROS %	New orders	Order backlog	Revenues	EBITA	ROS %
Helicopters	3.910	11.717	4.479	558	12,50%	4.556	12.249	4.376	543	12,40%	(14,2%)	(4,3%)	2,4%	2,8%	0,1 p.p.
Defence and Security Electronics	6.700	10.293	5.266	424	8,10%	5.074	8.765	4.980	207	4,20%	32,0%	17,4%	5,7%	n.a.	3,9 p.p.
- of which: DRS	*1.822*	*1.816*	*1.627*	*114*	*7,00%*	*1.464*	*1.499*	*1.413*	*22*	*1,70%*	*24,5%*	*21,1%*	*15,1%*	*n.a.*	*5,3 p.p.*
- of which: SES	*4.879*	*8.484*	*3.655*	*310*	*8,50%*	*3.612*	*7.285*	*3.577*	*185*	*5,20%*	*35,1%*	*16,5%*	*2,2%*	*67,6%*	*3,3 p.p.*
Aeronautics	1.741	6.170	3.118	312	10,00%	3.113	7.730	3.144	237	7,50%	(44,1%)	(20,2%)	(0,8%)	31,6%	2,5 p.p.
Space	-	-	-	37	n.a.	-	-	-	52	n.a.	n.a.	n.a.	n.a.	(28,8%)	n.a.
Defence Systems	686	1.233	459	88	19,20%	209	1.005	495	89	18,00%	n.a.	22,7%	(7,3%)	(1,1%)	1,2 p.p.
Other activities	110	215	298	(211)	(70,80%)	138	9.407	398	(148)	(37,20%)	(20,3%)	(97,7%)	(25,1%)	(42,6%)	(33,6) p.p.
Eliminations	*(776)*	*(835)*	*(625)*	*-*	*n.a.*	*(423)*	*(9.773)*	*(629)*	*-*	*n.a.*	*(83,5%)*	*91,5%*	*0,6%*	*n.a.*	*n.a.*
Total	**12.371**	**28.793**	**12.995**	**1.208**	**9,30%**	**12.667**	**29.383**	**12.764**	**980**	**7,70%**	**(2,3)%**	**(2,0%)**	**1,8%**	**23,3%**	**1,6 p.p.**

Commercial performance

New orders showed a slight decrease (-2.0%) compared to 2014 due to the decline reported in the Helicopters and Aeronautics sectors – which were affected by some deferments of orders in the Defence segment and by the moment of crisis in some markets, with specific reference to Oil&Gas for Helicopters - which was substantially offset by the significant increase reported in Defence and Security Electronics (+ €bil. 1.6), attributable to a good commercial performance of DRS, which was also reported in international markets, and to significant orders in SES (including an order for naval systems under national programmes, which also benefited Defence Systems), as well as by a favourable exchange rate.

The book-to-bill ratio was equal to 0.95, showing a slight decrease compared to 2014 (when it was equal to 0.99).

The Group's order backlog, characterised by an increasing soundness, which was the result of a more rigorous selection of the orders to be gained, ensures about two and a half years of production for the Group.

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Business performance

Revenues recorded a slight increase of 2.0% over the corresponding period of 2014, mainly attributable to the appreciation of the US dollar and the pound sterling against the euro, benefiting the *Defence and Security Electronics* segment (especially DRS), and, to a lesser extent, the *Helicopters* segment.

A sharp improvement was also reported, both as a whole and in the main sectors, by all the profitability indicators, with an increase of 19% in **EBITDA** compared to 2014, 23% in **EBITA** and 1.6 p.p. in the **operational profitability**. This significant growth, which witnesses the success of the actions taken to improve industrial process and optimise costs, was attributable, in particular, to the *Defence and Security Electronics* segment, as a result of the forecast improvement in the profitability of certain business areas of the *Security & Information Systems* Division and of the benefits arising from ongoing reorganisation and efficiency improvement operations involving industrial units and processes. In carrying out a comparative analysis with the same period in the previous year, it should be noted that the income statement for 2014 reported an expense of about USDmil. 100, relating to a specific DRS programme. However, even if this is excluded, a comparison with 2014 reflects the positive effects of the actions taken by Finmeccanica in the sector. The result reported in the *Aeronautics* sector was also significant, as a consequence of a higher contribution from ATR and also thanks to a positive effect of the USD/€ exchange rate, as well as of an increasingly strong performance recorded in the *Helicopters* sector (with a ROS of 12.5%), while the decline recorded in the *Space* sector was attributable to the costs recorded on a specific programme.

There was also an even greater improvement in **EBIT** (+ 48%), despite a slight increase in amortisation associated with the intangibles involved in business combinations (due to exchange rate differences) as a result of the lesser impact of restructuring costs and non-recurring costs (from €mil. 299 to €mil. 226).

The **net result before extraordinary transactions** was significantly positive (€mil. 253 up by 17 times the 2014 profit, equal to €mil. 15), as a result of the improvement in EBIT and lower financial costs, despite the fact that they include costs (€mil. 50) arising from the buy-back of a portion of the Group's bond issues, which were only partially offset by increased taxation (attributable to the effects on deferred tax arising from a reduction expected in tax rates starting from 2017, partially offset by a lower impact of the IRAP tax following the review of the taxable base, and to provisions set aside for tax risks).

The total **net profit** posted a total value equal to 26 times that recorded in 2014 (for a positive value of €mil. 527 compared to €mil. 20 in 2014), which also benefitted from the capital gain arising from the disposals in the *Transportation* business (€mil. 248), as well as from the results of the operations disposed of until the closing date and from the capital gain realised by DRS at the time of the transfer of minor businesses.

Below is shown the income statement for the two periods compared:

(€ millions)	*Note*	*2015*	*2014 (restated)*	*Change*	*% Change*
Revenues		12,995	12,764	231	1.8%
Purchase and personnel expense	*(*)*	(11,448)	(11,166)		
Other net operating income/(expenses)	*(**)*	58	(182)		
Equity-accounted strategic JVs	*(***)*	261	153		
EBITDA		**1,866**	**1,569**	**297**	**18.9%**
EBITDA Margin		*14.4%*	*12.3%*	*2.1 p.p.*	
Amortisation, depreciation and impairment losses	*(****)*	(658)	(589)		
EBITA		**1,208**	**980**	**228**	**23.3%**
ROS		*9.3%*	*7.7%*	*1.6 p.p.*	
Non-recurring income/(expenses)		(112)	(93)		
Restructuring costs		(114)	(206)		
Amortisation of intangible assets acquired as part of business combinations		(98)	(84)		
EBIT		**884**	**597**	**287**	**48.1%**
EBIT Margin		*6.8%*	*4.7%*	*2.1 p.p.*	
Net financial income/(expense)	*(*****)*	(438)	(448)		
Income taxes		(193)	(134)		
Net result before extraordinary transactions		**253**	**15**	**238**	**n.a.**
Net result related to discontinued operations and extraordinary transactions	*(******)*	274	5		
Net result		**527**	**20**	**507**	**n.a.**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:

(*) *Includes "Purchases and Personnel expense" (net of restructuring costs and non-recurring costs) and "Accruals (reversals) for final losses on orders".*

(**) *Includes the net amount of "Other operating income" and "Other operating expenses" (net of restructuring costs, impairment of goodwill, non-recurring income/(expense) and accruals (reversals) for final losses on orders).*
(***) *Includes the effects of the valuation, classified under the "Share of profits (losses) of equity-accounted investees", of strategic investments only.*
(****) *Includes "Amortisation, depreciation and impairment losses", net of the portion referable to intangible assets acquired as part of business combinations.*
(*****) *Includes "Financial income", "Financial expense" (net of the gains (losses) relating to extraordinary transactions) and "Share of profits (losses) on equity-accounted investees" (net of the results of strategic joint ventures).*
(******) *Includes "Profit (loss) from discontinued operations" and "Gains (losses) relating to extraordinary transactions (acquisitions and disposals)".*

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Financial performance

Cash flows in 2015 improved considerably over the corresponding period of 2014, in particular in the *Defence and Security Electronics* and *Helicopters* sectors. FOCF posted an overall result of €mil. 307 (€mil. 65 in 2014), showing an increase (+372%)that was attributable to cash flows generated from operating activities and, to a lesser extent, to lower investments, including as a result of some disposals of properties and plants completed in the period.

This improvement in performance had a positive impact on Group Net Debt, which decreased by 17% down to €mil. 3,278 as a result of the FOCF for the period, partially offset by the negative effect arising from the conversion of the debts in GBP and USD, the completion of the disposals in the *Transportation* business, which allowed net receipts of about €mil. 790 to be realised, entailing a benefit of about €mil. 600 on the Group's debt, considering the deconsolidation of the overall positive net financial position of the businesses sold. Key operations also included the amount collected from the disposal of some minor businesses falling within the scope of DRS's business (on the contrary, the 2014 data included the amount collected from the disposal of the engine business operated by Avio).

The movement in cash flow is broken down below:

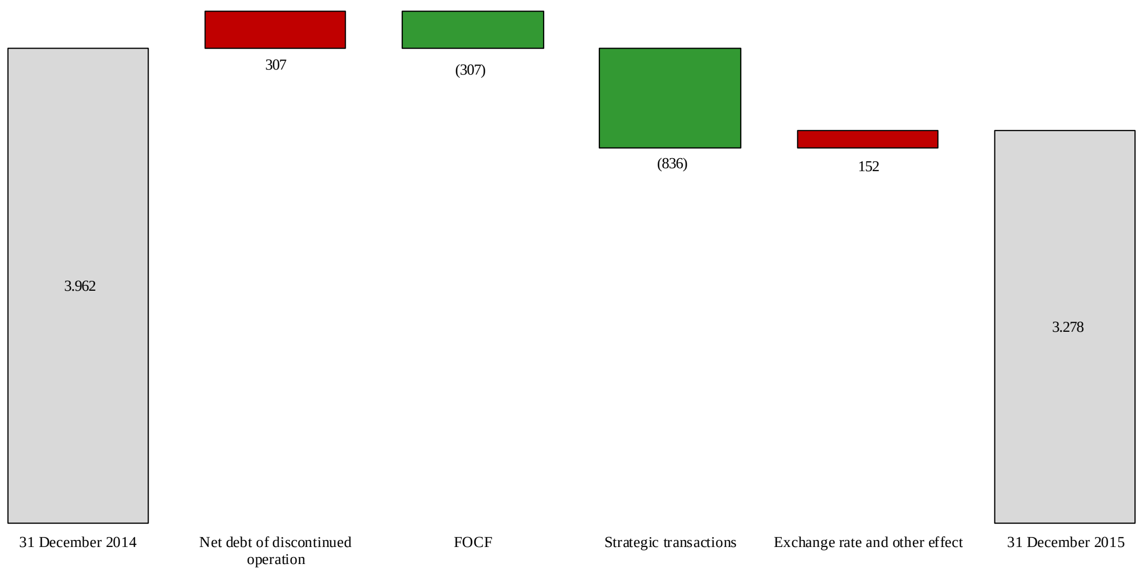
(€ millions)	***2015***	***2014 (restated)***	***Change***	***% Change***
Funds From Operations (FFO) (*)	**1,446**	**1,227**	**219**	**17.8%**
Change in working capital	(596)	(560)		
Cash flows from ordinary investing activities	(543)	(602)		
Free Operating Cash Flow (FOCF)	**307**	**65**	**242**	**n.a.**
Strategic transactions (**)	836	239		
Change in other investing activities (***)	(19)	(1)		
Net change in loans and borrowings	(576)	(394)		
Dividends paid	-	-		
Net increase (decrease) in cash and cash equivalents	**548**	**(91)**		
Cash and cash equivalents at 1 January	1,495	1,455		
Exchange rate differences and other changes	18	34		
Cash and cash equivalents at 1 January of discontinued operations	(290)	-		
Net increase (decrease) in cash of discontinued operations	-	97		
Cash and cash equivalents at 31 December	**1,771**	**1,495**		

(*) *Includes "Cash flows used in operating activities" (net of "Change in working capital") and dividends collected.*

(**) *Includes "Sales on Transportation segment" and the share of "Other investing activities" classified as "Strategic transactions".*
(***) *Includes "Other investing activities" (net of dividends collected and operations classified as "Strategic transactions")..*

Compared with the values posted in 2014, it should be noted that they were affected by the enforcement of guarantees for the Indian contract in the *Helicopters* sector, although this was partially offset by the higher dividends received from joint ventures.

During the year, Net Financial Debt changed as follows:



Net capital invested showed a decrease as a result of a change in the perimeter which mainly arose from the deconsolidation of the Transportation sector. In order to facilitate the comparison, a pro-forma statement of financial position at 31 December 2014 was prepared (which was not restated pursuant to IFRS5), in the same way as for the Net Debt and excluding the *Transportation* sector, which showed a slight increase in the invested capital, mainly attributable to the translation effect on net assets in USD and GBP, as reported below:

(€ millions)	*Note*	*31 December 2015*	*Reported 31 December 2014*	*31 December 2014 Pro forma*
Non-current assets		12,558	12,518	12,148
Non-current liabilities		(3,676)	(3,434)	(3,378)
Capital assets	*(*)*	**8,882**	**9,084**	**8,770**
Inventories		4,337	4,578	4,318
Trade receivables	*(**)*	6,375	7,676	6,262
Trade payables	*(***)*	(9,962)	(11,705)	(10,201)
Working capital		**750**	**549**	**379**
Provisions for short-term risks and charges		(736)	(749)	(738)
Other net current assets (liabilities)	*(****)*	(1,320)	(1,082)	(1,038)
Net working capital		**(1,306)**	**(1,282)**	**(1,397)**
Net invested capital		**7,576**	**7,802**	**7,373**
Equity attributable to the Owners of the Parent		4,280	3,511	3,511
Equity attributable to non-controlling interests		22	343	343
Equity		**4,302**	**3,854**	**3,854**
Group Net Debt		**3,278**	**3,962**	**4,269**
Net (assets)/liabilities held for sale	*(*****)*	**(4)**	**(14)**	**(750)**

Notes to the reconciliation between the reclassified and the statutory statements of financial position:

(*) *Includes all non-current assets net of "Fair Value of the residual stake in Ansaldo Energia", and all non-current liabilities, net of "Non-current loans and borrowings", respectively.*
(**) *Includes "Contract work in progress".*
(***) *Includes "Progress payments and advances from customers", adjusted in 2014 to take into account the adjustment related to the Fyra contract.*
(****) *Includes "Income tax receivables", "Other current assets" (excluding "Hedging derivatives in respect of debt items"), net of "Income tax payables" and "Other current liabilities" (excluding "Hedging derivatives in respect of debt items").*
(*****) *Includes the net amount of "Non-current assets held for sale" and "Liabilities associated with assets held for sale".*

Group net financial debt breaks down as follows:

(€ millions)	*31 December 2015*	*of which current*	*Reported 31 December 2014*	*of which current*	*31 December 2014 Pro forma*	*of which current*
Bonds	4,397	*121*	4,761	*131*	4,761	*131*
Bank debt	389	*96*	472	*110*	465	*103*
Cash and cash equivalents	(1,771)	*(1,771)*	(1,495)	*(1,495)*	(1,205)	*(1,205)*
Net bank debt and bonds	**3,015**		**3,738**		**4,021**	
Fair value of the residual portion in portfolio of Ansaldo Energia	(131)		(124)		(124)	
Securities	-	-	-	-	-	-
Current loans and receivables from related parties	(122)	*(122)*	(161)	*(161)*	(130)	*(130)*
Other current loans and receivables	(45)	*(45)*	(45)	*(45)*	(43)	*(43)*
Current loans and receivables and securities	**(298)**		**(330)**		**(297)**	
Hedging derivatives in respect of debt items	41	*41*	(24)	*(24)*	(24)	*(24)*
Effect of transactions involving Fyra contract	-	-	41	*41*	41	*41*
Related-party loans and borrowings	401	*399*	431	*425*	428	*422*
Other loans and borrowings	119	*83*	106	*73*	100	*67*
Group Net Debt	**3,278**		**3,962**		**4,269**	

The reconciliation with the net financial position required by CONSOB Communication no. DEM/6064293 of 28 July 2006 is provided in Note 20 to the consolidated financial statements.

Net bonds showed a decrease as a result of the buy-back operations carried out in the period (in a nominal amount of €mil. 515), which was partially offset by a negative exchange rate effect on the debt denominated in GBP and USD, while the balance of bank debt and cash and cash equivalents was the result of higher cash flows and the amount collected from the disposals in the *Transportation* business.

In the course of 2015 the Group factored receivables without recourse for a total carrying value of approximately €mil. 1,262 (€mil. 1,082 in 2014).

To meet the financing needs for ordinary Group activities, Finmeccanica obtained a revolving credit facility renegotiated with a pool of Italian and international banks in July 2015 for €mil. 2,000. The terms and conditions of this agreement are described in the section "Financial Transactions". At 31 December 2015, in the same way as at 31 December 2014, the credit line was entirely unused.

Finmeccanica had additional unconfirmed short-term lines of credit of €mil.745, which also were entirely unused at 31 December 2015, as well as unconfirmed, unsecured lines of credit of approximately €mil. 2,992 at such date.

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Below are the key performance indicators by sector:

Helicopters

The 2015 performance showed revenues and EBITA essentially in line with the previous year, excluding the positive effect of the foreign exchange rate on translating the financial statements of companies with functional currencies other than Euro, with a ROS of more than 12%. With regard to commercial performance, a reduction was recorded compared to 2014, to be attributable to the difficulty in concluding new contracts because of the crisis presently affecting certain reference markets, also in relation to the performance of the Oil&Gas sector.

New orders. The fall was due to the difficulties that have been mentioned before and particularly to the *Oil&Gas* sector crisis which affected the levels of the orders of both the AW139 aircraft and the new AW189 and AW169 machines. The major orders for the year included the order which was placed by the UK Ministry of Defence for the provision of logistic support and maintenance services for the fleet of AW101 Merlin helicopters.

Revenues. The increase in revenues was due to the positive effect of the foreign exchange rate on translating the financial statements of companies whose functional currencies are not the euro. The fall in revenues caused by the *Oil&Gas* sector crisis, on the AW139 and AW189 lines in particular, the gradual reduction in work on the CH47 programme for the Italian Army and the modification of the NH90 programme were partly set off by the rise in revenues from the AW159/Lynx programmes, the start of operations on the new

AW169 aircraft and higher revenues from AW139 and AW189 lines for other applications. With respect to the new AW189 and AW169, although the ramp-up in production proceeded at a slower pace than expected, in the first quarter FAA validation for the EASA certification issued in 2014 was received and EASA certification was obtained in July.

EBITA. This was essentially in line with 2015, excluding the positive effect of the foreign exchange rate on translating the financial statements of companies with functional currencies other than Euro. Despite some difficulties and slowdowns that are peculiar to the phases when the production of new aircraft is started, the Group's profitability remained at excellent levels, benefitting from the considerable contribution given by high-margin well-established products, such as AW139, and by the Product Support, as well as by the constant attention the company pays to improving operational efficiency and cost reduction**.**

Outlook. It is expected that the environment in which the Group is operating will still be characterised by the crisis of some relevant markets, in particular in relation to the performance in the Oil&Gas sector (which gave a contribution of about 5.0% to the revenues of the sector in 2015). However, the Group expects that in 2016 its production volumes will remain substantially in line with those gained in 2015, with a book-to-bill ratio tending to 1, while still reporting a sound double-digit profitability, thus benefitting from the actions taken to improve operational efficiency and optimize costs, as well as from a gradual entry into full operation of the production of new aircraft.

Defence and Security Electronics

SES - The results for 2015 showed an excellent commercial performance and a considerable improvement in the results of operations and cash flows, which were supported by the expected recovery in profitability in some business areas and by the contribution given by the ongoing advantageous reorganisation and efficiency improvement plans.

New orders: Noticeably higher than for the same period of 2014 as a result of the acquisitions recorded by the *Land & Naval Defence Electronics* division, including the contract with the Italian Navy relating to a landing helicopter dock (LHD) and 7 offshore patrol vessels (OPV) as part of the recently introduced programme to modernize the fleet ("Naval Law"). Also worth mentioning among the main contracts obtained, in the *Security & Information Systems* division, is the order for the modernisation of the Canadian air traffic control agency's radar system, the supply of a parcel sorting system in England and an order which was finalised at the end of the last quarter for continuing the programme for the creation of a nationwide mobile radio service based on the Tetra communication standard (Tetra PIT) for the police forces.

Revenues: There was growth mainly attributable to the favourable impact of pound sterling/euro exchange rates, showing revenues substantially in line with the previous year in all the Divisions.

EBITA: Considerable increase due to the expected improvement in profitability in certain business areas in the *Security & Information Systems* Division, the benefits associated with the ongoing reorganisation plan and the increasing contribution from efficiency improvement operations involving industrial units and processes. This factor, together with the good performance recorded by the *Airborne & Space Systems* Division and the confirmation of the margin levels of the *Land & Naval Defence Electronics* Division, allowed a ROS of 8.5% to be realised in 2015 (compared to 5.4% in 2014).

DRS – The key performance indicators are provided below in US dollars in order to more clearly illustrate the changes that occurred:

	New orders	Revenues	EBITA	ROS %
DRS (USDmil.) 2015	2,022	1,805	126	7.0%
DRS (USDmil.) 2014	1,945	1,877	31	1.7%

2015, in line with forecasts, was characterised by a good commercial performance and by a substantial improvement in profitability, which had been penalised in the second quarter of 2014 by expenses of around $mil. 100 associated with a programme to develop and produce a goods handling and transport system for aircraft.

New orders. The level of orders gained in 2015 was higher than those recorded in the previous year and was characterized by important acquisitions made in foreign countries, including the order from the Canadian Army under the LRSS (Light Armoured Vehicle - Reconnaissance Surveillance System) programme. The main acquisitions for the domestic customer included orders for the main propulsion drive on the Ohio class submarine of the US Navy, for the supply of ENVGs (Enhanced Night Vision Goggles) and for additional activities on the MFoCS (Mounted Family of Computing Systems) programme for the US Army.

Revenues. Substantially in line with 2014; the higher production volumes in the *Maritime & Combat Support* systems segment offset the expected decline in deliveries of infra-red products and systems to the US Army, as well as in services in support of troops in areas of operations.

EBITA. In addition to the mentioned impact of the expenses connected with a specific programme reported in 2014, the result benefitted from growth and higher profitability in the *Maritime & Combat Support System* and *Aviation*, *Communication & Homeland Security* businesses, which setoff the abovementioned decline in other business areas.

Sector outlook. With reference to DRS, although some important challenges will have to be faced in relation to programmes under development and to the growing competitive pressure in the relevant markets, it is expected that the positive trend reported in 2015 will be confirmed in 2016, with a further increase in profitability. If we exclude the New orders effect of the different business perimeter which is being affected by the disposals of non-core businesses that occurred at the end of 2015, the Revenue volumes are expected to record a slight increase, thus confirming the turnaround with respect to the trend that affected DRS in the past financial years. On the contrary, with reference to the other components of the sector, a further improvement in profitability is expected in 2016, in line with the trend recorded in the course of the financial year just ended; this target will be supported by a gradual recovery in the *Security & Information Systems* Division, also thanks to an order backlog that will be more sound and profitable than in the past and to the good performance that will be recorded by the *Land & Naval Defence Electronics* and *Airborne & Space Systems* Divisions. This will occur despite the pressure put on margins by the strong competition in the relevant markets and the decreasing contribution of important and profitable programmes nearing completion. This improvement will be strongly supported by the increasing benefits arising from the actions taken to streamline and improve efficiency of industrial processes.

Aeronautics

In line with the results reported for the first half of 2015, the performance for the year was good from a production standpoint, particularly for the B787 programme, with 132 fuselage sections and 74 stabilisers being delivered (compared with 113 fuselage sections and 82 stabilisers delivered in 2014), and for the M346 aircraft, for which 19 units were delivered to the Italian Air Force and to Israel (against deliveries of 10 aircraft in 2014). Furthermore, note the delivery of the first F35 aircraft assembled at the Cameri plant to the Italian Air Force at the beginning of December 2015.
As part of the process of reorganising the industrial structure, work was completed on transferring the C27J fuselage assembly activities from the Capodichino plant to the Caselle plant in order to concentrate all aircraft assembly activities in one industrial site. Furthermore, efforts continued to improve industrial processes and optimise engineering and reduce procurement and overhead costs.

<u>*New orders.*</u> The reduction was due to fewer new orders both in the *Aircraft* Division, which was affected by the deferred formalisation of major orders abroad and, to a lesser extent, from the domestic customer for trainer aircraft, and in the *Aerostructures* Division, for the expected decline in the orders for the B787 and ATR programmes. The major orders gained in 2015 included those for the production for the B787, ATR and A380 programmes in the *Aerostructures* Division, while, in the *Aircraft* Division, they included those for logistical support activities for EFA and M346 aircraft, as well as those received from Lockheed Martin for F35 productions and the contract for the supply of two C27J aircraft to the air force of an African country.

<u>*Revenues.*</u> Business volumes overall were in line with the result at the end of 2014 both for the *Aerostructures* Division and in the *Aircraft* Division. Specifically, in the *Aerostructures* Division, higher revenues from the ATR and A380 programmes offset lower foreign supplies for the B787 programme, while, in the *Aircraft* Division, the increased productions for the M346 programmes offset a decline in revenues for the defence aircraft and the C27J transport aircraft.

*EBITA***.** The profitability in the sector showed an improvement (with a ROS of 10%), which was supported by the performance recorded by the *Aircraft* Division, in particular in the segment of defence aircraft, and by the significant increase in the ATR's result, which also benefitted from the positive effect of the USD/€ exchange rate, while some critical issues reported in the *Aerostructures* Division appeared to be not yet fully resolved.

Outlook. In 2016 it is expected that the Sector will record a slight decline in its revenues, which are affected by lower production volumes in the *Aerostructures* Division as a result of the transfer of some external "pass-through" supplies to Boeing for the B787 programme and of reduced rates on the A380 programme. As far as the profitability is concerned, which was not affected by the abovementioned transfer of pass-through activities, in 2016 it is expected that the levels recorded in 2015 will be strengthened, also thanks to additional stronger actions taken to improve industrial efficiency and review the procurement and production processes and aimed at improving the performance of the *Aerostructures* Division, as well as at reducing production costs and stabilizing the M346 and C27J programmes in the *Aircraft* Division, so as to also mitigate the effect of a lower contribution given by high-margin programmes.

Space

2015 was marked by a good commercial performance, which saw the acquisition of major orders for the supply of telecommunications satellites, including the order placed by the French Directorate General for Armaments for a military satellite and for earth observation, including in particular the order placed by the European Space Agency (ESA) within the European Copernicus programme.

Although production volumes during the year recorded a slight increase compared to 2014, mainly due to the manufacturing segment, the result of operations reported a decline due to the costs recognised on a specific programme.

The significant events that occurred in 2015 included the launch of the military satellite SICRAL 2 by an Arianespace vector from the European Space Centre in Kourou in the French Guiana, within the cooperation programme of the Italian Defence Ministry and of the French General Directorate for Armaments. Furthermore, work continued on the Second Generation of the COSMO-SkyMed System for Earth observation and on the programme for the construction of the Galileo satellite navigation.

Outlook. In 2016 the Group expects to record an increase in the revenues in this sector, which will be mainly attributable to the manufacturing segment especially to the production for telecommunications programmes, and to recover adequate profitability levels, with the consequent improvement of the result of operations.

Defence Systems

The initial signs of a recovery in orders were seen in 2015, with orders up compared to 2014, despite the continuing drop in production volumes due to the expected decline in activity on *land, sea and air weapons systems*. EBITA was in line with 2014, which thereby improved profitability.

New orders. The increase affected the *land, sea and air weapons systems* segment and the *underwater systems* segment. Major new orders include those relating to the new Naval Law, orders for the Italian FREEM programme, the contract for the retrofit of VBM aircraft for the 1st Brigade of the Italian Army, an additional domestic order for the development of the ammunition programme named "Vulcano" and logistics contracts from various countries.

Revenues. The decrease was the result of the gradual completion of a number of domestic programmes in the land weapons line and of orders for supplying munitions to foreign customers, along with the effect of postponements in finalising new orders.

EBITA. In line with last year's figures owing to the increase in deliveries by the *missile systems* segment on major export programmes, which set off the lower revenues and a deterioration in profitability from *underwater systems* resulting from a review of the possibility of recovering some capitalised development costs.

Outlook. In 2016 the Group expects an increase in its revenues in this sector, which will be supported by the start of production on important programmes to be acquired in the course of the year, as well as a further improvement in profitability. Finally, it should be noted that, starting from 2016, the contribution of the *Defence Systems* sector will be shown within the scope of the *Defence and Security Electronics* sector, in line with the new organisational and operational model.

Other performance indicators

	2015	*2014 (*)*	*Change*
FFO	1,446	1,227	17.8%
Research and development expenses	1,426	1,500	(4.9%)
Net Interest	(296)	(307)	3.6%

(*) The comparative figures restated as a result of the reclassification and of the subsequent disposal of the operations in the Transportation sector to Discontinued Operations.

Please refer to the section entitled "Non-GAAP alternative performance indicators" for definitions.

The section "Finmeccanica and sustainability" contains a more detailed description of Research and Development expenses.

"Non-GAAP" alternative performance indicators

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

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

- ***New orders***: this includes contracts signed with customers during the period that satisfy the contractual requirements for being recorded in the order book.
- ***Order backlog***: this figure is the sum of the order backlog for the preceding period and new orders, less revenues during the reference period.
- ***EBITDA***: this is given by EBITA, as defined below, before amortisation, depreciation and impairment losses (net of those relating to goodwill or classified among "non-recurring costs").
- ***EBITDA Margin***: it is calculated as the ratio between EBITDA and revenues.
- ***EBITA:*** it is arrived at by eliminating from EBIT, as defined below, the following items:
  - any impairment in goodwill;
  - amortisation and impairment, if any, of the portion of the purchase price allocated to intangible assets as part of business combinations, as required by IFRS 3;
  - restructuring costs that are a part of defined and significant plans. This item includes personnel costs as well as any and all other costs deriving from the reorganisation (e.g. impairment of assets, costs for the closure of sites, relocation costs, etc.);
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

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

A reconciliation of Income before tax and financial expense, EBIT and EBITA is shown below (the reconciliation by segment is reported in Note 9):

(€ millions)	*2015*	*2014*
Income before tax and financial expenses	623	444
Equity-accounted strategic JVs	261	153
EBIT	**884**	**597**
Amortisation of intangible assets acquired as part of business combinations	98	84
Restructuring costs	114	206
Non-recurring (income) expense	112	93
EBITA	**1,208**	**980**

Non-recurring expenses are related to expenses due to the settlement of certain ongoing disputes and to writedowns which reflect management's estimates in respect of the Group's exposure in countries considered at risk. Restructuring costs refer to ongoing proceedings chiefly relating to *Defence and Security Electronics* and *Aeronautics.*

- ***Return on Sales (ROS)***: this is calculated as the ratio of EBITA to revenue.

- ***EBIT:*** this is obtained by adding to EBIT (defined as earnings before "financial income and expense", "share of profits (losses) of equity-accounted investees", "income taxes" and "result from discontinued operations") the Group's share of profit in the results of its strategic Joint Ventures (ATR, MBDA, Thales Alenia Space and Telespazio), reported in the "share of profits (losses) of equity-accounted investees".

- ***Net result before extraordinary transactions***: this is the Net Result before the result from discontinued operations and the effects of the extraordinary transactions (acquisitions and disposals). Below is the reconciliation:

(€ millions)	***2015***	***2014***
Net result	527	20
Net result of Discontinued Operations	(9)	(55)
Effect on extraordinary transactions	(265)	50
Net result before extraordinary transactions	**253**	**15**

- ***Group Net Debt***: this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings and of the fair value of derivatives covering financial debt items. An improvement factor of this indicator is that this item includes the measurement of the residual interest in Ansaldo Energia, which is classified under non-current assets in consideration – and assuming the exercise as well as in light of the creditworthiness of the other party – of the put & call rights based on which this amount will be paid by Fondo Strategico Italiano to Finmeccanica. Until 2014 a factor worsening the net debt figure was that it included an amount of €mil. 41 relating to the settlement agreement regarding AnsaldoBreda's Fyra contract with the Dutch railways. The reconciliation with the net financial position required by the Consob communication no. DEM/6064293 of 28 July 2006 is reported in Note 20 to the consolidated financial statements.

- ***Free Operating Cash-Flow (FOCF)***: this is the sum of the cash flows generated by (used in) operating activities (excluding the changes in the Group Net Debt), the cash flows generated by (used in) ordinary investing activities (investment and divestment of intangible assets, property, plant and equipment, and equity investments, net of cash flows from the purchase or sale of equity investments that, due to their nature or significance, are considered "strategic investments") and dividends. The calculation of FOCF is presented in the reclassified statement of cash flows shown in the section "Group results and financial position".

- ***Return on Investments (ROI):*** this is calculated as the ratio of EBITA to the average net capital invested in the two comparative periods.

- ***Return on Equity (ROE):*** this is calculated as the ratio of the net result before extraordinary transactions for the financial period to the average value of equity in the two comparative periods.
- ***Workforce:*** the number of employees recorded in the register on the last day of the period.
- ***Funds From Operations (FFO)***: this is cash flow generated by (used in) operating activities net of changes in working capital. The FFO also includes dividends received.
- ***Research and Development expenditure:*** the Group classifies under R&D all internal and external costs incurred relating to projects aimed at obtaining or employing new technologies, knowledge, materials, products and processes. The item includes:
  - development costs capitalised even if covered by grants;
  - research costs, whose activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, or development costs for which the accounting requirements for capitalisation do not obtain, are expensed as incurred;
  - research and development costs reimbursed by the customer as part of existing contracts (which fall under the scope of work in progress from an accounting viewpoint).
- ***Net interest:*** this is calculated as the sum of the items “Interest”, “Premiums (paid) received on IRSs” and “Commissions on borrowings” (see the Note on “Financial income and expense” of the consolidated financial statements”);
- ***Change in working capital***: this is equal to the change in trade receivables/payables, contract work in progress and progress payments and advances from customers and inventories, net of changes relating to the Fyra contract held by AnsaldoBreda. The latter item is included, in the reclassified statement, in the “Net change in other loans and borrowings”. The reconciliation is as follows:

(€ millions)	***2015***	***2014***
Change in trade receivables/payables, work in progress/progress payments and inventories	(637)	(605)
Payments on Fyra contract	41	-
Change in working capital	**(596)**	**(605)**

Outlook

Finmeccanica operates in markets and business that are, by their nature, affected by current political, economic and social uncertainties, including tensions in Europe and the Middle East, low oil prices, immigration and the threat of terrorism. In this context, Finmeccanica continues its evolution, focusing in particular on activities aimed at:

- strengthening its positioning in terms of business areas and product portfolio; and
- improving the efficiency and effectiveness of its key industrial processes.

Implementation of this is being made through the New Organisational and Operational Model, following the set-up of the "One Company" structure.

The results achieved in 2015 underline the soundness of the Industrial Plan that was approved in early 2015, and the expectations for 2016 confirm its main strategic guidelines and objectives. For 2016 the Group expects a further growth in profitability, with ROS at around 10%, in line with what has been already communicated, sustained by a sharp improvement in productivity ratios. An improvement is also expected in the ability to generate cash, which will allow the Group to achieve at the end of 2016 the target of Net Debt originally forecasted at the end of 2017, so one year ahead of last year's guidance.

In 2016 Finmeccanica forecasts:

- Revenues in line with 2015, taking account of a reduced business perimeter (as a consequence of the completion of the transfer of "pass-through" activities on B787 and the disposal of the non-core businesses of DRS and FATA). This confirms that the Group is increasingly focused on businesses that are able to ensure adequate levels of profitability and cash generation;
- Further growth in operating profits, mainly driven by the confirmation of a gradual improvement trend in the performance of the divisions of the Electronics, Defence & Security Systems Sector and by the consolidation of the results recorded in the Aeronautics segment in 2015, supported by he strong profitability of the Helicopters segment;
- An improvement in its ability to generate cash, which will be driven by the above mentioned factors, combined with careful management of working capital and a greater selectivity in its investments.

The 2016 full year guidance are summarised below:

	2015 amounts	***2016 outlook*** (*)
Orders (€bil.)	12.4	12.2 – 12.7
Revenues (€bil.)	13.0	12.2 – 12.7
EBITA (€mil.)	1,208	1,220 – 1,270
FOCF (€mil.)	307	300 – 400
Group Net Debt (€bil.)	3.3	Lower than 3

(*) *Exchange-rate assumptions: €/USD 1;15; €/GBP 0.75*

Related party transactions

Related parties have been identified in accordance with the provisions of the international accounting standards and of the relevant CONSOB (the Italian Commission for Listed Companies and the Stock Exchange) regulations.

The transactions, which are carried out and regulated at arm's length, relate to business (disposals and purchases of goods and services in the course of the Group's usual operations), financial (ordinary financing granted/obtained and the charging of related interest income or expense) and other relationships (including all residual activities, as well as contractually-governed transactions of a tax nature, for those companies participating in the national tax consolidation scheme).

It should be noted that in 2010 Finmeccanica issued (and on 13 December 2011, 19 December 2013 and 22 December 2015 it updated) a specific "Procedure for Related Parties Transactions" (hereinafter referred to as the "Procedure") pursuant to CONSOB Regulation no. 17221 of 12 March 2010, as amended and supplemented (hereinafter referred to as the "Regulation"), as well as in implementation of Article 2391-*bis* of the Italian Civil Code. The abovementioned Procedure is available on the Company's website (www.finmeccanica.com, under *Corporate Governance* area, *Related Parties* section).

Pursuant to Article 5.8 of the Regulation, in 2015 no transactions of greater importance, as defined by Article 4.1.a) of the abovementioned Regulation, nor any other related party transactions that materially impacted the financial position or results of the Finmeccanica Group and of Finmeccanica S.p.a., were carried out in the reporting period; furthermore, no changes or developments took place in relation to the related party transactions described in the 2014 Report on Operations.

Finally, it should be noted that, in implementing the corporate rationalisation and reorganisation programme, focusing on the financial activities performed by Finmeccanica Finance S.A. for Finmeccanica S.p.a., the process of transferring Finmeccanica Finance S.A.'s assets and liabilities to Finmeccanica S.p.a., started in 2014, was completed in 2015.

<u>CONSOB Market Regulation, Article 36</u>

In accordance with CONSOB provisions contained in the Market Regulation and specifically Article 36 of Resolution 16191/2007, Finmeccanica performed the verifications on the Group subsidiaries that were incorporated and are governed under the laws of non-EU Member States and that, as a result, were deemed "material" based on the requirements under Article 151 of the Issuers' Regulations adopted with CONSOB Resolution 11971/1999, as finally amended by CONSOB Resolution no. 18214/2012. As regards the non-EU foreign subsidiaries (DRS Technologies Inc, Meccanica Holdings USA Inc, AgustaWestland Philadelphia Co) identified based on the above regulations and in compliance with the provisions of local laws, these verifications revealed the existence of an adequate administrative and accounting system and the additional requirements envisaged in said Article 36.

Information pursuant to articles 70 and 71 of Issuers' Regulations

By resolution of the Board of Directors on 23 January 2013, the Company adopted the simplification regime under Articles 70/8 and 71/1-*bis* of the Issuers' Regulations, adopted with CONSOB Resolution 11971/1999, as subsequently amended and supplemented. By this resolution, the Company chose the option to make exceptions to the obligation to issue the documents required by the law when transactions of greater importance (such as mergers, spin-offs, capital increases by means of the contribution of assets in kind, acquisitions or disposals) occur.

Industrial and financial transactions

***Industrial transactions*.** In 2015 the following industrial transactions were carried out:

- Completion of the disposal of the **AnsaldoBreda** and **Ansaldo STS** businesses, the effects being those already described at the beginning of this report;
- Disposal of non-core businesses of the **DRS Technologies** group. In 2015 DRS completed the disposal of some non-core businesses in the sectors of Aviation, Communications and Homeland Security (partly to IAP Worldwide Services and partly to the US Coast Guard), as well as the disposal of a stake of 30% in N2 Imaging Systems LLC to United Technologies. These transactions were a step in the process of strategic reorganisation and of the review of the product portfolio of DRS Technologies;
- Disposal of 100% of **Fata S.p.A**.. On 6 October 2015, Finmeccanica and the Danieli Group signed an agreement for the sale of 100% of Fata S.p.A. and of its subsidiaries in the USA, India, China and UAE, excluding the stake held in Fata Logistic Systems S.p.A. and some outstanding assets items which were separated before the closing of the transaction, which occurred in March 2016. Fata, a company with 200 employees, designs turnkey industrial plants and also works on metal lamination plants; its sale is a further step in the implementation of the Industrial Plan, whose aim is to concentrate the Group on its core businesses of Aerospace, Defence and Security, and strengthen its position in these sectors;
- Other actions included the signature of the Memorandum of Understanding with the ***Corporación de la Industria Aeronáutica Colombiana S.A***. (whose main activity is to provide maintenance services and logistic support for the Colombia armed forces) - for the assessment of opportunities for collaboration in the business lines of the manufacture of spare parts, logistic support and helicopter maintenance services, as well as within the scope of collaboration in marketing Finmeccanica's dual turbine helicopters in Colombia (e.g. AW139, AW169, AW189) both for civil and military use – and

the start of a project of construction, on the part of AgustaWestland do Brasil Ltda, of a new industrial centre at Itapevi (near São Paulo) by 2016, with a maintenance hangar, final assembly line, training centre with simulators, spare parts warehouse, workshops and other premises for servicing. This project, supported by *Investe São Paulo* (an agency linked to the "Secretariat of Economic Development, Science, Technology and Innovation"), would enable Finmeccanica - AgustaWestland to boost its industrial presence in Brazil and raise its turnover from selling logistic and maintenance services in what the Group considers a key area.

Financial transactions. In 2015, the Group engaged in a number of financial transactions.

More specifically, in January 2015, the process of replacing Finmeccanica Finance S.A. with Finmeccanica S.p.A. as the issuer of outstanding bonds was completed. The transaction was approved in November 2014 as part of an additional process of gradually centralising all Group financial activities within Finmeccanica S.p.A.. As of today, Finmeccanica S.p.A. is the issuer of all the bonds denominated in euros and pound sterling placed on the market under the Euro Medium Term Notes Programme (EMTN). Finmeccanica S.p.A. also continues to guarantee all the bonds issued by Meccanica Holdings USA, Inc. on the US market.

On 8 July 2015, Finmeccanica announced an offer to holders of its euro-denominated bonds to tender their bonds for repurchase (Tender Offer Memorandum) in an effort to make the best use of the proceeds from the disposals in the Transportation sector and thereby reduce its gross debt and the associated borrowing costs. The transaction, worth a total nominal amount of €mil. 451, was carried out at the market values for the individual bonds, plus a premium to encourage investors to tender their bonds. It was structured so as to maximise the financial return, giving priority to those bonds whose Net Present Value (NPV) was such so as to ensure that the saving on borrowing costs would exceed the initial repurchase cost. The transaction was successfully completed on 20 July 2015 and overall will ensure a significant saving on borrowing costs in the future.

The recalculated nominal values of the notes repurchased are as follows:

Year of issue	Maturity	Currency	Nominal amount outstanding before buy-back (mil.)	Annual coupon	Nominal amount outstanding after buy-back (mil.)
2009	2019	GBP	400	8.000%	319
2013	2021	€	950	4.500%	739
2009	2022	€	600	5.250%	555
2012	2017	€	600	4.375%	521

In November 2015, Meccanica Holdings USA also took steps to repurchase, in more than one tranche, a total amount of USDmil. 68 of bonds due 2039 and 2040, with coupons of 7.375% and 6.25%, respectively, which had been issued by the company in 2009 in a total amount of USDmil. 300 and USDmil. 500. The total average purchase value was 102.7% of the nominal value, with an average annual return of 6.50%.

Otherwise than for the provisions governing bonds issued on the Euromarket, it is not necessary, for said bonds which are currently held in the portfolio, to take steps for them to be cancelled immediately.

The Group's bonds are governed by rules with standard legal clauses for these types of corporate transactions on institutional markets that do not require any undertaking with regard to compliance with specific financial parameters (financial covenants) but they do require negative pledge and cross-default clauses. Based on negative pledge clauses, Group issuers, Finmeccanica Spa and their "Material Subsidiaries" (companies in which Finmeccanica Spa owns more than 50% of the share capital and represent at least 10% of Finmeccanica's consolidated gross revenues and total assets) are expressly prohibited from pledging collateral security or other obligations to secure their debt in the form of bonds or listed financial instruments or financial instruments that qualify for listing, unless these guarantees are extended to all bondholders. Exceptions to this prohibition are securitisation and, starting from July 2006, the establishment of assets for the use indicated in Article 2447-bis et seq. of the Italian Civil Code. On the contrary, the cross-default clauses give the bondholders the right to request early redemption of the bonds in their possession in the event of default by the Group issuers and/or Finmeccanica and/or any "Material Subsidiary" that results in a failure to make payment beyond pre-set limits.

Furthermore, the €mil. 2,000 Revolving Credit Facility contains financial covenants. More specifically, the covenants require Finmeccanica to comply with two Financial ratios (the ratio of Group net debt - excluding payables to the joint ventures MBDA and Thales Alenia Space - to EBITDA must be no higher than 3.75 and the ratio of EBITDA to net interest must be no lower than 3.25) tested annually based upon the consolidated data at the end of the year. These covenants, in accordance with contractual provisions providing for this option, have also been extended to the EIB loan, currently outstanding in the amount of about €mil. 324, in addition to certain loans recently granted to DRS by US banks totalling USDmil. 75. In relation to this Annual Financial Report, there was full compliance with said covenants (the two ratios are 1.6 and 6.2, respectively).

Outstanding bond issues are given a medium/long-term financial credit rating by the three international rating agencies: Moody's Investors Service (Moody's), Standard & Poor's and Fitch. At the date of presentation of this report, Finmeccanica's credit ratings, compared to those preceding the last change, were as follows:

Agency	**Last update**	**Updated**		**Previous**	
		Credit Rating	*Outlook*	*Credit Rating*	*Outlook*
Moody's	august 2015	Ba1	stable	Ba1	negative
Standard&Poor's	April 2015	BB+	stable	BB+	negative
Fitch	May 2015	BB+	stable	BB+	negative

With regard to the impact of positive or negative changes in Finmeccanica's credit ratings, there are no default clauses linked to the credit ratings. The only possible effects deriving from further changes, if any, to the credit ratings refer to higher or lower finance costs on certain payables of the Group, especially with reference to the Revolving Credit Facility. The interest rates applied to the utilisations of such credit line, in fact, are based upon the Euribor plus a margin of 100 bps. This margin could be reduced down to a minimum of 50 bps if Finmeccanica returns to an investment grade rating or increased up to a maximum of 220 bps if Finmeccanica's debt is given a rating below BB or if it is given no rating at all. Finally, it should be noted that the Funding Agreement between MBDA and its shareholders provides, *inter alia*, that any downgrade of the rating assigned to the shareholders will result in a gradual increase in the margins. Additionally, under a pre-set rating limit (for at least two out of three rating agencies: BB- from Standards & Poor's, BB- from Fitch and Ba3 from Moody's) MBDA is entitled to determine the applicable margin each time. Finally, the agreement provides for rating limits the achievement of which allows MBDA to request the issue of a bank guarantee of its own liking from its shareholders, without which MBDA can suspend the subsequent disbursement of funds.

On 5 May 2015 Finmeccanica renewed the EMTN programme for a further 12 months, keeping unchanged the maximum amount of €bil. 4.

With regard to the Revolving Credit Facility, on 6 July 2015, in order to take advantage of favourable market conditions and the industrial efficiency-enhancement actions undertaken, as well as the Group's improved business and financial outlook, Finmeccanica signed an agreement with the providers amending the terms of the facility obtained in July 2014. The new terms envisage reducing the margin from 180 bps to 100 bps. In line with the Group's financial needs, Finmeccanica has simultaneously reduced the total amount of the credit line from €mil. 2,200 to €mil. 2,000 and has extended the duration by one year, to July 2020.

Finmeccanica and the commercial scenario

The macro-economic trends that marked 2015 (e.g. expansive monetary measures in the Eurozone and the consequent depreciation of the euro, the drop in oil prices below 30 USD/barrel, the end of sanctions on Iran, the slowdown in the growth rates of newly industrialised countries with consequent lower demand for raw materials, etc.) are having a significant impact on the industrial sectors in which Finmeccanica operates, together with persistent pressure being exerted on public investment budgets.

The global Aerospace, Defence and Security market, as a whole, shows a positive trend with annual average growth rates that are in the region of 3.1% in the next decade. The short-term scenario is one in which defence expenditure budgets are expected to rise (+1.7% between 2016 and 2020, with an average annual value higher than €bil. 1,500), mainly supported by some countries such as China, India and Saudi Arabia).

With reference to the "**domestic markets**" in which Finmeccanica operates, the **United States** still plats the most substantial role with the main new generation systems programmes (multi-role aircraft, unmanned systems, integrated command, control and communication systems, increasingly including cyber warfare).

After the considerable reductions linked to the gradual withdrawal from business out of the theatre of operations (e.g. Iraq, Afghanistan), new investment expenditure has been rising since the beginning of 2016 with a trend of steady annual growth. Investments in cyber security/cyber warfare projects are particularly substantial (total investments passed from €bil. 3 in 2013 to €bil. 4.9 in 2016). The United States will continue its innovation process started with the Defense Innovation Initiative in order to keep the technological advantage through new weapons programmes aimed at improving the acquisition processes of the DoD and making them more flexible, also based on the model of innovative processes adopted by the enterprises in the Silicon Valley.

The **United Kingdom** recently published a revised defence planning document (SDSR 2015), which made provision for an increase of about GBPbil. 12 (about €bil. 16) in investments for new systems in 10 years, with a total expenditure of GBPbil. 178 for the acquisition of weapons in the next decade.

The transformation that has occurred in the international scene in the last years has seen the **NATO Countries** involved in the development of a new concept of defence and security with the aim of becoming more efficient in operational terms in dealing with the new situation. As regards investments, this has given rise to the need for the allied countries to adopt targeted measures aimed at countering the new threats, above all in relation to the capacity of (*i*) situation awareness, (*ii*) protection, (*iii*) greater interoperability between means and resources deployed in the theatres of operations and (*iv*) a prompt response of the force projection. At the same time, in terms of reduction in operating costs, a number of the allied countries have launched structural reforms of their respective organisations and stocks, many of which are still being implemented. At present the European Union is worldwide the region that is closer than any other regions to a number of situations of continuing crisis, such as the Ukraine, the civil war in Libya, the “Islamic State” between Turkey, Syria and Iraq, to which must be added the critical issues connected with the control of sea and land borders that are affected by unstoppable migration flows from the crisis zones and, recently, the terrorists attacks in the European capital cities.

In **Poland**, after a decline in 2016, a growth of 4.5% is expected until 2020.

The **Italian Defence Ministry** presents a substantially stable investment expenditure of around €bil. 4.5 per year, including the funds made available by the Ministry of Economic Development and by the Naval Law. The Italian Naval Law is a long-term programme for an expenditure of a total of €bil. 5.4 (of which Finmeccanica’s share amounts to about €bil. 1.8) on the renewal of the Navy fleet, which includes building seven Offshore Patrol Vessels (OPV) (plus an option for another three), a Logistic Support Ship (LSS) and a Landing Helicopter Dock (LHD). Finmeccanica has the role of prime contractor for all the warships’ combat systems and also provides sensors, including the new multi-function radars and naval and underwater artillery subsystems. Finmeccanica is also responsible for the subsystems constructed by Elettronica (EW) and MBDA (Missiles). A similar programme for the Army is under discussion.

Analysis by business Sector

Aeronautics. The **civil aviation** segment, with an average annual market value of about €bil. 125 for the next 10 years, will continue to show growth (around 2.0% on average per year). The demand is especially driven by the countries in the areas of Asia and Middle East and by some macro-economic and technological dynamics (i.e. a better financial stability of the major airlines furthered by low fuel costs, the gradual availability of new technological solutions and advanced materials, the need to replace less-efficient previous-generation aircraft). Within the *commercial aircraft* segment, which is the most important segment, the most interesting dynamics concern the wide-body aircraft (i.e. aircraft with two aisles) sub-segment thanks to the production ramp up on the latest generation of aircraft (B787, A350XWB). Demand in the narrow-body aircraft (i.e., aircraft with a single aisle) sub-segment will be satisfied for another few years yet by current models, fitted with higher-efficiency, lower operating costs and low environmental impact engines, in expectation of the launch of new programmes, which is not expected to occur before the next decade. 2015 was a particularly positive year for commercial aircraft, both in terms of deliveries and in terms of backlog, with values higher than those posted in 2014 for both the two large manufacturers, Boeing and Airbus. As to regional aircraft, the highest value, most dynamic segment is that of reaction engine aircraft; however, the aircraft with turboprop engines, thanks to lower operating costs, maintain an important applicative niche. Over the next few years, it is expected that a new generation of aircraft for regional transport, equipped with features (operating range, transport capacity, speed) superior to those of aircraft that is currently in service. From an industrial standpoint, more prudent policies are applied on the part of some prime contractors to outsource the design and production of structural components, particularly composites, but the market for outsourcing the supply of aerostructures will maintain annual growth rates of around 2% in the next decade. The **military aircraft** segment, in part due to delays on a number of important supply orders, presents an interesting growth trend over the next 10 years (although they are highly cyclical), with an overall value of new deliveries higher than €bil. 500 and an average annual rate of around 8%. The most important segment, in terms of numbers of deliveries and related value, is that of combat aircraft, in which the programmes for (i) JSF F-35, (ii) the export of Rafale and Eurofighter and, even to a lesser extent, (iii) the new Gripen E/F are very important. Finally, the advanced training aircraft and tactical transport aircraft segments will also be characterised by interesting growth prospects, substantially liked to the development of armed versions. Over the medium/long term, interesting opportunities in Europe may arise in relation to the collaborative development of a new generation of **unmanned vehicles** (UAS – Unmanned Aerial Systems) for long-persistence strategic surveillance, protection and monitoring, and reconnaissance and combat applications. European projects mainly consist of: (i) the definition phase of the MALE 2025, a joint Airbus Group, Dassault and Finmeccanica programme, and (ii) the FCAS Anglo-French feasibility study for a future unmanned fighter aircraft, in which BAE Systems and Dassault are involved with the additional contribution of Finmeccanica and of Thales in relation to on-board sensors and mission electronics. The extension of unmanned aircraft to the civil sector depends on the exact contents of the forthcoming regulations, which are being discussed at the present time for safe navigation in non-segregated airspace. Overall, around 50% of worldwide demand for military aircraft (manned and unmanned) comes from the United States and Western Europe, where the greatest technological and industrial capabilities continue to be present, although there is a gradual (but still limited) process under way of transferring technology to newly industrialised countries, which are increasingly interested in developing their own local offering (e.g. India, China, Turkey).

Helicopters. There is still a trend towards a general decline in demand over the next ten years, with an average annual value (referring to new helicopter deliveries) of around €bil. 22. This trend is in fact linked to a limited growth in the civil segment and to a concurrent contraction in the military segment, due to lack of new programmes. In the civil segment, demand will continue to concern aircraft equipped with the most advanced performance features and lower operating costs, especially in the Oil & Gas segment, which is currently affected by a continuing fall in oil prices. The military segment, by contrast, depends heavily upon the developments in the US market, which experienced a peak in demand in 2014 due to significant orders for the upgrading of fleets in operation for domestic industries. There has also been a major consolidation with Lockheed Martin's acquisition of Sikorsky. No new military programmes are expected either in Europe or in the United States, partly offset by growing demand in other segments. However, it should be pointed out that, over the medium/long term, the American JMR programme will become increasingly important, as it will allow the development of a new generation of helicopters able to meet the most advanced operational requirements (speed, range and rate of climb).

Defence and Security Electronics and Defence Systems

The value of demand in the Defence Electronics market is estimated as just over €bil. 90 per year for the next ten years, with an annual growth rate of about 3% in the next decade. The rise is also the result of a requirement for systems and equipment for air, land and sea applications with a higher technological content, entailing a rise in their value. Specifically, the **electronics for avionic use** sector is driven by increasing demand for (i) multi-purpose aircraft; (ii) surveillance systems and sensor equipment, especially maritime, for both manned and unmanned aircraft; and (iii) integrated training and simulation solutions. The rise in demand in the **land segment** is also due to requirements for integrated solutions, including cyber defence and C41SR system modernization, as well as anti-aircraft defence solutions, within which one of the main drivers consists of operational needs for heightened situation awareness capacity. The **naval segment** is also growing at global level; the domestic market in particular is feeling the benefit of the recent Italian Naval Law, which, as has already been mentioned, provides funds for building new vessels whose combat systems are integrated and provided by the *Land & Naval Defence Electronics* Division. Some highly innovative solutions stand out among these systems, such as the new AESA DBR (Active Electronically Scanned Array, Dual Band Radar) with four fixed flats in dual array (X/C) and band-L radar with a revolving antenna. The average annual growth rate in the neighbouring **security and information systems** market is higher (about 5% in the period 2015-2024) than that of the defence market owing to the growing need for (i) surveillance of sensitive areas and vital infrastructures (ii) cyber security and (iii) counter-terrorism tools. The *Security & Information Systems* Division also operates in the markets for systems and sensors for air and sea traffic management and control and information and automation systems. There is a growth trend in these three segments too, as a result of increasing demand for air transport and technological innovation in the information and digital fields with the consequent upgrading of these types of infrastructures and processes in public authority offices.

The target market of Defence Systems shows a total value of about €bil. 380 in the next ten years. It is estimated that the land segment of this market will show an overall annual average growth rate of about 2.0%. However, in this context, some segments (wheeled vehicles) will be characterised by higher rates. The **naval segment** is characterised by higher growth rates, which can be estimated at around 6% per year. The **land vehicles and weapons** segment is worth about €bil. 85, with an increasing demand for solutions capable of providing the military personnel engaged in operational missions with greater security. This will lead to demand concentrating on lighter vehicles – both wheeled and tracked - that can be used more quickly and flexibly, are more mobile and, above all, provide a high degree of protection against the threat from small- and medium-calibre arms and improvised explosive devices (IEDs). Finally, innovative remote-control technological solutions (UGV *Unmanned Ground Vehicle*) are being developed. In the **naval weapons** segment (with a value of €bil. 16 over ten years), the greatest opportunities are tied to the development of guided munitions systems to be used, above all, in coastal operations, which can guarantee a degree of accuracy comparable with that of a missile but with substantial cost savings. The value of the conventional munitions segment is about €bil. 55 over the next ten years, plus an estimate of about €bil. 11 over ten years for the guided munitions market (for sea and land use). The value of the **underwater systems** segment is €bil. 33 over ten years and includes heavy (launched from naval platforms) and light (also launchable from air platforms, particularly rotary wing aircraft) torpedoes, ATDS counter-measures and embedded sonar systems. There is also rising demand for unmanned systems and integrated solutions for protecting coastlines, ports and underwater infrastructures (underwater cables and pipelines). Finally, the **missile systems** market will experience a slight increase, worth an estimated total of about €bil. 180 over the ten years. The primary application segment relates to air defence systems, both land-based and on-board naval platforms. The need to have new systems that provide greater versatility and attack precision and to also protect urban areas and high-value civilian and military infrastructures are the main drivers in this market. There are also to be benefits from the Naval Law for the Defence Systems Division with the supply of 76 mm above-deck cannons and towed sonar arrays for underwater systems. In the *Missile* segment, MBDA will provide missile systems.

Space. The demand in the sector of space systems and services is estimated at around €bil. 90 a year, about 70% of which consists of manufacturing (satellites and probes, launch and space access systems, orbiting infrastructures). The development trend in the sector is interesting, with growth rates of about 2% for **manufacturing**, supported by civil and military government investment programmes, and of 6-7% for services. There is still expected to be only a small increase in the private component of investments so that industrial growth continues to depend on programmes of expenditure from national (e.g. NASA, Italian Space Agency, Ministry of Defence) and international (ESA, EU) entities, despite the fact that the growing portion of demand for services comes from the commercial sector. At the same time the number of countries with an active policy for the development of their work in the space sector continues to rise, both with national programmes which seek to meet defence or security needs and with the creation of national Space Agencies which seek to set processes in motion for transferring technology and supporting the birth of their own national space industry. Demand in the *military* segment is driven by the supply of new satellites used for Earth Observation and secure communications, while the expansion of the *civil systems* market centres around programmes for replacing in-orbit satellite capacity and constructing new high-capacity global constellations for Internet services, for telecommunications and the development of new scientific, meteorological and navigation applications, including with the development of mini-satellites. The development of dual-use (civil and military) architectures, systems and sensors is of growing importance, since it makes it possible to optimise public investments. More specifically, in the **space services** segment, there has been growing verticalisation of "Network Integrations" activities and of the space capacity management on the part of satellite operators, a rising integration between service suppliers and manufacturers, the development of integrated applications based upon the acquisition and processing of data from a variety of sources (satellites, traditional and unmanned aircraft, ground-based systems) or based upon different technologies (broadband satellite communications, digital terrestrial, communication networks, etc.).

Competitive positioning of Finmeccanica

With reference to the scenario described above, Finmeccanica sets itself to strengthen its positioning in the more attractive markets in which the portfolio of its products can benefit from its specific competitive advantage. An analysis of its present competitive position, therefore, based on these two dimensions (an attractive market and the portfolio's capacity of penetration) leads to the following considerations regarding the various business sectors.

Aeronautics. In the *military aircraft* segment, the Eurofighter is strengthening its position in export markets, benefiting from the latest developments which have had an impact on its operational capacity and performance, while the M346 is building on its leading position in the *trainer aircraft* segment in a growing market (although it is a niche market), laying the foundations for the development of new versions DR/LCA and M345. Finmeccanica has an advantage in terms of performance and operational flexibility over the competition in the tactical transport sector, which should be maintained by aiming to be more competitive in cost and expanding its target market as opportunities present themselves (Multi-role, Gunship). In the *regional aircraft* segment, ATR is still the market leader, with good prospects of a new generation model being developed and launched, while the aerostructures segment is reaping the results of the action that has been taken to increase industrial returns in an attractive market, with a medium/long-term visibility.

Helicopters. The group is still the leader in the Intermediate class of civil Helicopters and is also making gradual progress in the Light Intermediate and Medium classes as a result of the "product family" development policy, with the consequent offering of the new models AW169 and AW189 to the market. In spite of a reduction in major acquisition programmes in the military segment, Finmeccanica's products still have a position in which there are prospects of improvement which exploit the dual applications of new models (AW169M and AW139M), and new technologies (Multi-role Aircraft).

Defence and Security Electronics and Defence Systems. Overall, the business lines in this sector operate in expanding markets of medium to high attractiveness. Finmeccanica's leadership in some segments, such as Radars, Electronic Warfare and naval systems, is the result of large-scale collaborative and/or national projects which can be exploited with a view to maximising returns and potential expansion in neighbouring markets. The Group's position in the other business lines is based on one hand on the selective use of "differentiators" and on the other hand on specific measures which not only ensure a role in captive programmes but enhance competitiveness to foster outlets on international markets in which there is increasingly fierce competition. In the Security sector Finmeccanica may take, in perspective, a role as an international player in solutions concerning (i) security inside and on national borders, (ii) large-scale events and (iii) the protection of vital infrastructures, taking advantage of the capacities of integration and use of Finmeccanica's Command and Control expertise and recent successful experiences (i.e. Glasgow Commonwealth Games and Milan Expo 2015). The Group's position as a main partner in the Cyber Security sector has also been consolidated in the Italian, UK, NATO and EU captive markets and this business has been expanded through new services, such as analytics & intelligence, but also through native cyber embedded solutions within its proprietary products.

Space. The service business lines in this sector operate in markets in which satellite telecommunications and geoinformation services on the whole are expanding, while the satellite operations segment is rising at a lower growth rate. The Group's leadership in satellite operations is due to large-scale European and national programmes. In the telecommunications sector, Finmeccanica's position is one in which there are opportunities for growth by offering a range of services based on high-capacity satellite systems. The development opportunities in the geoinformation sector depend on new applications for defence and security purposes and supporting mission operations.

Finmeccanica and risk management

RISKS		ACTIONS
The Group is strongly dependent on the level of expenditure of national governments and public institutions	The major customers of the Group are national governments or public institutions. Moreover, the Group takes part in numerous international programmes funded by the European Union or other intergovernmental organisations. Therefore, the Group is affected by the reduction in the expense budgets of the public institutions. The expenditure programmes adopted by governments may be subject to delays, changes under way, annual reviews or cancellations, in particular in periods with high instability like those that mark the global economy now, due to, for example, oil price trends. The Group's industrial plans, as well as the financial resources necessary for their implementation, might be affected by significant changes, with impacts not only on volumes and results, but also on the Group debt, due to lower amounts received as advances on new orders.	The Group continues pursuing an international diversification policy, which leads the same to compete not only in its main markets (Italy, the UK and the US) but also in emerging markets marked by high growth rates, especially in the Aeronautics and Defence markets, in order to be less dependent on cuts that may be made by individual countries. Moreover, under the Group strategy, performance in the major countries is constantly monitored in order to ensure a timely alignment of activities planned with customer needs and a strict selection of its investments, through assessment procedures of the potential returns and their strategic capacity. In addition, the organisation plan in which the Group is involved, should guarantee, against the reduction in the customers' budgets, an increased ability to compete in national and international markets.
Cuts in public budgets could affect also grants for the Research and Development activities of the Group and, as a consequence, also the Group ability to successfully compete in global markets	The tensions on public budgets could further reduce public grants for R&D activities, for which the Group invested €bil. 1.4 in 2015, considering the unavoidable need to constantly improve its products portfolio. In particular, in Italy, grants for R&D expenses for the Aeronautics and Defence sectors, which are regulated by Law 808/1985, represent the indispensable funding for the research activities in the sector. A non-compliance of the granting levels with those of the other European competitors could negatively influence the Group capacity of being successfully competitive, due to a lower self-financing ability caused by the complex economic scenario.	The Group pursues a strict policy as regards the assessment and selection of the investments through which it focuses the resources available on the most efficient programmes with the highest potential of return.
The Group also operates in civil sectors exposed to crisis	The Group is also potentially exposed to slowdowns in certain non-public markets, which could affect the spending capacity of certain customers. Delays or reductions in the acquisitions of new orders, or the acquisition of new orders on less favourable terms than in the past, including financially, could reduce the Group profitability and increase the Group's financial requirements during the performance of such orders.	The Group's goal is to improve its industrial efficiency and its ability to perform contracts, while reducing overhead costs with a view to enhance its competitive capacity.
Certain Group companies were previously	As more fully explained in paragraph "Provisions for risks and contingent liabilities" of the notes to the	The Group has taken all steps necessary to more thoroughly examine any irregularities

involved in judicial investigations	consolidated financial statements, certain Group companies and the Parent Company itself have been involved in judicial investigations, some of which are still underway. In this regard, the directors made provisions where necessary, on the basis of the stage of the legal proceedings and of the information obtained and the analyses performed to date. However, further developments presently unforeseeable and indefinable, together with the possible consequential impact on Finmeccanica's reputation, could significantly affect the Group's performance and financial position, as well as on its relationships with customers.	and to prevent employees, directors and suppliers from repeating inappropriate practices.
The Group operates significantly on long-term contracts at a given price	In order to recognise revenues and margins resulting from medium- and long-term contracts in the income statement of each period, the Group adopts the percentage-of-completion method, which requires: (i) an estimate of the costs necessary to carry out the contract, including risks for delays and additional actions to be undertaken to mitigate the risk of non-performance and (ii) checking the state of progress of the activities. Given their nature, these are both subject to management's estimates and, as a result, they depend on the ability to foresee the effects of future events. An unexpected increase in the costs incurred while performing the contracts might determine a significant reduction in profitability or a loss, if these costs exceed the revenues deriving from the contract.	Finmeccanica's goal is to regulate within the Group the process of preparing and authorising major contracts by issuing a special Directive. In fact, starting with the business proposal stage, Finmeccanica controls the main performance and financial parameters including the Economic Value Added (EVA), which is one of the aggregates used to evaluate the major contracts of directly controlled and strategic companies. Moreover, the Group reviews the estimated costs of contracts regularly, at least quarterly. In order to identify, monitor and assess risks and uncertainties linked to the performance of the contracts, the Group adopted Lifecycle Management and Risk Management procedures, aimed at reducing the probability of occurrence or the negative consequences identified and at timely implementing the mitigation actions identified. Under these procedures, all significant risks must be identified from the offering stage and monitored while the programme is being carried out, by constantly comparing the physical progress and the accounting status of the programme. Top management, programme managers and the risk management quality, production and finance departments are all involved in making these assessments. The results are weighted in determining the costs necessary to complete the programme on an at least quarterly basis. The Group is also committed to improving its industrial efficiency and its ability to precisely perform to customer specifications.

During the current activity, the Finmeccanica Group is exposed to liability risks to customers or associated third parties in connection with the proper performance of contracts, also because of activities pertaining to sub-suppliers	As part of its activities, the Group may be held liable in connection with (i) the delay in or non-supply of the products or the services indicated in the contract, (ii) the non-compliance of these products or services with the customer's requests, due to design and manufacturing defects of products and services, for example, and (iii) defaults and/or delays in marketing, rendering of after-sale services and maintenance and revision of products. These liabilities might arise from causes that are directly ascribable to Group companies or causes that are ascribable to third parties outside the Group that act as suppliers or sub-suppliers for the Group.	The Group continuously monitors the performance of programmes using the aforementioned Lifecycle Management techniques. In connection with these programmes the Group is committed to improving its industrial efficiency and its ability to precisely perform to customer specifications.
The Group's debt shows high level and could have an impact on the Group's operational and financial strategies	At 31 December 2015, the Group Net Debt amounted to €bil. 3.3. This level of debt was previously affected by the acquisition of DRS and by the negative performance of the *Transportation* sector. Such debt level, beside impacting the Group's profitability as an effect of the related borrowing costs, could affect the Group's strategy, limiting its operational and strategic flexibility. Potential future liquidity crises could also restrict the Group's ability to repay its debts.	Following the acquisition of DRS Finmeccanica reduced its level of indebtedness through a successful capital increase and the selling off of assets, with particular reference to the *Transportation* and *Energy* businesses. Moreover, Finmeccanica seeks to continually reduce its debt by keeping a close eye on cash generation. However, the use of cash generated until 2014 by the *Transportation* sector did not enable a further reduction of the debt level. With specific regard to the exposure to borrowing costs due to the high level of debt, it should be noted that, in order to reduce borrowing costs in future years, during 2015 the Group finalised the buy-back of a portion of the Group's outstanding bonds for a total nominal amount of €mil. 515. In 2015 the Group also renegotiated the contractual terms of its revolving credit facility setting the total amount at €bil. 2.0 and significantly reducing the applicable margins. This credit line is an important source of medium-term liquidity and, given its amount and that it is a revolving facility, it meets the Group's working capital requirements, in which collections are highly seasonal in nature. The amount of this credit facility is adequate and meets the Group's financial requirements.
The Group's credit rating is also linked to the opinions of the rating agencies	All Group bond issues are given a medium-term financial credit rating by the three international rating agencies: Moody's Investors Service (Moody's), Standard and Poor's and Fitch. At the presentation date of this Report Finmeccanica's credit ratings were: Ba1	As noted previously, the Group is actively engaged in implementing actions identified under the industrial plan for reducing its debt. Moreover, the Group's financial policies and careful selection of investments and contracts

with a stable outlook from Moody's and BB+ with a stable outlook from Fitch and from Standard and Poor's. The downgrading experienced from 2011 and 2014 was attributable to the deterioration in the Group's financial and economic performance, to the delays in the execution of the expected disposal plan of the *Transportation* and *Energy* sectors and, in part, to the downgrade in the rating for the Italian Republic. Overall, all rating agencies assigned the sub-investment grade rating status to Finmeccanica. A further downgrade in the Group's credit rating, even with no effect on the existing loans, could severely limit its access to funding sources, as well as increase its borrowing costs for existing and future loans, which would have a negative impact on the Group's business prospects and its performance and financial results.

involve being constantly alert to maintaining a balanced financial structure.
In seeking out strategies to pursue, the Group always takes into account the potential impact such could have in the indicators used by the rating agencies.
In relation to this, it is pointed out that during 2015 all rating agencies upgraded Finmeccanica's outlook from *negative* to *stable*.

The Group realises part of its revenues in currencies other than the currencies in which costs are incurred, exposing it to the risk of exchange-rate fluctuations. A part of consolidated assets are denominated in US dollars and pound sterling

The Group reports a significant portion of revenues in dollars and pounds, while costs can be denominated in other currencies (mainly euros). Accordingly, any negative changes in the reference exchange rate might have negative effects (transaction risk).
Moreover, the Group made significant investments in the United Kingdom and in the United States. Since the reporting currency of the consolidated Group financial statements is the euro, negative changes in the exchange rates between the euro and the dollar and between the euro and the pound sterling might have a negative impact on the Group balance sheet and income statement due to the translation of the financial statements of foreign investees (translation risk).

The Group continuously applies an organised hedge policy to combat transaction risk for all contracts using the financial instruments available on the market.
Changes in the dollar and pound sterling exchange rates also give rise to translation differences recognised in Group equity that are partially mitigated through the aforementioned pound and dollar issues. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the Group level.

The Group operates in some segments through joint ventures, in which the control is shared with other partners

The major joint ventures in the Aerospace, Defence and Security area are MBDA, held at 25% (with partners BAE Systems and Airbus Group), Thales Alenia Space, held at 33%, and Telespazio, held at 67% (both with partner Thales) and GIE-ATR, held at 50% through Alenia Aermacchi (with Airbus Group). The operations of the joint ventures are subject to management risks and uncertainties, mainly due to the possible arising of differences between the partners on the identification and the achievement of operating and strategic objectives, and the difficulties in resolving any conflicts that may arise between them in the ordinary course of business of the joint venture. In particular, the joint ventures in which the Group has an interest may be subject to decision deadlocks which may ultimately lead to the liquidation of the joint venture. In the case of liquidation of the joint venture or sale of the interest by the Group, it may have to

The Group constantly follows, including through the involvement of its own top management, the performance of these activities, in order to timely identify and manage critical issues.

	share or transfer technological skills or know-how that were originally contributed to the joint venture.	
The Group is a sponsor of defined-benefit pension plans in the UK and the US and of other minor plans in Europe	Under the defined-benefit plans, the Group is required to ensure a specific future retirement benefit level for employees participating in the plan, assuming the risk that the plan assets (stocks, bonds, etc.) are not sufficient to cover the agreed-upon benefits. If the value of plan assets is less than the agreed-upon benefit level, the Group duly recognises the amount of the deficit among liabilities; at 31 December 2015, this amounted to €mil. 388. If the value of plan assets falls significantly, for example due to high volatility in the stock and bond markets, the Group must make good this loss to plan participants, which therefore has a negative effect on its own performance and financial position.	The Group keeps a close eye on plan deficits and investment strategies and takes immediate corrective action when necessary.
The Group operates in particularly complex markets, where disputes are settled after a considerable period of time and following extremely convoluted procedures. The Group also operates numerous industrial facilities and is therefore exposed to environmental risks	The Group is party to judicial, civil and administrative proceedings; for some of these, the Group has established a specific provision for risks and charges in the consolidated financial statements to cover any potential liabilities. Some of these proceedings in which the Finmeccanica Group is involved – for which a negative outcome is unlikely or that cannot be quantified – are not covered by the provision. The Group's business activities are subject to laws and regulations protecting the environment and human health that impose limits on air emissions and the release of waste into the water and the soil and that regulate the handling of hazardous waste and the restoration of contaminated sites. Under current regulations, owners and operators of contaminated sites are responsible for pollution found on such sites and, therefore, may be required to bear the costs of environmental assessment and remediation, regardless of the source of the contamination. While carrying out its production activities, the Group is exposed to the risk of accidental contamination of the environment and may be required to bear the costs of restoring any sites that may be contaminated.	The Group regularly monitors potential and existing disputes, taking the necessary corrective actions and adjusting its provisions for risks on a quarterly basis. As to environmental risks, the Group has established an environmental monitoring and assessment programme and has insurance coverage to limit the impact of any contamination event.
The Group operates in particularly complex markets which require compliance with specific regulations	The Group designs, develops and manufactures products in the Defence sector. These products are particularly important to the protection of national security interests and, therefore, their exportation is subject to the receipt of special authorisations from the relevant authorities. The prohibition, limitation or withdrawal, if any (in the case, for example, of embargoes or geopolitical conflicts), of the	The Group monitors, through specific structures, the constant updating of the relevant regulations. Commercial actions are subject to regulatory restrictions and receipt of the necessary authorisations.

	authorisation to export the products might have significant negative impacts on the Group's operations and financial situation. Moreover, non-compliance with these regulations could result in withdrawal of authorisations.	
A significant portion of the consolidated assets relates to intangible assets, specifically goodwill	At 31 December 2015 the Group reported intangible assets of €bil. 7.0, of which €bil. 4.0 relate to goodwill (15% of total assets) and €bil. 2.0 to development costs. The recoverability of these amounts is linked to the realization of future plans of the reference businesses/products.	The Group constantly monitors performance against the expected plans, implementing the necessary corrective measures in the case of unfavourable trends. These updates are reflected, when the adequacy of the amounts posted is assessed, in the expected flows used for the impairment tests.

Finmeccanica and sustainability

Finmeccanica's goal and commitment is to increasingly integrate sustainability into the industrial plan and into its strategy, with its customers and suppliers, into its ways of participating in the life and evolution of the communities and territories in which it operates presently and in the future, into its own system of rules that comply with laws and national and international regulations, within a framework that does not tolerate behaviour that does not conform to standards on ethics and responsibility.

Finmeccanica is among those international companies in the Aerospace, Defence & Security sector that voluntarily report on the sustainability of their performance in accordance with the "Sustainability Reporting Guidelines" (version G4) set down by the Global Reporting Initiative (GRI). The Sustainability Report of the Finmeccanica Group has been prepared in accordance with the "core" application level and assured by KPMG.

This section contains a summary of the main information on various aspects of sustainability (Environment, Human Resources, Research & Development) and seeks to explain how "**human capital**", "**environmental capital**" and "**intellectual capital**" are managed, protected and developed. Please refer to the 2015 Sustainability and Innovation Report, available on Finmeccanica's website, for more detailed information.

Thanks to the development and circulation of the Governance tools described in the paragraphs below, and to its desire to communicate to all its stakeholders in a clear manner, Finmeccanica voluntarily reports its sustainability activities and services on an annual basis using the following tools:

- **Sustainability and Innovation Report**, available on Finmeccanica's website, which provides a full and integrated picture of the Group's approach to the issue of sustainability and the process of the improvement of performance and of the management aspects of Finmeccanica's strategy and Business Plan;
- Inclusion in the **Dow Jones Sustainability Indexes** (DJSI): once again in 2015 the Group was included in the prestigious indexes of the DJSI family (both Europe and World) and in January 2016 it received the qualification of "Bronze Class" in the A,D&S segment at worldwide level (for more information, refer to: http://www.sustainability-indices.com);
- Participation in the **Carbon Disclosure Project** (CDP): for the eighth year in a row, Finmeccanica took part in the initiative of the non-profit organisation CDP, which is committed to reducing greenhouse gas emissions and to the sustainable use of water resources. The organisation acts on behalf of 822 institutional investors, representing managed and invested capital (Assets Under Management – AuM) equal to $tril. 95 (for more information, refer to https://www.cdp.net). In 2015 the CDP assigned a rating of 86 (values between 0 and 100) to the Finmeccanica disclosures, with a

performance equal to C (in an interval between “A” and “E”), thus increasing its score by 11 points compared to the previous year.

Human resources

Employees

The Group’s staff employed as at 31 December 2015 was equal to 47,156 employees, with a significant direct presence of subordinate employees in 15 countries and 13 Italian regions, concentrated (98%) in those markets that are considered “domestic” (Italy, the UK, the USA and Poland).

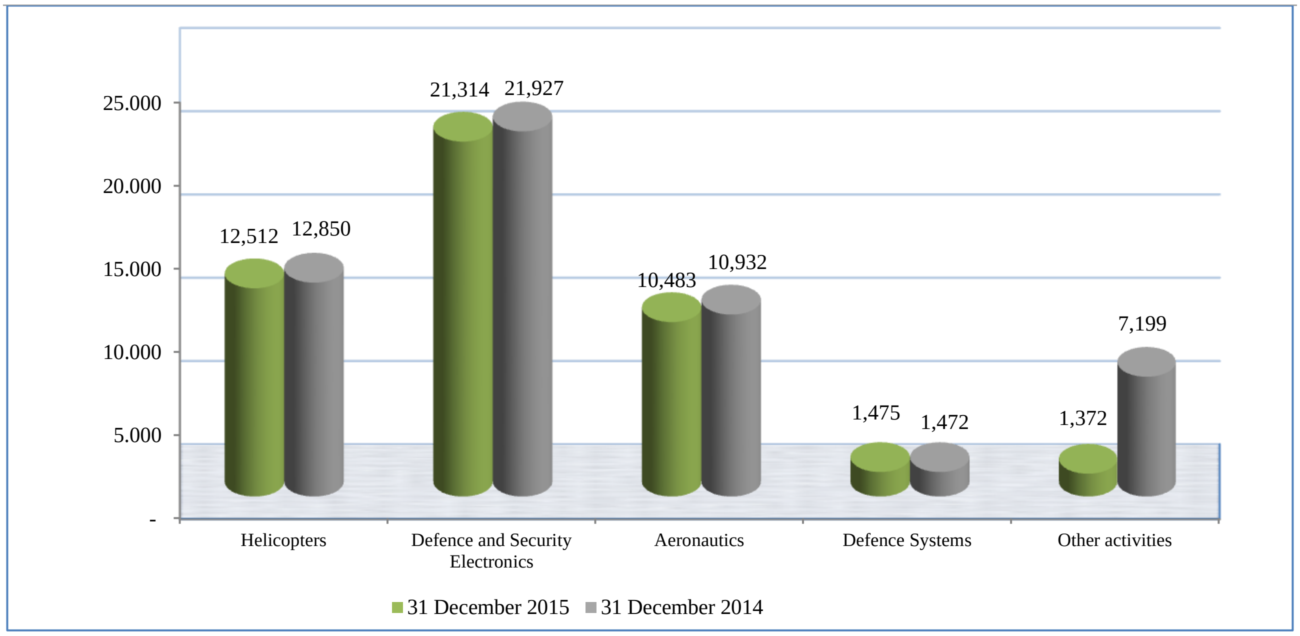
The Group’s workforce decreased by 7,224 (13.3%) compared with 31 December 2014 (54,380 employees), of which 4,264 in Italy and 2,960 abroad. The considerable decrease was mainly attributable to the changes that occurred in the perimeter during 2015, including:

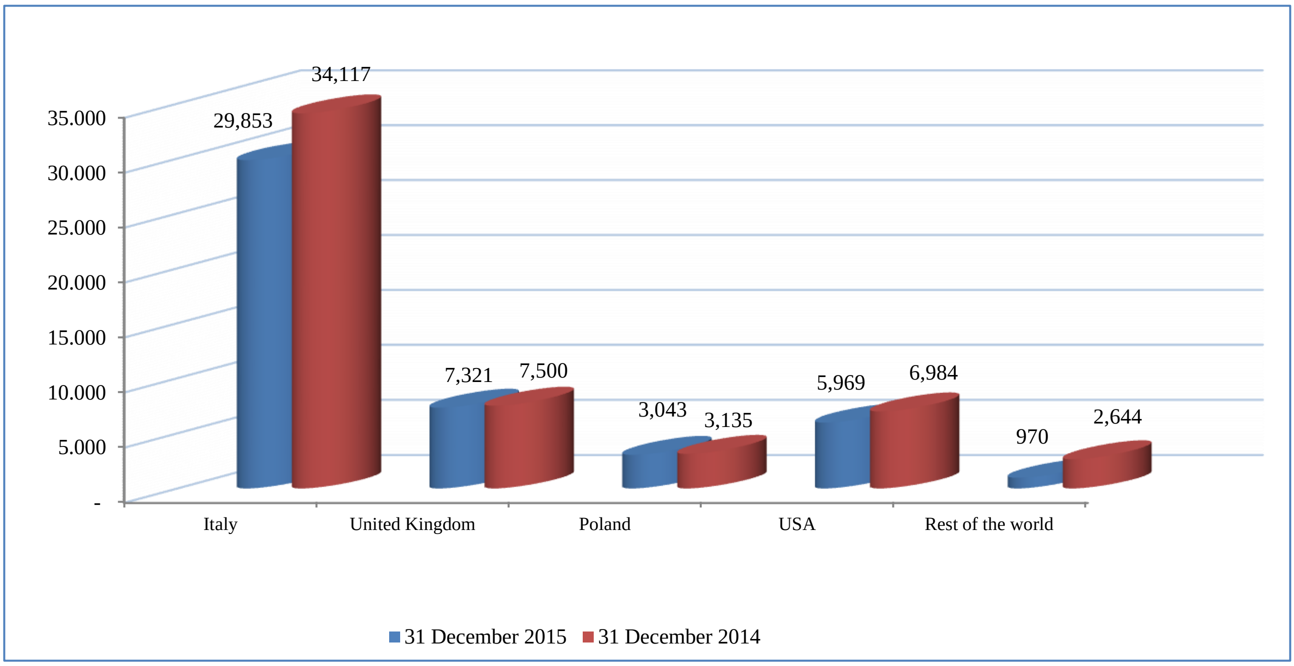
- the disposals in the Transportation business (Ansaldo STS and AnsaldoBreda) to Hitachi Rail in November 2015 (no. 5,770 people);
- the disposal of some secondary activities and non-core assets of DRS Technologies at the beginning of November (no. 220 people);
- the transfer of the resources from the Capodichino plant to Atitech in the framework of the operation which led to the creation of the aircraft maintenance centre in Naples in July and August (no. 178 people).

In addition to the abovementioned changes, this decrease was due to the rationalisation and efficiency improvement processes in the Defence and Security Electronics sector, with considerable reductions in the Helicopters and Aeronautics sectors as well.

Furthermore, work continued on the rationalisation of management personnel: with reference to the consolidation area, in 2015 the number of Group executives reported a total reduction of 260 people (excluding the disposals in the Transportation business, the reduction was equal to 142 people, corresponding to a decrease of 10.6%).

The breakdown of staff by segment and geographical area is as follows:





The Finmeccanica Group workforce worldwide

At the end of 2015, the Group operated through a worldwide structure encompassing 218 offices/facilities, located primarily in foreign countries (62%), of which 97 are production sites (50 in Italy).

The substantial reduction compared to the end of 2014 (a total of 55 sites fewer) is a development which basically affected sites abroad (44 fewer) and is due on one hand to continued rationalisation of the Group's corporate headquarters/offices (above all at Selex ES and DRS Technologies) and on the other hand to the changes that occurred in its perimeter during 2015, with specific regard to the disposals in the Transportation sector (40 sites, of which 38 abroad).

Organisation

During the first part of 2015 work continued on setting up the second-level centralised (Support) functions, assigning responsibilities for them: the Risk Management (RMA), Information and Communication Technology (ICT) and National and European Funded Programmes (PFN) organisational units were formed.

As regards the process of putting the Group's organisational structure on a divisional basis (Aerospace, Defence and Security perimeter), an inter-function working group was created in April in order to support the Top Management in coordinating the Group's operations. This led to the formation of the single company ("One Company") and the determination of the new division-based Finmeccanica's corporate governance. After this, during the second half of the year work proceeded intensively on the preparation and scrutiny of the organisational plan for the One Company functions which had been launched in the previous months. In particular, the general features of the new organisational structure for 2016 were outlined on 23 December 2015, when the Sectors and Divisions of the new One Company were finalised.

Furthermore, at the end of December 2015:

- the new first-level organisational unit, "Innovation and Technology Governance" (ITG), reporting directly to the Chief Executive Officer and General Manager, was formed;
- the new Group Internal Audit organisational model was drawn up: this model concentrates on scrutinising operations at Sector level.

Finally, after this the first-level organisational functions in the divisions and the different functions in the Electronics, Defence and Security Systems (EDS) and Aeronautics (ARN) Sectors were created at the beginning of 2016.

The **internal regulation system** (architecture and hierarchy of company regulations) includes the following types of documents:

- Guidelines of the Board of Directors;
- Group Directives;
- Corporate Procedures;
- Policy, manuals and operational instruments.

The preparation and review of this system of rules continued in 2015, with the issue of 15 documents.

In August 2015 the project for drawing up the new Organisational, Management and Control Model, which was approved pursuant to Legislative Decree no. 231/2001 in the Board of Directors' meeting held on 17 December 2015, started for the One Company. The work is coordinated by a Steering Committee made up of the following centralised functions: Legal, Corporate Affairs and Compliance (LCA&C), Group Internal Audit (GIA) and Human Resources and Organisation (HR&O).

In particular, within this project, the centralised Human Resources and Organisation function is engaged in preparing and updating the most important documents (Procedures and Guidelines) in this system of rules, regarding the governance issues involved in the areas at risk of crime identified in Finmeccanica's new Compliance Model under Law 231.

Management and Development of Human Resources

2015 was another year in which the Group operated in a scenario of great commitment and sweeping changes which made its contribution to the creation of a single enterprise focused on its core business, new manufacturing processes, cost rationalisation and international competitiveness.

The factors involved in creating the One Company, then, guided the Human Resources Management and Development function's strategic approach and stimulated the creation of the processes involved, which are the One Company foundations. Observing the principles of meritocracy and transparency and with the intention of supporting the new standards of effectiveness, efficiency and dynamism in responding to the Group's domestic and overseas markets vital objective was to ensure homogeneous management processes and opportunities for growth for all the Group's employees by means of clear rules that are the basis of a Group HR strategy which values each person's skills, supports the organisation in pursuing business results and fostering talent and ethical conduct. Accordingly, the Group proceeded with a twofold intention in 2015: on one hand to round off initiatives aimed at specific categories of employees which had been launched in 2014 and on the other hand to lay the foundations for the creation of a new Human Resources Management and Development System which takes the Group's strategic approach into account and enables its basic principles to be implemented by means of a radical review of the key management and development processes.

Management Appraisal – Continuing on the lines of what was achieved in 2014, as a result of the Management Appraisal process, the Group enhanced its knowledge of a considerable percentage of the management personnel; the methodology of advisors who had started overseeing the first phases of the project in 2014 also contributed to this result. This campaign ended after a total of about 150 managers had been appraised in November 2015. The final result were detailed appraisals on individual performance and growth potential, on the basis of which appropriate management policies have been adopted in line with the ongoing organisational development project.

High-potential resources – 2015 was a very valuable year for finding candidates to be identified as High Potential resources. About 300 in-depth interviews of persons identified on the basis of performance and potential assessment method were conducted, both as regards the appraisal of their managerial capacity and otherwise, with the support of outside experts to guarantee the impartiality of the appraisal methods and criteria adopted. Additionally, in order to help to work out personnel assessment processes and foster the retention of the necessary skills in house, a team of appraisal specialists was formed consisting of selected internal HR specialists who performed about half of the interviews conducted acting independently. The result of this plan was the formation of a group of specialists whose numbers will be added to each year so that appraisal information is more consistent with the Group's strategy. The phase of identifying High Potential personnel will be followed in 2016 by a subsequent phase in which the resources selected will be appraised using management and development tools that are available to the Talent Management function. The main objective of this programme is to ensure that the Group has excellent human resources who have the opportunity of demonstrating their capacity and professionalism and to whom the Group can offer the most suitable possible rewards in line with the principles of merit, ethics and transparency which have been at the basis of this programme from the start.

Management Systems – As a result of the review of the key management and development processes conducted last year, issues of great importance from the point of view of management and organisation were analysed and integrated, so that new processes and policies were thought out for obtaining the best value out of the Group's human resources, including:

- Salary Review Policies which ensure that remuneration is uniform and consistent with the Group's values, governance principles and pay policy;
- Policies for the appointment of Executives and Middle Managers which seek to find the best possible fit between key positions in the Group and the persons occupying them and are therefore based on a decision-making process which follows objective criteria and structured professional growth paths;
- International Mobility Policies which support, through consistent management, all the personnel that have been seconded abroad, considering their various personal situations and ensuring efficiency, equity and cost efficiency in compliance with the different legislations involved;
- Internal Mobility Processes to support the Group in finding candidates who match the required profile in terms of skills, experience and personal motivation, also fostering a job rotation system to support professional growth by means of the diversification of experiences in business, products and organisational culture;
- Recruitment and Selection Processes to meet the professional requirements that the Company expects, finding the candidates who best match the professional profile required (who may also be persons spontaneously responding to job posting announcements) on the basis of the Company's annual programme of activities and its budget, ensuring equal opportunities in access to employment in compliance with the provisions of current law, collective labour agreements and the criteria of transparency and impartiality.

Development systems – Particular attention was paid in 2015 to building new growth processes which ensure that the most suitable management and organisational decisions are taken in the interests of the One Company's governance. The new system meets the requirements of steering individuals' work towards the results that the Company expects, rewarding the best professional performances bringing individual merit to light and at the same time safeguarding the organisation by planning professional paths. The growth system, therefore, is divided into processes which are also consistent and inter-connected with management processes and set themselves the following objectives:

- enhancing knowledge of the persons concerned;
- rewarding human resources' results, skills, conduct and potential;
- making the most out of personnel by means of specific growth paths on the basis of a career planning system which fits in with the evolution of the organisation.

As regards knowledge of persons, an IT platform has been set up, accessible by all the employees, which is the first single corporate system for gathering homogeneous and catalogued data on all human resources. All the employees will have the opportunity to enter information regarding their professional career and at the same time will thus be able to acquire a basic knowledge of all their colleagues worldwide, which will make integration easier. Additionally, the Group's Management, therefore, will have all the most significant information on the resources that it manages and a full picture of their professional profiles as a helpful support in reorganisation. Appraisal processes have also been worked out which are based on structured, traceable and transparent processes. A single annual process of performance appraisal will involve a part of the Group's executives, middle managers and other employees from 2016. Under this system, specific objectives are set and results and behaviour are evaluated; the personnel concerned are brought into the process by having meetings for feedback with their line managers. The outcomes of the appraisals will be one of the basic elements in the Group's new management policies, whose aim is to recognise the value of top professionals, which it may also do by offering incentives and using remuneration instruments. A dedicated appraisal process which deploys further criteria and instruments of analysis has also been worked out for a selected group of human resources who satisfy certain requirements in order to help in identifying valuable personnel (some of whom, only after appropriate consideration, will be confirmed as the Group's High Potential resources). These will be the persons earmarked to succeed to top positions in the Group after having followed professional and organisational paths in line with the Group's needs.

During 2015 various types of career development projects were also rolled out. There were individual and group programmes (ad hoc and from a catalogue) which gave personnel the opportunity to prepare for more complex roles and new business scenarios and to strengthen their key skills. These career enhancement programmes are a constructive and logical response to the processes of analysis and appraisal that have been described above and are a fundamentally important management and organisational tool. The career development system also includes a succession management process that is sound enough to meet the Group's strategic and organisational challenges and to mitigate the risks arising from succession by identifying the key personnel involved and their possible successors in the short and long term.

Compensation systems – The Board of Directors' meeting held on 25 March 2015 approved, and then presented to the Shareholders' Meeting, the remuneration policy for 2015 and subsequent financial years, which is described in the Finmeccanica Remuneration Report that is summarized below. With regard to the short-term incentive system (MBO), its underlying rationales, general structure and operational mechanisms of the system, aimed at ensuring a strict correlation between the incentives and "excellence" in operating performance, were confirmed for the 2015 financial year.

As to the medium- to long-term incentive component, in the 2015 financial year new guidelines were developed for the gradual review of the Group's remuneration system. Special distinctive features were added in support of Finmeccanica's new strategy, while at the same time ensuring that there will be increasingly better alignment with shareholders' expectations and the best market practices. With the approval of Finmeccanica's corporate bodies, following the procedure set out in current governance rules, medium- to long-term incentive plans have been created for the Group's Management based on the use of structured financial instruments in compliance with the essential principles of the Corporate Governance Code:

- Co-Investment Plan: this provides for voluntary deferment for three years of all or a part of the annual bonus earned in accordance with the MBO scheme, converting it into shares. At the end of the vesting period, subject to the person concerned having constantly passed through the MBO system performance gate, 1 matching share is assigned for each 3 shares held;
- Long-Term Incentive Plan: this is spread over recurring three-year cycles. Its aim is to encourage key personnel to improve the Group's medium- and long-term performance from the points of view of both economic and financial competitiveness and the creation of real value for its shareholders. The performance targets concern the Total Shareholder Return (TSR) of Finmeccanica compared to a panel of enterprises (50% of the bonus), the Group's Net Debt (25% of the bonus) and the Return On Sales (25% of the bonus) at the end of the three-year vesting period. The entitlement to incentive pays will accrue at the end of the three-year vesting period for all the beneficiaries who will still be working for the Group as at the date of payment (within 90 days from the approval of the financial statements for the last year in the three-year vesting period), except for a restriction on the availability of the shares to the Top Management for 12 months.

At the end of the vesting period and after it has been seen that the objectives assigned have been attained, incentives consisting of components in cash and ordinary Finmeccanica shares are given, according to the Plan, in proportions which differ according to personnel's levels of responsibility, their contribution to the

Group's results and their position in its organisation. The remuneration policies described above have been drawn up on the basis of the Group's present organisational structure and their implementation will be under continuous observation with an eye to the gradual implementation of the Business Plan and the intended review of the Group's organisation. For more details relating to the remuneration policy, please refer to the Remuneration Report of Finmeccanica.

With reference to the staff with high professionalism and technical and management skills, in 2015 the Group's remuneration and incentive policies were mainly aimed at attracting and retaining said resources, paying them adequate salaries with respect to their duties, skills and behaviours. As a whole, the levels of remuneration were managed in accordance with the principles of transparency and merit, so as to allow the pay progression to reflect the complexity of the positions held and of the duties assigned, as well as the outcome of the appraisal processes applied. The management of the fixed component was aimed at ensuring a uniform and consistent pay so as to guarantee the application of equity principles in internal practices and adequate competitiveness levels with respect to the market. As regards the variable component, the context was one in which Finmeccanica's reorganisation plan was an opportunity and a motivation for the Company to also improve its traditional collective incentive schemes (Performance Bonus), basing them on the link between corporate/divisional economic objectives and productivity targets correlated to workers employed at each individual site. In this perspective, negotiations also started with the Trade Unions in September in relation to a new additional incentive programme reserved for the staff falling within the categories of 7th degree and Middle Managers under the current National Collective Labour Agreement (CCNL), which would be accompanied by a specific remuneration policy based on Area/Role and individual objectives.

Preventive medicine initiatives - During 2015 social and healthcare projects were carried out to help sufferers from chronic cervical and facial pain and there were skin screening, spinal column screening and women's wellbeing screening sessions were held. A vaccination campaign for the 2015-2016 influenza season was also conducted. These initiatives were combined with monitoring activities, with a medical consulting room open daily and individual check-ups through pre-screening, with certificates and prescriptions.

Training – As a part of the measures taken for the One Company change, a series of training sessions started in 2015 for various categories of the Group's personnel. This was an integrated system to develop and foster key professionals and skills through discussions regarding best practice both within and outside the Group and comparison with the highest international standards. To provide the One Company with a single reference framework, creating a common language and spreading best practices are measures which are necessary to enable the Group to achieve its business targets. The main training schemes in 2015 were:

- *Excellence in execution in Finmeccanica Project Management*, E2F-PM. This was a modular programme for Project Managers, Risk Managers and members of order teams with the goal of improving project management professionals' execution ability by adopting best practices within and outside Finmeccanica and conducting themselves coherently;

- *Enterprise Risk Management Programme* (ERM). This was a Fondirigenti executive training foundation funded project whose aims are to spread a corporate risk management culture and to give all ERM process players training in risk management programmes. The final users of this project were the Group executives in charge of business units and support functions and personnel responsible for Risk Management, who support the main phases of the ERM process (identifying and assessing corporate risk);

- *Trade Compliance Programme*. This was an online training programme whose purpose was to widen knowledge of the relevant Italian and international rules governing Trade Compliance (formalities concerning exports of systems, technology, armament and dual-use materials, pursuant to Legislative Decree 105/2012, ITAR, EAR, etc.) within the Group. It was divided into four modules and directed at the entire population of the Finmeccanica Group;

- *System Engineering*. A pilot course which builds on internal best practice to fit in with the various characteristics and requirements of the Group's Divisions and Businesses systems' engineering processes.

To complete these technical and specialist training schemes, in 2015 the planning phase ended of the managerial, operational and change management courses which are to be given in 2016 to some personnel who have been targeted as being key persons in the change to the One Company. Among these courses are:

- "One Company… One Change". This is an international training course in view of the planned change for 600 Middle Managers, whose purpose is to enhance their managerial skills and their capacity of execution, and use these qualities to behave in compliance with the principles of transparency, ethics and integrity, contributing to the creation of a new mindset and driving change while guiding their collaborators and colleagues in the same direction. The courses will start with classroom lectures in March 2016;

- Manufacturing Supervisors. This programme is for about 205 Manufacturing department/area supervisors who lead sizeable teams, which seeks to enhance their capacities, combining operational and management excellence and which is to help them in implementing change management and business improvement processes. These courses will start during the first half of 2016.

Employer Branding. Among the steps that the Group took to improve its image in the labour market and young students and new graduates' perception of the brand, Finmeccanica carried out the following projects in 2015:

- it took part in Job Meetings and Career Days at the most important Italian universities. Hundreds of applications were received for internships for young people, educational opportunities to help them in preparing their degree thesis, collecting credits for study paths or choosing a career;

- an Innovation Prize which, for more than ten years, has provided all the Group's resources at worldwide level with a chance to submit new ideas and be rewarded for their contribution towards its steady progress. There were two major innovations in this year's award: a new criterion for the assessment of proposals from Group companies in order to recognise innovations at all their levels of maturity (incremental innovations, radical innovations and new ideas) and opening the award to the world of students, new graduates and students preparing for a doctorate in the engineering, mathematics, physics, information technology and chemistry faculties of all Italian universities with the "Young Innovation Award";
- in 2015 Finmeccanica also went on with its commitment to foster industrial talent at local level and revive technical crafts in Italy through its participation in the ITS (Istituti Tecnici Superiori) secondary technical school project managed by the Ministry of Education, Universities and Research in collaboration with the Ministry of Economic Development. The Finmeccanica Group' lecturers occasionally take schoolteachers' places in ITS classes during the last two years of the courses, transferring not only knowledge but passion for their trade.

Industrial Relations and Social Affairs – With reference to labour law regulations, particular attention was paid to the assessment of the impact arising from the Enabling Act (Legge Delega) 183/2014 (the so-called Jobs Act) and from any subsequent implementing decree governing the reform of social shock absorbers (Legislative Decree 22/2015 on the New Social Insurance Scheme for Employment [NASpI, Nuova Assicurazione Sociale per l'Impiego] and Legislative Decree 148/2015 on social shock absorbers), labour services and active policies (Legislative Decrees 150-151/2015), as well as the review of the regulations governing employment relationships (Legislative Decree 23/2015 and Legislative Decree 81/2015), inspections (Legislative Decree 149/2015) and the activity to protect and reconcile care, life and labour needs (Legislative Decree 80/2015). At an institutional level, Finmeccanica continued its commitment within the employers' associations, including through the enhancement of the positions held at various levels.

As regards Industrial Relations, the most significant event that occurred in 2015 saw the negotiations with the engineering industry's bargaining units that are present at the companies in the division perimeter, for the purpose of defining – under a single supplementing second level agreement for the Italian employees working in roles up to Middle Manager positions –common rules as to the wage and regulatory treatments applicable within the Group. The negotiations were aimed at superseding the numerous agreements applied as a result of a number of corporate events that have occurred over the years and at providing a more efficient response to the production requirements and needs of the various business sectors, as well as at adequately supporting the transformation process of the Group. The abovementioned negotiations involved 9 areas of interest (industrial relations, working time, remuneration structures and single pay slips, performance bonus, high professional skills, travels, corporate welfare and protection measures, professional training, public contracts) and were successfully completed with the signature of a draft agreement on 2

February 2016; the procedure for the approval of the same by the Group's bargaining units and workers' representatives was completed on 15 March 2016. At the same time as the negotiations, talks were held with the bargaining units that represent the Executives, which led to the signature of the first supplementary second level contract of the Finmeccanica Group applicable to the staff belonging to the category of executives.

The most significant events of 2015 also included the performance in November of the procedures of information to and consultation with the trade unions, pursuant to Article 47 of Law 428/1990, as amended and supplemented, as to the corporate transactions of partial demerger of AgustaWestland S.p.A., Alenia Aermacchi S.p.A. and Selex ES S.p.A., as well as to the merger by incorporation of OTO Melara S.p.A. and WASS S.p.A.; this occurred within the reorganisation process that was aimed at concentrating the coordination and management of the operations of the Group companies, which are involved in the core business, into Finmeccanica. At the same time the procedures of information to and consultation with the trade unions were performed as to the demergers of the real estate business units of Alenia Aermacchi S.p.A. and Selex ES S.p.A. in favour of Finmeccanica Global Services S.p.A., which fall within the scope of the process of concentrating the Group's real estate business into the abovementioned subsidiary, which is responsible for managing real estate assets.

Again during the financial year, negotiations and operations were also started in relation to the processes of restructuring, reorganisation and re-arrangement that involved the Group Companies. The main actions taken are summarised below, pointing out that from the monitoring of redundancy schemes (based on the criterion of the forthcoming entitlement to retirement and the principle of "non-opposition to the placement on redundancy schemes" on the part of the workers concerned) it emerges that the results achieved by said Companies, in terms of staff reduction, were in line with the present targets.

Aeronautics - In the implementation of the union agreements concerning the reorganisation process that were signed starting from November 2010, there were 407 exits involving non-executive staff and 27 exits involving executives. In the five-year period from 2010 to 2015, there was a total of 2,776 exits, thus ensuring a more efficient staff reduction than provided for in the abovementioned agreements. On 27 May 2015 the union agreement was signed which was aimed at regulating the disposal from Alenia Aermacchi S.p.A. to Atitech Manufacturing S.r.l, of a Business Unit comprised of the Capodichino plant and of systems, plant and equipment, with effect from 1 June 2015. The agreement provided for the transfer of 178 staff members, who were employed by the transferee company through a gradual process that was completed by 31 August 2015.

Defence and Security Electronics – At Selex ES union agreements were signed for the closure of minor sites and the consequent transfer of the staff to other plants, which allowed the production structure to be reduced and streamlined. The trade union procedures referred to in Article 47 of Law 428/1990, as amended and supplemented, were also performed for the merger of subsidiary Cisdeg S.p.A. by incorporation into

Selex ES and for the disposal of the "ANTS –Automatic Network & Services Test System" business unit. Furthermore, a procedure was successfully completed for the signature of a union agreement to place 183 staff members on ordinary redundancy schemes in the period from 20 April 2015 to 31 December 2016. At the same time a union agreement was signed for the recourse to bridging pension schemes pursuant to Article 4 of the Fornero Act for a total number of 610 staff members in the two-year period from 2015 to 2016. The structured management process of social shock absorbers, which was started in 2013 with the execution of union agreements concerning the recourse to extraordinary redundancy funds (*CIGS, Cassa Integrazione Guadagni Straordinaria*), solidarity agreements and redundancy and bridging pension schemes referred to in Article 4 of the Fornero Act, involved the following actions in 2015:

- the placement of 340 staff members on average a year on extraordinary redundancy schemes;
- a reduction of 636,251 hours in working time, corresponding to an average reduction of staff equal to 379 resources a year (FTE);
- the exit of 283 employees, of which 103 persons were placed on redundancy schemes;
- the exit of 32 employees from Italian Subsidiaries;
- the exit of 34 executives, through recourse to the abovementioned scheme referred to in Article 4 of the Fornero Act and through incentives to resign.

In July 2015 a union agreement was signed at the relevant ministry for the extension of the solidarity agreements for further 12 months from 5 August 2015 and of the extraordinary redundancy schemes for further 12 months from 1 September 2015. A significant staff reduction was also achieved abroad, which can be estimated at 636 exits.

At DRS Technologies work continued on the reorganisation that had been started in previous years. During 2015, 944 employment contracts were terminated, 220 of which within the process of disposal of some minor operations to IAP, to be considered within the scope of a larger strategic project of the Group to focus on its core business.

Helicopters –At AugustaWestland, the 2015 financial year saw the completion of the project – which had been started on 7 January 2014 with the signature of a special union agreement – aimed at improving the professional mix of its resources, by facilitating the exit of the workers who were close to achieving pension requirements as well as at reviewing the Group's internal skills in accordance with its objectives. The total number of resources who joined the aforesaid plan during the two-year period from 2014 to 2015 was equal to 246 employees, 116 of which in 2015.

The Environment

The profound changes that the Finmeccanica Group passed through last year and the constant evolution of international scenarios have gradually heightened the need to consider environmental issues as an extremely important strategic and operational element in all parts of an organisation’s business. In 2015 the new environmental vision seen from the One Company point of view, which is strongly sustained by Finmeccanica’s top management and presents the environment as a systemic factor to evaluate, safeguard and preserve in all the business activities, has led to the determination, planning and implementation of various measures for the monitoring of environmental risks (such as Group Environmental Risk Management safeguards and periodic meetings to discuss the most important activities involved in the identification and management of environmental risk).

Strategic guidelines and management approach

Finmeccanica Directive 3 on protection of the environment, environmental policy and health and safety at work is a high level document which lays down the fundamentals of the sustainability path that the Group has been following for years with regard to these matters. The Group Guidelines and Procedures for these issues contribute to keeping up and improving the standards of the operational and control methods followed at all Group sites. From the practical point of view, these tools are supported by appropriate management systems: an ever-rising number of Group sites that have voluntarily chosen to adopt Environmental Management Systems (EMSs) and Occupational Health and Safety Management Systems (OHSMSs) that are certified according to the international standards ISO 14001 and OHSAS 18001, respectively.

Other activities at Corporate level in the form of drawing up and implementing programmes and measures for the monitoring and assessment of the correct management and prevention of manufacturing risk complete the picture of the steps that Finmeccanica has taken to maintain its levels of environmental efficiency and sustainability in order to safeguard its stakeholders’ interests.

The main tool used to verify and assess the Group’s environmental practices is the environmental audit, conducted by Finmeccanica Global Services, after which follow-up plans containing actions to be taken to resolve the problems identified and the timelines for such actions were prepared. In 2015, 55 audits (more than double those conducted in 2014) were conducted to identify potential problems related to past and current usage of the areas surrounding the facilities in an effort to comply with current environmental regulations and to prevent and manage environmental risks.

In addition to performing environmental audits, Finmeccanica Global Services is responsible for the annual report on environmental, Health and Safety performance and environmental indicators (including those for carbon management) through a special centralised platform, and identifies and proposes, both at site and

Group level, any possible strategy aimed at improving environmental performance. An example was the presentation of the Progetto SPA 2.0 (Environmental Strategies and Policies to the benefit of the Group) project in 2015, when Finmeccanica took stock of the progress made with the Progetto SPA proposals in 2014 and their implementation. This project provides for the environmental strategies and policies for improving environmental risk management and the Finmeccanica Group's level of environmental Sustainability by taking innovative approaches. During 2015 about 50% of the activities and initiatives proposed were either completed or started. Among these were, in particular, the implementation of the Environmental Audit Programme at sites owned by FNM and FGS, an Environment Training Course for Finmeccanica Global Services personnel and technical and commercial agreements for supplying Group companies with a range of environmental services.

From the point of view of operations, an actual example of the adoption of a responsible and sustainable approach to the environment is the manner in which the Group companies manage contaminated sites (environmental surveys, securing sites, characterisation, risk analysis, reclamation and environmental remediation). There are a number of risk factors in this activity (environmental, social, financial, legal and to corporate image), which is conducted making use of a high degree of expertise and specific skills and choosing the best technical and operational solutions. Twenty environmental reclamation projects were in progress in Italy at the end of 2015. In this context, Finmeccanica has not been found definitively liable for causing environmental damage. In addition, there have been no definitive penalties imposed on Group companies for environmental damage or violations.

Relevant environmental issues and Group performance

In particular, the following specific issues were addressed:

- **Waste**. As also demonstrated by the intense Audit activity, the Group companies have long been working on carefully managing waste, which is, *inter alia*, covered by Group Guidelines, dedicated corporate Procedures and periodic inspections and reviews, including at the central level. Reducing the amount of waste produced, better waste sorting and the adoption of corporate policies aimed at reusing production scraps have always formed the basis of a sustainable management that is mindful of the environment. Waste is monitored during all phases of operation (storage, transport, treatment, disposal/recovery) in accordance with current applicable regulations;
- **Emission Trading Directive**. 12 sites located throughout Italy covered by the application of the Directive, the instrument for implementing the Kyoto Protocol for reducing greenhouse gas emissions. These sites all received certification of their emissions by a body accredited by the Ministry for the Environment, Land and Sea. In addition, certain flights of Group companies operating in the aeronautics and helicopters sectors fall under the scope of application of the Aviation Emission

Trading Scheme (ETS), which extends the European CO_2 emissions trading system to certain flight activities;

- **Hazardous substances.** In their productive processes the Group companies use certain types of hazardous substances, the use of which is monitored and is the subject of efficiency-enhanced actions undertaken to control and reduce the risks to worker health and to the environment to a minimum. The sustainable management of hazardous substances is the subject of Group Guidelines, dedicated corporate Procedures and periodic inspections and reviews, including at the central level. Some of the Group sites, due to the amounts of substances used and the size of the galvanising baths employed for the surface treatment of metals, are classified as being a Major Accident Hazard (MAH). A portion of these, together with others which are not considered a MAH, are subject to the Integrated Pollution Prevention & Control (IPPC) Directive, and therefore are required to minimise pollution caused by various sources by adopting Best Available Techniques (BAT) to reduce their environmental impact;
- **Ozone-depleting substances**. The topic of managing ozone-depleting substances (ODS) and fluorinated greenhouse gases (F-gases) is the subject of Group Guidelines, dedicated corporate Procedures and periodic inspections and reviews, including at the central level. Some time ago, in line with the provisions laid down in the European regulations in force, the Group activated plans to remove and replace systems and equipment containing refrigerants that are most damaging to the ozone layer.

Innovation and disclosure of best practices

The growing attention of stakeholders to environmental issues and the Group’s new organisational scenarios require more detailed and elaborate management of such issues.

The EHS Community gives environment and health and safety Supervisors, Coordinators and Operators (more than 150 Group Resources) the opportunity to heighten, share and refresh their knowledge and skills: periodic meetings, workshops and round tables are indispensable occasions for comparing experiences and spreading best corporate practice, an environment culture and the responsible use of natural resources which not infrequently generates actual lasting economic benefits. Additionally, technical documents, changes to the law, detailed publications by specialists, including notes on best practice, general information and communications regarding the environment, are continually circulated from a dedicated e-mail address to the benefit of the whole Group. All the documents produced, collected and circulated are to be found in the Group’s EHS WEB Community website: operators in these sectors can consult about 300 of these documents, consisting of rules and regulations, standards, guidelines, technical papers and sector studies/articles.

Finally, it should be noted that Finmeccanica Global Services is aware of the importance of integrating environmental management in every business aspect and of its role as the owner of Group real estate. In

2015, with a view to safeguarding and protecting its property assets, it commenced and concluded an environmental Training programme for all the Resources who work at its sites and/or do work for these locations and who need more environmental skills and knowledge in order to perform their duties.

Energy issues

Since 2003 Finmeccanica Global Services, in collaboration with the operating companies, has developed and managed the Energy Management model for the Group, with the aim of timely handling all issues related to energy costs through intervention in two macro-areas:

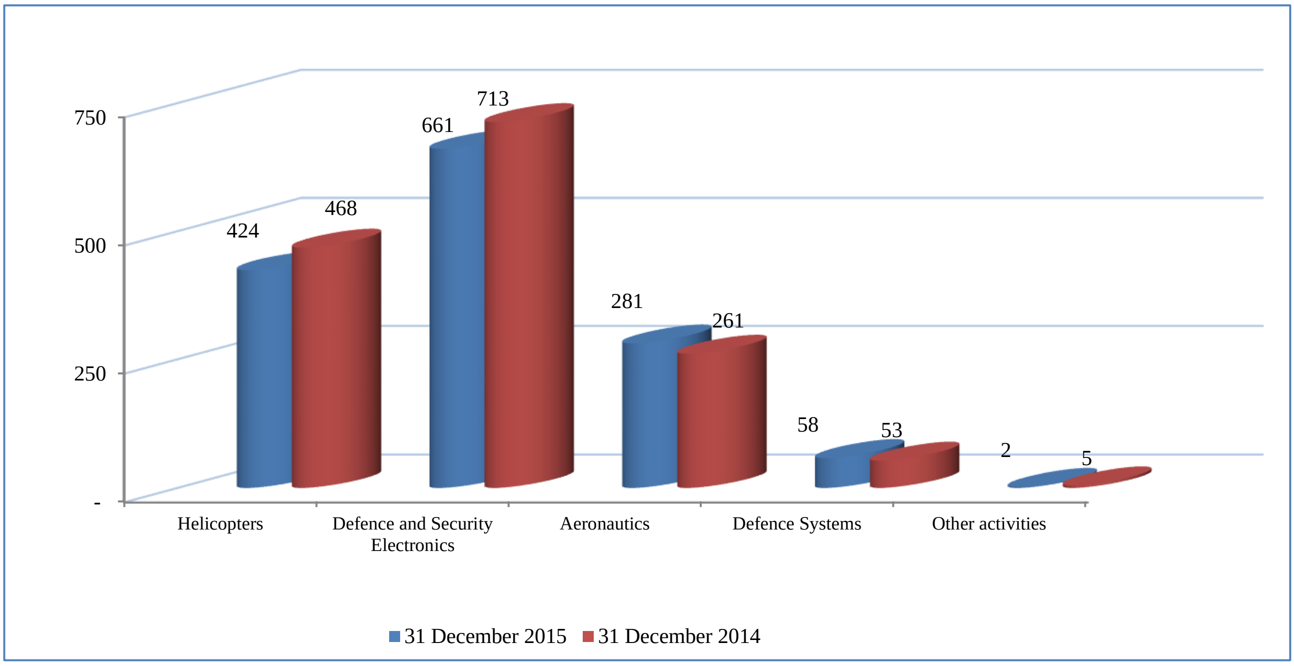
- ***Energy Supply***. Centralised management of energy procurement, through the implementation of a portfolio management model based upon spreading out electricity and gas purchases over time and on mitigating the risk associated with market volatility. The model allows us to plan procurements in advance, containing the fluctuations in annual expenditure on energy within continually monitored parameters. Through this model the Group has been able to take advantage of the recent sharp decline in the quotations of energy products, with procurement amounts that have already covered a portion of the 2017 volumes;
- ***Energy Demand***. Structural reduction in energy demand, through the reinvestment of savings from negotiations in efficiency improvement initiatives. 2015 saw the successful completion of the second Group Energy Efficiency Audit campaign, which has allowed the review of the energy performance analysis of the main industrial sites of the Group. At the moment the results of the study are being analysed before new projects are put in hand. The Group’s Lighting programme is also continuing with work having started in installing more than 4,000 high-efficiency LED bulbs at the Foggia and Grottaglie industrial plants.

All the Energy Management activities are periodically shared by Finmeccanica Global Services with the Energy Managers of the Group companies and with the competent structures of Finmeccanica Corporate, in order to promote the spread of best practices and to sponsor new projects associated with the knowledgeable, responsible and sustainable use of energy resources.

Research and Development

The Group’s activities are directed towards technological research of a highly strategic nature and over a medium/long time horizon, as well as research applied to new products or to improving existing projects, which has a shorter time horizon. The planning and balancing of these activities helps reduce the risks related to new developments, thereby optimising the incorporation of new technologies into products for the launch of such products, so that they may establish themselves on the market in a timely manner and/or remain competitive.

The breakdown of research and development costs by segment is as follows (data in €mil.):



Group Governance of Technolgies and Products

The Group has been investing over 10% of its revenues in R&D for years, collaborating with the main universities, institutes and research organisations in Italy and in the world in activities whose purposes are not only to develop technologies, products and services but also to carry out basic research. The Group, in fact, is strongly convinced that an effective process of technological innovation must be fuelled by constant interaction among all the players involved: the Group's engineers, the customers that use the product, the world of research, small- and medium sized enterprises and start-ups.

Finmeccanica has adopted an innovation organisation model run by a centrally coordinated "internal federation" of laboratories and skills spread out in the various Group sites in the world and by an "external network" of relations with stakeholders, which improves on the conventional model that concentrates this work in a research centre in the full sense of the term.

This manner of organising innovation responds to a modern vision in which the obstacles resulting from decentralisation are more than overcome by the globalisation of the network, which also acts as a multiplier of resources by means of constant exchange of ideas.

The model that is applied ensures the possibility of always seizing new opportunities, minimising the gap between the person who innovates and the person who produces and at the same time avoiding the risk of fossilising in any specific skill or technology.

The Group Technology Governance, which is aimed at improving the technological positioning of the various companies and seeking technological synergies, is put in hand by implementing dedicated processes and mechanisms, such as, for example, the coordination of the "Product and Technology Innovation Plans" of the individual Companies, the promotion and implementation of activities connected with scouting out future technologies in beyond-visual-range (BVR) optics, the protection and enhancement of the Group's Intellectual Property, the coordinated management of relations with Universities and research centres and the identification and management of collaborative projects concerning technology platforms common to multiple companies belonging to different sectors.

Additionally, to support this technological strategy, Finmeccanica has the tools to foster the aptitude to transform innovation into a personal need by creating an "innovation culture" based on the involvement of all, and not only its technical, human resources. An example is the MindSh@re® project, which was started in 2003 and which has given birth to a technological practice community, an ideal venue in which the Group companies exchange experiences and best practice in order to exploit differences and encourage the creation of innovative projects which span more than one sector. The MindSh@re® Technology Communities are mainly involved in advanced radar system technologies, software, innovative materials, metamaterials, micro electro-mechanical systems (MEMS), photonics, nanotechnology, robotics and unmanned systems, processes and methodologies within the product development cycle, simulation and advanced training, and the management and development of intellectual capital and technology.

<u>MindSh@re®.</u> In 2015, the initiatives to come out of the MindSh@re® communities continued in the form of workshops on innovative issues and joint technological research projects in which a number of Group companies participated, such as, for example, the project on cyber resilience applied to autonomous systems, 5G, materials for low observability and additive layer manufacturing.

An in-depth analysis of the Product Development Process in the Group's Engineering departments was conducted in 2015. Its goal was to assess the most important inefficiencies and boost synergies among these departments by finding the appropriate ways to measure the efficacy of the action taken.

<u>Collaborative relationships with Universities and Research Centres</u>. Of particular importance were the collaborative relationships with leading universities and Research Centres in Italy (e.g. Genoa, Federico II of Naples, Pisa, La Sapienza and Tor Vergata in Rome, Trento, Bologna, Politecnico of Turin, Politecnico of Milan, Florence, the Italian National Research Council-CNR, the Italian Aerospace Research Centre-CIRA and others) and in Europe (University of Edinburgh, Fraunhofer Institute, the German Aerospace Centre-DLR, the National Aerospace Laboratory of the Netherlands-NLR, the Netherlands Organisation for Applied Scientific Research-TNO, etc.) in the fields of aeronautics, helicopters, radar, security, transportation and communications. Also under way are the framework agreements between Finmeccanica and/or one of its companies with CNR, the Politecnico of Milan, the Politecnico of Turin, the University of Pisa, Federico II University of Naples, the University of Genoa, the University of Trento, Sant'Anna School of Advanced

Studies of Pisa, the University of Bologna, concerning research and other collaborations in the field of innovative technologies and the training of high-specialised personnel.

Around 70% of the collaborative relationships were aimed at developing technologies/expertise rather than at development of new products and services (25%) or conducting basic research (5%).

Funding programmes on Research and Innovation. The Group takes part in regional, domestic and European research and innovation initiatives and funding programmes. The regional and domestic initiatives include the Italian Technology Clusters (Finmeccanica is among the main promoters and is one of the founding partners of the "National Aerospace Technology Cluster"), the Regional Technology Districts and the following technologies:

- ACARE Italy, which aims to guide R&D efforts in aeronautics,
- Space Innovation in Italy (SPIN-IT), created to promote innovation and strengthen Italy's presence in European and international programmes of applied research in the space sector,
- SEcurity Research in ITaly (SERIT), which aims to develop a technology roadmap in the field of security.

With regard to European initiatives, in 2014 the new European Research and Innovation Funding programme, called Horizon 2020, was launched and in 2015 Finmeccanica submitted, and was awarded, a number of project proposals, mainly in the areas of: Secure Society, Space, Transport (the Aeronautics sector is included under transport) and ICT.

Joint Technology Initiative. The Group companies continued to participate in research and innovation efforts through the following joint technology initiatives (JTIs):

- Clean Sky (which focuses on the development of the most appropriate technologies to reduce the environmental impact of aircraft);
- SESAR (focusing on the development of the new European ATM system);
- ECSEL (Electronic Components and Systems for European Leadership) resulting from the unification of the ARTEMIS JTI and ENIAC programmes to develop new components and electronic sensor systems, including software and embedded systems.

Finally, Research and Innovation initiatives promoted within NATO, the European Defence Agency (EDA) and the Italian (ASI) and European (ESA) Space Agencies continued successfully.

Patents

In 2015, routine portfolio management activities continued through the monitoring of patents filed, the maintenance of patents, the patent protection, the supervision over patent activities of our leading competitors in the Helicopters, Space, Aeronautics and Defence sectors, so as to protect the Group's know-how and freedom-to-operate.

In 2015, work was completed on centralising Group patents in a central database shared by the various Group companies with the goal of promoting greater accessibility to patented know-how within the Group and of optimising intellectual property (IP), in an effort to better leverage them (including from a financial point of view) through a unified information system.

At the end of 2015 the Group Companies applied to the Revenue Agency for a ruling on access to the income tax concessions for the utilisation of intangible assets in the form of R&D investments, as provided for in the Italian regulations governing "Patent Box".

Research and Development during the year

Following is a summary of the main activities conducted during the year:

Helicopters:

- Boosting the products' operational capacities and the "family" approach to the Helicopters sector, including: certification obtained for the new AW169, thus closing the circle of "family" products; the inclusion of the LIPS (Limited Ice Protection System) certificate for the use of the AW189 in icy conditions and the increase to 7 tons in the weight carried by the AW139. The "family" philosophy, in terms of common technology design and characteristics of components, maintenance and training, cuts production and operating costs and offers increasingly higher operational capacities;
- Consolidation and strengthening of the Multi-role formula by trials and certification of the AW609, accompanied by research projects directed at building an air demonstrator of the most recent and most innovative technologies for this formula (NextGenCTR and TiltRotor FX);
- Trials and confirmation of the RUAV (Rotary Wings Unmanned Aerial Vehicle) and OPV (Optionally Piloted Vehicle) platforms, with the activity of adaptation for naval use being in progress for the HERO (RUAV) and completed for the SW4 "Solo" (OPV) platform. Scores of hours already accumulated by the two platforms and mission integration in collaboration with the armed forces.

Aeronautics:

- Completion of Development and Approval of sections 44 and 46 of the 787-10 version and completion of trials and analyses for the Entry Into Service of the Bombardier CSeries – 100;
- Continued working on custom-designed products for Customers and the M346 Advanced Jet Trainer certification process; determined the roles, configurations and architectures of the main systems for the M346 Dual Role version;
- Launch of the development programme of the new M345 High Efficiency Trainer product;

- Beginning of participation in the European MALE2020 programme for the unmanned Medium-Altitude Long-Endurance vehicle, in collaboration with Airbus Defence and Space and Dassault Aviation, for fulfilling high level (HLR) and operational (CORD - Common Operational Requirements Document) requirements and for certification and integration in non-segregated air space;
- Various demonstrations took place successfully (on the ground and in flight) in the framework of the CleanSky project, including some ATR prototype flights with a large panel in composite materials on the upper surface of the fuselage;
- Continuation of activities of technological research into detect and avoid capacity and collaborative surveillance technologies for unmanned aircraft with a view to the insertion of the UAS in non-segregated air space and into ATOL (Automatic Take-off and Landing), AUTOTAXI and MISSION system planning and replanning.

Defence and Security Electronics:

- Continuation of activities connected with the participation in large programmes, both National and International: Eurofighter Typhoon aircraft, Forza NEC (Network Enabled Capability) for the modernisation of the Italian Armed Forces, the ships of FREMM 9/10 (FRegate Europea Multi-Missione) class and the NATO AGS (Alliance Ground Surveillance) programme;
- Start of activities connected with the national Programme linked to the “Naval Law”, in particular for the ongoing developments for multi-purpose radar systems in C-band, X-band with four fixed flats and L-band AESA (Active Electronically Scanned Array) technology. The Programme provides for the construction, delivery and long-term logistic support to radars, communications, EO systems and the Combat Management System for Offshore Patrol Vessels (OPVs), one Logistic Support Ship and one Landing Helicopter Dock;
- Development of new generation NGC cockpit to be fitted in various aircraft;
- R&D for ATC (Air Traffic Control) (sensors and centres) focusing on reduction in recurring and non-recurring costs for the Commercial Aerospace Electronics, for hyperspectral sensors for UAV MALE (Medium-Altitude Long-Endurance) systems, Cyber Intelligence, LTE (Long Term Evolution) infrastructures and the Galileo PRS (Public Regulated Service) terminals;
- The main investments for the development of the product portfolio involved activities connected with: New Gen. Obstacle Warning System, Unmanned ISTAR mission systems, Airborne AESA (Active Electronically Scanned Array) radar and IFF (Identification Friend or Foe), Advanced IRST (Infra-red search and track), Advanced RF ESM (Electronic Support Measures) and ECM, DIRCM Systems (Directional Infrared Counter Measures), Advanced Data Links, Software Defined Radios & Satellite Comms, Vehicle and Soldier Systems, Counter-Improvised Explosive Devices, Mission Planning Systems, Secure ICT Infrastructures.

Defence Systems:

- Completion of the procedure for the approval of subsystems and related functional integration of the new battery for heavy torpedoes (POWER project);
- Completion of the procedure for the approval and integration of the new battery for heavy torpedoes (ENERGY project) at torpedo level;
- Construction of a rechargeable battery prototype for light torpedoes, tested at elementary module level and start of the final phase for installation on board MU90 torpedo;
- Construction of the prototype of the new counter-rotating propeller propulsion motor for light torpedoes;
- Continuation of activities for the new 76mm above-deck cannon, aimed at the construction of demonstrators (with specific regard to the new system of automatic loading) and of the prototype of the entire system;
- Research and development on the guided ammunition Vulcano 155mm, 127mm and 76mm systems;
- Industrialisation of the new Nuova Blindo Centauro2 tank.

Space:

- Development of broadband and mobile connectivity architectures and solutions for the vertical segments of interest (oil&gas, broadband, aeronautical communications, etc. …). Particularly, the development of satellite communication capacity for RPAS (Remotely Piloted Aircraft Systems) platforms in non-segregated air spaces in order to offer this capacity to commercial and government services with a considerable spin-off for the Finmeccanica Group's products and solutions portfolio (platforms, terminals, integrations and services);
- Development of the EGNSS platform to raise the level of airport security using European satellite navigation systems;
- Design and development of Core Solutions/Building Blocks in the domain of Geoinformation services and their application to certain solutions for various vertical commercial and institutional sectors (agriculture and food production; defence and security; territory and natural resources management; Insurance; Forestry and Climate Change; Maritime Surveillance);
- Logic protection and management infrastructure of PRS user terminals (including the client server architecture);
- Development of architectures and sub-systems/components of Ground segments, to be integrated in the event of Telespazio architectural and industrial responsibility, both at first level and in third-party solutions: Payload Data Ground System (PDGS) (multi-mission modular, scalable and flexible system, mainly dedicated to the Earth Observation market), Satellite Control System (SCS) and Mission Planning System (MPS).

Share price trend

Finmeccanica ordinary shares are traded on the Italian Electronic Stock Exchange (MTA) organised and managed by Borsa Italiana SpA and are identifiable by these codes:

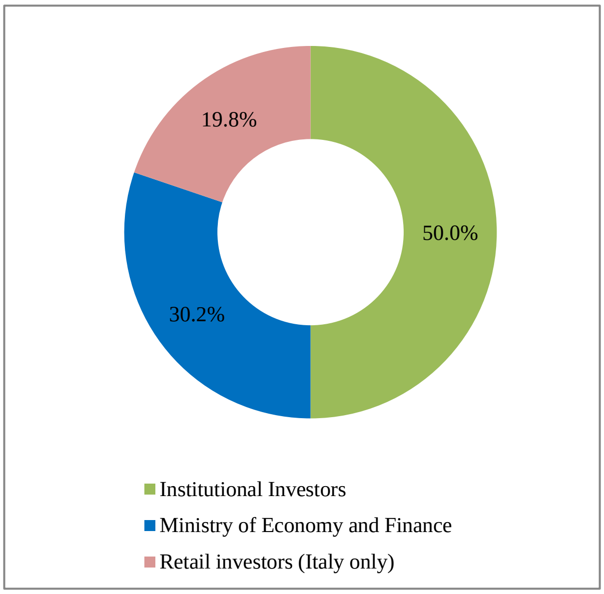
- *ISIN Code: IT0003856405*
- *Reuters: SIFI.MI*
- *Bloomberg: FNC IM*

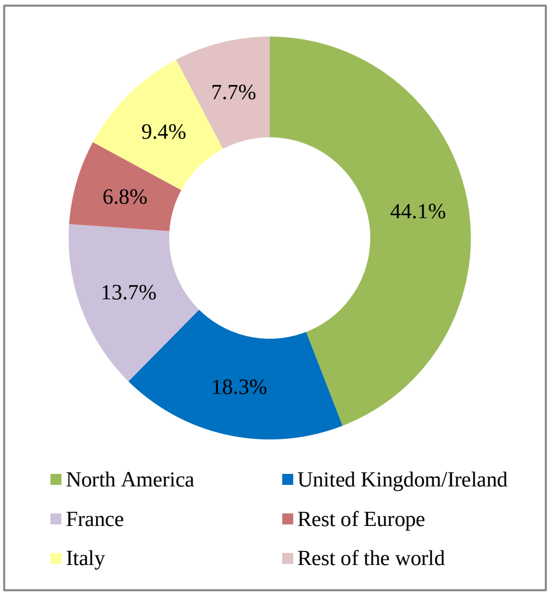
Finmeccanica works towards constructing an ongoing and professional relationship with its shareholders in general and with institutional investors through Investor Relations and SRI (Sustainable Responsible Investors). This office handles financial and also extra-financial information on Environmental, Social and Governance (ESG) themes and relations with credit rating agencies.

More information is available in the Investors section of the Company's website.

Major shareholders

Below is the last Shareholder Analysis performed in January 2016 showing the geographical distribution of the Finmeccanica's share capital and the total shareholder composition:

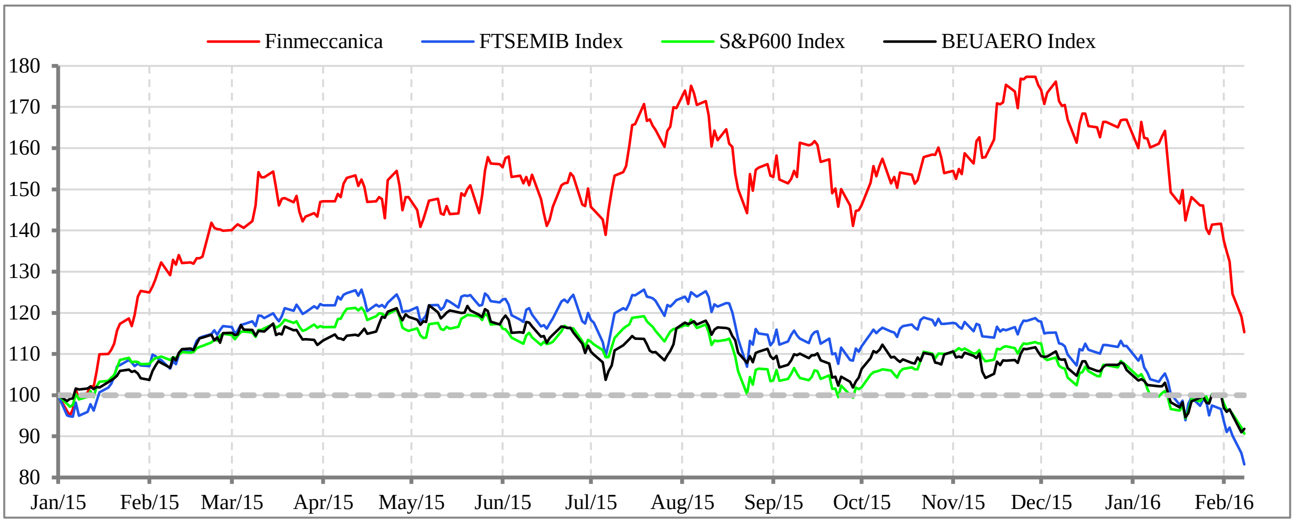




For more information, please refer to the page "Shareholding Structure" of Investors section at Finmeccanica's website (www.finmeccanica.com).

Performance of Finmeccanica stock in the Bloomberg Europe Aerospace&Defense (BEUAERO) and the leading Italian and European indexes (02/01/2015 = 100)

Below is Finmeccanica's stock performance from the beginning of 2015 to 29 February 2016, the index of the major listings in the Milan Stock Exchange (FTSEMIB), the index composed of the 600 top listings in Europe (S&P600) and the index Bloomberg Europe Aerospace&Defense (BEUAERO) rebased 02/01/2015 = 100.



Corporate Governance

Corporate Governance means the set of rules and, more in general, the corporate governance system that regulate the Company's management and control.

The governance model adopted by Finmeccanica is in line with the application criteria and principles laid down in the Corporate Governance Code (finally updated in July 2015) the Company adheres to. This model is aimed at maximising value for shareholders, at controlling business risks and ensuring greater transparency to the market, as well as ensuring integrity and correctness of decision-making processes.

This model has been subject to subsequent updates, which have been aimed at adopting the guidelines laid down from time to time in the Corporate Governance Code. Currently these guidelines are incorporated in the document named "Rules of Procedure of the Board of Directors", which is regularly updated by the Board in order to bring it into line with the content of the Code and with the changes made to the organisational structure of the Company.

The Rules of Procedure are available in the Corporate Governance section of the Company's website (www.finmeccanica.com). The Corporate Governance Code is available on the website of the Corporate Governance Committee (http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf)

The Corporate Governance system of Finmeccanica and its compliance with the guidelines laid down in the Code are the object of periodic analytical reporting on the part of the Board of Directors in the specific "Report on Corporate Governance and Shareholder Structure", which is prepared on the occasion of the approval of the draft financial statements (in compliance with the provisions on the contents under paragraphs 1 and 2 of Article 123-bis of the Consolidated Law on Financial Intermediation and on the basis of the articles of the Corporate Governance Code) and published at the same time as this Annual Financial Report.

The Company's Governance structure is summarized below. For more information on the corporate governance structure of Finmeccanica, the main updates that took place in 2015, as well as on any actions and implementing measures taken in order to ensure the strictest compliance with the Corporate Governance Code, reference is made to the Report on Corporate Governance and Shareholder Structure that was approved by the Board of Directors on 16 March 2016 and that is available in the Corporate Governance section of the Company's website (www.finmeccanica.com), as well as in the appropriate section prepared on the occasion of the Shareholders' Meeting called to approve the Financial Statements, reporting documents and information relating to the Shareholders' Meeting.

Corporate governance structure

The organisation of the Company, based on the traditional model, is consistent with the applicable laws provided for listed issuers, as well as with the guidelines laid down in the Corporate Governance Code and is essentially as follows:

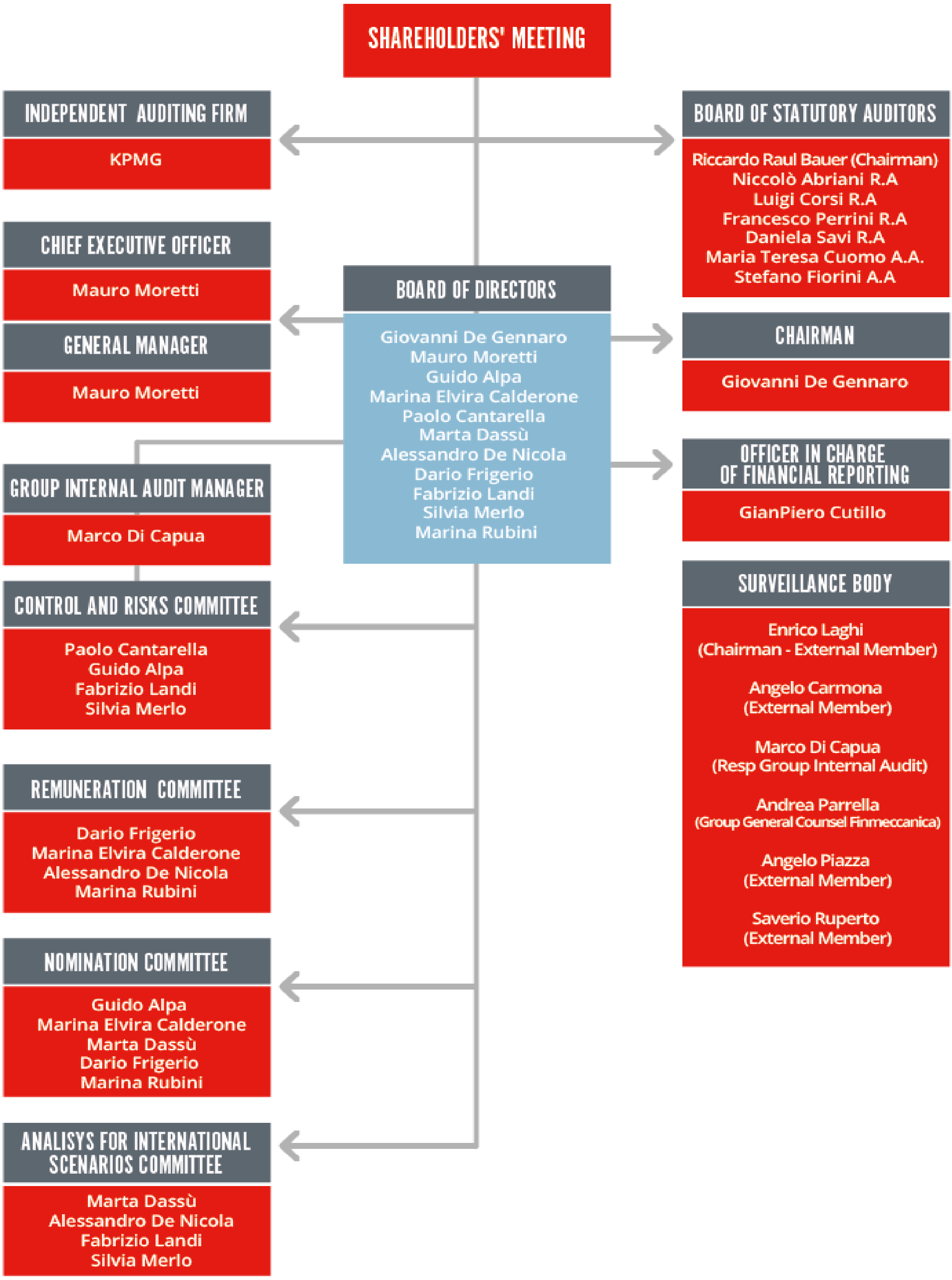
- **Shareholders' Meeting**. It passes resolutions in ordinary and extraordinary sessions in relation to such matters as are reserved for the same by law or the By-laws;
- **Board of Directors**. It is vested with the fullest powers for the administration of the Company, with the authority to perform any act it considers appropriate to the fulfilment of the Company's business purpose, except for those acts reserved to the Shareholders' Meeting by law or by the By-laws. The current Board of Directors was appointed by the Shareholders' Meeting on 15 May 2014 for the three-year period 2014-2016; the related mandate will expire at the time of the next Shareholders' Meeting called to approve the 2016 Financial Statements;
- **Chairman of the Board of Directors**. On 3 November 2015, the Board granted Mr Giovanni De Gennaro, the Chairman of the Company in office from 4 July 2013 and legal representative with signatory powers pursuant to law and to the By-laws, some powers concerning Institutional Relationships - to be exercised in coordination with the Chief Executive Officer -, Group Safety and Group Internal Audit, thereby confirming the powers granted to him on 15 May 2014 upon his appointment;
- **Chief Executive Officer and General Manager**. The Board of Directors' meeting held on 3 November 2015 granted the Chief Executive Officer and General Manager, Mauro Moretti, without prejudice to any matters reserved for the Board itself, beside the powers relating to the Company's legal representation pursuant to law and to the By-laws, signatory powers and the power to implement the resolutions passed by the governing body, as well as any and all delegated powers and authority for the joint management of the Company, its business units and subsidiary, and for the management of all equity interests in associated and investee companies, in accordance with the strategic guidelines identified by him and approved by the Board of Directors. These are all new delegated powers and authority, compared to what the Board of Directors granted to him on 15 May 2014 upon his appointment, which take effect from 1 January 2016. The redefinition of the delegated powers and authority became necessary in order to implement the New Organisational and Operating Model of the Group;
- **Lead Independent Director**. Following the renewal of the Board of Directors by the Shareholders' Meeting held on 15 May 2014, on this same date the Board of Directors appointed the Director Paolo Cantarella as Lead Independent Director with the task of coordinating the requests and contributions from non-executive Directors and in particular from independent Directors.

In this respect, the Rules of Procedure provide, even in the absence of the specific situations contemplated in the Corporate Governance Code, for such power of appointment on the part of the Board, with the abstention of the executive Directors and in any case of the non-independent Directors; in any case the Board shall make this appointment in the event of the Chairman being granted delegated operational powers. The Board granted no delegated operational powers to the Chairman; however, also considering the authority granted to the latter, the same Board was of the opinion to appoint the Lead Independent Director. The Lead Independent Director will serve throughout the term of office of the Board of Directors, that is, until the following Shareholders' Meeting when the 2016 financial statements are approved;

- **Committees**. The Board of Directors of Finmeccanica has established the following internal Committees, which are provided for in the Corporate Governance Code, with advisory and consulting functions: the Control and Risks Committee (which also perform duties as Committee for Transactions with Related Parties), the Remuneration Committee and the Nomination Committee. On 19 June 2014 the Board of Directors also established the Analysis of International Scenarios Committee. The Committees' composition, duties and operation are illustrated and regulated by appropriate Rules approved by the Board of Directors itself, in accordance with the guidelines laid down in the Corporate Governance Code;
- **Board of Statutory Auditors**. The Board of Statutory Auditors has – inter alia - the task of monitoring: a) compliance with the law and by-laws and observance of the principles of proper business administration; b) the adequacy and effectiveness of the Company's organisational structure, internal control and risk management system, as well as the administrative and accounting system, and also the latter's reliability as a means of accurately reporting business operations; c) any procedures for the actual implementation of the corporate governance rules provided for in the Corporate Governance Code; d) the adequacy of the Company's instructions to subsidiaries with regard to disclosures prescribed by law. The current Board of Statutory Auditors was appointed by the Shareholders' Meeting on 11 May 2015 for the 2015-2017 term;
- **Independent Auditors**. The Independent Auditors are the persons appointed to carry out the statutory audit of accounts. They are appointed by the Shareholders' Meeting, on a reasoned proposal by the Board of Statutory Auditors. The Shareholders' Meeting of 16 May 2012 appointed KPMG SpA to carry out the statutory audit of accounts for the period 2012-2020;
- **Officer in charge of financial reporting**. On 15 May 2014, pursuant to Article 154-bis of the Consolidated Law on Financial Intermediation and articles 25.4 and 25.5 of the Company's by-laws, the Board of Directors confirmed Gian Piero Cutillo (the Company's Chief Financial Officer), in this

position since 14 June 2012, as the Officer in charge of financial reporting until the expiry of the term of office of the Board of Directors.

Below is reported a chart summarising the Corporate Governance Structure of Finmeccanica.



Finally, the main Corporate Governance tools are reported below which have been adopted by the Company in accordance with the current provisions of law and regulations, as well as with the guidelines laid down in the Corporate Governance Code. The documents listed below are available to the public in the specific Corporate Governance and Ethics and Compliance sections of the Company' website (www.finmeccanica.com).

- By-Laws
- Code of Ethics
- Organisational, Management and Control Model pursuant to Legislative Decree 231/2001
- Shareholders' Meeting Regulations
- Rules of Procedure of the Board of Directors
- Rule of Procedure of the Control and Risks Committee
- Rules of Procedure of the Remuneration Committee
- Rules of Procedure of the Nomination Committee
- Rules of Analysis of International Scenarios Committee
- Procedure for Related Parties Transactions
- Code of Internal Dealing
- Procedure for privileged and confidential information
- Procedure "Keeping and updating the Register of persons who have access to inside information in Finmeccanica".

Performance of the Parent Company

The 2015 financial year closed with a net profit of €mil. 444, compared with the loss of €mil. 141 posted in 2014, resulting from the net gain from the disposals in the Transportation sector. In particular, as a result of such disposals Finmeccanica recognised a capital gain of €mil. 702 and adjusted the value of the shareholding in AnsaldoBreda as to reflect the losses posted by the latter upon the transfer of the business unit to Hitachi (as well as those reported in the financial year), by €mil. 353.

Below is provided the performance of earnings:

(€ millions)	*Note*	*2015*	*2014*	*Change*	*% Change*
Revenues		54	64	(10)	(15.6%)
Purchase and personnel expense	*(*)*	(118)	(127)		
Other net operating income/(expenses)	*(**)*	(4)	(1)		
Amortisation, depreciation and impairment losses		(11)	(11)		
EBITA		**(79)**	**(75)**	**(4)**	**(5.3%)**
Restructuring costs and non-recurring expenses		(16)	(26)		
EBIT		**(95)**	**(101)**	**6**	**5.9%**
Net financial income/(expense)	*(***)*	512	(43)		
Income taxes		27	3		
Net result		**444**	**(141)**	**585**	**n.a.**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:
(*) Includes "Purchases and Personnel expense", net of restructuring costs.
(**) Includes the net amount of "Other operating income" and "Other operating expenses" (net of restructuring costs).
(***) Includes "Financial income" and "Financial expense".

The following table compares the balance sheets at 31 December 2015 and at 31 December 2014:

(€ millions)	*Note*	*31 December 2015*	*31 December 2014*	*Change*	*% Change*
Non-current assets		7,697	7,770		
Non-current liabilities		(262)	(262)		
Capital assets	*(*)*	**7,435**	**7,508**	**(73)**	**(1.0%)**
Trade receivables		93	76		
Trade payables		(100)	(85)		
Working capital		**(7)**	**(9)**		
Provisions for short-term risks and charges		(226)	(97)		
Other net current assets (liabilities)	*(**)*	(426)	(297)		
Net working capital		**(659)**	**(403)**	**(256)**	**(63.5%)**
Net invested capital		**6,776**	**7,105**	**(329)**	**(4.6%)**
Equity		4,180	3,734		
Net Debt		**2,596**	**3,371**	**(775)**	**(23.0%)**

Notes on the reconciliation between the reclassified balance sheet and the statutory balance sheet:
(*) Includes all non-current assets net of "Fair Value of the residual stake in Ansaldo Energia", and all non-current liabilities, net of "Non-current loans and borrowings", respectively.
(**) Includes "Income tax receivables", "Other current assets" (excluding "Hedging derivatives in respect of debt items"), net of "Income tax payables" and "Other current liabilities" (excluding "Hedging derivatives in respect of debt items").

The "net invested capital" decreased with respect to the prior year, as a result of the sale of equity investments in Ansaldo STS and Finmeccanica Finance in liquidation, the increase in payables to subsidiaries falling within the scope of the Group VAT and impairments of equity investments. The net financial debt fell by €mil. 755 compared to 31 December 2014, mainly as a result of the cash-in for the sale of Ansaldo STS to Hitachi. A breakdown follows:

(€ millions)	***31 December 2015***	*of which current*	***31 December 2014***	*of which current*
Bonds	3,325	*82*	2,130	*24*
Bank debt	329	*51*	374	*50*
Cash and cash equivalents	(1,365)	*(1,365)*	(745)	*(745)*
Net bank debt and bonds	**2,289**		**1,759**	
Fair value of the residual portion in portfolio of Ansaldo Energia	(131)		(124)	
Current loans and receivables from related parties	(2,558)	*(2,558)*	(2,773)	*(2,773)*
Current loans and receivables and securities	**(2,689)**		**(2,897)**	
Hedging derivatives in respect of debt items	13	*13*	(15)	*(15)*
Related-party loans and borrowings	2,983	*2,983*	4,523	*4,523*
Net Debt	**2,596**		**3,370**	

The cash flow for the year is summarised below:

(€ millions)	***2015***	***2014***	***Change***	***% Change***
Funds From Operations (FFO)	**75**	**50**	**25**	**50.0%**
Change in working capital	(1)	(11)		
Cash flows from ordinary investing activities	(6)	(6)		
Free Operating Cash Flow (FOCF)	**68**	**33**	**35**	**n.a.**
Strategic transactions	761	234		
Change in other investing activities (*)	38	(129)		
Increase of share capital	(2)	-		
Net change in loans and borrowings	(259)	(165)		
Net increase (decrease) in cash and cash equivalents	**606**	**(27)**		
Cash and cash equivalents at 1 January	745	761		
Exchange rate differences and other changes	14	10		
Cash and cash equivalents at 31 December	**1,365**	**744**		

Notes on the reconciliation between the reclassified cash flow and the statutory cash flow:

(*) Includes the items "Other investing activities", net of dividends received.

The Parent Company's offices

The Parent Company's offices are:

- Registered Office: Rome, Piazza Monte Grappa, 4
- Secondary offices: Genoa, Corso Perrone, 118

Reconciliation of net profit and shareholders'equity of the Group Parent with the consolidated figures at 31 December 2015

	2015	
(€ millions)	**Equity**	**of which: Net profit (loss) for the year**
Group Parent equity and net profit (loss)	4,180	444
Excess of shareholders' equities in the financial statements compared with the carrying amounts of the equity investments in consolidated companies	(2,344)	664
Consolidation adjustments for:		
- difference between purchase price and corresponding book equity	3,654	(109)
- elimination of intercompany profits	(1,716)	(191)
- deferred tax assets and liabilities	441	47
- dividends from consolidated companies	-	(380)
- Translation differences	77	12
- other adjustments	(12)	-
Group equity and net profit (loss)	**4,280**	**487**
Non-controlling interests	22	40
Total consolidated equity and net profit (loss)	**4,302**	**527**

Proposal to the Shareholders' Meeting

Separate Financial Statements at 31 December 2015 of Finmeccanica S.p.A.; Report of the Board of Directors, Report of the Board of Statutory Auditors and Independent Auditors' Report. Resolutions related thereto. Presentation of the Consolidated Financial Statements at 31 December 2015

Dear Shareholders,

the 2015 separate financial statements, which we submit for your approval, close with a net profit of Euro 443,927,396.53, that we propose to allocate as follows:

- Euro 22,196,369.83, equal to 5% of the net profit, to legal reserve;
- Euro 421,731,026.70 to retained earnings.

In light of the foregoing, we submit the following proposed resolution for your approval:

"The Ordinary Shareholders' Meeting of "FINMECCANICA - Società per azioni":

- considering the Report of the Board of Directors;
- considering the Report of the Board of Statutory Auditors;
- having examined the financial statements at 31 December 2015;
- having acknowledged the report of KPMG S.p.A..

resolves

- to approve the Directors' Report on operations and the financial statements at 31 December 2015;
- to approve the proposal posed by the Board of Directors of allocating the 2015 net profit of Euro 443,927,396.53 as follows:

  - Euro 22,196,369.83, equal to 5% of the net profit, to legal reserve;
  - Euro 421,731,026.70 to retained earnings."

For the Board of Directors
The Chairman
(Giovanni De Gennaro)

Consolidated financial statements at 31 December 2015

Consolidated accounting statements

Consolidated separate income statement

(€ millions)	*Note*	***2015***	*of which with related parties*	***2014 (restated*)***	*of which with related parties*
Revenue	*26*	12,995	*2,097*	12,764	*2,309*
Other operating income	*27*	823	*13*	610	*17*
Purchase and personnel expense	*28*	(11,605)	*(190)*	(11,549)	*(145)*
Amortisation, depreciation and impairment losses	*29*	(784)		(727)	
Other operating expenses	*27*	(806)	*(7)*	(654)	*(2)*
Income before tax and financial expenses		**623**		**444**	
Financial income	*30*	356	*3*	232	*6*
Financial expense	*30*	(789)	*(8)*	(723)	*(9)*
Share of profits/(losses) of equity-accounted investees	*12*	272		146	
Operating profit (loss) before income taxes and discontinued operations		**462**		**99**	
Income taxes	*31*	(193)		(134)	
Profit (loss) from discontinued operations	*32*	258		55	
Net profit/(loss) for the period attributable to:		**527**		**20**	
- owners of the parent		*487*		*(31)*	
- non-controlling interests		*40*		*51*	
Earnings/(losses) per share	*33*	*0.905*		*(0.054)*	
- basic and diluted from continuing operations		*0.334*		*(0.066)*	
- basic and diluted from discontinued operations		*0.447*		*0.012*	

(*) Comparative figures restated following the reclassification of the Transportation business under discontinued operations (see Note 6)

Consolidated statement of comprehensive income

(€ millions)	*Note*	2015		2014 (restated*)	
Profit (loss) for the period			527		20
Other comprehensive income (expense):					
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:					
- Measurement of defined-benefit plans:	*19*		(42)		6
- revaluation		(35)		15	
- exchange rate gains (losses)		(7)		(9)	
- Tax effect	*19*		19		2
			(23)		8
Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:					
- Changes in cash flow hedges:	*19*		14		(108)
- change generated in the period		(37)		(147)	
- transferred to the profit (loss) for the period		51		39	
- Translation differences	*19*		290		325
- change generated in the period		302		325	
- transferred to the profit (loss) for the period		(12)		-	
- Tax effect	*19*		(9)		27
			295		244
Current portion of "Other comprehensive income (expense)", equity-accounted investees			17		(80)
Total other comprehensive income (expense), net of tax:			**289**		**172**
Total comprehensive income (expense), attributable to:			**816**		**192**
- *Owners of the parent*			772		129
- *Non-controlling interests*			44		63
Total comprehensive income (expense), attributable to Owners of the parent			**772**		**129**
- from continuing operations			853		141
- from discontinued operations			(81)		(12)

(*) Comparative figures restated following the reclassification of the Transportation business under discontinued operations (see Note 6)

Consolidated statement of financial position

(€ millions)	*Note*	**31 December 2015**	*of which with related parties*	**31 December 2014**	*of which with related parties*
Intangible assets	*10*	7,010		6,781	
Property, plant and equipment	*11*	2,630		2,955	
Investment property		32		-	
Investments accounted for under equity method	*12*	1,117		1,023	
Receivables	*13*	503	3	438	22
Deferred tax assets	*31*	1,159		1,165	
Other non-current assets	*13*	238	-	280	-
Non-current assets		**12,689**		**12,642**	
Inventories	*14*	4,337		4,578	
Contract work in progress	*15*	2,857		3,087	
Trade receivables	*16*	3,518	660	4,548	928
Income tax receivables		154		156	
Loans and receivables	*16*	167	122	206	161
Other assets	*17*	662	8	1,137	6
Cash and cash equivalents	*18*	1,771		1,495	
Current assets		**13,466**		**15,207**	
Non-current assets held for sale	*32*	81		47	
Total assets		**26,236**		**27,896**	
Share capital	*19*	2,522		2,525	
Other reserves		1,758		986	
Equity attributable to the owners of the parent		**4,280**		**3,511**	
Equity attributable to non-controlling interests		22		343	
Total equity		**4,302**		**3,854**	
Loans and borrowings (non-current)	*20*	4,607	2	5,031	6
Employee benefits	*22*	773		795	
Provisions for risks and charges	*21*	1,463		1,281	
Deferred tax liabilities	*31*	325		299	
Other non-current liabilities	*23*	1,115	-	1,059	-
Non-current liabilities		**8,283**		**8,465**	
Progress payments and advances from customers	*15*	6,626	-	7,437	-
Trade payables	*24*	3,336	116	4,268	148
Loans and borrowings (current)	*20*	699	399	739	425
Income tax payables		25		74	
Provisions for short-term risks and charges	*21*	736		749	
Other current liabilities	*23*	2,152	306	2,277	146
Current liabilities		**13,574**		**15,544**	
Liabilities associated with assets held for sale	*32*	77		33	
Total liabilities		**21,934**		**24,042**	
Total liabilities and equity		**26,236**		**27,896**	

Consolidated statement of cash flows

(€ millions)	*Note*	***2015***	*of which with related parties*	***2014 (restated*)***	*of which with related parties*
Gross cash flows from operating activities	*34*	1,680		1,556	
Change in trade receivables/payables, work in progress/progress payments and inventories	*34*	(637)	*72*	(605)	*(62)*
Change in other operating assets and liabilities and provisions for risks and charges	*34*	5	*151*	(171)	*40*
Interest paid		(264)	*23*	(258)	*(4)*
Income taxes paid		(158)	-	(155)	-
Cash flows generated (used) from operating activities		**626**		**367**	
Sales in Transportation segment		790		-	
Cash in from Avio		-		239	
Investments in property, plant and equipment and intangible assets		(597)		(613)	
Sales of property, plant and equipment and intangible assets		54		11	
Other investing activities		210	-	254	-
Cash flows generated (used) from investing activities		**457**		**(109)**	
Bond issue		-		250	
Bond redemption		(515)		-	
Net change in other loans and borrowings		(20)	*(61)*	(599)	*(226)*
Cash flows generated (used) from financing activities		**(535)**		**(349)**	
Net increase (decrease) in cash and cash equivalents		548		(91)	
Exchange rate differences and other changes		18		34	
Cash and cash equivalents at 1 January		1,495		1,455	
Cash and cash equivalents at 1 January of discontinued operations		(290)		-	
Net increase (decrease) in cash of discontinued operations		-		97	
Cash and cash equivalents at 31 December		**1,771**		**1,495**	
Cash flows from operating activities of discontinued operations		(47)		(188)	
Cash flows from investing activities of discontinued operations		(34)		(41)	
Cash flows from financing activities of discontinued operations		48		326	

(*) Comparative figures restated following the reclassification of the Transportation business under discontinued operations (see Note 6)

Consolidated statement of changes in equity

(€mil.)	Share capital	Retained earnings	Cash flow hedge reserve	Revaluation reserve of defined-benefit plans	Translation reserve	Equity attributable to owners of the parent	Non-controlling interests	Total equity
1 January 2014	**2,525**	**1,502**	**47**	**(181)**	**(512)**	**3,381**	**298**	**3,679**
Profit (loss) for the period	-	(31)	-	-	-	(31)	51	20
Other comprehensive income (expense)	-	-	(104)	(46)	310	160	12	172
Total comprehensive income (expense)	**-**	**(31)**	**(104)**	**(46)**	**310**	**129**	**63**	**192**
Dividends resolved						-	(19)	(19)
Total transactions with owners of the parent, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**	**(19)**
Other changes	-	2		1	(2)	1	1	2
31 December 2014	**2,525**	**1,473**	**(57)**	**(226)**	**(204)**	**3,511**	**343**	**3,854**
1 January 2015	**2,525**	**1,473**	**(57)**	**(226)**	**(204)**	**3,511**	**343**	**3,854**
Profit (loss) for the period	-	487	-	-	-	487	40	527
Other comprehensive income (expense)	-	-	4	1	280	285	4	289
Total comprehensive income (expense)	**-**	**487**	**4**	**1**	**280**	**772**	**44**	**816**
Sale of Ansaldo STS - minority interests							(341)	(341)
Dividends resolved						-	(21)	(21)
Repurchase of treasury shares less shares sold	(3)					(3)		(3)
Total transactions with owners of the parent, recognised directly in equity	**(3)**	**-**	**-**	**-**	**-**	**(3)**	**(362)**	**(365)**
Other changes	-	-	-	(1)	1	-	(3)	(3)
31 December 2015	**2,522**	**1,960**	**(53)**	**(226)**	**77**	**4,280**	**22**	**4,302**

Notes to the consolidated financial statements at 31 December 2015

1. GENERAL INFORMATION

Finmeccanica is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Italian Stock Exchange (FTSE MIB).

The Finmeccanica Group is a major Italian high technology organization operating in the Helicopters, Defence and Security Electronics, Aeronautics, Space and Defence Systems sectors. Starting from 2015 the results of operations of the Transportation sector are classified within discontinued operations, as a result of the agreement with Hitachi described in the "Industrial and Financial Transactions" section of the Report on Operations.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002 and of Legislative Decree 38 of 28 February 2005, the consolidated financial statements of Finmeccanica Group at 31 December 2015 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, pursuant to Regulation (EC) 1606/2002, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB) and in force at the year-end.

The general principle used in preparing these consolidated financial statements is the historical cost method, except for those items that, in accordance with IFRS, are obligatory recognised at fair value, as indicated in the valuation criteria of each item.

The consolidated financial statements are composed of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes to the financial statements.

Among the options permitted by IAS 1, the Group has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of its costs. Instead, the statement of cash flows was prepared using the indirect method.

The International Financial Reporting Standards (IFRS) used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2014, except for what indicated below (Note 5).

All figures are shown in millions of euros unless otherwise indicated.

Preparation of the consolidated financial statements under the going-concern assumption required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Note 4.

The consolidated financial statements at 31 December 2015 of the Finmeccanica Group were approved by the Board of Directors on 16 March 2016 that authorised their distribution. Publication is scheduled for the same day.

The consolidated financial statements are subject to a statutory audit by KPMG SpA.

3. ACCOUNTING POLICIES ADOPTED

3.1 Standards and scope of consolidation

The consolidated financial statements include the statements at 31 December 2015 of the companies/entities included in the scope of consolidation ("consolidated entities"), which have been prepared in accordance with the IFRS adopted by the Finmeccanica Group. The consolidated entities and the respective shares held either directly or indirectly by the Group are reported in the attachment "Scope of consolidation".

3.1.1 Subsidiaries

The entities over which Finmeccanica exercises a controlling power, either by directly or indirectly holding a majority of shares with voting rights or by exercising the right to earn the variable profits deriving from its relations with those same entities, impacting on such profits and exercising its power on the company, also regardless of the nature of the shareholding, have been consolidated on a line-by-line basis. With regard to the activities of the Group in the USA, it is noted that some of them are subject to specific governance rules (such as the Special Security Agreement and the Proxy Agreement), which were agreed with the Defense Security Service (DSS) of the US Department of Defense (in charge of the protection of information related to the national security or, however, subject to secrecy restrictions). In particular, the DRS group is managed through a Proxy Agreement which provides for the appointment by Meccanica Holdings USA (the parent company of DRS) of 7 US Proxy Holders subject to the approval of the DSS. These 7 Proxy Holders, besides acting as the directors of the company, are entitled to vote (a prior right of Meccanica Holdings USA) in the context of a trust relationship with the latter on whose basis their activity is performed in the interest of the shareholders and of the US national security. The Proxy Holders cannot be discharged by the shareholder, except in case of fraud or gross negligence or, subject to the approval of the DDS, if their conduct infringes the principle of preservation of DRS assets and the legitimate interests of the shareholders. Moreover, the Proxy Holders are committed to implementing specific governance procedures in order to guarantee shareholders their rights with the consent of the DSS and in compliance with the restrictions under the Proxy

Agreement in relation to "classified" information. The shareholder is directly responsible for the decisions on extraordinary transactions, the purchase/disposal of assets, the taking over of debts, the granting of guarantees and the transfer of intellectual property rights.

Not consolidated on a line-by-line basis are those entities which, because of the dynamics of their operations (e.g. consortia without shares and controlling interests in equity consortia which, by charging costs to their members, do not have their own financial results and the financial statements of which do not, net of intercompany assets and liabilities, have material balances) or their current status (e.g. companies that are no longer operational, have no assets or personnel, or for which the liquidation process appears to be essentially concluded), would be immaterial to the Group's situation in both quantitative and qualitative terms. These holdings have been consolidated using the equity method.

All controlled entities are consolidated at the date on which control was acquired by the Group. The entities are removed from the consolidated financial statements at the date on which the Group loses control.

Business combinations are recognised using the purchase method where the purchase cost is equal to the fair value, at the date of the purchase of assets sold, of liabilities incurred or assumed, as well as the capital instruments, if any, issued by the purchaser. The cost of the transaction is allocated recognising assets, liabilities and the identifiable contingent liabilities of the acquired company, at their related fair value at the purchase date. Any positive difference between the cost of the transaction and the fair value at the date of the purchase of the assets and liabilities is allocated to goodwill. In the event the process of allocating the purchase price should result in a negative difference, this difference is recorded in the income statement.

Additional charges related to the acquisition are recognised in the income statement at the date when services are rendered.

In the case of purchase of controlling stakes other than 100% stakes, goodwill is recognised only to the extent of the portion attributable to the Group Parent. The value of the non-controlling interests is determined in proportion to the non-controlling equity investments in the identifiable net assets of the acquired company.

In case the business combination is carried out through more than one phase, at the moment of the taking over the equity investments previously held are re-measured at their fair value and the difference (positive or negative), if any, is recognised in the income statement.

In the case of purchase of non-controlling stakes, after control is obtained, the positive difference between the acquisition cost and the book value of the non-controlling stakes acquired is recorded as a reduction of the net equity of the Group Parent. In the event of disposal of stakes while control is retained, the difference between the cashed consideration and the book value of the stakes sold is recorded directly as an increase of the net equity, without recording in the income statement.

Amounts resulting from transactions with consolidated entities have been eliminated, particularly where related to receivables and payables outstanding at the end of the period, as well as interest and other income and expenses recorded on the income statements of these enterprises. Also eliminated are the net profits or losses posted between the consolidated entities along with their related tax adjustments.

The Group consolidated financial statements have been prepared based on the ending balances at 31 December.

3.1.2 Jointly controlled entities and other equity investments

Joint Arrangements, based on which joint control over an arrangement is assigned to two or more parties, are classified as either a Joint Operation (JO) or a Joint Venture (JV), on the basis of an analysis of the underlying contractual rights and obligations. In particular, a JV is a joint arrangement whereby the parties, whilst holding control over the main strategic and financial decisions through voting mechanisms requiring the unanimous consent on such decisions, do not hold legally significant rights to the individual assets and liabilities of the JV. In this case joint control regards the net assets of the joint ventures. This form of control is reflected in the financial statements using the equity method, as described below. A Joint Operation is a joint arrangement whereby the parties have rights to the assets, and obligations for the liabilities. In this case, individual assets and liabilities and the related costs and revenues are recognised in the financial statements of the party to the arrangement on the basis of the rights and obligations to each asset and liability, regardless of the interest held. After initial recognition, the assets, liabilities and related costs are valued in accordance with the reference accounting standards applied to each type of asset/liability.

The Group's joint arrangements are all classified as joint ventures.

Entities over which significant influence is exercised, which generally corresponds to a holding of between 20% (10% if listed) and 50% (equity investments in associates), and Joint Ventures (as qualified above) are accounted for using the equity method. When the equity method is applied, the value of the investment is in line with shareholders' equity adjusted, when necessary, to reflect the application of IFRSs, and includes the recognition of goodwill (net of impairments) calculated at the time of purchase, and to account for the adjustments required by the standards governing the preparation of consolidated financial statements. Unrealised gains on transactions between Group companies and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. In the event the Group has evidence of an impairment loss of the investment, in excess of the amount accounted for under the equity method, the Group will proceed with calculating the impairment to be recorded in the income statement which is determined as the difference between the recoverable amount and the carrying amount of the investment.

Any value losses in excess of book value are recorded in the provision for risks on equity investments, to the extent that there are legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity.

The fair value of equity investments, in the event this method applies, is calculated based on the bid price of the last trading day of the month for which the IFRS report was prepared, or based on financial valuation techniques for not listed instruments.

Investments available for sale, like those acquired with the sole purpose of being disposed within the subsequent twelve months, are classified separately within "Assets held for sale".applying the recognition criteria described in Note 3.10.4.

3.2 Segment information

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: Helicopters, Defence and Security Electronics, Aeronautics, Space, Defence Systems and Other Activities. The breakdown by sector set out in this Annual Financial Report fits in with the structure adopted on the reporting date, so Defence Systems are shown as a sector in itself and not within Defence and Security Electronics, as will be the case from 2016 onwards after the new organisational model.

3.3 Currency translation

3.3.1 Identification of the functional currency

The balances of the financial statements of each Group entity are presented in the currency of the primary economy in which each enterprise operates (the functional currency). The consolidated financial statements for the Finmeccanica Group have been prepared in euros, which is the functional currency of the Group Parent.

3.3.2 Translation of transactions denominated in a foreign currency

Items expressed in a currency other than the functional currency, whether monetary (cash and cash equivalents, receivables or payables due in pre-set or measurable amounts, etc.) or non-monetary (advances to suppliers of goods and services, goodwill, intangible assets, etc.), are initially recognised at the exchange rate prevailing at the date on which the transaction takes place. Subsequently, the monetary items are translated into the functional currency based on the exchange rate at the reporting date, and any differences resulting from this conversion are recognised in the income statement. Non-monetary items continue to be carried at the exchange rate on the date of the transaction.

3.3.3 Translation of financial statements expressed in a currency other than the functional currency

The rules for translating financial statements expressed in a foreign currency into the functional currency (except where the currency is that of a hyper-inflationary economy, a situation not applicable to the Group) are as follows:

- the assets and liabilities presented are translated at the end-of-period exchange rate;
- costs and revenues, charges and income presented are translated at the average exchange rate for the period in question, or at the exchange rate on the date of the transaction in the event this is significantly different from the average rate;
- the "translation reserve" includes both the exchange rate differences generated by the translation of balances at a rate different from that at the close of the period and those that are generated by the translation of opening equity balances at a rate different from that at the close of the period. The translation reserve is reversed to the income statement upon the full or partial disposal of the equity investment that results in loss of control.

Goodwill and adjustments deriving from the fair value measurement of assets and liabilities related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the end-of-period exchange rate.

With reference to data comparability, the year 2015 has been marked by the following changes in the euro against the main currencies of interest for the Group:

	31 December 2015		*31 December 2014*		*% Change*	
	average	final	average	final	average	final
US dollar	1.1095	1.0887	1.3285	1.2141	(16.5%)	(10.3%)
Pound sterling	0.7258	0.7340	0.8061	0.7789	(10.0%)	(5.8%)

3.4 Intangible assets

Intangible assets are non-monetary items without physical form, but which can be clearly identified and generate future economic benefits for the company. They are carried at purchase and/or production cost, including directly related expenses allocated to them when preparing the asset for operations and net of accumulated amortisation (with the exception of intangibles with an indefinite useful life) and any impairments of value. Amortisation begins when the asset is available for use and is recognised systematically over its remaining useful life. In the period in which the intangible asset is recognised for the first time, the amortisation rate applied takes into account the period of actual use of the asset.

3.4.1 Research and development costs

This account includes costs related to the application of the results of research or other knowledge in a plan or a project for the production of materials, devices, processes, systems or services that are new or significantly advanced, prior to the start of commercial production or use, for which the generation of future economic benefits can be demonstrated. These costs are amortised according to the units-of-production method, over the period in which the future earnings are expected to be realised for the project itself. The useful life changes according to the business of the company and it exceeds 5 years on average. If such costs fall within the scope of costs defined by Group standards as “non-recurring costs”, they are recognised in a specific item under intangible assets (Note 4.1).

Research costs, on the other hand, are expensed in the period in which they are incurred.

3.4.2 Industrial patent and intellectual property rights

Patents and intellectual property rights are carried at acquisition cost net of amortisation and accumulated impairment losses. Amortisation begins in the period in which the rights acquired are available for use and is calculated based on the shorter of the period of expected use and that of ownership of the rights. The useful life changes according to the business of the company and its range is between 3 and 15 years.

3.4.3 Concessions, licence and trademarks

This category includes: concessions, i.e. government measures that grant private parties the right to exclusive use of public assets or to manage public services under regulated conditions; licences that grant the right to use patents or other intangible assets for a determinate or determinable period of time; trademarks that establish the origin of the products of a given company; and licences for the know-how or software owned by others. The costs, including the direct and indirect costs incurred to obtain such rights, can be capitalised after receiving title to the rights themselves and are amortised systematically over the shorter of the period of expected use and that of ownership of the rights. The useful life changes according to the business of the company and its range is between 3 and 15 years.

3.4.4 Intangible assets acquired as a result of business combinations

The intangible assets acquired as a result of business combinations essentially refer to the order backlog and commercial positioning, customer portfolio and software/know-how; they are valued during the purchase price allocation. The assets' useful life changes according to the business of the acquired company and ranges as follows:

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

3.4.5 Goodwill

Goodwill recognised as an intangible asset is associated with business combinations and represents the difference between the cost incurred to acquire a company or division and the sum of the fair values assigned at the purchase date, to the individual assets and liabilities of the given company or division. As it does not have a definite useful life, goodwill is not systematically amortised but is subject to impairment tests conducted at least once a year, according to a specific procedure approved each year by the Board of Directors, unless market and operational factors identified by the Group indicate that an impairment test is also necessary in the preparation of interim financial statements. In conducting an impairment test, goodwill acquired in a business combination is allocated to the individual Cash Generating Unit (CGU) or to groups of CGUs that are expected to benefit from the synergies of the combination, in line with the minimum level at which such goodwill is monitored within the Group. Goodwill related to unconsolidated associates, joint ventures or subsidiaries is included in the value of investments.

3.5 Property, plant and equipment

Property, plant and equipment is measured at purchase or production cost net of accumulated depreciation and any impairment losses. The cost includes all direct costs incurred to prepare the assets for use, as well as any charges for dismantlement and disposal that will be incurred to return the site to its original condition.

Charges incurred for routine and/or cyclical maintenance and repairs are expensed in full in the period in which they are incurred. Costs related to the expansion, modernisation or improvement of owned or leased structural assets are only capitalised to the extent that such costs meet the requirements for being classified separately as an asset or part of an asset. Any public grants related to property, plant and equipment are recognised as a direct deduction from the asset to which they refer.

The value of an asset is adjusted by systematic depreciation calculated based on the residual useful life of the asset itself. In the period in which the asset is recognised for the first time, the depreciation rate applied takes into account the date in which the asset is ready for use. The estimated useful lives adopted by the Group for the various asset classes are as follows:

	Years
Land	Indefinite useful life
Buildings	20-33
Plant and machinery	5-10
Equipment	3-5
Other assets	5-8

The estimated useful life and the residual value are revised at least annually.

Depreciation ends when the asset is sold or reclassified as asset held for sale.

In the event the asset to be depreciated is composed of significant distinct elements with useful lives that are different from those of the other constituent parts, each individual part that makes up the asset is depreciated separately, in application of the component approach to depreciation.

This item also includes equipment intended for specific programmes (tooling), although it is depreciated, as with other non-recurring costs (Note 4.1), on the basis of units manufactured in relation to those expected to be produced.

The gains and losses from the sale of assets or groups of assets are calculated by comparing the sales price with the related net book value.

3.6 Investment properties

Properties held to earn rentals or for capital appreciation are carried under “Investment properties”; they are valued at purchase or construction cost plus any related charges, net accumulated depreciation and impairment, if any.

3.7 Impairment of intangible assets and property, plant and equipment

Assets with indefinite useful lives are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value. The test is carried out at each interim reporting date as well, when there are internal and/or external indicators that an asset may be impaired

For assets that are depreciated or amortised, an assessment is made to determine whether there is any internal or external indication of a loss in value. If so, the recoverable value of the asset is estimated, with any excess being recognised in the income statement.

The recoverable value of an asset is the higher of its fair value less costs to sell and its value in use calculated on the basis of a model of discounted cash flows. The discount rate encompasses the risks peculiar to the asset which have not been considered in the expected cash flows.

Assets which do not generate independent cash flows are tested as Cash Generating Units.

If the reasons for such write-downs should cease to obtain, the asset's book value is restored within the limits of the book value that would have resulted if no loss was recognised due to previous years' loss of value. The write-back is also taken to the income statement. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

3.8 Inventories

Inventories are recorded at the lower of cost, calculated with reference to the weighted average cost, and net realisable value. They do not include financial costs and overheads. The net realisable value is the sales price in the course of normal operations net of estimated costs to finish the goods and those needed to make the sale.

3.9 Contract work in progress

Work in progress is recognised on the basis of progress (or percentage of completion), whereby costs, revenues and margins are recognised based on the progress of production. The state of completion is determined on the basis of the ratio between costs incurred at the measurement date and the total expected costs for the programme or based on the productions units delivered.

The valuation reflects the best estimate of the schedules prepared at the balance-sheet date. The assumptions upon which the estimates are made are periodically updated. Any impact on profit or loss is recognised in the period in which the updates are made.

In the event the completion of a contract is expected to result in a loss at the gross margin level, the loss is recognised in its entirety in the period in which it becomes reasonably foreseeable under "Other operating expenses". Vice versa, the reversal of such allocations is recognised under "Other operating income", if not referable to external costs, against which the provision for final losses is used.

Contract work in progress is recorded net of any write-downs of the losses to complete on orders, as well as pre-payments and advances related to the contract being performed.

This analysis is carried out contract by contract: in the event of positive differences (where the value of work in progress is greater than total pre-payments), the difference is recorded as an asset; negative differences, on the other hand, are recorded as a liability under "Advances from customers". If it has not been collected at the date of preparation of the annual or interim accounts, the amount recorded among advance payments will have a directly contra-item in trade receivables.

Contracts with payments in a currency other than the functional currency (the euro for the Group) are measured by converting the portion of payments due, calculated using the percentage-of-completion method, at the exchange rate prevailing at the close of the period in question. However, the Group's policy for exchange-rate risk calls for all contracts in which cash inflows and outflows are significantly exposed to exchange rate fluctuations to be hedged specifically. In such cases, the recognition methods described in Note 4.2 below are applied.

3.10 Receivables and financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale.

Management classifies assets at the time they are first recognised.

3.10.1 Financial assets at fair value through profit and loss

This category includes financial assets acquired for the purpose of short-term trading transactions, derivatives, which are discussed in the next section, as well as assets designated as such upon initial recognition. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments in this category are recognised immediately in the income statement.

The classification of assets as current or non-current reflects management expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

3.10.2 Loans and receivables

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially measured at fair value and subsequently at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the impairment losses calculated through impairment test are recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised. Loans and receivables are posted under current assets except for the portion falling due beyond 12 months, which is carried under non-current assets.

3.10.3 Financial assets held to maturity

These are non-derivative assets, valued at amortised cost and with fixed maturities, that the Group has the intention and ability to hold to maturity. Those maturing within 12 months are carried under current assets. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: the impairment losses, calculated through impairment test, are recognised in the income statement. If the reasons for the write-down should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

3.10.4 Financial assets available for sale

This category encompasses non-derivative financial assets specifically designated as available for sale or not classified in any of the previous items. They are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ("Reserve for assets available for sale"). The reserve is taken to the income statement only when the financial asset is effectively sold or, in cases of a loss of value, when it becomes evident that the significant and prolonged impairment in value already recognised in equity is unrecoverable. Classification as current or non-current depends on the intentions of management and the effective marketability of the security itself. Assets that are expected to be sold within 12 months are carried under current assets.

Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset; reductions in value previously recognised in equity are reversed to profit or loss. If the reasons for the write-down should cease to obtain, the value of the asset is restored, applicable only to debt financial instruments.

3.11 Derivatives

Derivatives are still regarded as assets held for trading and stated at fair value through profit or loss unless they are deemed effective hedge for specific risk in respect of underlying assets, liabilities or commitments undertaken by the Group.

In particular, the Group uses derivatives as part of its hedging strategies to offset the risk of changes in the fair value of financial assets or liabilities on its balance sheet or the risk associated with contractual commitments (fair-value hedges) and the risk of changes in expected cash flows in contractually defined or highly probable operations (cash-flow hedges). For details regarding the methodology for recognising hedges of the exchange rate risk on long-term contracts, see Note 4.2.

The effectiveness of hedges is documented and tested both at the start of the operation and periodically thereafter (at least every time an annual or interim report is published) and measured by comparing changes in the fair value of the hedging instrument against changes in the hedged item (“dollar offset ratio”). For more complex instruments, the measurement involves statistical analysis based on the variation of the risk.

3.11.1 Fair value hedge

Changes in the fair value of derivatives that have been designated and qualify as fair-value hedges are recognised in profit or loss, in the same manner as the treatment of changes in the fair value of the hedged assets or liabilities that are attributable to the risk that has been covered with the hedge.

3.11.2 Cash flow hedge

Changes in the fair value of derivatives that have been designated and qualify as cash-flow hedges are recognised – with reference to the “effective” component of the hedge only – in the statement of comprehensive income through a specific equity reserve (“Cash-flow hedge reserve”), which is subsequently recognised in the income statement when the underlying transaction affects profit or loss. Changes in fair value attributable to the non-effective component are immediately recognised in the income statement for the period. If the occurrence of the underlying operation ceases to be highly probable, the relevant portion of the cash-flow hedge reserve is immediately recognised in the income statement. If the derivative is sold, expires or ceases to function as an effective hedge against the risk for which it was originated, the relevant portion of the “Cash-flow hedge reserve” is kept recognised until the underlying contract shows its effect. The recognition of the cash-flow hedge is discontinued prospectively.

3.11.3 Determining fair value

The fair value of instruments quoted on public markets is determined with reference to the bid price for the instrument in question at the reference date. The fair value of unquoted instruments is determined with financial valuation techniques. Specifically, the fair value of interest-rate swaps is measured by discounting the expected cash flows, while the fair value of foreign exchange forwards is determined on the basis of the market exchange rate at the reference date and the expected rate differentials among the currencies involved.

Financial assets and liabilities valued at fair value are classified in the three hierarchical levels described below, on the basis of the materiality of inputs used in the fair value measurement. In particular:

- Level 1: financial assets and liabilities whose fair value is determined on the basis of the unadjusted quoted prices in an active market for identical assets and liabilities that Finmeccanica can access at the measurement date;

- Level 2: financial assets and liabilities whose fair value is determined on the basis of inputs other than the quoted prices as in Level 1, that are directly or indirectly observable;
- Level 3: financial assets and liabilities whose fair value is determined on the basis of unobservable inputs.

3.12 Cash and cash equivalents

The item includes cash, deposits with banks or other institutions providing current account services, post office accounts and other cash equivalents, as well as investments maturing in less than three months from the date of acquisition. Cash and cash equivalents are recognised at their fair value, which normally coincides with their nominal value.

3.13 Equity

3.13.1 Share capital

Share capital consists of the capital subscribed and paid up by the Group Parent. Costs directly associated with the issue of shares are recognised as a decrease in share capital when they are directly attributable to capital operations, net of the deferred tax effect.

3.13.2 Treasury shares

Treasury shares are recognised as a decrease in Group shareholders' equity. Gains or losses realised in the acquisition, sale, issue or cancellation of treasury shares are recognised directly in shareholders' equity.

3.14 Payables and other financial liabilities

Payables and other financial liabilities are initially recognised at fair value net of transaction costs. They are subsequently valued at their amortised cost using the effective interest-rate method.

Payables and other liabilities are defined as current liabilities unless the Group has the contractual right to settle its debts at least 12 months after the date of the annual or interim financial statements.

3.15 Taxation

The Group's tax burden is made up of current and deferred taxes. If these taxes are related to income and expense recognised in equity in the statement of comprehensive income, a balancing entry is recorded under the same item.

Current taxes are calculated in accordance with the existing fiscal legislation applicable to those countries in which the Group operates and in force at the balance-sheet date. Any risks connected with a different interpretation of the positive and negative components of income, together with ongoing disputes with the tax authorities are regularly assessed, at least on a quarterly basis, in order to adjust the provisions made.

Deferred tax assets and liabilities are calculated based on temporary differences arising between the carrying amounts of assets and liabilities and their value for tax purposes, as well as on fiscal losses. Deferred tax assets and liabilities are calculated by applying the tax rate that is expected to be in force at the time the temporary differences will be reversed. The estimation is made based on tax laws in effect or substantially in effect at the reporting date. Deferred tax assets, including those deriving from tax losses, are recognised to the extent that, based on the company plans approved by the directors, it is probable the company will post future taxable income in respect of which such assets can be utilised.

3.16 Employee benefit obligations

3.16.1 Post-employment benefit plans

Group companies use several types of pension and supplementary benefit plans, which can be classified as follows:

- *Defined-contribution plans* in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only when employees rendered their services to the company specifically in exchange for these contributions;
- *Defined-benefit plans* in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic and statistical assumptions and wage trends. The methodology used is the projected unit credit method. Accordingly, the Group recognises a liability for the same amount arising from the actuarial estimation, and recognises actuarial gains and losses in the period in which they occur in the statement of comprehensive income through a special equity reserve (in the "Remeasurement reserve"). To determine the amount to be entered in the balance sheet, the fair value of the plan assets is deducted from the current value of the obligation for the defined-benefit plans. This fair value is calculated using the interest rate adopted for discounting back the obligation.

3.16.2 Other long-term benefits and post-employment benefits

Group companies grant employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined-benefit plans, using the projected unit credit method. However for “Other long-term benefits” net actuarial gains and losses are both recognised to profit or loss immediately and in full as they occur.

3.16.3 Benefits payable for the termination of employment and incentive plans

Termination benefits are recognised as liabilities and expenses when the enterprise is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The benefits payable to employees for the termination of employment do not bring any future economic benefit to the enterprise and are therefore recognised immediately as expenses.

3.16.4 Equity compensation benefits

In case the Group uses stock-option and stock-grant plans to compensate the senior management, the theoretical benefit attributable to the recipients is charged to the income statement in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring at the assignment date the fair value of the assigned instrument, using financial valuation techniques that take account of market conditions and, at the date of each annual report, an updated estimate of the number of instruments expected to be distributed. Vice versa, the fair value initially calculated is not updated in the subsequent recognitions.

3.17 Provisions for risks and charges

Provisions for risks and charges are recognised when, at the reporting date, the entity has a present obligation (legal or constructive) to other parties as a result of a past event, and it is probable that, in order to settle the obligation, whose amount can be reliably estimated, an outflow of resources will be required.

The amount reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability. Changes in the estimates are recognised in the income statement of the year in which the change occurs. With regard to some disputes, the information required by IAS 37 "Provisions, contingent liabilities and contingent assets" is not reported, in order to not jeopardize the Group position in the context of such disputes or negotiations.

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

3.18 Leasing

3.18.1 Group entities as lessees in a finance lease

At the date on which a lease is first recognised, the lessee records a non-current tangible asset and a financial liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the inception of the lease, using the implicit interest rate in the lease or the incremental borrowing rate. Subsequently, an amount equal to the depreciation expense for the asset and the finance charge separated from principal component of the lease payment made in the period is recognised in the income statement. Depreciation periods are indicated in Note 3.5.

3.18.2 Group entities as lessors in a finance lease

At the date on which a lease is first recognised, the value of the leased asset is eliminated from the balance sheet and a receivable equal to the net investment in the lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, financial income is recognised in the income statement for the duration of the contract in an amount providing a constant periodic rate of return on the lessor's net investment.

The unsecured residual value is reviewed periodically for possible impairment.

3.18.3 Operating leases

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract on a straight-line basis.

3.19 Revenue

Revenue is recognised at the fair value of the amount received and receivable, inclusive of volume discounts and reductions. Revenue also includes changes in work in process, the accounting policies for which were described in Note 3.9. The change in work in progress is the portion of work performed for which there are not yet the conditions to recognise it as revenue. For a description of the estimates related to the evaluation process of the long-term contracts, reference should be made to Note 4.3. Revenue generated from the sale of goods is recognised when the enterprise has transferred to the buyer substantially all of the significant risks and rewards of ownership of the goods, which, in many cases, will coincide with the transfer of title or possession to the buyer; and when the value of the revenues can be reliably determined.

Revenues from services are recognised on a percentage-of-completion method when they can be reliably estimated.

3.20 Government grants

Once formal authorisation for their assignment has been issued, grants are recognised on an accruals basis in direct correlation with the costs incurred. Specifically, set-up grants are taken to the income statement in direct relation to the depreciation of the relevant goods or projects, and are recognised as a direct reduction in the value of the depreciation expense. In balance sheet, grants are recognised as a direct reduction of the related assets, for the amount not yet recognised to profit or loss. For the analysis of the aspects related to grants under Law 808/1985, reference should be made to Note 4.1.

3.21 Costs

Costs are recorded in compliance with the accrual principle.

3.22 Financial income and expense

Interest is recognised on an accruals basis using the effective interest-rate method, i.e. the interest rate that results in the financial equivalence of all inflows and outflows (including any premiums, discounts, commissions, etc.) that make up a given operation.

Financial expenses attributable to the acquisition, construction or production of certain assets taking a substantial period of time to get ready for their intended use or sale (qualifying assets) are capitalised together with the related asset.

3.23 Dividends

Dividends are recognised in the income statement as soon as shareholders obtain the right to receive payment, which is normally when the shareholders’ meeting approves the distribution of dividends.

Dividends distributed to Finmeccanica shareholders are reported as a change in the shareholders’ equity and are recognised as liabilities for the period in which their distribution is approved by the Shareholders’ Meeting.

3.24 Discontinued operations and non-current assets held for sale

Non-current assets (or disposal groups) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use, are classified as held for sale and presented separately in the statement of financial position. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable within one year. If these conditions are met after the year-end, the non-current asset (or disposal group) is not classified as held for sale. However, if these conditions are met after the year-end but before the financial statements are approved for publication, appropriate information is provided in the explanatory notes thereto.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell; the corresponding values of the prior year balance sheet are not reclassified.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results of Discontinued Operations – whether they have been disposed of or classified as held for sale or under disposal – are presented separately in the income statement, less tax effects. The corresponding values of the prior year, if any, are reclassified and shown separately in the income statement, for comparative purposes, net of tax effect.

3.25 New IFRS and IFRIC interpretations

At the date of preparation of this report, the European Commission has endorsed certain standards and interpretations that are not compulsory which will be applied by the Group in the following financial periods. The main amendments and potential effects for the Group are summarised below:

IFRS - IFRIC interpretation		Effects for the Group
• IFRS 2 • IFRS 3 • IFRS 8 • IAS 16 • IAS 24 • IAS 38 • IFRS 5 • IFRS 7 • IAS 19 • IAS 34	• Share-based payment • Business combinations • Operating segments • Property, plant and equipment • Related party disclosures • Intangible assets • Non-current assets held for sale and discontinued operations • Financial instruments: disclosures • Employee benefits • Interim financial reporting	The improvement processes of 2010-2012 and 2012-2014 envisaged some improvements to the mentioned standards. No significant effects are forecast for the Group. The Group will apply such changes as from 1 January 2016.
IFRS 11 *amendment*	Accounting for acquisitions of interests in joint operations	The amendments regulate the accounting for the acquisitions of interests in joint operations, conforming it to the recognition envisaged for business combinations. No significant effects are forecast for the Group. The Group will apply such changes as from 1 January 2016.
IAS 16 *amendment* and IAS 38 *amendment*	Property, Plant and Equipment and Intangible Assets	The amendments clarify that the use of revenue-based methods is not appropriate to calculate the depreciation of an asset. The effect on the Group deriving from the application of such standard is currently under discussion. The Group will apply this standard as from 1 January 2016.
IAS 1 *amendment*	Disclosure initiative	The amendments to the standard are mainly aimed at clarifying the presentation of the items related to other comprehensive income, simplifying the distinction between other comprehensive income and the share of other comprehensive income of equity-accounted associates and joint ventures. The Group will apply this standard as from 1 January 2016.
IFRS 9	Financial instruments	The standard significantly amends the accounting treatment of financial instruments and in its final version, will replace IAS 39. At present, the IASB has modified the requirements for the classification and measurement of financial assets that are currently in the scope of IAS 39 and has published a document on the principles for the measurement of financial instruments at amortised cost and for recognising impairment, if any. The new overall approach to financial instruments is currently under discussion by the various competent bodies and for the time being the date of adoption is not foreseeable. The effect on the Group deriving from the application of such standard is currently under analysis. The current version of IFRS 9 will be applicable, subject to the endorsement by the European Union, as from 1 January 2018.
IFRS 15	Revenue from contracts with customers	The standard redefines how to account for revenue, which shall be recognised when the control of goods and services is transferred to customers, and envisages additional disclosures to be provided. The effect on the Group deriving from the application of

		such standard is currently under analysis. The Group will apply this standard as from 1 January 2018.

There are a number of standards or amendments to existing principles issued by the IASB or new interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for which the revision and approval project is still under way. In particular, among such standards we note IFRS 16 "Leases" which significantly modifies the methods for the accounting of leases in the financial statements of both the lessors and the lessees.

4. *SIGNIFICANT ISSUES AND CRITICAL ESTIMATES BY MANGEMENT*

4.1 Non-recurring costs

The Group separately discloses as intangible assets the costs incurred in designing, prototyping, starting-up and upgrading to the technical and functional specifications of clearly identified potential clients, if they are financed under Law 808/1985 governing State aids to support the competitiveness of entities operating in the Aeronautics and Defence segments. These costs are shown excluding the benefits collected or to be collected under Law 808/1985 for programmes qualified as functional to national security and similar. The aid under Law 808/1985 is deducted from capitalised costs, and the royalties to be given to the grantor are recognised as the requirements are met (sale of products embedding the technology for which the Law permits aids). For the programmes other than national security programmes, the funds received are recognised as "Other liabilities", making a distinction between the current portion and the non-current portion, based on the date of repayment. In both cases, non-recurring costs are carried among intangible assets and are amortised within job orders on the units-of-production method. These costs are tested for impairment at least once a year until development is complete; after that, as soon as contract prospects change, when expected orders are no longer made or delayed. The impairment test is conducted on assumed sales plans, which in general are made for a period greater than 5 years, in light of the particularly long life of products under development.

In the case of programmes that benefit from the provisions of Law 808/1985 and that are classified as functional to national security, the portion of non-recurring costs capitalised, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry, is shown separately under "other non-current assets". The related amount is calculated based on an estimate made by management that reflects the reasonable certainty that funds are received and the effects of time value in the case of deferment over more than one year of the granting of funds.

4.2 Hedging long-term contracts against foreign exchange risk

In order to hedge exposure to changes in flows of receipts and payments associated with long-term construction contracts denominated in currencies other than the functional currency, the Group enters into specific hedges for the expected individual cash flows in respect of the contracts. The hedges are entered into at the moment the commercial contracts are finalised, except where the award of the contracts is felt to be highly likely as a result of existing framework contracts. Exchange-rate risk is normally hedged with plain vanilla instruments (forward contracts); in some cases, however, in order to protect the Group against the persistent adverse trend in the US dollar, we have entered into more highly structured operations that, while substantively hedging the positions, do not qualify for hedge accounting under IAS 39. In these cases, as in all cases where hedges prove to be ineffective, changes in the fair value of such instruments are taken immediately to the income statement as financial items, while the underlying is valued as if it were exposed to exchange rate variations. The effects of this recognition policy are reported in Note 30. Hedges in the former case are reported as cash-flow hedges, considering as ineffective the part relating to the premium or discount in the case of forwards or the time value in the case of options, which is recognised under financial items.

4.3 Estimate of revenue and final costs of long- term contracts

The Group operates in sectors and with contractual arrangements that are especially complex. They are recognised on a percentage-of-completion basis. Margins recognised in the income statement are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, correct recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs and expected increases as well as delays, extra costs and penalties that could reduce the expected margin. In order to enhance support for this activity, the Group has adopted contract management and risk analysis tools designed to identify, monitor and quantify the risks associated with such contracts. The amounts posted in the financial statements represent management’s best estimate at the reporting date.

4.4 Liabilities from defined-benefit pension plans

The Group is sponsor to two UK defined-benefit pension plans and to various US and other minor European plans. It has the obligation to ensure a given level of benefits to the plan participants and carries the risk that the plan assets are not adequate to cover the benefits promised. In case these plans are in a deficit position, the trustee responsible for the management requests the Group to fund the plan.

The deficit resulting from the most updated actuarial valuations made by independent experts is recognised as a liability: however, these valuations stem from actuarial, demographic, statistical and financial assumptions that are highly volatile and hardly foreseeable.

4.5 Impairment of assets

Group assets are tested for impairment at least annually if their lives are indefinite, or more often if there are indications of impairment. Similarly, impairment tests are conducted on all the assets showing signs of impairment, even if the amortisation already commenced.

Impairment tests are generally conducted using the discounted cash-flow method: however, this method is highly sensitive to the assumptions contained in the estimate of future cash flows and interest rates applied.

For these valuations, the Group uses plans that have been approved by corporate bodies and financial parameters that are in line with those resulting from the current performance of reference markets.

Details about the methods for the calculation of the impairment tests are reported in Note 10.

4.6 Disputes

The Group’s operations regard sectors and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity. In case management deems it probable that following the litigation an outflow of resources, whose amount can be reliably estimated, will be required, this amount that has been discounted in order to consider the timeline for the disbursement, is included in the risk provision. The estimate for the developments of these disputes is particularly complex and requires significant estimates by the management. Disputes where a liability is deemed possible but not probable are shown in the relevant informative section on commitments and risks; against such disputes no allocation is made.

5. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

Starting from 1 January 2015 the Group has adopted the Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”. The amendment simplifies the accounting treatment of certain cases of contributions to defined benefit plans from employees or third parties, without any significant effect on this Annual Financial Report.

6. RESTATEMENT OF THE COMPARATIVE STATEMENTS

2 November 2015 saw the completion of the closing of the transfers of the Finmeccanica's businesses in the rail transport sector to the Japanese Hitachi group. The agreement requires that Finmeccanica transfer its stake in Ansaldo STS, AnsaldoBreda's businesses in the rolling stock segment, excluding revamping activities, which are of minor importance, which remained within the Group, and €mil 68 for the facilities sold by FGS to Hitachi. The figures of the income statement and of the statement of cash flows at 31 December 2014 have been restated, pursuant to IFRS 5, in order to include the effects of the classification of the above business sold within the Discontinued Operations, as shown below:

Consolidated separate income statement	***2014***	***IFRS 5 effect***	***2014 restated***
Revenue	14,663	(1,899)	12,764
Other operating income	653	(43)	610
Purchase and personnel expense	(13,329)	1,780	(11,549)
Amortisation, depreciation and impairment losses	(751)	24	(727)
Other operating expenses	(697)	43	(654)
Income before tax and financial expenses	**539**	**(95)**	**444**
Financial income	260	(28)	232
Financial expense	(749)	26	(723)
Share of profits/(losses) of equity-accounted investees	149	(3)	146
Operating profit (loss) before income taxes and discontinued operations	**199**	**(100)**	**99**
Income taxes	(179)	45	(134)
Profit (loss) from discontinued operations	-	55	55
Utile (perdita) netta	**20**	**-**	**20**

Consolidated statement of cash flows	***2014***	***IFRS 5 effect***	***2014 restated***
Gross cash flows from operating activities	1,700	(144)	1,556
Change in trade receivables/payables, work in progress/progress payments and inventories	(875)	270	(605)
Change in other operating assets and liabilities and provisions for risks and charges	(197)	26	(171)
Interest paid	(264)	6	(258)
Income taxes paid	(185)	30	(155)
Cash flows generated (used) from operating activities	**179**	**188**	**367**
Cash in from Avio	239	-	239
Investments in property, plant and equipment and intangible assets	(629)	16	(613)
Sales of property, plant and equipment and intangible assets	11	-	11
Other investing activities	229	25	254
Cash flows generated (used) from investing activities	**(150)**	**41**	**(109)**
Bond issue	250	-	250
Net change in other loans and borrowings	(259)	(340)	(599)
Dividends paid	(19)	19	-
Cash flows generated (used) from financing activities	**(28)**	**(321)**	**(349)**
Net increase (decrease) in cash and cash equivalents	1	(92)	(91)
Exchange rate differences and other changes	39	(5)	34
Cash and cash equivalents at 1 January	1,455	-	1,455
Net increase (decrease) in cash of discontinued operations	-	97	97
Cash and cash equivalents at 31 December	**1,495**	**-**	**1,495**

All comparative information related to the income statement and the statement of cash flows provided in the following notes has been restated.

7. SIGNIFICANT NON-RECURRING EVENTS OR TRANSACTIONS

As largely described in the Report on Operations, to which reference is made, 2 November 2015 saw the completion of the closing of the transfers in the Transportation sector business to Hitachi. At the time of the closing, this transactions, described in the note 32, allowed to collect a total amount of about €mil. 790, showing a reduction of about €mil. 600 (considering the deconsolidation of the overall positive net financial position of the businesses sold) in the Group Net Debt as well as to recognise a net capital gain of €mil. 248.

We report no significant non-recurring transactions during 2014.

8. SIGNIFICANT POST BALANCE SHEET EVENTS

As largely described in the Report on Operations, following the resolution of the Finmeccanica Board of Directors of 24 September 2015, the mergers of OTO Melara S.p.A and Whitehead Sistemi Subacquei S.p.A into Finmeccanica were effective as from 1 January 2016 (in terms of accounting and tax) as well as the partial spin-off of Alenia Aermacchi S.p.A., AgustaWestland S.p.A. and Selex ES S.p.A. into Finmeccanica S.p.A.. As indicated in the Report on Operations, in accordance with the Group’s new governance, direction and control are centralised while business operations have been decentralised into seven divisions (Helicopters, Aircraft, Aerostructures, Airborne & Space Systems, Land & Naval Defence Electronics, Defence Systems, Security & Information Systems), – which have been provided with powers and resources so as to ensure a complete end-to-end management of the related scope of business, with consequent full responsibility of the relevant income statement and which operate, together with the entities outside the One Company perimeter – (mainly DRS, which is subject to a Proxy regime and the JVs) within four sectors (Helicopters, Aeronautics, Electronics, Defence & Security Systems, Space) which are assigned coordination tasks and functions.

9. SEGMENT INFORMATION

In accordance with the compliance model followed, management has adopted operating segments that correspond to the business sectors in which the Group operates: Helicopters, Defence and Security Electronics, Aeronautics, Space, Defence Systems and Other Activities. The breakdown by sector set out below fits in with the structure adopted on the reporting date, so Defence Systems are shown as a sector in itself and not within Defence and Security Electronics, as will be the case from 2016 onwards after the new organisational model which is largely described in the Report on Operations.

Starting from 2015 the business of the Transportation sector is classified within discontinued operations, as a result of the agreement with Hitachi described in section “Industrial and Financial Transactions” of the Report on Operations.

For a more detailed analysis of the main programmes, outlooks and operating indicators for each segment, see the Report on Operations.

The Group assesses the performance of its operating segments and the allocation of its financial resources on the basis of revenue and EBITA (see also the section “Non-GAAP performance indicators” in the Report on Operations).

For the purpose of a correct interpretation of the information provided we note that the results of the strategic Joint Ventures have been included within the EBITA of the sectors to which these JVs belong; conversely, these sectors do not reflect the relevant share of revenue of the JVs.

The results for each segment at 31 December 2015, as compared with those of the same period of the previous year (restated following the classification of the Transportation segment under Discontinued Operations), are as follows:

31 December 2015	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Other Activities	Elimin-ations	Total
Revenues	4,479	5,266	3,118	-	459	298	(625)	**12,995**
Inter-segment revenue (*)	(3)	(452)	(6)	-	(20)	(144)	625	-
Third party revenue	4,476	4,814	3,112	-	439	154	-	**12,995**
EBITA	558	424	312	37	88	(211)	-	**1,208**
Investments	174	192	203	-	8	26	-	**603**
Non-current assets	3,287	3,906	1,735	-	58	686	-	**9,672**

31 December 2014 restated	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Other Activities	Elimin-ations	Total
Revenues	4,376	4,980	3,144	-	495	398	(629)	**12,764**
Inter-segment revenue (*)	(8)	(476)	(6)	-	(24)	(115)	629	-
Third party revenue	4,368	4,504	3,138	-	471	283	-	**12,764**
EBITA	543	207	237	52	89	(148)	-	**980**
Investments	236	180	280	-	10	61	-	**767**
Non-current assets	3,143	3,785	1,800	-	69	939	-	**9,736**

(*) Inter-segment revenue includes revenue among Group consolidated undertakings belonging to various business sectors

The portion of Non-current assets relates to intangible assets, property, plant and equipment and investment property attributable to the business segments at 31 December 2015 and 31 December 2014.

The reconciliation of EBITA, EBIT and earnings before income taxes, financial income and expense and the share of results of equity-accounted investees for the periods concerned is shown below:

2015	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Other Activities	Total
EBITA	**558**	**424**	**312**	**37**	**88**	**(211)**	**1,208**
Amortisation of intangible assets acquired as part of business combinations	(8)	(89)	-	-	-	(1)	**(98)**
Restructuring costs	2	(55)	(33)	-	-	(28)	**(114)**
Non-recurring income/expense	(25)	(60)	(16)	-	-	(11)	**(112)**
EBIT	**527**	**220**	**263**	**37**	**88**	**(251)**	**884**
Equity-accounted strategic JVs	-	-	(170)	(37)	(54)	-	**(261)**
Income before tax and financial expenses	**527**	**220**	**93**	**-**	**34**	**(251)**	**623**

2014 restated	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Other Activities	Total
EBITA	**543**	**207**	**237**	**52**	**89**	**(148)**	**980**
Amortisation of intangible assets acquired as part of business combinations	(8)	(76)	-	-	-	-	**(84)**
Restructuring costs	8	(94)	(74)	-	(1)	(45)	**(206)**
Non-recurring income/expense	(54)	(7)	(8)	-	-	(24)	**(93)**
EBIT	**489**	**30**	**155**	**52**	**88**	**(217)**	**597**
Equity-accounted strategic JVs	-	-	(63)	(52)	(38)	-	**(153)**
Income before tax and financial expenses	**489**	**30**	**92**	**-**	**50**	**(217)**	**444**

Group revenue can also be broken down geographically as follows (based on the customer's home country), non-current assets, as defined above, are allocated on the basis of their location

	Revenues		*Non-current assets*	
	2015	*2014*	*31 December 2015*	*31 December 2014*
Italy	2,110	2,006	5,217	5,399
United Kingdom	1,844	1,823	1,256	1,208
Rest of Europe	3,488	3,423	958	997
North America	3,232	3,131	2,221	2,113
Rest of the world	2,321	2,381	20	19
	12,995	**12,764**	**9,672**	**9,736**

10. INTANGIBLE ASSETS

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business combinations	Other intangible assets	Total
1 January 2014							
Cost	5,398	1,101	1,899	398	1,149	685	**10,630**
Amortisation and impairment losses	(1,842)	(671)	(732)	(107)	(474)	(512)	**(4,338)**
Carrying amount	3,556	430	1,167	291	675	173	**6,292**
Investments	-	95	253	2	-	58	**408**
Amortisation	-	(63)	(69)	(20)	(84)	(59)	**(295)**
Impairment losses	-	(3)	-	-	-	(2)	**(5)**
Other changes	244	55	(5)	29	51	7	**381**
31 December 2014	3,800	514	1,346	302	642	177	**6,781**
broken down as follows:							
Cost	5,868	1,231	1,913	421	1,246	766	**11,445**
Amortisation and impairment losses	(2,068)	(717)	(567)	(119)	(604)	(589)	**(4,664)**
Carrying amount	3,800	514	1,346	302	642	177	**6,781**
Transportation Assets	(38)	(4)	(1)	-	-	(15)	**(58)**
Investments	-	100	174	3	-	51	**328**
Sales	(8)	-	-	(4)	-	-	**(12)**
Amortisation	-	(72)	(80)	(8)	(98)	(57)	**(315)**
Impairment losses	-	(18)	-	-	-	(1)	**(19)**
Other changes	234	-	(2)	31	44	(2)	**305**
31 December 2015	3,988	520	1,437	324	588	153	**7,010**
broken down as follows:							
Cost	6,314	1,358	2,083	474	1,347	755	**12,331**
Amortisation and impairment losses	(2,326)	(838)	(646)	(150)	(759)	(602)	**(5,321)**
Carrying amount	3,988	520	1,437	324	588	153	**7,010**
31 December 2014							
Gross value			5,006				
Grants			3,660				
31 December 2015							
Gross value			4,719				
Grants			3,282				

Goodwill

Goodwill is allocated to the Cash Generating Units (CGUs) or groups of CGUs concerned, which are determined with reference to the Group's organisational, management and control structure at the reporting date coinciding, as is known, with the Group's five business segments.

As already described in other parts of this document, the breakdown by CGU fits in with the structure adopted on the reporting date. During 2016, along with the implementation of the new operating model (which envisages seven business divisions operating within 4 sectors, as already described in other parts of these financial statements) there will be the updating of the analyses aimed at identifying the CGUs or groups of CGUs to be tested in the future (with the exclusion of DRS that will not be involved in such re-testing process as it is included within the scope of the divisions) on the basis of the wide positive margins highlighted below.

A summary of goodwill by segment at 31 December 2015 and 2014 is as follows:

	31 December 2015		*31 December 2014*	
Helicopters		**1,337**		**1,307**
DRS	*1,464*		*1,321*	
SES	*1,127*		*1,074*	
Defence and Security Electronics		**2,591**		**2,395**
Transportation (Ansaldo STS)		**-**		**38**
Aeronautics		**60**		**60**
		3,988		**3,800**

The increase compared to 31 December 2014 is due to foreign currency translation differences on goodwill denominated in US dollars and Pound starling partially offset by the transfers of the period. Goodwill is subject to impairment testing to determine any loss in value. This is done by individual CGU by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale. In practice, the Group has established an operational hierarchy between calculating the fair value net transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value net of transaction costs determined. In particular, the value in use is measured by the unlevered discounting of the cash flows resulting from the Group's five-year business plans prepared by directors of the CGU and incorporated into the plan approved by Finmeccanica's Board of Directors, projected beyond the explicit time horizon covered by the plan according to the perpetuity growth method (terminal value), using growth rates ("g-rate") no greater than those forecast for the markets in which the given CGU operates. The cash flows used were those provided for in the plans adjusted to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, these cash flows are those generated before financial expense and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. The related underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected developments in the Group's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs:

- the risk-free rate, calculated using the 10- and 20-year gross yield of government bonds of the geographic market of the CGU. The drop in these rates justifies the overall decrease of WACCs compared with 2014;
- the market premium was calculated using a 6% value (increased from 2014 to consider the effect deriving from the drop in rates), except for the Defence and Security Electronics sector for which the risk premium was raised by one point, to take account of the performance of the reference markets in the recent years, which required impairments in both financial years 2011 and 2012;
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of debt applicable to the Group, net of taxes;
- the debt/equity ratio, determined using data pertaining to our major competitors in each sector.

On the contrary, the growth rates used to project the CGU's cash flows beyond the explicit term of the plan were estimated by making reference to the growth assumptions of the individual sectors in which said CGUs operate. These assumptions are based on the internal processing of external sources, making reference to a period of time that is usually ten years. The g-rates used for the purposes of the impairment test were equal to 2%, consistently with the actions taken in previous financial years, even in the presence of higher expected growth rates in some sectors.

The mostly important assumptions for the purposes of estimating the cash flows used in determining the value in use are summarised below:

	Helicopters	**SES**	**DRS**	**Aeronautics**
WACC	X	X	X	X
g-rate	X	X	X	X
ROS as per the plan	X	X	X	X
Trend of the Defence budget	X	X	X	X
Growth in production rates of mass production of particular importance	X			X

In estimating these basic assumptions, the management made reference, in the case of external variables, to information processed on the basis of external surveys, as well as on its knowledge of the markets and of the specific contractual situations.

The following WACCs (after taxes) and (nominal) growth rates were used at 31 December 2015 and 2014:

	31 December 2015		*31 December 2014*	
	Wacc	***g-rate***	**Wacc**	***g-rate***
Helicopters	8.7%	2.0%	9.1%	2.0%
DRS	7.9%	2.0%	7.6%	2.0%
SES	7.8%	2.0%	9.0%	2.0%
Defence and Security Electronics				
Aeronautics	7.2%	2.0%	9.1%	2.0%

Testing revealed no signs of impairment. The Group recognized impairment losses in both of the CGUs in the *Defence and Security Electronics* sector in 2011 and 2012, particularly in DRS (totalling €mil. 1,639). The headroom for DRS (i.e. the positive margin calculated during impairment testing) is still lower than that for the other GCUs, however, it is estimated that the US defence budget, which is the main source of revenue of DRS, whose performance, inter alia, highlights an increase in orders and profitability, will expand over the next few years. Sensitivity analysis was conducted on these results, making reference to the assumptions for which it is reasonably possible that a change in the same may significantly modify the results of the test. The wide positive margins recorded on the other CGUs are such that they may not be significantly modified by any changes in the assumptions described above. For information purposes, below are reported the results of all the CGUs. The table below highlights the headroom in the base scenario, compared with the following sensitivity analyses: (i) increase by 50 basis points in the interest rate used to discount cash flows across all the CGUs, other conditions being equal; (ii) reduction by 50 basis points in the growth rate used in calculating the terminal value, other conditions being equal; (iii) reduction by half point in the operating profitability applied to the terminal value, other conditions being equal

	Margin (base case)	**Margin post sensitivity**		
		Wacc	***g-rate***	**ROS TV**
Helicopters	2,566	2,156	2,242	2,391
DRS (USD millions)	260	67	114	96
SES	1,945	1,551	1,630	1,769
Defence and Security Electronics				
Aeronautics	5,657	5,293	5,354	5,502

Other intangible assets

“Development costs” rose due to the net effect of investments during the period, especially in the Aeronautics (€mil. 30), Helicopters (€mil. 40) segments and SES (€mil. 30), and to amortisation for the year. Investments attributable to “non-recurring costs” related to the Helicopters (€mil. 84), Aeronautics (€mil. 28) and Defence and Security Electronics (€mil. 62) segments. As regards programmes that benefit from the provisions of Law 808/85 and that are classified as functional to national security, the portion of capitalised non-recurring costs, pending the fulfilment of the legal requirements for the classification under receivables, is separately disclosed under other non-current assets (Note 13). Receivables for grants assessed by the grantor in relation to capitalised costs (shown here net of the related grants) are illustrated in Note 27.

Total research and development costs, including also "development" and "non-recurring costs" just mentioned, amount to €mil. 1,426, of which €mil. 179 expensed.

"Concessions, licences and trademarks" includes in particular the value of licenses acquired in previous years in the Helicopters segment. With regard to the full acquisition of the AW609 programme, this value also comprises the estimated variable fees due to Bell Helicopter on the basis of the commercial success of the programme (Nota 22). The change during the period is mainly attributable to the decline in amortisation during the period and the increase resulting from the effect of foreign exchange transactions.

Intangible assets acquired in the course of business combinations mainly decreased as a result of the amortisation and include the following items:

	31 December 2015	*31 December 2014*
Know-how	72	73
Trademarks	45	45
Backlog and commercial positioning	471	524
	588	**642**

Specifically, "Backlog and commercial positioning" essentially refers to the portion of the purchase prices of DRS, the UK component of SES and AgustaWestland allocated to this item.

"Other" mainly includes software, which is amortised over a 3 to 5 year period, and intangible assets in progress and advances.

The most significant investments were made in the Helicopters (€mil. 131), Aeronautics (€mil. 82) and Defence and Security Electronics (€mil. 109) segments.

Commitments are in place for the purchase of intangible assets for €mil. 10 (€mil. 14 at 31 December 2014).

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other tangible assets	Total
1 January 2014					
Cost	1,687	1,398	1,804	1,399	**6,288**
Amortisation, depreciation and impairment losses	(583)	(965)	(976)	(819)	**(3,343)**
Carrying amount	1,104	433	828	580	**2,945**
Investments	11	27	107	238	**383**
Sales	(2)	(12)	-	(6)	**(20)**
Depreciation	(55)	(93)	(143)	(67)	**(358)**
Impairment losses	-	-	-	(5)	**(5)**
Other changes	76	145	37	(248)	**10**
31 December 2014	1,134	500	829	492	**2,955**
broken down as follows:					
Cost	1,788	1,586	1,923	1,370	**6,667**
Amortisation, depreciation and impairment losses	(654)	(1,086)	(1,094)	(878)	**(3,712)**
Carrying amount	1,134	500	829	492	**2,955**
Transportation Assets	(96)	(26)	(8)	(17)	**(147)**
Investments	5	19	100	151	**275**
Sales	(97)	(1)	(1)	(12)	**(111)**
Depreciation	(52)	(95)	(168)	(62)	**(377)**
Impairment losses	-	-	(2)	(1)	**(3)**
Other changes	73	95	39	(170)	**37**
31 December 2015	968	492	789	381	**2,630**
broken down as follows:					
Cost	1,576	1,559	2,050	1,248	**6,433**
Amortisation, depreciation and impairment losses	(608)	(1,067)	(1,261)	(867)	**(3,803)**
Carrying amount	968	492	789	381	**2,630**

Property, plant and equipment includes €mil. 8 of assets held under contracts that can be qualified as finance leases in relation to plant and machinery, equipment and other assets.

"Other tangible assets" also include the value of assets under construction (€mil. 149 at 31 December 2015 vs €mil. 217 at 31 December 2014).

The most significant investments amounted to €mil. 121 for Aeronautics (mainly for progress on the B787 programme), €mil. 83 for Defence and Security Electronics, €mil. 42 for Helicopters, €mil. 22 for Other Activities.

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 113 (€mil. 131 at 31 December 2014).

12. EQUITY INVESTMENTS AND SHARE OF PROFITS (LOSSES) OF EQUITY-ACCOUNTED INVESTEES

	2015			*2014*		
	Equity investments	**Risk provisions**	**Total**	**Equity investments**	**Risk provisions**	**Total**
Material joint venture	925		925	768		768
Joint venture not individually material:	80	(3)	77	82	(20)	62
- Aviation Training Int. Ltd	*24*	-	*24*	*26*	-	*26*
- Rotorsim Srl	*27*	-	*27*	*24*	-	*24*
- Advanced Acoustic Concepts LLC	*20*	-	*20*	*20*	-	*20*
- Balfour Beatty Ansaldo syst. JV SDNBHD	-	-	-	*5*	-	*5*
- Rotorsim USA LLC	*8*	-	*8*	*7*	-	*7*
- Closed Joint Stock Company Helivert	-	*(3)*	*(3)*	-	-	-
- Superjet International SpA	*1*		*1*	-	*(20)*	*(20)*
	1,005	(3)	1,002	850	(20)	830
Associates	112	(1)	111	173	-	173
	1,117	**(4)**	**1,113**	**1,023**	**(20)**	**1,003**

The Finmeccanica Group operates in certain sectors also through entities jointly controlled with third parties and valued under the equity method, since they qualify as joint ventures.

Below are reported the joint ventures considered material in terms of volumes and from a strategic viewpoint for the Group:

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

In particular, as regards the companies falling under the so-called Space Alliance - Thales Alenia Space and Telespazio – Finmeccanica carried out, during the first classification, an in-depth analysis of the existing arrangements, in order to verify whether situations of control (with reference to Telespazio) or of significant influence (with reference toThales Alenia Space) existed, both entities being considered by Finmeccanica as Joint Ventures. Specifically, the Space Alliance univocally regulates the governance of both companies, making reference to shareholders’ agreements prepared alike. With particular reference to Telespazio, in which the Group holds more than 50% of the stakes, the analyses performed led to deem that the company’s governance is such that Telespazio can be regarded as a jointly controlled entity by virtue of the composition rules for the decision-making bodies - these rules being such that cannot be defined as merely “protective”, as referred to in IFRS10 – and due to the expected unanimous consent of the shareholders on particularly significant matters for the company's management. Moreover, the substantive analysis, carried out taking into account the peculiarity of the businesses, highlighted that the methods to resolve deadlocks (i.e. when a stalemate in the decision-making process occurs and the shareholders have no possibility to jointly decide on matters about which they are required to make decisions through the unanimous consent mechanism) do not allow the majority venturer to impose its will. This is because, in case no decision can be reached, despite the complex escalation mechanism under the shareholders' agreements, the minority venturer has the right to dissolve the Joint Venture, recovering the assets originally assigned, through a call option or, solely if this option is not exercisable, to leave the Joint Venture through a put option. Finally, in the event of a decision-making deadlock, the joint venture might be eventually wound up or the minority venturer might sell its interest: in both of these cases, the venturers might be required to share or transfer part of the assets – with particular reference to technological expertise or know-how – originally assigned.

On the contrary, the analysis performed by the other venturer led to different conclusions with reference to Thales Alenia Space, which is fully consolidated by Thales in spite of the previously described governance structure. The application of such different conclusions on Finmeccanica, with the full consolidation of Telespazio into Finmeccanica, would have changed the Group's main indicators as follows:

	2015	*2014*
Revenue	+610	+639
EBITA	+14	+30
EBIT	+5	+26
Net result (non-controlling interests)	-	+7
FOCF	+16	+7
Group Net Debt	+8	+3

We provide below a summary of the financial data of the aforementioned material joint ventures (the fair value of which is not available since they are not traded in any active market), as well as a reconciliation with the data included in these consolidated financial statements:

	31 December 2015					
	Telespazio	Thales Alenia Space	MBDA	GIE ATR	Other JV not individually material	**Total**
Non-current assets	319	1,865	2,009	98		
Current assets	335	1,445	3,340	1,194		
- of which cash and cash equivalent	*16*	*105*	*91*	*5*		
Non-current liabilities	45	270	1,059	127		
- of which non-current financial liabilities	*5*	*-*	*9*	*6*		
Current liabilities	355	1,408	3,954	702		
- of which current financial liabilities	*6*	*25*	*29*	*-*		
NCI net equity (100%)	14	-	2	-		
Group net equity (100%)	240	1,632	334	463		
Revenue (100%)	633	2,085	3,065	1,756		
Amortisation, depreciation and impairment losses (100%)	35	48	84	26		
Financial income (expense) (100%)	(3)	(9)	2	-		
Income taxes (100%)	(1)	(27)	(74)	-		
Profit (loss) from continuing operations (100%)	1	106	215	340		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expense) (100%)	(2)	(2)	73			
Total comprehensive income (expense) (100%)	**(1)**	**104**	**288**	**340**		
% Groups' interest in equity at 1 January	173	543	26	118	80	940
% Groups' interest in profit (loss) from continuing operations	1	35	54	170	3	263
% Groups' interest in profit (loss) from discontinued operations, net of taxes	-	-	-	-	-	-
% Groups' interest in other comprehensive income (expense)	(1)	(1)	18	-	-	16
% Groups' interest in total comprehensive income (expense)	**-**	**34**	**72**	**170**	**3**	**279**
Dividends received	(11)	(38)	(16)	(65)	(9)	(139)
Subscriptions and capital increases	-	-	-	-		-
Acquisitions	2	-	2	-	-	4
Disposals	-	-	-	-	-	-
Exchange differences	(2)	-	(3)	9	(1)	3
Other changes	(1)	1	2	-	5	7
% Groups' interest in equity at 31 December	**161**	**540**	**83**	**232**	**78**	**1,094**
Consolidation adjustments	12	(219)	116		2	(89)
Equity investments at 31 December	**173**	**321**	**199**	**232**	**80**	**1,005**
% Groups' interest in profit (loss)	1	35	54	170	3	263
Consolidation adjustments	-	1	-	-		1
Share of profits (losses) of equity-accounted investees	**1**	**36**	**54**	**170**	**3**	**264**
		261				

	31 December 2014					
	Telespazio	Thales Alenia Space	MBDA	GIE ATR	Other JV not individually material	**Total**
Non-current assets	319	1,838	1,969	120		
Current assets	409	1,383	3,466	844		
- of which cash and cash equivalent	23	8	140	(5)		
Non-current liabilities	49	290	1,129	97		
- of which non-current financial liabilities	9	-	13	7		
Current liabilities	406	1,286	4,202	630		
- of which current financial liabilities	11	5	21	-		
NCI net equity (100%)	15	-	1	-		
Group net equity (100%)	258	1,645	103	237		
Revenue (100%)	658	2,006	2,673	1,399		
Amortisation, depreciation and impairment losses (100%)	33	47	81	16		
Financial income (expense) (100%)	(3)	(8)	4	1		
Income taxes (100%)	(16)	(43)	(65)	-		
Profit (loss) from continuing operations (100%)	19	115	150	127		
Profit (loss) from discontinued operations, net of taxes (100%)	-	-	-	-		
Other comprehensive income (expense) (100%)	(1)	(81)	(201)	-		
Total comprehensive income (expense) (100%)	**18**	**34**	**(51)**	**127**		
% Groups' interest in equity at 1 January	176	662	77	94	**83**	**1,092**
% Groups' interest in profit (loss) from continuing operations	13	38	38	63	4	156
% Groups' interest in profit (loss) from discontinued operations, net of taxes	-	-	-	-	-	-
% Groups' interest in other comprehensive income (expense)	(1)	(27)	(50)	-		(78)
% Groups' interest in total comprehensive income (expense)	**12**	**11**	**(12)**	**63**	**4**	**78**
Dividends received	(15)	(131)	(38)	(50)	(10)	(244)
Equity investments of Discontinued Operations	-	-	-	-	(5)	(5)
Acquisitions	-	-	-	-		-
Disposals	-	-	-	-		-
Exchange differences	1	-	1	12	4	18
Other changes	(1)	1	(2)	(1)	4	1
% Groups' interest in equity at 31 December	**173**	**543**	**26**	**118**	**80**	**940**
Consolidation adjustments	13	(221)	116	-	2	(90)
Equity investments at 31 December	**186**	**322**	**142**	**118**	**82**	**850**
% Groups' interest in profit (loss)	13	38	38	63	3	155
Consolidation adjustments	(1)	2	-	-	-	1
Share of profits (losses) of equity-accounted investees	**12**	**40**	**38**	**63**	**3**	**156**
		153				

Below is provided a summary of the aggregate financial data of the associates, inasmuch as there are no associates which are individually material for the Group:

	Associates not individually material	
	31 December 2015	*31 December 2014*
% Groups' interest in equity at 1 January	**173**	**133**
% Groups' interest in profit (loss) from continuing operations	**11**	9
% Groups' interest in profit (loss) from discontinued operations, net of taxes	**-**	
% Groups' interest in other comprehensive income (expense)	**-**	-
% Groups' interest in total comprehensive income (expense)	**11**	**9**
Dividends received	(44)	(11)
Equity investments of Discontinued Operations	(32)	
Subscriptions and capital increases	3	-
Acquisitions	8	89
Disposals	(2)	(7)
Exchange differences	3	(40)
Other changes	(12)	
% Groups' interest in equity at 31 December	**108**	**173**
Consolidation adjustments	4	-
Equity investments at 31 December	**112**	**173**
% Groups' interest in profit (loss)	11	9
Consolidation adjustments		
Share of profits (losses) of equity-accounted investees	**11**	**9**

13. RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31 December 2015	*31 December 2014*
Financing to third parties	35	32
Guarantee deposits	9	12
Deferred grants under Law no. 808/85	44	18
Defined benefit plan assets, net (Note 22)	351	272
Related party receivables (Note 35)	3	22
Other non-current receivables	61	82
Non-current receivables	**503**	**438**
Prepayments - non-current portion	13	18
Equity investments at cost	17	51
Non-recurring costs pending under Law no. 808/1985	77	87
Fair value of the residual portion in portfolio of Ansaldo Energia	131	124
Non-current assets	**238**	**280**

Non-current receivables mainly increased for the higher surplus of a UK pension fund. Vice versa, the decrease in the other items is due to the deconsolidation of the Transportation sector (€mil. 41 at 31 December 2014).

Moreover, other non-current assets include the fair value of 15% of the Ansaldo Energia share capital (classified as fair value through profit and loss), which will be sold upon the exercise of the put&call options, defined below, by the parties, at a pre-arranged price of €mil. 117 in respect of which capitalised interest accrues at a yearly 6% rate. In particular, Finmeccanica can exercise its put option between 30 June and 31 December 2017, while the call option of FSI is exercisable in the same period or before if some conditions occur.

Other non-current activities decreased as a result of the deconsolidation of the Transportation sector (€mil. 42 of which €mil. 37 related to equity investments valued at cost).

14. INVENTORIES

	31 December 2015	*31 December 2014*
Raw materials, supplies and consumables	1,939	2,201
Work in progress and semi-finished goods	1,765	1,650
Finished goods and merchandise	91	88
Advances to suppliers	542	639
	4,337	**4,578**

Inventories are shown net of impairment charges of €mil. 772 (€mil. 766 at 31 December 2014).

The item decreased as a result of the deconsolidation of the Transportation sector (€mil. 260 at 31 December 2014).

15. CONTRACT WORK IN PROGRESS AND PROGRESS PAYMENTS AND ADVANCES FROM CUSTOMERS

	31 December 2015	*31 December 2014*
Contract work in progress (gross)	4,273	6,490
Final losses (positive wip)	(50)	(92)
Progress payments and advances from customers	(1,366)	(3,311)
Contract work in progress (net)	**2,857**	**3,087**
Progress payments and advances from customers (gross)	6,379	11,778
Contract work in progress	(331)	(4,971)
Final losses negative wip)	578	630
Progress payments and advances from customers (net)	**6,626**	**7,437**
Net value	**(3,769)**	**(4,350)**

"Contract work in progress" is recognised as an asset net of the relative advances if, based on an analysis carried out on a contract-by-contract basis, the gross amount of work in progress exceeds advances from customers. It is recognised as a liability if advances from customers exceed the relevant work in progress. This offsetting is performed only with regard to work in progress and not to inventories or other assets. If the progress payments and advances from customers have not been collected at the reporting date, the corresponding amount is recognised as a receivable from customers.

Below is a breakdown of the net balance of contract work in progress and progress payments and advances from customers:

	31 December 2015	*31 December 2014*
Cost incurred and margins recognised, net of losses	3,976	10,739
Advances	(7,745)	(15,089)
Net value	**(3,769)**	**(4,350)**

The net increase of the item is attributable to the deconsolidation of the Transportation sector (€mil. 292 at 31 December 2014) and to the reclassification of the amounts related to the Fata Group within assets and liabilities held for sale (€mil.14).

16. TRADE AND FINANCIAL RECEIVABLES

	31 December 2015		*31 December 2014*	
	Trade	**Financial**	**Trade**	**Financial**
Receivables	3,301	67	4,018	68
Cumulative impairments	(443)	(22)	(398)	(23)
Related party current receivables (Note 35)	660	122	928	161
	3,518	**167**	**4,548**	**206**

The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 35.

Trade receivables and loans and receivables decreased as a result of the deconsolidation of the Transportation sector (€mil.906 and €mil.33 at 31 December 2014 respectively) and of the reclassification of the assets of the Fata Group within assets held for sale (€mil.37 of trade receivables).

17. OTHER CURRENT ASSETS

	31 December 2015	*31 December 2014*
Derivatives	134	488
Prepaid expenses - current portion	76	107
Receivables for grants	95	97
Receivables from employees and social security	55	67
Indirect tax receivables	164	238
Deferred receivables under Law no. 808/85	3	3
Other related party receivables (Note 35)	8	6
Other assets	127	131
	662	**1,137**

The balance decreased by €mil. 101 following the deconsolidation of the Transportation sector.

The table below provides detail of the asset and liability positions related to derivative instruments.

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	129	238	457	535
Derivatives covering debt items	1	42	26	2
Embedded derivatives	2	2	2	1
Interest rate swaps	2	3	3	4
	134	**285**	**488**	**542**

The table below provides the fair values of the various derivatives in the portfolio:

	Fair value at					
	31 December 2015			31 December 2014		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Interest rate swaps						
Trading	2	(3)	**(1)**	3	(4)	**(1)**
Currency forward/swap/option						
Trading	-	-	**-**	2	-	**2**
Fair value hedge	1	(42)	**(41)**	26	(2)	**24**
Cash flow hedge	129	(238)	**(109)**	455	(535)	**(80)**
Embedded derivative (trading)	2	(2)	**-**	2	(1)	**1**

18. CASH AND CASH EQUIVALENTS

The change in the year is shown in the statement of cash flows. The increase in the year is partially offset by the effect of the deconsolidation of the cash of the Transportation sector (€mil.290 at 31 December 2014). Cash and cash equivalents at 31 December 2015 include €mil. 5 of term deposits (€mil. 103 at 31 December 2014). The Group does not include overdraft facilities, since it is not systematically used as a form of financing.

19. EQUITY

Share capital

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(32,450)	-	-	-	-
31 December 2014	578,117,945	2,544	-	(19)	2,525
Repurchase of treasury shares less shares sold	(200,000)	-	(3)	-	(3)
31 December 2015	577,917,945	2,544	(3)	(19)	2,522
broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(232,450)	-	(3)	-	(3)

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of € 4.40 each, including 232,450 treasury shares.

At 31 December 2015 the Ministry of Economy and Finance owned around 30.204% of the share capital, Norges Bank 2.031% and Libyan Investment Authority 2.010% of the shares.

The statement of changes in other reserves and equity attributable to non-controlling interests is presented in the accounting statements section.

Cash-flow hedge reserve

This reserve includes changes in fair value of derivatives used by the Group to hedge its exposure to currency net of the effect of deferred taxes until the moment in which the "underlying position" is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Translation reserve

The reserve increased in consequence of the following revaluations:

	2015	*2014*
US dollar	160	183
Pound sterling	147	146
Other currencies	(27)	(19)
	280	**310**

Overall, the reserve is positive for €mil. 77, mainly for the translation differences on the components denominated in US Dollar (€mil. 226 generated by the US division of the Defence and Security Electronics and Helicopters sectors) partially offset by the components denominated in Pound sterling (negative €mil. 95 generated by AgustaWestland and Selex ES) and in Rouble.

Tax effects on the gain and loss items recognised in equity

	Group - consolidated entities			**Group - equity accounted investments**		
	Amount before taxes	**Tax effect**	**Net amount**	**Amount before taxes**	**Tax effect**	**Net amount**
2015						
Revaluation of defined-benefit plans	(42)	19	(23)	32	(8)	24
Changes in cash-flow hedges	14	(8)	6	(3)	1	(2)
Foreign currency translation difference	285	-	285	(5)	-	(5)
Total	**257**	**11**	**268**	**24**	**(7)**	**17**
2014						
Revaluation of defined-benefit plans	9	1	10	(72)	16	(56)
Changes in cash-flow hedges	(110)	28	(82)	(34)	12	(22)
Foreign currency translation difference	312	-	312	(2)	-	(2)
Total	**211**	**29**	**240**	**(108)**	**28**	**(80)**

Below is a breakdown of the tax effects on the gain and loss items recognised in equity of Non-controlling interests:

	Non-controlling interest		
	Amount before taxes	**Tax effect**	**Net amount**
2015			
Revaluation of defined-benefit plans	-	-	-
Changes in cash-flow hedges	-	(1)	(1)
Foreign currency translation difference	5	-	5
Total	**5**	**(1)**	**4**
2014			
Revaluation of defined-benefit plans	(3)	1	(2)
Changes in cash-flow hedges	2	(1)	1
Foreign currency translation difference	13	-	13
Total	**12**	**-**	**12**

20. LOANS AND BORROWINGS

	31 December 2015			*31 December 2014*		
	Non-current	**Current**	**Total**	**Non-current**	**Current**	**Total**
Bonds	4,276	121	4,397	4,630	131	4,761
Bank loans and borrowings	293	96	389	362	110	472
Related party loans and borrowings (Note 35)	2	399	401	6	425	431
Other loans and borrowings	36	83	119	33	73	106
	4,607	**699**	**5,306**	**5,031**	**739**	**5,770**

The main clauses that regulate the Group's payables are reported in the section "*Financial Transactions*" of the Report on Operations. Changes in loans and borrowings are as follows:

	1 January 2015	**Issues**	**Repayments/Payment of coupons**	**Other net increase (decrease)**	**Exchange differences and other movements**	***31 December 2015***
Bonds	4,761	-	(793)	271	158	**4,397**
Bank loans and borrowings	472	-	(79)	3	(7)	**389**
Related-party loans and borrowings	431	-	-	(30)	-	**401**
Other loans and borrowings	106	-	(5)	126	(108)	**119**
	5,770	**-**	**(877)**	**370**	**43**	**5,306**

	1 January 2014	**Issues**	**Repayments/Payment of coupons**	**Other net increase (decrease)**	**Exchange differences and other movements**	***31 December 2014***
Bonds	4,305	249	(211)	261	157	**4,761**
Bank loans and borrowings	544	-	(46)	(25)	(1)	**472**
Related-party loans and borrowings	629	-	-	(198)	-	**431**
Other loans and borrowings	105	-	-	(14)	15	**106**
	5,583	**249**	**(257)**	**24**	**171**	**5,770**

Net changes for current liabilities. The items also include changes resulting from the application of the effective interest-rate method, which may not correspond with actual cash movements.

The decrease is mainly due to the combined effect of the repurchase of the Finmeccanica bonds, as described in the section on financial transactions, and of the exchange differences on the issues denominated in USD and GBP (€mil. 158).

Bank loans and borrowings mainly included the loan executed with the European Investment Bank (EIB) (€mil. 327 compared to €mil. 374 at 31 December 2014), aimed at implementing development activities in the Aeronautic segment.

Bonds

Below is the detail of the bonds at 31 December 2015 which shows the bonds issued by Finmeccanica ("FNM") and Meccanica Holdings USA ("MH"):

Issuer		Year of issue	Maturity	Currency	Outstanding nominal amount (mil.) (*)	Annual coupon		Type of offer
FNM (originally Fin Fin)	(**)	2003	2018	€	500	5.750%	(1)	European institutional
FNM	(**)	2005	2025	€	500	4.875%		European institutional
FNM (originally Fin Fin)	(**)	2009	2019	GBP	319	8.000%	(2)	European institutional
FNM (originally Fin Fin)	(**)	2009	2022	€	555	5.250%		European institutional
MH	(***)	2009	2019	USD	500	6.250%		American institutional Rule 144A/Reg. S
MH	(***)	2009	2039	USD	300	7.375%		American institutional Rule 144A/Reg. S
MH	(***)	2009	2040	USD	500	6.250%		American institutional Rule 144A/Reg. S
FNM (originally Fin Fin)	(**)	2012	2017	€	521	4.375%		European institutional
FNM (originally Fin Fin)	(**)	2013	2021	€	739	4.500%		European institutional

(*) *Nominal amounts decreased compared to the value of the original issues following the buy-back transactions.*

(**) *Bonds listed on the Luxembourg Stock Exchange and issued as part of the EMTN programme for a maximum of €bil. 4. The transaction was authorised pursuant to Art. 129 of Legislative Decree 385/1993.*

(***) *Bonds issued under Rule 144A, Regulation S of the US Securities Act. The proceeds of this issue were entirely used by Meccanica Holdings USA to finance the purchase of DRS replacing the dollar-issue bonds originally issued by the company. These bonds were redeemed early following Finmeccanica's purchase of DRS. As a result, these issues were not hedged against exchange rate risk, and no interest-rate transactions on the issue were performed.*

(1) Rate derivative transactions were made on these bonds and led the effective cost of the loan to a fixed rate better than the coupon and corresponding to an average of some 5.6%.

(2) The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged.

Movements in bonds are as follows:

	1 January 2015	**New borrowings**	**Interest**	**Repayments/ Repurchases**	**Payments of coupons**	**Effect of exchang e rate**	*31 December 2015*	*Fair value*
€mil. 500 FNM 2018 *	500		29		(29)		**500**	561
€mil. 500 FNM 2025 *	515		25		(24)		**516**	557
GBPmil. 400 FNM 2019 *	511		44	(117)	(41)	37	**434**	509
€mil. 600 Fin Fin 2022 *	624		32	(45)	(32)		**579**	631
USDmil. 500 MH 2019 *	365		24		(24)	43	**408**	383
USDmil. 300 MH 2039 *	250		20	(24)	(20)	29	**255**	269
USDmil. 500 MH 2040 *	419		27	(41)	(28)	49	**426**	457
€mil. 600 FNM 2017 *	596		27	(79)	(25)		**519**	553
€mil. 950 Fin Fin 2021 *	981		43	(211)	(53)	-	**760**	806
	4,761	**-**	**271**	**(517)**	**(276)**	**158**	**4,397**	**4,726**

	1 January 2014	**New borrowing s**	**Interest**	**Repayments/ Repurchases**	**Payments of coupons**	**Effect of exchange rate**	*31 December 2014*	*Fair value*
€mil. 500 FNM 2018 *	499		30		(29)		**500**	578
€mil. 500 FNM 2025 *	515		24		(24)		**515**	555
GBPmil. 400 FNM 2019 *	476		41		(40)	34	**511**	600
€mil. 600 Fin Fin 2022 *	623		32		(31)		**624**	677
USDmil. 500 MH 2019 *	322		20		(20)	43	**365**	449
USDmil. 300 MH 2039 *	220		17		(17)	30	**250**	252
USDmil. 500 MH 2040 *	369		24		(24)	50	**419**	399
€mil. 600 FNM 2017 *	595		27		(26)		**596**	647
€mil. 950 Fin Fin 2021 *	686	249	46			-	**981**	1,029
	4,305	**249**	**261**	**-**	**(211)**	**157**	**4,761**	**5,186**

(*) Maturity date of bond.

The fair value of the bonds was determined on the basis of the quoted prices of the existing issues (Level 1 of the fair value hierarchy).

The Group's financial liabilities are subject to the following exposures to interest-rate risk:

	Bonds		***Bank loans and borrowings***		***Related party loans and borrowings***		***Other loans and borrowings***		**Total**	
31 December 2015	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	**Floating**	**Fixed**
Within 1 year	-	121	66	30	399	-	83	-	**548**	**151**
2 to 5 years		1,845	105	109	2	-	29	1	**136**	**1,955**
Beyond 5 years	-	2,431	24	55	-	-	6	-	**30**	**2,486**
Total	**-**	**4,397**	**195**	**194**	**401**	**-**	**118**	**1**	**714**	**4,592**

	Bonds		***Bank loans and borrowings***		***Related party loans and borrowings***		***Other loans and borrowings***		**Totale**	
31 December 2014	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	**Floating**	**Fixed**
Within 1 year	-	131	79	31	425	-	73		**577**	**162**
2 to 5 years		1,956	105	109	6	-	32	-	**143**	**2,065**
Beyond 5 years	-	2,674	66	82	-	-	1	-	**67**	**2,756**
Total	**-**	**4,761**	**250**	**222**	**431**	**-**	**106**	**-**	**787**	**4,983**

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

	31 December 2015	*of which with related parties*	*31 December 2014*	*of which with related parties*
Liquidity	**(1,771)**		**(1,495)**	
Current loans and receivables	**(167)**	*(122)*	**(206)**	*(161)*
Current bank loans and borrowings	96		110	
Current portion of non-current loans and borrowings	121		131	
Other current loans and borrowings	482	*399*	498	*425*
Current financial debt	**699**		**739**	
Net current financial debt (funds)	**(1,239)**		**(962)**	
Non-current bank loans and borrowings	293		362	
Bonds issued	4,276		4,630	
Other non-current loans and borrowings	38	*2*	39	*6*
Non-current financial debt	**4,607**		**5,031**	
Net financial debt	**3,368**		**4,069**	
Net financial debt of Discontinued Operations	**7**		**-**	

The reconciliation between Net financial debt and Group Net Debt, used as KPI, is as follows:

	Note	*31 December 2015*	*31 December 2014*
Net financial debt com. CONSOB n. DEM/6064293		**3,368**	**4,069**
Fair value of the residual portion in portfolio of Ansaldo Energia	*12*	(131)	(124)
Hedging derivatives in respect of debt items		41	(24)
Effect of transactions involving Fyra contract		-	41
Group net debt (KPI)		**3,278**	**3,962**

21. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Guarantees given	Restructuring	Penalties	Product guarantees	Other provisions	Total
1 January 2014						
Current	16	171	30	102	688	**1,007**
Non-current	112	73	322	104	677	**1,288**
	128	**244**	**352**	**206**	**1,365**	**2,295**
Allocations	4	114	8	37	212	**375**
Uses	(6)	(94)	(11)	(10)	(75)	**(196)**
Reversals	(1)	(6)	(8)	(55)	(141)	**(211)**
Other changes	31	(17)	25	7	(279)	**(233)**
31 December 2014	**156**	**241**	**366**	**185**	**1,082**	**2,030**
Broken down as follows:						
Current	16	128	48	82	475	**749**
Non-current	140	113	318	103	607	**1,281**
	156	**241**	**366**	**185**	**1,082**	**2,030**
Transportation Liabilities	(8)	-	-	-	(3)	**(11)**
Allocations	138	61	7	76	311	**593**
Uses	(1)	(57)	(16)	(9)	(49)	**(132)**
Reversals	-	(14)	(9)	(63)	(197)	**(283)**
Other changes	(4)	(24)	33	26	(29)	**2**
31 December 2015	**281**	**207**	**381**	**215**	**1,115**	**2,199**
Broken down as follows:						
Current	3	83	84	96	470	**736**
Non-current	278	124	297	119	645	**1,463**
	281	**207**	**381**	**215**	**1,115**	**2,199**

The “Other provisions for risks and charges” mainly include:

- the provision for contractual risks and charges of €mil. 443 (€mil. 506 at 31 December 2014), mainly related to the Aeronautics and Electronics, Defence and Security Systems.
- the provision for risks on equity investments of €mil. 6 (€mil. 23 at 31 December 2014), which includes the accruals for losses exceeding the carrying amounts of unconsolidated equity-accounted investments. In particular, the decrease is attributable to the recapitalization of Superjet International SpA (€mil. 20) by Alenia Aermacchi;
- the provision for taxes of €mil. 190 (€mil. 121 at 31 December 2014);
- the provision for litigation with employees and former employees of €mil. 39 (€mil. 38 at 31 December 2014);
- the provision for litigation underway of €mil. 70 (€mil. 61 at 31 December 2014).

Moreover, the other provisions for risks include the effects deriving from the agreement between the Republic of Panama and Finmeccanica, which put an end to the disputes related to the contracts assigned to some Group companies in 2010.

With regard to risks, below is a summary of the criminal proceedings that are currently underway against a number of Group companies and certain former directors as well as executives of Group companies or of Finmeccanica S.p.a. itself, with specific reference to the events that occurred in 2015 and in early 2016:

- criminal proceedings are pending before the Court of Rome against the former Commercial Director of Finmeccanica, for crime established by Articles110, 319, 319-*bis*, 320, 321 and 322-*bis* of the Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the government of Panama. The proceeding is now in the trial phase. In relation to this case, criminal proceedings are pending before the Public Prosecutor's Office of Rome against Finmeccanica Spa for administrative violations pursuant to Article 25 of Legislative Decree 231/01, for crimes established by Articles 321 and 322-*bis* of the Criminal Code attributed to the then Commercial Director of the Company, in the context of the abovementioned criminal proceedings;
- proceedings are being conducted by the Public Prosecutor's Office of Rome against a manager of Finmeccanica, for crimes under Article 314 of the Criminal Code and Article 5 of Legislative Decree 74/2000, as well as against an employee and two managers of the company, for the crime under Article 648-*bis* of the Criminal Code;
- with reference to the immediate trial before the Court of Busto Arsizio in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian government, on 9 October 2014 the Court sentenced the former Chairman and Chief Executive Officer of Finmeccanica Spa and the former Chief Executive Officer of AgustaWestland SpA to a prison term of two years for having committed violations pursuant to Article 2 of Legislative Decree no. 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009 – June 2010 tax period, and ordering that the amount equivalent to such non-payment of taxes (on a taxable amount of €mil. 3.4) be confiscated from AgustaWestland SpA, considered in determining the provisions for risks. In the same decision, the Court found the defendants not guilty of having committed the violations pursuant to Articles 110, 112, paragraph 1, 319, 321 and 322-*bis*, paragraph 2(2) of the Criminal Code (corruption of foreign public officials), due to lack of evidence. The decision is being appealed. The case is currently pending before the Court of Appeal of Milan.

  The Indian Judicial Authority (CBI) also opened its own criminal investigation in late February 2013 into this matter;
- criminal proceedings at the preliminary investigation stage are pending before the Public Prosecutor's Office of Busto Arsizio, against two former Chief Executive Officers of AgustaWestland SpA, for violations under Article 2 of Legislative Decree 74/2000 and Articles 322-bis, 81 and 110 of the Criminal Code, and against a former manager and a current manager of the company, for violations

under Article 2 of Legislative Decree 74/2000 and Articles 81 and 110 of the Criminal Code. On 23 April 2015, in relation to this investigation, a number of search warrants were executed at the Cascina Costa office of AgustaWestland SpA to seize the contracts, accounting and non-accounting documentation referring to dealings between AgustaWestland SpA and certain Italian and foreign companies;

- criminal proceedings are pending before the Court of Rome against the former Vice-Chairman of BredaMenarinibus, for crimes under Articles 110 and 646 of the Criminal Code and Article 8 of Legislative Decree 74/2000, as well as against the former Chief Financial Officer of the company, for crimes pursuant to Article 110 of the Criminal Code and Article 8 of Legislative Decree 74/2000, in relation to the supply of 45 trolley buses by BredaMenarinibus in the competitive tender launched by Roma Metropolitane SpA. The company, as a party injured by the violations pursuant to Article 646 of the Criminal Code, brought a civil action in the criminal proceedings. The case has now entered the trial phase;

- criminal proceedings are pending before the Court of Naples concerning contracts awarded to the then-Elsag Datamat (now Selex ES SpA) and Electron Italia for the development, respectively, of the integrated traffic monitoring system of the city of Naples and video-surveillance systems for a number of municipalities within the Province of Naples. Under the proceedings, the former Chief Executive Officer of Electron Italia, the former Chief Executive Officer and an employee of the then-Elsag Datamat are charged with violations under Articles 326, 353 and 416 of the Criminal Code, and an employee of the then-Elsag Datamat and an employee of Electron Italia with violations under Articles 353 and 326 of the Criminal Code, as well as Selex ES and Electron Italia for having committed administrative offences under Article 24-*ter*, paragraph 2, of Legislative Decree no. 231/2001. Selex ES SpA and Electron Italia, following service of civil summons issued by the Court at the request of the civil-suit party, filed an appearance in the civil action. The case is now in the trial phase;

- criminal proceedings are pending before the Court of Trani concerning a tender launched by the Municipality of Barletta for the construction of access control systems for the limited traffic area, involving a former employee of Elsag Datamat SpA (now Selex ES SpA), who is currently an employee of Finmeccanica Global Services, for violations under Articles 353 and 356 of the Criminal Code. The proceeding is now in the trial phase;

- criminal proceedings are pending before the Court of Genoa, concerning the overflow of the Chiaravagna River which took place in Genoa on 5 October 2010, involving a former employee of the then-Elsag Datamat (now Selex ES SpA), currently an employee of Finmeccanica Global Services, for violations pursuant to Articles 426 and 449 of the Criminal Code. Selex ES SpA, following service of civil summons issued by the Court at the request of the civil-suit party, filed an appearance in the civil action. The proceeding is now in the trial phase;

- two criminal proceedings concerning the awarding of the contract for the construction and management of the Control System for Waste Tracking (SISTRI) are pending.

  Immediate trial – Bringing of civil action (Selex Service Management)

  In the immediate trial before the Court of Naples against certain suppliers and sub-suppliers of Selex Service Management, at the hearing on 7 November 2013, the company brought a civil action against the defendants. The case has now entered the trial phase.

  Abbreviated trial - Bringing of civil action (Selex Service Management)

  In the abbreviated trial before the Court of Naples against the company's former Chief Executive Officer, for the offences under Article 416, paragraphs 1, 2 and 5, of the Criminal Code and Articles 81-paragraph 2, 110, 319, 320 and 321 of the Criminal Code and Articles 2 and 8 of Legislative Decree no. 74/2000, and a supplier of Selex Service Management, the company brought a civil action against the defendants at the hearing of 21 November 2013.

  On 18 July 2014, the Court sentenced the former Chief Executive Officer of Selex Service Management to a prison term of 2 years and 6 months and ordered him to pay damages to Selex Service Management. The decision is being appealed. The case is currently pending before the Court of Appeal of Milan;

- with reference to the proceedings before the Court of Rome against the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati (now in liquidation), concerning the awarding of work contracts on the part of ENAV SpA, on 16 October 2015 the Court of Rome sentenced the defendants for the crime under Article 8 of Legislative Decree 74/2000 while acquitting them of the crime under Article 646 of the Criminal Code. With the same decision the Judge ordered the former Chief Executive Officer and the former Sales Manager of Selex Sistemi Integrati to repay damages in favour of the company (the plaintiff);

- criminal proceedings are being conducted by the Public Prosecutor's Office of Turin concerning the disclosure of the designs and technical specifications of a competitor of FATA SpA. On 30 May 2014, FATA SpA was served notice of conclusion of the preliminary investigations with regard to the offences pursuant of Articles 5 and 25-*bis*, paragraph 1 of Legislative Decree no. 231/2001. This notice was also served on the former Chairman and a manager, with respect to crimes established by Articles 110 and 513 of the Criminal Code, and on the Chief Operations Officer, for violations pursuant to Articles 81, 615-*ter* and 623 of the Criminal Code;

- criminal proceedings are pending before the Court of Rome concerning the informal tender for awarding a contract in the ICT area for operational, contract management and procurement services held by the Office of the Prime Minister in 2010 and awarded to a temporary association of companies (RTI, *Raggruppamento temporaneo di imprese*) between Selex Service Management and a non-Finmeccanica Group company.

On 1 July 2015 the Judge for Preliminary Hearings (GUP, *Giudice dell'Udienza Preliminare*) ordered the committal for trial of the former Chairman and Chief Executive Officer of Finmeccanica, for violations under Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Criminal Code, for the former Chief Executive Officer of Selex Service Management for violations under Articles 110, 319 and 321 of the Criminal Code and Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Criminal Code, as well as for Selex Service Management itself, for violations under Article 25 of Legislative Decree 231/2001. Finmeccanica brought a civil action as an aggrieved party. The case is now in the trial phase.

In relation to these proceedings, the former Chief Operations Officer of Selex Service Management and former External Relations Officer of Finmeccanica were also charged with respect to crimes established by Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Criminal Code. The former COO was acquitted and the former External Relations Officer of Finmeccanica was found guilty under art. 444 *et seqq.* of the Code of Criminal Procedure;

- criminal proceedings are pending before the Court of Rome involving the Chief Executive Officer of the then-Selex Systems Integration Gmbh (now Selex ES Gmbh), with respect to crimes established by Articles 110 and 223, paragraph 2(2), of the Criminal Code, with regard to Articles 216 and 219, paragraphs 1 and 2(1), of Royal Decree no. 267/42, in connection with the bankruptcy of a supplier. The proceeding is now in the trial phase;

- criminal proceedings are being conducted by the Public Prosecutor's Office of Turin concerning the provision of helicopters to the armed forces, police and other government entities by AgustaWestland, involving certain directors of Finmeccanica (serving from 1994 to 1998) and certain directors of AgustaWestland (serving from 1999 to 2014) with respect to crimes established by Article 449 of the Criminal Code for violation of the regulations on the use of asbestos;

- criminal proceedings are pending before the Court of Milan involving certain directors of the then-Breda Termomeccanica SpA, subsequently Ansaldo SpA, who served during the period 1973-1985, charged with having committed the crimes established by Article 589, paragraphs 1, 2 and 3, Article 40, paragraph 2, Article 41, paragraph 1, of the Criminal Code, Article 2087 of the Civil Code and Article 590, paragraphs 1, 2, 3, 4 and 5, of the Criminal Code, for violation of the rules governing the prevention of work-related illness.

  Finmeccanica, following service of civil summons issued by the Court at the request of the civil-suit parties, filed an appearance in the civil action. The proceeding is now in the trial phase.

Based upon the information gathered and the results of the analysis carried out so far, the Directors did not allocate any specific provisions beyond those indicated in the rest of the paragraph. Any negative developments - which cannot be foreseen, nor determined to date - arising from any internal investigations or judicial investigations being conducted, will be subject to consistent assessment for the purposes of provisions (if any).

* * * * * * * *

With regard to the provisions for civil, tax and administrative disputes, it is underlined that the Group's operations regard industries and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity. Pursuant to the IFRSs, provisions have only been made for risks that are probable and for which the amount can be determined. No specific provisions have been set aside for certain disputes in which the Group is defendant as these disputes are reasonably expected to be resolved, based on current knowledge, satisfactorily and without significantly impacting the Group. Of particular note:

- the dispute in which Finmeccanica is defendant in relation to contractual commitments taken on at the time of the sale of the former subsidiary Finmilano SpA to Banca di Roma (now UniCredit group), arising from an assessment report issued to Finmilano SpA by the Rome Direct Taxation Office, which disallowed the tax deductibility of the loss arising in 1987 from the factoring without recourse of a receivable subject to deferred collection for an amount lower than its nominal amount. Basically, the tax authorities considered this factoring to be a financing transaction and that the loss should be treated as borrowing costs and, therefore, it should not have been fully deducted in 1987 but deferred on a pro rata basis over the subsequent years as implicit interest.
  After the Supreme Court had allowed the petition filed by the tax authorities and referred the case to the trial judge, the latter again allowed the Parent's appeal. However, the tax authorities filed another petition to the Supreme Court against the trial judge's decision. In 2009, for the second time, the Supreme Court quashed the trial judge's decision and referred the case to the second level court. The Rome Regional Tax Court resolved in favour of the tax authorities and the parent filed a new petition to the Supreme Court on 6 June 2012. Finmeccanica does not currently expect it will incur significant losses in this respect;
- the litigation commenced by Reid against Finmeccanica and Alenia Space (now So.ge.pa. SpA) before the Court of Texas in 2001, whereby Reid claimed that the former Finmeccanica-Space business segment failed to meet its obligations under the contract for the development of the Gorizont satellite programme. The dispute concluded in favour of the Group due to the lack of jurisdiction of the Court involved. On 11 May 2007, Reid served Finmeccanica and So.ge.pa. a complaint, whereby it

commenced new legal proceedings before the Court of Chancery in Delaware. Reid has reproposed the same claims for damages that it claimed before the Court of Texas, without, however, quantifying the amount of the alleged damage.

For the appearance before the Court, Finmeccanica filed a motion to dismiss, asserting that the case was time-barred, the statute of limitation had run out and the Court of Delaware did not have jurisdiction. On 27 March 2008, the judge rejected the claim as the case was time-barred. The claimant appealed against this decision before the Supreme Court of Delaware, which issued a decision on 9 April 2009, granting the motion and referring the case to the Court of Chancery for a decision on the other objection raised by Finmeccanica and So.ge.pa. concerning the lack of jurisdiction of the Court of Delaware. Therefore, the discovery phase commenced, during which the witnesses requested by Reid were deposed. The discovery phase was completed in December 2013 and on 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Finmeccanica and So.ge.pa.. The case is proceeding on the merits and the discovery phase is currently underway. However, it should be noted that there was a finding of the inexistence of the rights claimed by the plaintiff and that the case is currently pending before the Court of Appeal of Rome;

- the dispute commenced before the Santa Maria Capua Vetere Court in February 2011 by G.M.R. SpA, as the sole shareholder of Firema Trasporti against Finmeccanica and AnsaldoBreda, requesting that the court admit the defendants' liability for having caused, with their conduct, Firema Trasporti's insolvency, ordering them to pay damages. According to the claimant, during the period in which Finmeccanica held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of Firema Trasporti and in the sole interest of Finmeccanica Group. Moreover, even after the sale of the investment by Finmeccanica, Firema Trasporti was allegedly *de facto* subjected to an abuse of economic dependence from the Group in performing the various agreements existing with AnsaldoBreda. Finmeccanica and AnsaldoBreda appeared before the court requesting that the claims be dismissed as clearly groundless and asserting, on a preliminary basis, that the Court lacks jurisdiction.

At the hearing held on 22 April 2014, the plaintiff pleaded the existence of another legal action brought before the Court of Naples by Firema Trasporti in Extraordinary Administration, against the directors, statutory auditors and independent auditors of Firema Trasporti SpA asking that they be found liable and convicted – each with regard to their position – for the harm caused to the company and be ordered to pay damages in the amount of around €mil. 51. In the course of such proceedings, the two former directors, Giorgio and Gianfranco Fiore, in turn, brought a third-party action against AnsaldoBreda and Finmeccanica, accusing them of abusing their power of management and coordination based upon the arguments put forth by GMR in the matter brought before the Court of Santa Maria Capua Vetere. Given these circumstances, GMR has requested that the two actions be joined. AnsaldoBreda and Finmeccanica opposed this request and urged the Court to grant its previous motion that the Court lacks jurisdiction.

On 28 October 2014, the Court of Santa Maria Capua Vetere granted the motion put forth by Finmeccanica and AnsaldoBreda, finding that it lacked jurisdiction and that instead the Court of Naples was the competent forum. On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits laid down by law. On 23 June 2015, GMR served a new writ of summons before the Court of Naples, through which it once again made the same claims brought in the prior suit and the case is currently underway.

With regard to the action brought before the Court of Naples by Firema Trasporti in Extraordinary Administration, on 19 November 2014 the Court issued a decision finding the claims made by Giorgio and Gianfranco Fiore against Finmeccanica and AnsaldoBreda to be inadmissible and therefore they were removed from the lawsuit. On 2 March 2015, GMR, as third-party intervener, appealed against the aforesaid order of removal from the lawsuit. On 17 June 2015, the trial Court reversed the appealed order. Therefore, the proceedings continue before the Court of first instance of Naples and, solely as regards the appeal against the order subsequently reversed, before the Court of Appeal of Naples;

- the proceedings instituted on 4 March 2013 before the Court of Rome by Mr Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei Srl and of Società Progetto Cina Srl against Finmeccanica in order to ask the Court to establish the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (which was a subsidiary of Finmeccanica until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built.

  As stated by the plaintiffs in the writ of summons, the above-mentioned settlement agreement was concluded based on unfair conditions, thus taking advantage of the distress of Mr Deiana and of the economic dependence of the plaintiff companies with respect to Ansaldo Industria. The claim was submitted against Finmeccanica, invoking the general liability of the same arising from the control exercised by it on Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. Finmeccanica appeared before the Court on 25 September 2013, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court deny the plaintiffs' claims as they are entirely groundless in fact and in law. A minority shareholder of Società Progetto Cina Srl and a minority shareholder of Società Janua Dei Italia Srl intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. Next hearing has been scheduled for 25 January 2017 for the admission of the facts;

- the dispute between Ansaldo STS and SES against the Russian company ZST relating to a contract signed in August 2010 between ZST, which had been awarded the contract to build the Sirth - Benghazi railway line in Libya, and the joint venture comprised of Ansaldo STS and SES, which was the sub-contractor for the signalling, automation, security and telecommunications works.

  On 12 August 2013, Ansaldo STS and SES filed a motion before the Court of Milan seeking an injunction against Russian company ZST, prohibiting it from enforcing the advance payment bond guarantees, issued by Crédit Agricole to guarantee the advances paid to the companies in the amount of around €mil. 70 for Ansaldo STS and €mil. 15.7 for Selex ES. The execution of the contract was suspended following the well-known events that occurred in Libya in early 2011. The precautionary proceedings concluded with the Court granting the injunction only as to the amounts corresponding to the value of the activities performed up until the works were interrupted (equal to €mil. 29 for Ansaldo STS and to €mil. 3 for Selex ES). The bank therefore proceeded to make payment of the remaining amount.

  Therefore, ZST initiated arbitration proceedings before the Vienna International Arbitral Centre against Ansaldo STS and Selex ES seeking repayment of the full amount paid in compensation. The facts were admitted and the issue of the arbitral award is pending.

* * * * * * * *

Moreover, given their complexity, their cutting-edge technological content and the nature of the customers, the Group's long-term contracts are sometimes affected by disputes with customers in relation to the compliance of works with customer specifications and product performances. The Group adjusts the estimated contract costs for foreseeable issues, also taking into account the possible developments in the relevant disputes. With regard to contracts in progress affected by uncertainties and issues under discussion with customers, there are:

- the Sistri five-year contract, signed between the Ministry for the Environment, Land and Sea and Selex Service Management in December 2009 in relation to the design, management and maintenance of the System for Waste Tracking until 30 November 2014, subject to the criminal proceedings described above.

  The performance of the contract was affected by a number of legislative acts aimed at postponing the time at which it was to come into force, at a drastic reduction of the categories of persons under an obligation to adopt the system, at introducing simplification and/or optimisation measures of the system and at indefinitely postponing the applicable penalties. Such legislative acts had a significant impact on the financial stability of the contract, which was further impaired by the non-payment of a large part of the amounts due to the company.

Moreover, on 8 May 2014 the then Italian Public Contracts Regulator (*Autorità di Vigilanza dei Contratti Pubblici*) concluded the procedure that it had opened in July 2012 by resolution no. 10 whereby the Regulator ruled that the award of the Sistri contract did not comply with Article 17 of the Italian Code of Public Contracts in the matter of contracts subject to a secrecy classification and ordered the papers of the case to be sent to the Ministry and to the Court of Auditors, as well as to the DDA (*Direzione Distrettuale Antimafia*) organised crime unit at the Naples Public Prosecutor's office. The company appealed against this Resolution before the Lazio Regional Administrative Court, challenging its lawfulness under various aspects and the related proceeding is still underway. In the wake of this resolution, the Ministry blocked a number of payments owed to the Company and asked the State Legal Advisory Service (*Avvocatura dello Stato*) for an opinion on the matter. Partial payments were made in December 2014 in response, we assume to the confirmation by the State Legal Advisory Service that the contract is valid and legal.

On 21 July 2014 Selex Service Management informed the Ministry that it was not its intention to continue with the management of the system beyond the time-limit of 30 November 2014 set in the contract, forewarning that it would take steps to protect its interests in order to recoup the capital invested and obtain compensation for damages.

Afterwards, Law no. 116 of 11 August 2014 as amended which converted Law Decree no. 91 of 24 June 2014, by introducing certain significant changes to the wording of article 11 of law decree no. 101 of 31 August 2013 (which had provided, inter alia, (i) that the payment of the amounts due would be subject to an audit of the fairness of the final costs through 30 June 2013 and to the availability of the amounts paid by users at that date and (ii) a financial rebalancing of the contract, which was then not carried out), extended the effective date for the contract with Selex Service Management to 31 December 2015, granting Selex Service Management the compensation for the production costs calculated up until the aforesaid date, subject to the fairness assessment by the Agency for Digital Italy (*Agenzia per l'Italia digitale*), to the maximum extent of the fees paid by the operators.

Finally, said Law provided that within 30 June 2015 the Ministry for the Environment, Land and Sea shall commence the procedures for the award of the service under concession in accordance with the provisions and methods set out in the Italian Code for Public Contracts.

Following the refusal of jurisdiction of the arbitration panel served on the company on 19 February 2015 by the State Legal Advisory Service, the Company started a legal action against the said Ministry before the Court of Rome – Division specialising in business law. This action aims at seeking a declaration that the contract had expired on 30 November 2014.

- the supply contract for 12 helicopters signed between AgustaWestland International Ltd and the Indian Ministry of Defence in 2010, worth around €mil. 560 in total, which is the object of the above described criminal proceedings pending before the Court of Busto Arsizio. On 15 February 2013 the Indian Ministry of Defence sent a Show Cause Notice asking the company to provide information on the bribery alleged to have occurred in violation of the contract and the Pre-Contract Integrity Pact. In the letter, in addition to notifying the company that it was suspending payments, the Indian government suggested that it could possibly cancel the contract if the company was unable to provide proof that is was not involved in the alleged corrupt conduct. The company promptly provided the information and documentation requested to the Indian authorities and also asked the ministry to initiate bilateral discussions to settle the matter.

  Not having received any indication of interest on the part of the Indian Ministry in beginning a dialogue, on 4 October 2013 AgustaWestland International Ltd initiated the arbitration provided for by the contract in New Delhi. On 21 October 2013, the Indian Ministry sent the second Show Cause Notice requesting further documents and once again claiming violation of the Pre-Contract Integrity Pact. In a letter sent on that date, the ministry also challenged the applicability of the arbitration clause contained in the contract. On 25 November 2013, the company appointed its own arbitrator, the Hon. Justice B. N. Srikrishna, a former justice of the Indian Supreme Court, inviting the Ministry to designate its own arbitrator within the next 60 days.

  On 1 January 2014, the Ministry of Defence formally communicated its decision to terminate the contract, reserving the right to seek damages, provisionally estimated at an amount equal to about €mil. 648, and simultaneously notified the company that it had taken steps to execute the guarantees and counter-guarantees given in relation to the contract in the total amount of €mil. 306. Also on that date, the Indian ministry, altering its stance as expressed on 21 October 2013, appointed its own arbitrator, the Hon. Justice B.P. Jeevan Reddy, a former judge of the Supreme Court of India.

  On 7 August 2014 la International Chamber of Commerce of Paris appointed William W. Park, Professor of Law at the Boston University, to act as the umpire in the controversy.

  On 28 October 2014, the Indian Ministry of Defence filed a defence brief raising a number of preliminary objections challenging, among other things, whether the case could be referred to arbitration. The company, in addition to challenging such objections, will, once the decision on the preliminary questions is issued, restate the fundamental validity of its claims, also in light of the ruling of the Court of Busto Arsizio issued on 9 October 2014 in the context of the immediate trial against the former Chairman and Chief Executive Officer of Finmeccanica Spa and against the former Chief Executive Officer of AgustaWestland SpA.

  It should be recalled that, on 23 May 2014, in the framework of the proceedings pursuant to Article 700 of the Italian Code of Civil Procedure brought by AgustaWestland SpA and AgustaWestland

International Ltd to prevent the enforcement of the guarantees, the Court of Milan - in partial acceptance of the complaint submitted by the Indian Ministry of Defence - partially amended the order it had previously handed down and revoked its injunction with regard to the whole amount of the Performance bond equal to about €mil. 28 and up to an amount of about €mil. 200 as regards the Advance Bank Guarantees, as only about €mil. 50 of the guarantees cannot be enforced (corresponding to the reduction that, according to the contract, was to be made from the Advance Bank Guarantees after the customer accepted three of the helicopters).

The remaining inventory related to the programme can be entirely shifted to other contracts. As to the portion of the delivery already made (3 helicopters already delivered, plus spare parts and support), which is only partially covered by the advances received and not subject to the enforceability of the guarantees, the recoverability of the net assets recognised in the Group's financial statements (€mil. 110), as well as the recognition of any compensation to be paid or received, is dependent upon the outcome of the proceedings underway.

22. EMPLOYEE BENEFIT OBLIGATIONS

	31 December 2015			*31 December 2014*		
	Liabilities	**Assets**	**Net**	**Liabilities**	**Assets**	**Net**
Severance pay provision	360	-	360	437	-	437
Defined-benefit plans	388	351	37	333	272	61
Defined contribution plans	25	-	25	25	-	25
	773	**351**	**422**	**795**	**272**	**523**

The net liabilities for defined-benefit retirement plans are broken down below:

	31 December 2015	*31 December 2014*
GBP area	(114)	(63)
Euro area	5	20
USD area	124	84
Other	22	20
	37	**61**

Below is a breakdown of defined-benefit plans and statistical information regarding the excess (deficit) of the plans:

	31 December 2015	*31 December 2014*
Present value of obligations	2,613	2,492
Fair value of plan assets	(2,576)	(2,431)
Plan deficit	**(37)**	**(61)**
of which, related to:		
- net liabilities	(388)	(333)
- net assets	351	272

Changes in the defined-benefit plans are shown below:

31 December 2015	Present value of obligations	Fair value of plan assets	Net liability defined benefit plans
Opening balance	2,492	2,431	61
Transportation Liabilities	(15)		(15)
Costs of benefits paid	30		30
Net interest expense	95	94	1
Remeasurement	(31)	(78)	47
Actuarial losses (gains) through equity - demographic assumption	*(2)*	-	*(2)*
Actuarial losses (gains) through equity - financial assumptions	*(34)*	-	*(34)*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	*5*		*5*
Expected return on plan assets (no interest)	-	*(78)*	*78*
Curtailments	(68)	(57)	(11)
Contributions paid	-	78	(78)
Contributions from other plan participants	16	16	-
Exchange rate differences	164	160	4
Benefits paid	(70)	(68)	(2)
Other changes			-
Closing balance	**2,613**	**2,576**	**37**
of which, related to:			
- net liabilities	2,045	1,657	388
- net assets	568	919	(351)

31 December 2014	Present value of obligations	Fair value of plan assets	Net liability defined benefit plans
Opening balance	1,966	1,835	131
Costs of benefits paid	61	-	61
Net interest expense	88	83	5
Remeasurement	260	325	(65)
Actuarial losses (gains) through equity - demographic assumption	*9*	-	*9*
Actuarial losses (gains) through equity - financial assumptions	*283*	-	*283*
Actuarial losses (gains) through equity resulting from adjustments based on the experience	*(32)*		*(32)*
Expected return on plan assets (no interest)	-	*325*	*(325)*
Contributions paid	-	78	(78)
Contributions from other plan participants	14	14	-
Exchange rate differences	163	155	8
Benefits paid	(60)	(58)	(2)
Other changes		(1)	1
Closing balance	**2,492**	**2,431**	**61**
of which, related to:			
- net liabilities	1,937	1,604	333
- net assets	555	827	(272)

The amount recognised in the income statement for defined-benefit plans (including severance pay) was calculated as follows:

	2015	*2014*
Current service costs	78	63
Past service costs	(47)	-
Curtailments and settlements	(11)	(2)
Costs booked as "personnel expenses "	20	61
Net interest expense	6	13
Costs booked as "financial expenses "	6	13
	26	**74**

Changes in severance pay provision are shown below:

	31 December 2015	*31 December 2014*
Opening balance	437	427
Transportation Liabilities	(35)	
Costs of benefits paid	1	1
Net interest expense	5	9
Remeasurement	(12)	50
Actuarial losses (gains) through equity - demographic assumption		-
Actuarial losses (gains) through equity - financial assumptions	*(12)*	*47*
Actuarial losses (gains) through equity resulting from adjustments based on the experience		*3*
Benefits paid	(39)	(47)
Other changes	3	(3)
Closing balance	**360**	**437**

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of severance pay provision that has maintained the nature of defined-benefit plan are as follows:

	Severance pay provision		**Defined-benefit plans**	
	31 December 2015	*31 December 2014*	*31 December 2015*	*31 December 2014*
Discount rate (annual)	1.5%	1.2%	3.4%-4.1%	3.6%-4.0%
Rate of salary increase	n.a.	n.a.	3.5%-4.1%	3.5%-4.0%
Inflation rate	1.6%	1.6%	2.1%-4.9%	2.0%-4.9%

The discount rate utilised to discount the defined benefits plans is determined with reference to expected returns of the AA-rated bonds.

The sensitivity analysis for each significant actuarial assumption, which shows the effects on bonds in absolute value, is as follows:

	Severance pay provision				**Defined-benefit plans**			
	31 December 2015		*31 December 2014*		*31 December 2015*		*31 December 2014*	
	-0.25%	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*	*-0.25%*	*+0.25%*
Discount rate (annual)	7	(7)	9	(9)	125	(122)	112	(110)
Rate of salary increase	n.a.	n.a.	n.a.	n.a.	-	-	(15)	16
Inflation rate	(5)	5	(6)	6	(76)	77	(78)	79

The sensitivity analysis on the rate of salary increase did not highlight any significant effects in 2015 because the wage policies are frozen or will be reviewed during 2016.

The average duration of the severance pay is 10 years while that of the other defined-benefit plans is 19 years.

At 31 December 2016, the estimate of the contributions to be paid related to defined-benefit plans is about €mil. 75 considering the average exchange rates of 2015.

As regards the strategies of correlation of assets and liabilities in defined-benefit plans, there is the prevalence of investing in diversified assets in order to limit the negative impact, if any, on the total return on the plan assets. In particular, there is the tendency to invest in bonds and investment funds.

Assets of defined-benefit plans include:

	31 December 2015	*31 December 2014*
Cash and cash equivalents	67	101
Shares	570	586
Debt instrument	923	775
Real properties	34	18
Derivatives	118	173
Investment funds	864	778
	2,576	**2,431**

23. OTHER CURRENT AND NON-CURRENT LIABILITIES

	31 December 2015		*31 December 2014*	
	Non-current	**Current**	**Non-current**	**Current**
Employee obligations	47	327	55	401
Deferred income	97	66	85	67
Amounts due to social security institutions	5	170	5	192
Payables to MED (Law no. 808/85)	324	66	338	44
Payables to MED for royalties (Law no. 808/85)	181	27	154	23
Other liabilities (Law no. 808/85)	193	-	183	-
Indirect tax liabilities	-	139	-	183
Derivatives	-	285	-	542
Other liabilities	268	766	239	679
Other payables to related parties (Note 35)	-	306	-	146
	1,115	**2,152**	**1,059**	**2,277**

The decrease in other current liabilities mainly refers to the deconsolidation of the *Transportation* sector (€mil. 157 at 31 December 2014).

The payables to the Ministry for Economic Development (MED) relate to monopoly costs accrued under Law 808/1985 on national security and similar projects, as well as payables for grants received from MED for the development of programmes not related to national security and similar projects eligible for benefits under Law 808/1985. The payables are settled according to a repayment schedule and are not subject to borrowing costs.

"Other liabilities (Law 808/1985)" include the difference between the monopoly costs charged for the national security programmes and the amount actually due based on agreed repayment ratios.

"Other payables" include, in particular, the non-current payable due to Bell Helicopter amounting to €mil. 248 (€mil. 207 at 31 December 2014), deriving from the acquisition of 100% of the AW609 programme. This amount also includes the reasonably estimated potential consideration due to Bell Helicopter based on the commercial success of the programme.

24. TRADE PAYABLES

	31 December 2015	*31 December 2014*
Suppliers	3,220	4,120
Trade payables to related parties (Note 35)	116	148
	3,336	**4,268**

The item decreased as a result of the deconsolidation of the Transportation sector (a contribution of €mil. 704 at 31 December 2014) and the reclassification of the payables related to the Fata Group within liabilities held for sale (€mil. 37).

25. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Group is party to a number of operating leases as both lessor and lessee primarily for the purposes of acquiring the use of plant and equipment. Below are the non-cancellable minimum future payments and collections relating to operating lease contracts:

	31 December 2015		*31 December 2014*	
	Operat. lease as lessee	*Operat. lease as lessor*	*Operat. lease as lessee*	*Operat. lease as lessor*
Within 1 year	88	8	93	5
2 to 5 years	187	15	181	11
Beyond 5 years	168	-	166	-
	443	**23**	**440**	**16**

Guarantees

The Group had the following outstanding guarantees:

	31 December 2015	*31 December 2014*
Guarantees in favour of third parties	18,936	20,237
Other unsecured guarantees given to third parties	2,806	537
Unsecured guarantees given	**21,742**	**20,774**

26. REVENUE

	2015	*2014*
Revenue from sales	7,785	8,706
Revenue from services	3,308	2,108
Change in work in progress	(195)	(359)
Revenue from related parties (Note 35)	2,097	2,309
	12,995	**12,764**

The trends in revenue by business segment are described in the notes above (Note 8).

27. OTHER OPERATING INCOME (EXPENSES)

	2015			*2014*		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Grants for research and development costs (*)	53	-	53	64	-	64
Other operating grants (*)	5	-	5	4	-	4
Gains/losses on sales of intangible asset, property, plant and equipment	18	(4)	14	2	(1)	1
Reversals (accruals) to provisions for risks and final losses on orders and reversal of impairment of receivables	468	(453)	15	359	(350)	9
Exchange rate difference on operating items	189	(211)	(22)	116	(124)	(8)
Insurance reimbursements	30	-	30	8	-	8
Restructuring costs	3	(23)	(20)	-	(48)	(48)
Indirect taxes	-	(40)	(40)	-	(49)	(49)
Other operating income (expenses)	44	(68)	(24)	40	(80)	(40)
Other operating income (expenses) from/to related parties (Note 35)	13	(7)	6	17	(2)	15
	823	**(806)**	**17**	**610**	**(654)**	**(44)**

(*)To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil. 83 (€mil. 64 at 31 December 2014) are added, plus the assessment of "Non-recurring costs pending under Law 808/1985" (Note 13) equal to €mil. 79 (€mil. 68 at 31 December 2014).

Restructuring costs include both costs incurred and accruals to the "Restructuring provision". Costs and accruals relating to personnel are found under personnel expense (Note 28).

28. PURCHASES AND PERSONNEL EXPENSES

	2015	*2014*
Purchase of materials from third parties	4,505	4,514
Change in inventories of raw materials	115	(78)
Costs for purchases from related parties (Note 35)	52	16
Purchases	***4,672***	***4,452***
Services rendered by third parties	3,868	3,846
Costs of rents and operating leases	104	128
Royalties	5	9
Software fees	12	12
Rental fees	28	24
Services rendered by related parties (Note 35)	138	129
Services	***4,155***	***4,148***
Wages and salaries	2,505	2,398
Social security contributions	511	510
Costs related to defined-contribution plans	110	107
Costs related to severance pay provisionand other defined-benefit plans (Note 22)	20	61
Employee disputes	7	-
Restructuring costs - net	81	128
Other personnel expenses	66	77
Personnel expenses	***3,300***	***3,281***
Change in finished goods, work in progress and semi-finished products	***(87)***	***154***
Personnel expenses	(167)	(163)
Materials	(109)	(136)
Other costs	(159)	(187)
Internal work capitalised	***(435)***	***(486)***
Total purchases and personnel expenses	**11,605**	**11,549**

In terms of personnel expense, the impact related to the change in the average workforce and to the decrease in restructuring costs is offset by the increase in the exchange rate in relation to personnel expense denominated in foreign currency (mainly USD and GBP).

Restructuring costs equal to €mil. 81 (€mil. 128 in 2014) mainly related to Defence and Security Electronics (€mil. 38), Aeronautics (€mil. 23) and Other Activities (€mil. 23) for costs incurred and provisions allocated against on-going reorganisation activities at various Group companies.

The average workforce at 31 December 2015, without the part related to the Transportation segment, significantly decreased (1,529 units) compared to 31 December 2014, mainly due to the reorganisation processes in the Defence and Security Electronics (361 average resources abroad in DRS and 389 in SES) and Helicopters (365, of which 233 in Italy) segments, in addition to the change deriving from the sale of BredaMenarinibus (159 resources).

The decrease, in addition to the component related to the sale of the Transportation sector falling under the agreement with Hitachi for the sale of the Ansaldo STS and AnsaldoBreda businesses (-5,770 units), was also due to the restructuring processes mentioned above and to the reduction in the Aeronautics sector.

In particular, the reduction on the foreign component is about 41% of the total decrease.

	Average Workforce			Total Workforce		
	31 December 2015	*31 December 2014*	*Change*	*31 December 2015*	*31 December 2014*	*Change*
Senior managers (*)	1,276	1,438	(162)	1,231	1,495	(264)
Middle managers	5,359	5,425	(66)	5,471	5,997	(526)
Clerical employees	27,331	28,069	(738)	27,587	31,868	(4,281)
Manual labourers (**)	13,131	13,694	(563)	12,867	15,020	(2,153)
	47,097	**48,626**	**(1,529)**	**47,156**	**54,380**	**(7,224)**

(*) Includes pilots

(**) Includes senior manual labourers

29. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2015		*2014*	
Amortisation of intangible assets		315		289
Development costs	*72*		*63*	
Non-recurring costs	*80*		*69*	
Acquired through business combinations	*98*		*84*	
Concessions, licences and trademarks	*8*		*20*	
Other intangible assets	*57*		*53*	
Depreciation of property, plant and equipment		377		343
Impairment of operating receivables		70		85
Impairment of other assets		22		10
		784		**727**

The impairment of receivables mainly refers to impairments carried out for receivables from countries considered at risk. Vice versa, the impairment of other assets refers to the writedown of development costs (€mil. 18) mainly related to the Defence Systems sector.

30. FINANCIAL INCOME AND EXPENSE

Below is a breakdown of financial income and expense:

	2015			2014		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Interest	10	(288)	(278)	5	(293)	(288)
Premiums received (paid) on IRS	6	(6)	-	6	(6)	-
Commissions on borrowings	-	(18)	(18)	-	(19)	(19)
Other commissions	4	(13)	(9)	3	(25)	(22)
Income (expense) from equity investments and securities	25	(7)	18	-	(50)	(50)
Fair value gains (losses) through profit or loss	13	(20)	(7)	23	(26)	(3)
Premiums (paid) received on forwards	12	(13)	(1)	5	(6)	(1)
Exchange rate differences	270	(291)	(21)	173	(194)	(21)
Interest cost on defined-benefit plans (Note 22)	-	(6)	(6)	-	(13)	(13)
Financial income (expense) - related parties (Note 35)	3	(8)	(5)	6	(9)	(3)
Other financial income and expense	13	(119)	(106)	11	(82)	(71)
	356	**(789)**	**(433)**	**232**	**(723)**	**(491)**

The overall item improved by €mil. 58, mainly as a result of the following effects:

- extraordinary transactions on equity investments, which in 2015 generated net income for €mil. 18 (related to the sale of some activities of DRS) and expense in 2014 for €mil. 50 (Bredamenarinibus transaction);
- net interest expenses that mainly include €mil. 271 (€mil. 262 in 2014) related to interest on bonds and €mil. 8 (€mil. 10 in 2014) related to the interest on the Parent's EIB. In particular, the figure of interest on bonds, though benefitting from the effects of the buy-back described in the section "*financial transactions*" of the Report on Operations, is affected by the negative trend of the exchange rate Euro/USD and Euro/GBP for the part related to interest on foreign currency bond issues;
- commissions on borrowings essentially relate to (€mil. 14, €mil. 19 in 2014) expense concerning the revolving credit line, included those incurred in relation to the renegotiation of the abovemetioned line, in order to benefit from more advantageous conditions in the next five years. Such transaction is described in the section "Industrial and financial transactions" of the Report on Operations;
- the expenses arising from the application of fair value break down as follows:

	2015			2014		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Exchange rate swap	1	-	1	1	(1)	-
Interest rate swaps	1	(1)	-	-	(2)	(2)
Ineffective portion of hedging swap	11	(18)	(7)	22	(17)	5
Embedded derivatives	-	(1)	(1)	-	(6)	(6)
	13	**(20)**	**(7)**	**23**	**(26)**	**(3)**

- other net financial expense mainly refers to the discounting effects on non-current liabilities (€mil. 59, vs €mil. 57 in 2014) the recognition of the expenses related to the buy-back of a part of the existing bond issues (€mil. 50). Even in this case, as largely described in the section "Industrial and financial transactions" of the Report on Operations, the transaction will allow to benefit from significant savings in terms of future financial expenses.

31. INCOME TAXES

Income tax expense can be broken down as follows:

	2015	*2014*
IRES (corporate income tax)	-	5
IRAP (reg. tax on production)	(26)	(69)
Other income taxes (foreign)	(88)	(96)
Tax related to previous periods	7	2
Provisions for tax disputes	(79)	(26)
Deferred tax - net	(7)	50
	(193)	**(134)**

Following is an analysis of the difference between the theoretical and effective tax rate for 2015 and 2014:

	2015	*2014*
Profit (loss) before income taxes	**720**	**154**
Percentage impact of Italian and foreign taxes		
IRES (net of tax receipts)	n.a.	(3.2%)
IRAP (reg. tax on production)	3.6%	44.8%
Other income taxes (foreign)	12.2%	62.3%
Substitute taxes		
Tax related to previous periods	(1.0%)	(1.3%)
Provisions for tax disputes	11.0%	16.9%
Deferred tax - net	1.0%	(32.5%)
Effective rate	**26.8%**	**87.0%**

Deferred taxes and related receivables and payables at 31 December 2015 were the result of the following temporary differences. Deferred tax assets and liabilities were recalculated during 2015 in order to include the effects of the change in the IRES (corporate income tax) rate starting from 1 January 2017.

In this regard, we point out that part of the deferred tax assets relate to tax losses valued on the basis of the taxable income envisaged in the companies' plans, in particular €mil. 176 is related to the tax consolidation mechanism (about €bil. 1.2 of unrecognised losses).

	2015			2014		
	Income statement			Income statement		
	Income	**Expences**	**Net**	**Income**	**Expences**	**Net**
Deferred tax assets on tax losses	32	5	27	49	31	18
Property, plant and equipment and intangible assets	55	20	35	43	22	21
Financial assets and liabilities	-	13	(13)	-	-	-
Severance and retirement benefits	2	16	(14)	3	4	(1)
Provision for risks and impairment	182	189	(7)	154	118	36
Effect of change in tax rate	(66)	(20)	(46)	-	-	-
Other	99	88	11	11	35	(24)
Deferred taxes recognised through profit or loss	**304**	**311**	**(7)**	**260**	**210**	**50**

	31 December 2015			31 December 2014		
	Balance sheet			Balance sheet		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Deferred tax assets on tax losses	299	-	299	295	-	295
Property, plant and equipment and intangible assets	59	290	(231)	60	334	(274)
Severance and retirement benefits	4	1	3	17	13	4
Financial assets and liabilities	5	21	(16)	-	-	-
Provision for risks and impairment	665	-	665	715	-	715
Other	128	71	57	150	39	111
Offsetting	(116)	(116)	-	(131)	(131)	-
Deferred taxes recognised through balance sheet	**1,044**	**267**	**777**	**1,106**	**255**	**851**
Cash-flow hedge derivatives	8	1	7	1	16	(15)
On actuarial gains and losses	107	57	50	58	28	30
Deferred taxes recognised through equity	**115**	**58**	**57**	**59**	**44**	**15**
	1,159	**325**	**834**	**1,165**	**299**	**866**

32. *ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS*

Discontinued operations of 2015 and 2014 entirely refer to the results of the companies of the Transportation sector sold to Hitachi, as well as to the net capital gain recognised upon the sale, net of the payments due for the transaction and of the guarantees given within the sale of the Ansaldo Breda business to Hitachi. Such payments/guarantees mainly relate to a particularly significant included among those sold to Hitachi, as well as to the achievement of a target level of orders to obtain during the plan. Below is the income statement of the discontinued operations compared to the 12 months of 2014:

	2015	*2014*
Revenue	1,838	1,899
Purchase and personnel expense	(1,746)	(1,780)
Amortisation, depreciation and impairment losses	(20)	(24)
Other operating income (expenses)	(22)	-
Income before tax and financial expenses	**50**	**95**
Financial income (expense)	(8)	5
Income taxes	(32)	(45)
Profit (loss) for the period	**10**	**55**
Capital gain	248	-
Profit (loss) from discontinued operations	**258**	**55**
- Measurement of defined-benefit plans	-	(6)
- Changes in cash flow hedges	(42)	(22)
- Translation differences	(7)	21
other comprehensive income (expense)	**(49)**	**(7)**
Total comprehensive income (expense)	**209**	**48**

Profit (loss) for the period refers for €mil. 36 to minority interest, while the part of the owners of the parent is negative for €mil. 26. The perimeter of the sale included the Ansaldo STS shares, the business branch of AnsaldoBreda comprising almost its total business, except the residual revamping activities and the residue of programmes completed or about to be completed for which the warranty period is still open, and the sites in Pistoia, Naples and Reggio Calabria, owned by FGS, where the operating activity of the branch sold is carried out. The total amount paid, which took into account the valorisation of the properties (€mil. 68) and a price per Ansaldo STS share of €9.50 (for a total payment amounting to €mil. 761), as well as the negative value (€mil. 38) of the AnsaldoBreda business branch, was equal to €mil. 791 considering also the price adjustment established at the closing. In respect of the AnsaldoBreda business branch a capital loss totalling €mil. 278 (including €mil. 136 related to the abovementioned warranties) was recognised, in addition to a loss for the period of €mil. 51. As a result of the capital gain on Ansaldo STS (€mil. 535) and on the properties (€mil. 6), a capital gain was recognised on the transaction, net of the capital loss on AnsaldoBreda and the transaction costs equal to €mil. 248.

Below is the breakdown of the total amount of the Transportation sector sold to Hitachi:

Non-current assets	433
Cash and cash equivalents	248
Other current assets	1,983
Assets	**2,664**
Equity	709
Non-current liabilities	70
Current liabilities	1,885
Liabilities and equity	**2,664**

"Assets held for sale" and "Liabilities directly associated with assets held for sale" include assets and liabilities related to the companies of the Fata Group included in the scope of the sale to the Danieli Group (the transaction completed in March 2016 is described in the section "Industrial and financial transactions" of the Report on Operations). The 2014 figure, vice versa, referred to assets and liabilities of the branch of business of BMB being transferred to IIA, in addition to a fixed asset owned by Finmeccanica Global Services in Casoria. Below is a breakdown:

	31 December 2015	*31 December 2014*
Non-current assets	21	18
Current assets	60	79
Assets	**81**	**97**
Adjustment to selling price	-	(50)
Assets held for sale	**81**	**47**
Non-current liabilities	3	(2)
Current liabilities	74	(31)
Liabilities associated with assets held for sale	**77**	**(33)**

33. EARNINGS PER SHARE

Earnings (Losses) per share (hereinafter "earnings per share" or "EPS") are calculated as follows:

- for basic EPS, by dividing net profit attributable to holders of ordinary shares by the average number of ordinary shares for the period less treasury shares;
- for diluted EPS, by dividing net profit by the average number of ordinary shares and the average number of ordinary shares potentially deriving from the exercise of all the option rights for stock-option plans less treasury shares.

	2015	*2014*
Average shares outstanding during the reporting period (in thousands)	578,034	578,118
Earnings for the period (excluding non-controlling interests) (€ millions)	487	(31)
Earnings from continuing operations (excluding non-controlling interests) (€ millions)	265	(38)
Earnings from discontinued operations (excluding non-controlling interests) (€ millions)	222	7
Basic and Diluted EPS (€)	**0.843**	**(0.054)**
Basic and Diluted EPS from continuing operations (€)	*0.458*	*(0.066)*
Basic and Diluted EPS from discontinued operations (€)	*0.385*	*0.012*

34. CASH FLOWS FROM OPERATING ACTIVITIES

	2015	*2014*
Net result	527	20
Amortisation, depreciation and impairment losses	784	727
Share of profits/(losses) of equity-accounted investees	(272)	(146)
Income taxes	193	134
Cost of Severance pay provision and other defined-benefit plans	20	61
Net financial expense /(income)	433	491
Net allocations to the provisions for risks and inventory write-downs	219	321
Profit from Discontinued Operations	(258)	(55)
Other non-monetary items	34	3
	1,680	**1,556**

Costs of pension plans include the portion of costs relating to defined-benefit pension plans that is recognised as a personnel expense (the portion of costs relating to interest is carried among net financial expense).

The changes in working capital, net of the effects of the acquisition and sale of consolidated companies and foreign currency translation differences, are as follows:

	2015	*2014*
Inventories	38	158
Contract work in progress and progress payments and advances from customers	(423)	(712)
Trade receivables and payables	(252)	(51)
Change in trade receivables/payables, work in progress/progress payments and inventories	**(637)**	**(605)**

The changes in other operating assets and liabilities, net of the effects of the acquisition and sale of consolidated companies and foreign currency translation differences, are as follows:

	2015	*2014*
Payment of pension plans	(117)	(125)
Changes in provisions for risks and other operating items	122	(46)
changes in other operating assets and liabilities	**5**	**(171)**

35. RELATED PARTY TRANSACTIONS

Related party transactions are carried out at arm's length, as is settlement of the interest-bearing receivables and payables when not governed by specific contractual conditions. The relevant financial statements amounts are shown below. The statement of cash flows presents the impact of related party transactions on cash flows.

RECEIVABLES at 31 December 2015	**Non-current loans and receivables**	**Other non-current receivables**	**Current loans and receivables**	**Trade receivables**	**Other current receivables**	**Total**
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10			-	8	1	9
Associates						
NH Industries SAS				174		174
Eurofighter Jagdflugzeug GmbH				62		62
Iveco - Oto Melara Scarl				20		20
Macchi Hurel Dubois SAS				20		20
Orizzonte - Sistemi Navali SpA				10		10
Euromids SAS				10		10
Agustawestland Aviation Services LLC				10		10
Other with unit amount lower than €mil. 10			5	22		27
Joint Venture						
GIE ATR				69		69
Closed Joint Stock Company Helivert				51		51
MBDA SAS				23		23
Superjet International SpA			100	60	5	165
Thales Alenia Space SAS			12	24	1	37
Other with unit amount lower than €mil. 10	3		2	18	1	24
Consortiums						
Other with unit amount lower than €mil. 10			3	16		19
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato				2		2
Other				61		61
Total	**3**	**-**	**122**	**660**	**8**	**793**
% against total for the period	***7.9%***	***n.a.***	***73.1%***	***18.8%***	***2.5%***	

RECEIVABLES at 31 December 2014	**Non-current loans and receivables**	**Other non-current receivables**	**Current loans and receivables**	**Trade receivables**	**Other current receivables**	**Total**
Unconsolidated subsidiaries						
Other with unit amount lower than €mil. 10			10	2	1	13
Associates						
Eurofighter Jagdflugzeug GmbH				99		99
NH Industries SAS				168		168
Iveco - Oto Melara Scarl				33		33
Orizzonte - Sistemi Navali SpA				26		26
Metro 5 SpA		16	5	41		62
Abruzzo Engineering Scpa (in liq.)				14		14
Macchi Hurel Dubois SAS				18		18
Società di Progetto Consortile per Azioni M4			22			22
Agustawestland Aviation Services LLC				10		10
Joint Stock Company Sukhoi Aircraft				10		10
Other with unit amount lower than €mil. 10			3	27		30
Joint Venture						
GIE ATR				72		72
Closed Joint Stock Company Helivert				58		58
MBDA SAS				30	1	31
Superjet International S.p.A.			108	37	3	148
Thales Alenia Space SAS			1	24	1	26
Rotorsim Srl				14		14
Other with unit amount lower than €mil. 10	6		6	15		27
Consortiums						
Saturno				21		21
Other with unit amount lower than €mil. 10			3	33		36
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato				98		98
Other			3	78		81
Total	**6**	**16**	**161**	**928**	**6**	**1,117**
% against total for the period	***15.8%***	***13.8%***	***78.2%***	***20.4%***	***1.5%***	

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

PAYABLES at 31 December 2015	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10				16	9	25	
Associates							
Eurofighter Jagdflugzeug GmbH			56			56	
Other with unit amount lower than €mil. 10			4	26	5	35	
Joint Venture							
MBDA SAS			332	9	1	342	47
GIE ATR				25	259	284	
Rotorsim USA				13		13	
Telespazio SpA			2	5	4	11	211
Superjet International SpA				2	19	21	8
Other with unit amount lower than €mil. 10			1	11	2	14	
Consortiums							
Other with unit amount lower than €mil. 10				1	1	2	
Companies subject to the control or considerable influence of the MEF							
Other	2		4	8	6	20	
Total	**2**	**-**	**399**	**116**	**306**	**823**	**266**
% against total for the period	***n.a.***	***n.a.***	***57.1%***	***3.5%***	***17.0%***		

PAYABLES at 31 December 2014	Non-current loans and borrowings	Other non-current borrowings	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Other with unit amount lower than €mil. 10			1	23	1	25	
Associates							
Eurofighter Jagdflugzeug GmbH			68			68	
Consorzio Start SpA				14		14	
Iveco Fiat/Oto Melara S.c.a.r.l				11	6	17	
Other with unit amount lower than €mil. 10			3	13	2	18	
Joint Venture							
MBDA S.A.S.			345	14	1	360	62
GIE ATR				1	108	109	
Rotorsim Srl				17		17	
Thales Alenia Space SAS				3		3	1
Telespazio SpA				2	5	7	237
Superjet International SpA				1	16	17	7
Other with unit amount lower than €mil. 10			1	8		9	
Consortiums							
Other with unit amount lower than €mil. 10				3	1	4	
Companies subject to the control or considerable influence of the MEF							
Ferrovie dello Stato				27		27	
Other	6		7	11	6	30	
Total	**6**	**-**	**425**	**148**	**146**	**725**	**307**
% against total for the period	***0.1%***	***n.a.***	***57.5%***	***3.5%***	***8.8%***		

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

Trade receivables are commented on later, along with revenue from related parties.

Loans and receivables from related parties mainly refer to receivables from joint ventures.; the same is for trade payables.

Borrowings from related parties include in particular the amount of €mil. 332 (€mil. 345 at 31 December 2014) due by Group companies to the joint venture MBDA and payables of €mil. 56 (€mil. 68 at 31 December 2014), to Eurofighter, of which Alenia Aeronautica owns 21%. As regards the latter, under a cash pooling agreement its surplus cash and cash equivalents are distributed among the partners.

Income statement transactions at 31 December 2015	**Revenue**	**Other operating income**	**Costs**	**Other operating costs**	**Financial income**	**Financial expenses**
Unconsolidated subsidiaries						
Finmeccanica UK Ltd			11			
Cardprize TWO Ltd			13			
Other with unit amount lower than €mil. 10			6			
Associates						
Eurofighter Jagdflugzeug GmbH	857					1
NH Industries SAS	331	9				
Orizzonte - Sistemi Navali SpA	194					
Iveco-Oto Melara Scarl	62					3
Macchi Hurel Dubois SAS	66					
Agustawestland Aviation Services LLC	12					
Other with unit amount lower than €mil. 10	21		27	7		
Joint Venture						
GIE ATR	284		47			
MBDA SAS	89					4
Thales Alenia Space SAS	46					
Superjet International SpA	18				2	
Telespazio SpA	3		19		1	
Rotorsim Srl	2	3	20			
Other with unit amount lower than €mil. 10	5	1	16			
Consortiums						
Other with unit amount lower than €mil. 10	3		2			
Companies subject to the control or considerable influence of the MEF						
Other	104		29			
Total	**2,097**	**13**	**190**	**7**	**3**	**8**
% against total for the period	***16.1%***	***1.6%***	***1.6%***	***0.9%***	***0.8%***	***1.0%***

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

Income statement transactions at 31 December 2014	Revenue	Other operating income	Costs	Other operating costs	Financial income	Financial expenses
Unconsolidated subsidiaries						
Finmeccanica UK Ltd			11			
Other with unit amount lower than €mil. 10	6		12			
Associates						
Eurofighter Jagdflugzeug GmbH	868					
NH Industries SAS	444	12				
Orizzonte - Sistemi Navali SpA	203					
Iveco-Oto Melara Scarl	121		10	1		5
Macchi Hurel Dubois SAS	47					
Consorzio Start SpA			13			
Other with unit amount lower than €mil. 10	38		18	1	1	
Joint Venture						
GIE ATR	304					
MBDA SAS	87					4
Thales Alenia Space SAS	51					
Telespazio SpA	2		16		1	
Superjet International SpA	20				2	
Closed Joint Stock Company Helivert	14					
Rotorsim Srl	1	3	20			
Other with unit amount lower than €mil. 10	3	1	11			
Consortiums						
Other with unit amount lower than €mil. 10	6		3			
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato	6		10			
Other	88	1	21		2	
Total	**2,309**	**17**	**145**	**2**	**6**	**9**
% against total for the period	***18.1%***	***2.8%***	***1.3%***	***0.3%***	***2.6%***	***1.2%***

(*) Consortia over which the Group exercises considerable influence or which are subject to joint control

The most significant trade receivables and revenues are related to:

- Eurofighter in the scope of the EFA aeronautical programme;
- the Iveco - OTO Melara consortium for production and post-sales assistance on defence and security ground vehicles (VBM Freccia and PZH2000 self-propelled vehicle for the Italian Army);
- NHIndustries in the scope of the NH90 helicopter programme;
- Orizzonte - Sistemi Navali for the FREMM programme;

Moreover, we note:

- transactions with the companies of the Transportation sector sold to Hitachi, for an amount of €mil. 55 of revenues and €mil. 5 of financial income;
- receivables/payables from/to the companies of the Fata Group, subject of the agreement with the Danieli Group and which were reclassified under assets and liabilities available for sale, for an amount of €mil. 17 of current loans and receivables and €mil. 2 of trade receivables;

- transactions with the Ferrovie dello Stato Italiano Group for the supply of trains and supports, the effects of which are classified within Discontinued Operations for an amount of €mil. 492 of revenues (€mil. 452 at 31 December 2014) and €mil. 6 of costs (€mil. 2 at 31 December 2014).

36. FINANCIAL RISK MANAGEMENT

Finmeccanica Group is exposed to financial risks associated with its operations, specifically related to these types of risks:

- interest-rate risks, related to the Group's financial exposure;
- exchange-rate risks, related to operations in currencies other than the reporting currency;
- liquidity risks, relating to the availability of financial resources and access to the credit market;
- credit risks, resulting from normal commercial transactions or financing activities.

Finmeccanica carefully and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

Interest rate risk

The Finmeccanica Group is exposed to interest rate risk on borrowings. The management of interest rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise related borrowing costs.

To that regard and with reference to borrowings equal to €mil. 5,306 at 31 December 2015 the fixed-rate percentage amounted to around 87%, while the floating-rate percentage is around 13%.

Therefore, at the date of these financial statements, the interest-rate risk exposure is moderate since the derivatives to hedge floating interest rates terminated or have been completed earlier.

At 31 December 2015, the outstanding transactions were the following:

- *interest-rate swap fixed/floating/fixed rate for €mil. 200* related to the issue due 2018 (totalling €mil. 500), which guarantees a fixed rate of 5.30% compared to the bond issue rate of 5.75%. Therefore, the average interest rate related to this issue is 5.57%;

- *options for €mil. 200* (CAP and Knock out at 4.20% in relation to the 6-month Euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost of the transaction, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group's strategy providing for a return to the floating rate, or against an unfavourable floating-rate indebtedness.

The detail of the main interest-rate swaps at 31 December 2015 is as follows:

	Notional		Underlying	*Fair value*	Changes			*Fair value*
	2015	***2014***	**(maturity)**	***01.01.2015***	**Income**	**Expense**	**CFH Reserve**	***31.12.2015***
IRS fixed/floating/fixed	200	200	Bond 2018	4	-	(1)	-	3
Options	200	200	Bond 2025	(5)	1		-	(4)
Total notional	**400**	**400**		**(1)**	**1**	**(1)**	**-**	**(1)**

	Notional		Underlying	*Fair value*	Changes			*Fair value*
	2014	***2013***	**(maturity)**	***01.01.2014***	**Income**	**Expense**	**CFH Reserve**	***31.12.2014***
IRS fixed/floating/fixed	200	200	Bond 2018	4	-	-	-	4
Options	200	200	Bond 2025	(3)	-	(2)	-	(5)
Total notional	**400**	**400**		**1**	**-**	**(2)**	**-**	**(1)**

The table below shows the effects of the sensitivity analysis for 2015 and 2014 deriving from the 50-basis-point shift in the interest-rate at the reporting date:

Effect of shift of interest rate curve	***31 December 2015***		***31 December 2014***	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	(1)	1	-	-
Equity (*)	(1)	1	-	-

(*) Defined as sum of earnings and cash-flow hedge reserve

Exchange rate risk

<u>*Transaction risk*</u>

Due to its commercial operations, the Group's companies are exposed to the risk of fluctuations in the currencies related to those cases in which orders, revenue and costs are expressed in currencies other than the functional one used in the financial statements (specifically, US dollars and, to a lesser extent, the pound sterling).

Exchange rate risk management is governed by the directive in force within the Group. The purpose of the directive is to standardise management criteria based on industrial-not-speculative strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency transaction positions. The methodology adopted calls for the systematic hedging of commercial cash flows resulting from the assumption of contractual commitments that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of multi-year contracts and neutralising the effects of exchange-rate fluctuations. As a result, contracts for purchases or sales denominated in a currency different from the functional currency are hedged using forward contracts of amounts, maturities, and key parameters that are similar to the underlying position.

The effectiveness of the hedge is tested at least at each interim or year-end reporting date using mathematical and statistical methods. In the event that, due to its nature or following such tests, a derivative instrument held should be found to no longer be an effective hedge, the fair value of the instrument is recognised through profit and loss according to accounting principles. In the event the designation of the instrument as a hedge should continue to be supported by the tests of actual and future effectiveness, the cash-flow hedge accounting method of recognition is adopted (Note 4.2).

These transactions are mainly carried out with banks by Finmeccanica in the interest of the fully owned entities and then matched with the companies of the Group, which reflect the relevant impacts in their balance sheet and income statement.

At 31 December 2015, the Finmeccanica Group had outstanding foreign exchange transactions totalling €mil. 6,813 (notional amount) (an increase of around 7% over the year-earlier period) as reported in the table below. Overall, the average euro/US dollar exchange rate for hedging purposes is 1.21 on sales and about 1.30 on purchases, relating in particular to Alenia Aermacchi, whose exposure represents about 60% of the Group's portfolio hedging transaction risk.

	Notional			***Fair value 01.01.2015***	**Changes**				***Fair value 31.12.2015***
	Sales	**Purchases**	**Total**		***Discontinued operation***	**Income**	**Expense**	**CFH Reserve**	
Swap and forward transactions	3,559	3,254	6,813	(55)	(30)	12	(19)	(58)	(150)

	Notional			***Fair value 01.01.2014***	**Changes**				***Fair value 31.12.2014***
	Sales	**Purchases**	**Total**		***Discontinued operation***	**Income**	**Expense**	**CFH Reserve**	
Swap and forward transactions	3,419	2,943	6,362	50	-	23	(23)	(105)	(55)

The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies

	31 December 2015				31 December 2014			
	Notional Receipts		Notional Payments		Notional Receipts		Notional Payments	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges								
Within 1 year	1,722	28	1,017	1,319	2,582	6	1,355	1,345
2 to 3 years	1,333	20	313	14	1,480	12	725	13
4 to 9 years	117	2	-	-	301	8	3	6
Total	3,172	50	1,330	1,333	4,363	26	2,083	1,364
Hedging transactions which cannot be classified as hedging transactions	424	3	424	3	458	10	474	3
Total transactions	3,596	53	1,754	1,336	4,821	36	2,557	1,367

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the US dollar (USD) and the pound sterling (GBP) and, assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2015 (1.0887 and 0.7340, respectively), and 31 December 2014 (1.2141 and 0.7789, respectively).

	31 December 2015				*31 December 2014*			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	10	(3)	10	(12)	5	(5)	(4)	7
Equity (*)	(6)	(10)	41	(46)	(1)	1	49	(52)

(*) Defined as sum of earnings and cash-flow hedge reserve

Translation risk

The Group is also significantly exposed to "translation risk", i.e. the risk that assets and liabilities in consolidated companies whose reporting currency is not the euro (mainly USD and GBP) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named "Translation reserve" (Note 18). It should be noted that Finmeccanica does not hedge translation risk relating to its own equity investments, the most important of which are in the USA and in the UK.

The main equity holdings in the UK had an overall positive net financial position which is transferred to Finmeccanica through cash pooling arrangements. Finmeccanica systematically hedges this exposure through exchange-rate derivatives recognised as fair value hedges. As a result, even though the Group has no economic exposure, it is subject to balance-sheet volatility directly impacting the amount of Group net debt, which is affected by the realigning payables/receivables in foreign currency from third parties or, similarly, by the cash effects deriving from the renewal of hedges.

The effects on the equity of the Group, broken down by the main currencies, are reported in Note 19.

Liquidity risk

The Group is exposed to liquidity risk, i.e. the risk of not being able to finance the prospective requirements deriving from its usual business and investment operations, as well as those connected with the volatility of the relevant commercial markets and with the effects of the current reorganisation of the Group, specifically with regard to the financial outlays relating to efficiency-improvement processes and to activities linked to business contracts at risk of renegotiation or termination. Furthermore, there is the risk of not being able to repay or refinance debts at the expiry dates.

In order to face the above-mentioned risks, the Group has adopted a series of instruments aimed at optimizing the management of financial resources through banking transactions and bonds. The average maturity of the bonded debt is about 7.7 years.

With regard to all the bond issues placed on the market by the Luxembourg subsidiary Finmeccanica Finance wound up in 2016, it should be noted that Finmeccanica SpA, as part of the process of gradually centralising all its financial activities, replaced Finmeccanica Finance SA as issuer of the outstanding bonds, taking advantage of this option provided for by the Euro Medium Term Programme (EMTN) under which the bonds were issued. The replacement, duly resolved and communicated to the markets in November 2014, was completed upon the deadline for each interest payment, the final one occurring on 21 January 2015. As of today, Finmeccanica SpA is the issuer of all the bonds denominated in euros and pound sterling placed on the market under the EMTN programme.

The EMTN programme, under which all the outstanding bonds of Finmeccanica Spa have been issued, was used in the amount of about €mil. 3,250 at 31 December 2015 (following the early buy-back in 2015 in regard to which reference is made to the "Financial Transactions" section of the Report on Operations) compared to the total amount of €mil. 4,000. To such amount the bonds issued on the US market by the subsidiary Meccanica Holding USA Inc. must be added for a total gross value of $mil. 1,300.

Furthermore, Finmeccanica, in order to finance its own ordinary and extraordinary operations, can use the cash and cash equivalents of €mil. 1,771 reported at 31 December 2015, related to the Parent Company Finmeccanica (€mil. 1,365), to Group companies that, for different reasons, do not fall within the scope of the treasury centralization and for the remaining part, to cash amounts of the companies falling, directly or indirectly, within the scope of the treasury centralization (also as a result of collections made in the very last days of the period), and to deposits made for different reasons.

To meet the financing needs for ordinary Group activities, Finmeccanica obtained a revolving credit facility that, in order to take advantage of favourable market conditions and considering the industrial efficiency-enhancement actions undertaken, as well as the Group's improved business and financial outlook, on 6 July 2015, it renegotiated with the providers reducing the margin from 180 bps to 100 bps. In line with the

Group's financial needs, Finmeccanica has simultaneously reduced the total amount of the credit line from €mil. 2,200 to €mil. 2,000 and has extended the duration by one year, to July 2020.

At 31 December 2015 the credit line, including the financial covenants described in the "Financial Transactions" section, was entirely unused.

Finmeccanica had additional unconfirmed short-term lines of credit of €mil. 745, which also were entirely unused at 31 December 2015.

Furthermore, it should be noted that the entry into force of the new business contracts is subject to the Group's ability to issue, in favour of the customers, the necessary bank and insurance guarantees. To this end, at 31 December 2015 Finmeccanica had unconfirmed credit lines for an amount of about €mil. 2,992 at banks. Finally, owing to the nature of the Group's customers, which involves longer collection times than in other sectors, the Group enters into factoring transactions typically under terms which enable the derecognition of the receivables sold.

Credit risk

The Group is exposed to credit risk, which is defined as the probability of an insolvency with respect to a credit position with commercial and financial counterparties.

Regarding commercial transactions, the most significant programmes are made with public sector contractors or contractors belonging to public institutions, mainly in the euro area, in the UK and the US. The risks associated with the counterparty, for contracts with countries for which there are no usual commercial relations, are analysed and valued at the time of the offer in order to highlight and mitigate insolvency risks, if any. While solvency is guaranteed with public-entity customers, collection times are longer (in some countries they are significantly longer) than for other business sectors, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. When possible, the Group hedges against potential defaults of its customers by entering into insurance policies with leading Export Credit Agencies (ECAs) internationally and with major Italian agencies (eg. SACE).

Moreover, The Group operates in markets which are or have been recently affected by geopolitical or financial tensions. In particular, with reference to the situation at 31 December 2015, we note the following relations with countries exposed to credit risk according to the international institutions:

€mil.	**Libya**	**Pakistan**	**Other countries**	**Total**
Assets	119	30	22	171
Liabilities	86	5	14	105
Net exposure	**33**	**25**	**8**	**66**

Finally the receivables related to these agreements, as reported in "Finmeccanica and risk management" in the Report on Operations, might not be paid, renegotiated or written off.

The table below summarises trade receivables at 31 December 2015 and 2014, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

(€ billions)	*31 December 2015*	*31 December 2014*
Portion due	1.9	2.6
- of which: for more than 12 months	*0.9*	*0.8*
Portion not yet due	1.6	1.9
Total trade receivables	**3.5**	**4.5**

A part of the portion due is offset by a liability, in relation to payable items or provisions for risks on any net excesses.

Receivables from financing activities, amounting to €mil. 205 (€mil. 244 at 31 December 2014) include €mil. 38 (€mil. 38 at 31 December 2014) classified as "non-current" and consequently excluded from the net financial position. With regard to the current portion the figure refers to the financing to other related parties, as shown in the table below:

Loans and receivables

	31 December 2015	*31 December 2014*
Loans and receivables from related parties	3	6
Other loans and receivables	35	32
Non-current loans and receivables	**38**	**38**
Loans and receivables from related parties	122	161
Other loans and receivables	45	45
Current loans and receivables	**167**	**206**
Total loans and receivables	**205**	**244**

Both trade and financial receivables are impaired individually if they are significant. For receivables that are not impaired individually, impairment provisions are accrued on an aggregate basis, using historical series and statistical data.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy for the financial assets and liabilities of the Group measured at fair value. The fair value of derivatives (classified under other current assets and liabilities) and of current securities is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called "Level 2"), in particular the foreign exchange rate and the interest rate (spot exchange rates and forwards). Vice versa, the fair value of the remaining 15% in Ansaldo Energia, subject to put&call options (classified under other non-current assets), as well as of the payable to Bell Helicopter (classified under other current and non-current liabilities) is determined on the basis of measurement techniques which do not consider directly observable market inputs (the so-called "Level 3"). In particular, the fair value of the stake in Ansaldo Energia was calculated on the basis of the price of the sale, as established in the related agreements. The fair value of the payable to Bell Helicopter was determined by discounting back the estimate of the variable amounts payable on the basis of the success of the programme.

	31 December 2015			*31 December 2014*		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non-current assets	-	131	131	-	124	124
Other current assets	134	-	134	488	-	488
Other non-current liabilities		248	248	-	207	207
Other current liabilities	285		285	542	-	542

37. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of the Parent is €mil. 3 (€mil. 10 at 31 December 2014 including termination indemnities of €mil. 6).

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 1 for 2015 and 2014. This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company.

38. SHARE BASED PAYMENTS

As largely reported in the section "Finmeccanica and Sustainability" of the report on operations, in order to implement an incentive and retention system for the Group's employees and associates, in 2015 Finmeccanica adopted incentive plans which provide for the assignment of Finmeccanica shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2015 to €mil. 3 (no cost in 2014).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group Net Debt for 25% and ROS for 25%) was equal to € 13.12, namely the value of Finmeccanica shares at the grant date (31 July 2015). Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value ("adjusted fair value"). The adjusted fair value, calculated using the "Monte Carlo" method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90. The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;

- the expected volatility of the price of Finmeccanica shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;
- correlation coefficients between Finmeccanica and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis.

With reference to the co-investment plan, rights equal to 194,303 shares were assigned in respect of the "certain" component from the conversion of part of the bonus under the MBO plan. Conversely, in respect of the bonus shares ("matching shares") the requirements for the award of the rights have not yet been fulfilled.

For the Board of Directors

The Chairman

(Giovanni De Gennaro)

Attachment: Scope of consolidation

List of companies consolidated on a line-by-line basis (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership Direct*	*% Group ownership Indirect*	*% Group shareholding*
3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	CAD	-		100	100
AGUSTA AEROSPACE SERVICES AAS SA	Grace Hollogne (Belgium)	EUR	500,000		100	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Sydney (Australia)	AUD	400,000		100	100
AGUSTAWESTLAND DO BRASIL LTDA	Sao Paulo (Brazil)	BRL	11,817,172		100	100
AGUSTAWESTLAND ESPANA SL (IN LIQ.)	Madrid (Spain)	EUR	3,300		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	GBP	40,000		100	100
AGUSTAWESTLAND INDIA PRIVATE LTD	New Delhi (India)	INR	11,519,450		100	100
AGUSTAWESTLAND INTERNATIONAL LTD	Yeovil, Somerset (UK)	GBP	511,000		100	100
AGUSTAWESTLAND LTD	Yeovil, Somerset (UK)	GBP	1,520,304		100	100
AGUSTAWESTLAND MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	2,500,000		100	100
AGUSTAWESTLAND NORTH AMERICA INC	Wilmington, Delaware (USA)	USD	1		100	100
AGUSTAWESTLAND PHILADELPHIA CO	Wilmington, Delaware (USA)	USD	20,000,000		100	100
AGUSTAWESTLAND POLITECNICO ADVANCED ROTORCRAFT CENTER SC A RL (IN LIQ.)	Milan	EUR	400,000		80	80
AGUSTAWESTLAND PORTUGAL SA	Lisbon (Portugal)	EUR	100,000		100	100
AGUSTAWESTLAND PROPERTIES LTD	Yeovil, Somerset (UK)	GBP	100		100	100
AGUSTAWESTLAND SPA	Rome	EUR	702,537,000	100		100
ALENIA AERMACCHI NORTH AMERICA INC	Wilmington, Delaware (USA)	USD	44		100	100
ALENIA AERMACCHI SPA	Rome	EUR	250,000,000	100		100
ANSALDOBREDA SPA	Naples	EUR	55,839,139	100		100
BREDAMENARINIBUS SPA	Bologna	EUR	1,300,000	100		100
DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	USD	1		100	100
DRS CONSOLIDATED CONTROLS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS DEFENSE SOLUTIONS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS ENVIRONMENTAL SYSTEMS INC	Wilmington, Delaware (USA)	USD	2		100	100
DRS HOMELAND SECURITY SOLUTIONS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS ICAS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS INTERNATIONAL INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS NETWORK & IMAGING SYSTEMS LLC ex DRS RSTA INC.	Wilmington, Delaware (USA)	USD	1		100	100
DRS POWER & CONTROL TECHNOLOGIES INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS POWER TECHNOLOGY INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS RADAR SYSTEMS LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS SENSORS & TARGETING SYSTEMS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS SIGNAL SOLUTIONS INC	Wilmington, Delaware (USA)	USD	10		100	100
DRS SURVEILLANCE SUPPORT SYSTEMS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS SUSTAINMENT SYSTEMS INC	Wilmington, Delaware (USA)	USD	1,000		100	100
DRS SYSTEMS MANAGEMENT LLC	Wilmington, Delaware (USA)	USD	1		100	100
DRS SYSTEMS INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS TACTICAL SYSTEMS LIMITED	Farnham, Surrey (UK)	GBP	1,000		100	100
DRS TECHNICAL SERVICES GMBH & CO KG	Stuttgart (Germany)	EUR	-		100	100
DRS TECHNICAL SERVICES INC	Baltimore, Maryland (USA)	USD	50		100	100
DRS TECHNOLOGIES CANADA INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS TECHNOLOGIES CANADA LTD	Kanata, Ontario (Canada)	CAD	100		100	100
DRS TECHNOLOGIES SAUDI ARABIA LLC	Riyadh (Saudi Arabia)	SAR	2,000,000		49	100
DRS TECHNOLOGIES UK LIMITED	Farnham, Surrey (UK)	GBP	14,676,000		100	100
DRS TECHNOLOGIES VERWALTUNGS GMBH	Baden-Wurttemberg (Germany)	EUR	25,000		100	100
DRS TECHNOLOGIES INC	Wilmington, Delaware (USA)	USD	1		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Tallahassee (USA)	USD	510		100	100
DRS TSI INTERNATIONAL LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS UNMANNED TECHNOLOGIES INC	Wilmington, Delaware (USA)	USD	1		100	100
ED CONTACT SRL	Rome	EUR	600,000		100	100
ELECTRON ITALIA SRL	Rome	EUR	206,582		100	100
ENGINEERED COIL COMPANY	Jefferson City (USA)	USD	1,000		100	100
ENGINEERED SUPPORT SYSTEMS INC	Jefferson City (USA)	USD	1		100	100
ESSI RESOURCES LLC	Frankfort (USA)	USD	-		100	100
FATA ENGINEERING SPA	Pianezza (Turin)	EUR	1,092,000		100	100
FATA GULF CO WLL	Doha (Qatar)	QAR	200,000		49	100
FATA HUNTER INC	Riverside, California (USA)	USD	5,800,000		100	100
FATA LOGISTIC SYSTEMS SPA	Pianezza (Turin)	EUR	100,000		100	100
FATA SPA	Pianezza (Turin)	EUR	20,000,000	100		100
FINMECCANICA FINANCE SA (IN LIQ.)	Luxembourg (Luxembourg)	EUR	12,371,940		100	100
FINMECCANICA GLOBAL SERVICES SPA	Rome	EUR	49,945,983	100		100
GLOBAL NETWORK SERVICES LLC	Wilmington, Delaware (USA)	USD	1		100	100
LARIMART SPA	Rome	EUR	2,500,000		60	60
LASERTEL INC	Tucson, Arizona (USA)	USD	10		100	100
LAUREL TECHNOLOGIES PARTNERSHIP	Wilmington, Delaware (USA)	USD	-		100	100
MECCANICA HOLDINGS USA INC	Wilmington, Delaware (USA)	USD	10	100		100
OTO MELARA IBERICA SAU	Loriguilla, Valencia (Spain)	EUR	120,000		100	100
OTO MELARA NORTH AMERICA LLC	Wilmington, Delaware (USA)	USD	10,000		100	100
OTO MELARA SPA	Rome	EUR	92,307,722	100		100
PCA ELECTRONIC TEST LTD	Grantham, Lincolnshire (UK)	GBP	1		100	100
PIVOTAL POWER INC	Halifax, Nova Scotia (Canada)	CAD	-		100	100
REGIONALNY PARK PRZEMYSLOWY SWIDNIK SP Z OO	Mechaniczna 13 - U1, Swidnik (Poland)	PLN	7,072,000		74	73
SELEX ELSAG LTD	Basildon, Essex (UK)	GBP	25,800,100		100	100
SELEX ES DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	5,686,457		100	100
SELEX ES ELEKTRONIK TURKEY AS	Ankara (Turkey)	TRY	45,557,009		100	100
SELEX ES GMBH	Neuss (Germany)	EUR	2,500,000		100	100
SELEX ES INC	Wilmington, Delaware (USA)	USD	1		100	100
SELEX ES INDIA PRIVATE LTD	New Delhi (India)	INR	30,100,000		100	100
SELEX ES INTERNATIONAL LTD	Basildon, Essex (UK)	GBP	60,000,000		100	100
SELEX ES LTD	Basildon, Essex (UK)	GBP	270,000,100		100	100
SELEX ES ROMANIA SRL	Bucharest (Romania)	RON	42,370		100	100
SELEX ES SPA	Rome	EUR	1,000,000	100		100
SELEX ES SAUDI ARABIA LTD (EX SELEX GALILEO SAUDI ARABIA COMPANY LTD)	Riyadh (Saudi Arabia)	SAR	500,000		100	100
SELEX GALILEO INC	Wilmington, Delaware (USA)	USD	17,750,000		100	100
SELEX SERVICE MANAGEMENT SPA (IN LIQ.)	Rome	EUR	3,600,000		100	100
SELEX SISTEMI INTEGRATI SPA (IN LIQ.)	Rome	EUR	143,110,986		100	100
SELEX SYSTEMS INTEGRATION LTD	Basildon, Essex (UK)	GBP	71,500,001		100	100
SC ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)	RON	10,847,960		100	100
SIRIO PANEL SPA	Montevarchi (Arezzo)	EUR	447,228		100	100
SO.GE.PA. - SOCIETA` GENERALE DI PARTECIPAZIONI SPA	Rome	EUR	1,000,000	100		100
T - S HOLDING CORPORATION	Austin, Texas (USA)	USD	280,000		100	100
TECH-SYM LLC	Reno, Nevada (USA)	USD	10		100	100
TTI TACTICAL TECNOLOGIES INC	Ottawa (Canada)	CAD	2,500,001		100	100

VEGA CONSULTING SERVICES LTD	Welwyn Garden City, Herts (UK)	GBP	1,098,839		100	100
VEGA DEUTSCHLAND GMBH	Cologne (Germany)	EUR	25,700		100	100
WESTLAND SUPPORT SERVICES LTD	Yeovil, Somerset (UK)	GBP	5,000		100	100
WHITEHEAD SISTEMI SUBACQUEI SPA	Rome	EUR	21,346,000	100		100
WING NED BV	Rotterdam (the Netherlands)	EUR	18,000		100	100
WORLD'S WING SA	Geneva (Switzerland)	CHF	120,100,000		95	95
WYTWORNIA SPRZETU KOMUNIKACYJNEGO ``PZL-SWIDNIK`` SPOLKA AKCYJNA	Aleja Lotnikow, Swidnik (Poland)	PLN	86,006,050		98	98
ZAKLAD OBROBKI PLASTYCZNEJ SP Z OO	Kuznicza 13 - U1, Swidnik (Poland)	PLN	3,800,000		100	98

List of subsidiaries and associates valued at cost (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
ADVANCED MALE AIRCRAFT LLC	Al Ain, Muwaiji (United Arab Emirates)	AED	200,000		49.00	49.00
AGUSTAWESTLAND UK PENSION SCHEME (TRUSTEE) LTD	Yeovil, Somerset (UK)	GBP	1		100	100
ANSALDOBREDA FRANCE SAS (IN LIQ)	Marseille (France)	EUR	200,000		100	100
CCRT SISTEMI SPA (IN FALL)	Milan	EUR	697,217		30.34	30.34
CHONGQING CHUANYI ANSALDOBREDA RAILWAY TRANSPORT. EQUIP.CO.LTD	Chongqing (China)	CNY	50,000,000		50.00	50.00
EARTHLAB LUXEMBOURG S.A.	Luxembourg (Luxembourg)	EUR	5,375,000		54.40	34.17
ELSACOM - UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	UAH	7,945,000		49.00	49.00
INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (AMM.STR.)	Genoa	EUR	103,567	30.98		30.98
INMOVE ITALIA SRL	Naples	EUR	120,000		100	100

List of companies consolidated using the equity method (amounts in currency)

Company name	*Registered office*	*Currency*	*Share capital*	*% Group ownership*		*% Group shareholding*
				Direct	*Indirect*	
A4ESSOR SAS	Neuilly Sur Seine (France)	EUR	100,000		21.00	21.00
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)	AED	1,150,000		43.04	43.04
ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	USD	-		51.00	51.00
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Kuala Lumpur (Malaysia)	MYR	5,000,000		30.00	30.00
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	AED	10,000		30.00	30.00
ALENIA NORTH AMERICA-CANADA CO	Halifax, Nova Scotia (Canada)	CAD	1		100.00	100.00
AMSH BV	Rotterdam (the Netherlands)	EUR	36,296,316	50		50
ANSALDO-EMIT SCRL (IN LIQ)	Genoa	EUR	10,200		50.00	50.00
ATITECH MANUFACTURING SRL	Naples	EUR	10,000		25.00	25.00
ATITECH SPA	Naples	EUR	6,500,000		25.00	25.00
AUTOMATION INTEGRATED SOLUTIONS SPA	Pianezza (Turin)	EUR	100,000		40.00	40.00
AVIATION TRAINING INTERNATIONAL LTD	Sherborne (UK)	GBP	550,000		50.00	50.00
AVIO SPA	Turin	EUR	40,000,000	14.32		14.32
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	GBP	1		100.00	100.00
CLOSED JOINT STOCK COMPANY HELIVERT	Moscow (Russia)	RUR	10,000		50.00	50.00
COMLENIA SENDIRIAN BERHAD	Selangor Darul Ehsan (Malaysia)	MYR	1,500,000		30.00	30.00
CONSORZIO ATR GIE e SPE	Toulouse (France)	USD	-		50	50
CONSORZIO TELAER (IN LIQ.)	Rome	EUR	103,291		100	68
CONSORZIO TELAER - SISTEMI DI TELERILEVAMENTO AEREO	Rome	EUR	120,000		62.00	47.15
DISTRETTO TECNOLOGICO AEROSPAZIALE SC A RL	Brindisi	EUR	150,000		24.00	24.00
E - GEOS SPA	Matera	EUR	5,000,000		80.00	53.60
ELETTRONICA SPA	Rome	EUR	9,000,000	31.33		31.33
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH	Hallbergmoos (Germany)	EUR	127,823		21.00	21.00
EUROFIGHTER INTERNATIONAL LTD	Farnborough (UK)	GBP	2,000,000		21.00	21.00
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	EUR	2,556,459		21.00	21.00
EUROFIGHTER SIMULATION SYSTEMS GMBH	Hallbergmoos (Germany)	EUR	260,000		24.00	24.00
EUROMIDS SAS	Paris (France)	EUR	40,500		25.00	25.00
EUROSYSNAV SAS	Paris (France)	EUR	40,000	50		50
EUROTECH SPA	Amaro (Udine)	EUR	8,878,946	11		11
FATA HUNTER INDIA PVT LTD	New Delhi (India)	INR	500,000		100.00	100.00
FATA (SHANGHAI) ENGINEERING EQUIPMENT CO. LTD	Shanghai (China)	CNY	100,000		100.00	100.00
FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	BRL	1,203,200	100.00		100.00
FINMECCANICA NORTH AMERICA INC	Dover, Delaware (USA)	USD	1,000	100.00		100.00
FINMECCANICA UK LTD	Yeovil, Somerset (UK)	GBP	1,000	100.00		100.00
GAF AG	Munich (Germany)	EUR	256,000		100.00	53.60
IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Mestre (Venice)	EUR	208,000		25	25.00
ICARUS SCPA	Turin	EUR	10,268,400		49.00	49.00
INDIAN ROTORCRAFT LTD	Hyderabad (India)	INR	429,337,830		26.00	26.00
IVECO - OTO MELARA SC A RL	Rome	EUR	40,000		50	50
JIANGXI CHANGHE AGUSTA HELICOPTER CO LTD	Zone Jiangxi Province (China)	USD	6,000,000		40	40
JOINT STOCK COMPANY SUKHOI CIVIL AIRCRAFT	Moscow (Russia)	RUB	14,012,381,000		6	6
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Libya)	EUR	8,000,000	25	25	50
LMATTS LLC	Wilmington, Delaware (USA)	USD	100		100	100
MACCHI HUREL DUBOIS SAS	Versailles (France)	EUR	100,000		50	50.00
MBDA SAS	Paris (France)	EUR	53,824,000		50	25.00
MUSINET ENGINEERING SPA	Turin	EUR	520,000		49.00	49.00
NGL PRIME SPA (IN LIQ.)	Turin	EUR	120,000	30.00		30.00
NHINDUSTRIES (SAS)	Aix en Provence (France)	EUR	306,000		32	32
ORIZZONTE - SISTEMI NAVALI SPA	Genoa	EUR	20,000,000		49.00	49.00
OTO MELARA DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	1,500,000		100	100
RARTEL SA	Bucharest (Romania)	RON	468,500		61.06	40.91
ROTORSIM SRL	Sesto Calende (Varese)	EUR	9,800,000		50.00	50.00
ROTORSIM USA LLC	Wilmington, Delaware (USA)	USD	12.607.452		50.00	50.00
SAPHIRE INTERNATIONAL AVIATION & ATC ENGINEERING CO LTD	Beijing (China)	USD	800,000		65.00	65.00
SELEX ES AUSTRALIA PTY LTD	Canberra (Australia)	AUD	2		100	100
SELEX ES ELECTRO OPTICS (OVERSEAS) LTD	Basildon, Essex (UK)	GBP	15,000		100	100
SELEX ES FOR TRADING OF MACHINERY EQUIPMENT AND DEVICES LTD	Kuwait City (Kuwait)	KWD	807,000		93	93
SELEX ES INFRARED LTD	Basildon, Essex (UK)	GBP	2		100	100
SELEX ES MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	500,000		100	100
SELEX ES (PROJECTS) LTD	Basildon, Essex (UK)	GBP	100		100	100
SELEX ES TECHNOLOGIES LTD	Nairobi (Kenya)	KES	22,500,000		100	100
SELEX PENSION SCHEME (TRUSTEE) LTD	Basildon, Essex (UK)	GBP	100		100	100
SEVERNYJ AVTOBUS ZAO	Saint Petersburg (Russia)	RUB	84,000		35.00	35.00
SIRIO PANEL INC	Dover, Delaware (USA)	USD	10,000		100	100
SISTEMI DINAMICI SPA	Pisa	EUR	200,000		40.00	40.00
SPACEOPAL GMBH	Munich (Germany)	EUR	500,000		50.00	33.50
SUPERJET INTERNATIONAL SPA	Tessera (Venice)	EUR	6,424,411		51.00	51.00
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	ARS	9,900,000		100	67
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	BRL	58,724,000		98.77	66.18
TELESPAZIO FRANCE SAS	Toulouse (France)	EUR	33,670,000		100	67.00

TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS LTD (IN LIQ.)	Budapest (Hungary)	EUR	100,000		100	67.00
TELESPAZIO IBERICA SL	Barcelona (Spain)	EUR	2,230,262		100	67.00
TELESPAZIO NORTH AMERICA INC	Dover, Delaware (USA)	USD	10		100	67.00
TELESPAZIO SPA	Rome	EUR	50,000,000	67.00		67.00
TELESPAZIO VEGA DEUTSCHLAND GMBH	Darmstadt (Germany)	EUR	44,150		100	67
TELESPAZIO VEGA UK LTD	Luton (UK)	GBP	30,000,100		100	67
TELESPAZIO VEGA UK SL	Madrid (Spain)	EUR	3,100		100	67
THALES ALENIA SPACE SAS	Cannes La Bocca (France)	EUR	979,240,000	33		33
WIN BLUEWATER SERVICES PRIVATE LIMITED	New Delhi (India)	INR	12,000,000		100	100
ZAO ARTETRA	Moscow (Russia)	RUB	353,000		51	51.00

Below are the main changes in the scope of consolidation at 31 December 2015 in comparison with 31 December 2014:

COMPANY	**EVENT**	**MONTH**
Companies which entered the scope of consolidation:		
Selex ES Technologies Limited	newly established	February 2015
Atitech Manufacturing Srl	newly established	April 2015
Selex ES Malaysia SDN BHD	newly established	April 2015
Selex ES for Trading of Machinery Eq.and Devices Ltd	newly established	March 2015
Global Aviation & Logistics Services LLC	newly established	May 2015
Global Network Services LLC	newly established	May 2015
Global Support Services LLC	newly established	May 2015
Atitech SpA	purchase of share	May 2015
Companies which left the scope of consolidation:		
Elsacom NV	deconsolidated	January 2015
Xait Srl (in liq.)	deconsolidated	February 2015
British Helicopters Ltd.	deconsolidated	March 2015
Westland Transmissions Ltd.	deconsolidated	March 2015
Sel Proc Srl (in liq.)	deconsolidated	April 2015
Abruzzo Engineering SCPA (in liq.)	sold	July 2015
Consorzio START SpA	sold	August 2015
Meccanica Reinsurance SA	sold	October 2015
Gruppo Ansaldo STS	sold	November 2015
Global Aviation & Logistics Services LLC	sold	November 2015
AnsaldoBreda España SLU	sold	November 2015
AnsaldoBreda Inc.	sold	November 2015
Global Support Services LLC	sold	November 2015
N2 Imaging Systems LLC	sold	December 2015
Merged companies:		
Selex ES Muas SpA	Selex ES SpA	January 2015
Sistemi Software Integrati SpA	Selex ES SpA	January 2015
SESM-Soluzioni Evolute per la Sistemistica e Modelli SCARL	Selex ES SpA	January 2015
E-Security Srl	Selex ES SpA	February 2015
Immobiliare Cascina Srl	Finmeccanica Global Services SpA	October 2015
CISDEG SpA	Selex ES SpA	December 2015

No company has changed its name during 2015, except as a result of the start of the liquidation procedures.

Statement on the consolidated financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. The undersigned Mauro Moretti Chief Executive Officer and General Manager, and Gian Piero Cutillo as the Officer in charge of Financial Reporting for Finmeccanica Spa, certify, in accordance with Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the consolidated financial statements at 31 December 2015.

2. In this respect it is noted that no significant matters arose.

3. It is also certified that:

   3.1 The consolidated financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer and of the entities included within the scope of consolidation.

   3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer and of the entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 16 March 2016

Chief Executive Officer and General Manager (Mauro Moretti)	Officer in charge of financial reporting (Gian Piero Cutillo)

Independent Auditors' Report on the Consolidated Financial Statements at 31 December 2015

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Finmeccanica S.p.a.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Finmeccanica Group (the "group"), which comprise the statement of financial position as at 31 December 2015, the separate income statement and statements of comprehensive income, changes in cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The parent's directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11.3 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the group's financial position as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 31 of Legislative decree no. 2015/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the consolidated financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the parent's directors, with the consolidated financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Finmeccanica Group as at and for the year ended 31 December 2015.

Rome, 18 March 2016

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit

Separate financial statements at 31 December 2015 Finmeccanica - Società per Azioni

Accounting statements to the separate financial statements as at 31 December 2015

Separate income statement

Euro	*Note*	***2015***	*of which with related parties*	***2014***	*of which with related parties*
Revenue	*22*	53,785,321	*53,063,898*	63,965,218	*63,511,035*
Other operating income	*23*	10,936,841	*8,782,466*	13,951,547	*9,935,373*
Purchase and personnel expense	*24*	(122,024,155)	*(56,393,604)*	(153,362,664)	*(40,774,852)*
Amortisation, depreciation and impairment losses	*25*	(10,850,834)		(10,806,422)	
Other operating expenses	*23*	(26,673,782)	*(926,525)*	(14,888,850)	*(78,725)*
Income before tax and financial expenses		**(94,826,609)**		**(101,141,171)**	
Financial income	*26*	1,347,321,711	*104,044,376*	481,301,544	*124,037,307*
Financial expene	*26*	(835,912,371)	*(27,385,608)*	(524,645,361)	*(208,744,640)*
Operating profit (loss) before income taxes and discontinued operations		**416,582,731**		**(144,484,988)**	
Income taxes	*27*	27,344,666		3,157,141	
Net profit/(loss) for the period		**443,927,397**		**(141,327,847)**	

Statement of comprehensive income

Euro	***2015***	***2014***
Profit (loss) for the period	**443,927,397**	**(141,327,847)**
Other comprehensive income (expense):		
Comprehensive income/expense which will not be subsequently reclassified within the profit (loss) for the period:		
- Measurement of defined-benefit plans - revaluation	(29,934)	(578,515)
Comprehensive income/expense which will or might be subsequently reclassified within the profit (loss) for the period:	-	-
- Changes in cash flow hedges:	-	-
- Tax effect	-	-
	-	-
Total other comprehensive income (expense), net of tax:	**(29,934)**	**(578,515)**
Total comprehensive income	**443,897,463**	**(141,906,362)**

Statement of financial position

Euro	*Note*	***31 December 2015***	*of which with related parties*	***31 December 2014***	*of which with related parties*
Intangible assets		4,100,314		5,298,393	
Property, plant and equipment	*8*	47,037,371		47,451,451	
Investment property	*8*	102,389,161		106,396,157	
Equity investments	*9*	7,387,101,160		7,493,570,346	
Receivables	*10*	105,730,522	*105,078,565*	68,778,123	*67,872,172*
Deferred tax assets	*27*	39,775,699		36,255,230	
Other non current assets	*10*	142,468,885	-	136,214,276	-
Non-current assets		**7,828,603,112**		**7,893,963,976**	
Trade receivables	*11*	93,072,685	*91,446,557*	75,753,960	*75,065,661*
Income tax receivables	*12*	97,515,687		92,305,985	
Loans and receivables	*11*	2,558,098,861	*2,557,558,583*	2,772,570,191	*2,772,530,422*
Other assets	*13*	573,875,055	*33,210,559*	532,580,035	*27,510,261*
Cash and cash equivalents	*14*	1,364,696,937		744,832,302	
Current assets		**4,687,259,225**		**4,218,042,473**	
Total assets		**12,515,862,337**		**12,112,006,449**	
Share capital		2,522,470,761		2,524,859,141	
Other reserves		1,657,811,863		1,209,590,853	
Total equity	*15*	**4,180,282,624**		**3,734,449,994**	
Loans and borrowings (non current)	*16*	3,521,242,570	-	2,430,146,077	-
Employee benefits	*18*	3,251,897		3,536,569	
Provisions for risks and charges	*17*	149,187,067		145,491,540	
Other non-current liabilities	*19*	109,613,967	-	112,481,237	-
Non-current liabilities		**3,783,295,501**		**2,691,655,423**	
Trade payables	*20*	99,701,879	*52,794,803*	84,947,442	*51,727,257*
Loans and borrowings (current)	*16*	3,115,786,946	*2,982,680,007*	4,597,078,969	*4,523,027,671*
Income tax payables	*12*	1,419,470		15,494,411	
Provisions for short-term risks and charges	*17*	225,914,989		97,244,690	
Other current liabilities	*19*	1,109,460,928	*645,976,040*	891,135,520	*490,969,103*
Current liabilities		**4,552,284,212**		**5,685,901,032**	
Total liabilities		**8,335,579,713**		**8,377,556,455**	
Total liabilities and equity		**12,515,862,337**		**12,112,006,449**	

Statement of cash flows

Euro	*Note*	***2015***	*of which with related parties*	***2014***	*of which with related parties*
Gross cash flows from operating activities	*28*	(69,684,437)		(74,740,505)	
Change in working capital		(761,288)	*(15,311,350)*	(11,470,137)	*722,262*
Change in other operating assets and liabilities and provisions for risks and charges		166,223,936	*188,750,936*	84,329,008	*152,229,488*
Interest paid		(103,548,822)	*71,604,701*	(146,125,028)	*(78,414,473)*
Income taxes paid		(19,615,737)	-	(1,085,425)	-
Cash flows used in operating activities		**(27,386,348)**		**(149,092,087)**	
Sale of Ansaldo Energia		761,245,270		-	
Cash in from Avio		-		233,745,362	
Investments in property, plant and equipment and intangible assets		(5,974,475)		(5,739,747)	
Sales of property, plant and equipment and intangible assets		204,932		30,920	
Dividends received		380,721,659		243,242,110	
Other investing activities		(241,862,270)	-	(184,331,513)	-
Cash flows used in investing activities		**894,335,116**		**286,947,132**	
Increase of share capital		(2,388,380)		-	
Repayment of EIB loan		(46,320,346)		(46,320,346)	
Bond buy back		(451,244,536)		-	
Net change in other loans and borrowings		239,149,053	*190,297,327*	(118,942,104)	*(131,149,850)*
Cash flows generated from financing activities		**(260,804,209)**		**(165,262,450)**	
Net increase (decrease) in cash and cash equivalents		606,144,559		(27,407,405)	
Exchange rate differences and other changes		13,720,076		11,088,271	
Cash and cash equivalents at 1 January		744,832,302		761,151,436	
Cash and cash equivalents at 31 December		**1,364,696,937**		**744,832,302**	

Statement of changes in equity

Euro	Share capital	Retained earnings	Reserve for available for sale assets	Revaluation reserve of defined-benefit plans	Other reserves	Total equity
1 January 2014	**2,524,859,141**	**1,345,865,608**	**-**	**825,881**	**4,054,056**	**3,875,604,686**
Profit (loss) for the period		(141,327,847)				(141,327,847)
Other comprehensive income (expense)			-	(578,515)		(578,515)
Total comprehensive income (expense)	**-**	**(141,327,847)**	**-**	**(578,515)**	**-**	**(141,906,362)**
Dividends resolved						-
Total transactions with owners of the parent, recognised directly in equity	-	-	-	-	-	-
Other changes		745,543			6,127	751,670
31 December 2014	**2,524,859,141**	**1,205,283,304**	**-**	**247,366**	**4,060,183**	**3,734,449,994**
1 January 2015	**2,524,859,141**	**1,205,283,304**	**-**	**247,366**	**4,060,183**	**3,734,449,994**
Profit (loss) for the period		443,927,397				443,927,397
Other comprehensive income (expense)			-	(29,934)		(29,934)
Repurchase of treasury shares less shares sold	(2,388,380)					(2,388,380)
Stock option/grant plans - performance's value					4,323,547	4,323,547
Total comprehensive income (expense)	**(2,388,380)**	**443,927,397**	**-**	**(29,934)**	**4,323,547**	**445,832,630**
Dividends resolved	-	-	-	-	-	-
Total transactions with owners of the parent, recognised directly in equity	-	-	-	-	-	-
Other changes		-	-	-		-
31 December 2015	**2,522,470,761**	**1,649,210,701**	**-**	**217,432**	**8,383,730**	**4,180,282,624**

Notes to the separate financial statements at 31 December 2015

1. GENERAL INFORMATION

Finmeccanica is a company limited by shares based in Rome (Italy), at Piazza Monte Grappa 4, and is listed on the Italian Stock Exchange (FTSE-MIB).

The Finmeccanica Group is a major Italian high technology organisation, currently concentrated in the fields of Helicopters, Defence and Security Electronics, Aeronautics, Space and Defence Systems.

In 2015 the business of the Transportation sector was sold to Hitachi.

2. FORM, CONTENT AND APPLICABLE ACCOUNTING STANDARDS

In application of EC Regulation 1606/2002 of 19 July 2002, the financial statements at 31 December 2015 were prepared in accordance with the international accounting standards (IFRS) endorsed by the European Commission, supplemented by the relevant interpretations (Standing Interpretations Committee - SIC and International Financial Reporting Interpretations Committee - IFRIC) issued by the International Accounting Standard Board (IASB*)* and in force at the year-end.

The general principle used in preparing these separate financial statements is the historical cost method, except for those items that, in accordance with IFRS, are obligatory recognised at fair value, as indicated in the valuation criteria of each item.

The separate financial statements are composed of the separate income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the related notes to the financial statements.

In consideration of the significant values, the figures in these notes are shown in millions of euros unless otherwise indicated. Among the options permitted by IAS 1, the Company has chosen to present its balance sheet by separating current and non-current items and its income statement by the nature of the costs. Instead, the statement of cash flows was prepared using the indirect method.

The International Financial Reporting Standards (IFRS) used for preparing these separate financial statements, drawn up under the going-concern assumption, are the same that were used in the preparation of the separate financial statements at 31 December 2014 except for what indicated below (Note 4).

Preparation of the separate financial statements required management to make certain estimates. The main areas affected by estimates or assumptions of particular importance or that have significant effects on the balances shown are described in Notes 4.5 and 4.6 to the Consolidated Financial Statements, to which reference is made.

The Board of Directors of 16 March 2016 resolved to submit to shareholders the draft financial statements at 31 December 2015, authorizing their circulation at the same date. The Board convened the Ordinary Shareholders' Meeting for the approval thereof for 22, 27 and 28 April 2016, on first, second and third call, respectively.

The separate financial statements were prepared in accordance with IFRS and are subject to a statutory audit by KPMG S.p.A.

3. ACCOUNTING PRINCIPLES ADOPTED

The accounting policies and criteria are the same adopted for the annual consolidated financial statements, to which reference is made, except for the recognition and measurement of equity investment in subsidiaries, jointly controlled companies and associates recognised at their purchase or incorporation cost. In case of any impairment losses their recoverability is verified through the comparison between their carrying amount and the higher of their value in use that is determined by discounting prospective cash flows, where applicable, of the equity investment and the assumed sales value which is determined on the basis of recent transactions or market multiples. The portion of losses exceeding the carrying amount is recognised in a specific provision under liabilities to the extent that the Company states the existence of legal or implicit obligations to cover such losses, which are in any case within the limits of the book equity. If the impaired investee shows a subsequent improvement in performance which leads to believe that the reasons for the impairment cease to exist, the equity investments are revalued to the extent of the impairment losses recognised in previous periods under "Adjustments to equity investments". Dividends from subsidiaries and associates are recognised in the income statement in the year in which they are resolved.

Finally, with reference to transactions between entities under common control, which are not governed by IFRS, either from the point of view of the purchaser/assignee or from that of the seller/assignor, Finmeccanica, considering this, recognises such transactions recognising directly in equity any gain on the transfer or sale of its subsidiaries.

4. EFFECTS OF CHANGES IN ACCOUNTING POLICIES ADOPTED

Starting from 1 January 2015 the Company has adopted the Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions". The amendment simplifies the accounting treatment of certain cases of contributions to defined benefit plans from employees or third parties, without any significant effect on this Annual Financial Report.

5. SIGNIFICANT NON-RECURRING EVENTS ON TRANSACTIONS

On 2 November 2015, Finmeccanica finalised the closing of the sales in the Transportation sector to Hitachi. The transactions, which mark the completion of Finmeccanica's disposal plan in place since 2011, provided for the transfer to Hitachi of the investments held by Finmeccanica in Ansaldo STS (equal to 40% of the share capital) and AnsaldoBreda's businesses in the rolling stock segment, excluding revamping activities that are of minor importance, which have remained within Finmeccanica.

On closing Finmeccanica cashed in an amount of €mil. 761, recognising a capital gain from the stake in Ansaldo STS equal to €mil. 702. As part of this transaction, AnsaldoBreda S.p.A., which is still 100% held by Finmeccanica, sold a large part of its operations. At 31 December 2015 the valuation of the equity investment in AnsaldoBreda implied a negative adjustment, equal to €mil. 353, which includes in particular the adverse effects of the sale within AnsaldoBreda.

6. SIGNIFICANT POST-BALANCE SHEET EVENTS

The corporate operations whereby Finmeccanica's activities were concentrated on the **Aerospace, Defence & Security** industry (operations previously conducted through OTO Melara S.p.A., Whitehead Sistemi Subacquei S.p.A., Alenia Aermacchi S.p.A., AgustaWestland S.p.A. and Selex ES S.p.A) took legal, accounting and tax effect on 1 January 2016. In accordance with Finmeccanica's new governance, direction and control are centralised while business operations have been decentralised into seven divisions (*Helicopters*, *Aircraft*, *Aerostructures*, *Airborne & Space Systems*, *Land & Naval Defence Electronics*, *Defence Systems*, *Security & Information Systems*), within four sectors (*Helicopters*, *Aeronautics*, *Electronics*, *Defence & Security Systems*, *Space*) which are assigned coordination tasks and functions.

7. SEGMENT REPORTING

At the reporting date, the Company's ordinary operations exclusively consist in the direction, control and support to the Group companies. For the performance of the sectors in which the Group operates, reference is made to the report on operations.

8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

	Property, plant and equipment				
	Land and buildings	Plant and machinery	Other tangible assets	Total	Investment property
1 January 2014					
Cost	93	7	25	**125**	**190**
Amortisation, depreciation and impairment losses	(50)	(5)	(13)	**(68)**	**(91)**
Carrying amount	43	2	12	**57**	**99**
Investments	2	-	1	**3**	**2**
Depreciation	(2)	-	(1)	**(3)**	**(5)**
Other changes	(1)	(1)	(8)	**(10)**	**10**
31 December 2014	42	1	4	**47**	**106**
broken down as follows:					
Cost	95	7	17	**119**	**201**
Amortisation, depreciation and impairment losses	(53)	(6)	(13)	**(72)**	**(95)**
Carrying amount	42	1	4	**47**	**106**
Investments	-	-	3	**3**	**-**
Depreciation	(2)	-	(1)	**(3)**	**(5)**
Other changes	-	1	(1)	**-**	**1**
31 December 2015	40	2	5	**47**	**102**
broken down as follows:					
Cost	95	7	19	**121**	**201**
Amortisation, depreciation and impairment losses	(55)	(5)	(14)	**(74)**	**(99)**
Carrying amount	40	2	5	**47**	**102**

Property, plant and equipment mainly relate to the building of the main office of the Company (€mil. 26). Investment property includes the buildings that Finmeccanica leased to its subsidiaries. Purchase commitments of property, plant and equipment amount to €mil. 3.

9. EQUITY INVESTMENTS

	2015			*2014*		
	Equity investments	Risk provisions	Total	Equity investments	Risk provisions	Total
1 January	**7,494**	**(57)**	**7,437**	**7,456**	**(121)**	**7,335**
Acquisitions/subscriptions and capital increases	192	57	**249**	57	121	**178**
Impairment net of transfers from provisions	(231)	(170)	**(401)**	(69)	(57)	**(126)**
Disposals	(71)		**(71)**			**-**
Other changes	3	-	**3**	50	-	**50**
31 December	**7,387**	**(170)**	**7,217**	**7,494**	**(57)**	**7,437**

Appendices no. 1 and 2 to these Notes provide, respectively, the changes that occurred in the year and detailed information on equity investments showing the total of assets and liabilities, as required by IFRS 12.

The carrying amount of equity investments is subject to impairment testing to determine any loss in value. This is done on the equity investments held directly and considered together with their investee companies, comparing the carrying amount with the greater of the value in use of the investment and the amount recoverable by sale. In practice, Finmeccanica has established an operational hierarchy between calculating the fair value net of transaction costs and value in use, where the value in use is estimated first, and then only after, if it is lower than the carrying value, is the fair value determined net of transaction costs.

The cash flows used were those provided for in the plans, adjusted in order to exclude the effects of future business restructurings, not yet approved, or future investments for improving future performance. Specifically, such flows are those before financial expense and taxes, and include investments in capital assets and monetary changes in working capital, while excluding cash flows from financial management, extraordinary events or the payment of dividends. Cash flows denominated in foreign currencies are translated at the exchange rate prevailing at the close of the period. The related underlying macro-economic assumptions were made on the basis of external information sources, where available, while the profitability and growth estimates used in the plans were calculated by management based on past experience and expected developments in the Group's markets.

These cash flows are discounted on a weighted-average cost of capital (WACC) basis calculated using the Capital Asset Pricing Model method. The following factors were taken into account in calculating WACCs:

- the risk-free rate, calculated using the 10- and 20-year gross yield of government bonds of the geographic market of the investment. The drop in these rates justifies the overall decrease of WACCs compared with 2014;
- the market premium was calculated using a 6% value (increased from 2014 to consider the effect deriving from the drop in rates), except for the Defence and Security Electronics sector for which the risk premium was raised by one point, to take account of the performance of the reference markets in the recent years;
- the sector beta, determined using data pertaining to our major competitors in each sector;
- the cost of the Group's debt, net of taxes;
- the debt/equity ratio, determined using data pertaining to our major competitors in each sector.

With reference to the variations occurred in the period, the following changes are worth noting:

- the disposals refer to Ansaldo STS (€mil. 44 with respect to the cash-in of €mil. 761) and Finmeccanica Finance S.A. in liquidation (€mil. 27);
- impairments for the period are chiefly related to AnsaldoBreda SpA (€mil. 353) and Finmeccanica Finance S.A. (€mil. 39). The impairment of the latter is offset by the collection of dividends in the amount of €mil. 42. Such impairments reduced the carrying amount of the equity investments by €mil. 231 and were set-off through accruals to the risk provision by €mil. 170 to cover the negative equity of AnsaldoBreda. It should be noted that the impairment of AnsaldoBreda became necessary not only in

consequence of the negative performance of the company but also to take into account the effects of the agreement reached with Hitachi for the sale of its business.

- actions regarding the equity investments amount to €mil. 249 and mainly relate to AnsaldoBreda SpA (€mil. 200) and BredaMenarinibus SpA (€mil. 43). These actions were taken as a consequence of the use of the risk provision accrued at 31 December 2014 and partly following the adjustment of the book value of the equity investments.

Finally, below is presented a comparison of the book value and the average market price of the listed shares of Eurotech SpA in December 2015:

Listed company	Number of shares held	Stock Exchange value		Book value		Difference Unit amount €	Difference Total €mil.
		Unit amount €	Total amount €mil.	Unit amount €	Total amount €mil.		
Eurotech SpA	3,936,461	1.676	7	1.469	6	0.21	1

10. RECEIVABLES AND OTHER NON CURRENT ASSETS

	31 December 2015	*31 December 2014*
Financing to third parties	1	1
Related party receivables (Note 29)	105	68
Non-current receivables	**106**	**69**
Other non current assets	11	12
Fair value of the residual portion in portfolio of Ansaldo Energia	131	124
Non-current assets	**142**	**136**

The item includes the fair value of 15% of the share capital of Ansaldo Energia and the related put&call options, which will be transferred upon the exercise of the put&call options by the parties, at a pre-arranged price of €mil. 117 (€mil. 131 at 31 December 2015) in respect of which capitalised interest accrues at a yearly 6% rate. In particular, Finmeccanica can exercise its put option between 30 June and 31 December 2017, while the call option of FSI is exercisable in the same period or before if some conditions occur.

Other non-current assets mainly include pre-paid financial expenses (€mil. 11) incurred for the obtainment of the new revolving credit line of €mil. 2,000 (expiring in July 2020).

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these Notes.

11. TRADE AND FINANCIAL RECEIVABLES

	31 December 2015		*31 December 2014*	
	Trade	**Financial**	**Trade**	**Financial**
Receivables	16	-	15	-
Cumulative impairments	(14)	-	(14)	-
Related party current receivables (Note 29)	91	2,558	75	2,773
	93	**2,558**	**76**	**2,773**

The composition of assets by currency and geographical area is shown in Appendices nos. 5 and 6 to these Notes. The ageing of receivables together with an analysis of how the Company manages credit risk is reported under Note 30.

12. INCOME TAX RECEIVABLES AND PAYABLES

	31 December 2015		*31 December 2014*	
	Receivables	**Payables**	**Receivables**	**Payables**
For income taxes	98	1	92	15

Receivables (€mil. 98) mainly relate to IRES receivables under the consolidated tax mechanism and IRES receivables for which a request for refund has been claimed (€mil. 92 at 31 December 2015). The changes during the year and the composition of assets and liabilities by maturity, currency and geographical area are shown in Appendices nos. 5, 6, 9 and 10 to these Notes.

13. CURRENT ASSETS

	31 December 2015	*31 December 2014*
Derivatives	415	349
Prepaid expenses - current portion	5	25
Receivables from employees and social security	1	1
Indirect tax receivables	116	116
Other related party receivables (Note 29)	33	28
Other assets	4	14
	574	**533**

“Indirect tax receivables”, equal to €mil. 116 (€mil. 116 at 31 December 2014), mainly represent VAT receivables transferred from companies participating in the Group VAT mechanism.

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 5 and 6 to these Notes.

The table below provides the breakdown of derivatives.

	31 December 2015		31 December 2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Forward forex instruments	412	411	331	330
Derivatives covering debt items	1	14	15	-
Interest rate swaps	2	3	3	4
	415	**428**	**349**	**334**

"Forward instruments" include hedging derivatives of deposits and loans made in pound sterling and US dollars that fall under the Group's financial centralisation. The instruments above are classified as fair value hedges; accordingly, the changes in fair value directly offset the realignment of the exchange rates applicable to loans and deposits. Finmeccanica is the counterparty to the Group companies on forex hedging transactions, carrying out "pass-through" activities with banks on behalf of the companies (€mil. 411 at 31 December 2015 vs €mil. 330 at 31 December 2014). The Finmeccanica Group finance department deals with banks acting in the interest of the fully owned subsidiaries; these transactions are transferred accordingly to the Group companies that incur the related costs.

The "interest rate swaps" with a total notional value of €mil. 400, classified as trading instruments, were, as a matter of fact, placed into effect to pursue the management objectives of hedging part of the bonds issued by Finmeccanica and the Group companies totalling €mil. 2,815 and GBPmil. 400. The impact on the income statement is described in the section on Financial Risk Management (Note 30).

The portion of the changes that had an impact on the income statement is described in Note 26.

14. CASH AND CASH EQUIVALENTS

The balance of "Cash and cash equivalents" at the end of the year, equal to €mil. 1,365 (€mil. 745 at 31 December 2014), was mainly the result of net cash flows realised by the Group companies during the year, particularly during the final quarter, transferred to Finmeccanica in the context of the centralised management of treasury resources or cash funds outside the cash pooling system in accordance with specific treasury agreements, and the cash-in from the sales in the Transportation sector to Hitachi (Note 5).

15. EQUITY

The equity broken down by available and distributable reserves is shown in Appendix no. 7 to these Notes.

The composition of the share capital is as follows:

	Number of ordinary shares	Par value	Treasury shares	Costs incurred (net of tax effect)	Total
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(32,450)	-	-	-	-
31 December 2014	578,117,945	2,544	-	(19)	2,525
Repurchase of treasury shares net of the portion sold	(200,000)	-	(3)	-	(3)
31 December 2015	577,917,945	2,544	(3)	(19)	2,522
Broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	2,525
Treasury shares	(232,450)	-	(3)	-	(3)

The share capital, fully subscribed and paid-up, is divided into 578,150,395 ordinary shares with a par value of € 4.40 each, including 232,450 treasury shares.

At 31 December 2015 the Ministry of Economy and Finance owned around 30.204% of the share capital, Libyan Investment Authority and Norges Bank owned 2.010% and 2.031% of the shares, respectively. Other reserves refer to legal reserve for €mil. 214, extraordinary reserve for €mil. 391, retained earnings for €mil. 745 and the net profit of the period for €mil. 447.

16. LOANS AND BORROWINGS

	31 December 2015			*31 December 2014*		
	Non current	Current	Total	Non current	Current	Total
Bonds	3,243	82	3,325	2,106	24	2,130
Bank loans and borrowings	278	51	329	324	50	374
Related party loans and borrowings (Note 29)	-	2,983	2,983	0	4,523	4,523
	3,521	**3,116**	**6,637**	**2,430**	**4,597**	**7,027**

Bonds

To complete the programme to centralise its financial activities started at the end of 2014, in January 2015 Finmeccanica replaced its subsidiary Finmeccanica Finance SA as issuer of the following bonds, and at the same time paid off the previous loans for the same amount ahead of schedule:

- €mil. 600 issued in 2009 with maturity of 2022 (coupon of 5.25%);
- €mil. 950 issued in 2013 with maturity of 2021 (coupon of 4.50%).

In July Finmeccanica bought back a portion of the above-listed bonds, in addition to the €mil. 600 loan maturing in 2017 and the GBPmil. 400 loan maturing in 2019, for a total nominal amount of €mil. 451.

Below are the bonded loans in place and listed on the Luxembourg Stock Exchange:

Year of issue	Maturity	Currency	Outstanding nominal amount (mil.)	Annual coupon		Type of offer
2003	*2018*	*€*	*500*	*5.750%*	(1)	European institutional
2005	2025	€	500	4.875%		European institutional
2009	2019	GBP	319	8.000%	(2) (3)	European institutional
2009	2022	€	555	5.250%	(3)	European institutional
2012	2017	€	521	4.375%	(3)	European institutional
2013	2021	€	739	4.500%	(3)	European institutional

(1) Rate derivative transactions were made on these bonds and led the effective cost of the loan to a fixed rate better than the coupon and corresponding to an average of some 5.6%.

(2) The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged.

(3) Nominal amounts decreased compared to the value of the original issues following the buy-back transactions.

Bank loans and borrowings

The item mainly includes the 12-year loan signed with the European Investment Bank (EIB) in 2009 (€mil. 327 compared to €mil. 374 at 31 December 2014) to finance development in the Aeronautics segment. As provided in the loan agreement, €mil. 300 of the loan was originally used at a fixed rate of 3.45% and for €mil. 200 at a floating rate equal to the 6-month Euribor plus a margin of 79.4 basis points. The fixed-rate tranche is repaid in 11 annual instalments with a fixed principal repayment component, while the floating-rate tranche is repaid in 21 6-month instalments, also with a fixed principal repayment component. During the year €mil. 47 was repaid, as in 2014.

Related parties loans and borrowings

These decrease mainly for the reduction of payables to the subsidiary Finmeccanica Finance SA, in relation to the above mentioned process for the centralisation of the financial activities at the parent company.

Exposure to changes in interest rates of the financial liabilities is as follows:

	Bonds		**Bank loans and borrowings**		**Related party loans and borrowings**		**Other loans and borrowings**		**Total**	
31 December 2015	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	82	21	30	2,659	324	-		2,680	436
2 to 5 years		1,453	76	109					76	1,562
Beyond 5 years	-	1,790	38	55	-		-		38	1,845
Total	**-**	**3,325**	**135**	**194**	**2,659**	**324**	**-**	**-**	**2,794**	**3,843**

	Bonds		Bank loans and borrowings		Related party loans and borrowings		Other loans and borrowings		Totale	
31 December 2014	floating	fixed	floating	fixed	floating	fixed	floating	fixed	floating	fixed
Within 1 year	-	24	20	30	2,942	1,581	-		2,962	1,635
2 to 5 years		1,610	76	109					76	1,719
Beyond 5 years	-	496	57	82	-		-		57	578
Total	**-**	**2,130**	**153**	**221**	**2,942**	**1,581**	**-**	**-**	**3,095**	**3,932**

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

	31 December 2015	*of which with related parties*	***31 December 2014***	*of which with related parties*
Liquidity	**(1,365)**		**(744)**	
Current loans and receivables	**(2,558)**	*(2,558)*	**(2,773)**	*(2,773)*
Current bank loans and borrowings	51		50	
Current portion of non-current loans and borrowings	82		24	
Other current loans and borrowings	2,983	*2,983*	4,523	*4,523*
Current financial debt	**3,116**		**4,597**	
Net current financial debt (funds)	**(807)**		**1,080**	
Non-current bank loans and borrowings	278		324	
Bonds issued	3,243		2,106	
Non-current financial debt	**3,521**		**2,430**	
Net financial debt	**2,714**		**3,510**	

Below is the reconciliation with the net financial debt used as KPI:

	Note	***31 December 2015***	***31 December 2014***
Net financial debt com. CONSOB no. DEM/6064293		2,714	3,510
Fair value of the residual portion in portfolio of Ansaldo Energia	*10*	(131)	(124)
Hedging derivatives in respect of debt items		13	(15)
Net debt (KPI)		**2,596**	**3,371**

The main clauses that regulate the Finmeccanica’s payables are reported in the section “Financial Transactions” of the Report on Operations.

17. PROVISIONS FOR RISKS AND CHARGES AND CONTINGENT LIABILITIES

	Taxes	Guarantees given	Disputes	Other provisions	Total
1 January 2014					
Current	11	-	10	134	**155**
Non current	1	106	8	7	**122**
	12	**106**	**18**	**141**	**277**
Allocations	5	-	10	64	**79**
Uses	(6)	(5)	(2)	(121)	**(134)**
Reversals	-	-	(1)	-	**(1)**
Other changes	-	22	(1)	1	**22**
31 December 2014	**11**	**123**	**24**	**85**	**243**
Broken down as follows:					
Current	10	-	14	73	**97**
Non current	1	123	10	12	**146**
	11	**123**	**24**	**85**	**243**
Allocations	18	-	5	182	**205**
Uses	(7)	(1)	(4)	(58)	**(70)**
Reversals	-	-	(5)	-	**(5)**
Other changes	-	1	1	-	**2**
31 December 2015	**22**	**123**	**21**	**209**	**375**
Broken down as follows:					
Current	21	-	8	197	**226**
Non current	1	123	13	12	**149**
	22	**123**	**21**	**209**	**375**

Provisions for the year, classified by nature on the basis of the related cost component, mainly refer to equity investments (€mil. 170 in 2015 and €mil. 57 in 2014) included in other provisions (for the related changes reference should be made to Note 9).

With regard to the provisions for risks, it is underlined that the Group companies' operations regard industries and markets where many disputes are settled only after a considerable period of time, especially in cases where the customer is a government entity.

Pursuant to the IFRS, provisions have only been made for risks that are probable and for which the amount can be determined. Likewise, specific provisions have not been set aside for disputes in which the Company is defendant as, based on current knowledge, these disputes are reasonably expected to be resolved satisfactorily and without significantly impacting the Company. Below are reported the main disputes of particular note:

- the dispute in which Finmeccanica is defendant in relation to contractual commitments taken on at the time of the sale of the former subsidiary Finmilano SpA to Banca di Roma (now UniCredit group), arising from an assessment report issued to Finmilano SpA by the Rome Direct Taxation

Office, which disallowed the tax deductibility of the loss arising in 1987 from the factoring without recourse of a receivable subject to deferred collection for an amount lower than its nominal amount. Basically, the tax authorities considered this factoring to be a financing transaction and that the loss should be treated as borrowing costs and, therefore, it should not have been fully deducted in 1987 but deferred on a pro rata basis over the subsequent years as implicit interest.

After the Supreme Court had allowed the petition filed by the tax authorities and referred the case to the trial judge, the latter again allowed the Parent's appeal. However, the tax authorities filed another petition to the Supreme Court against the trial judge's decision. In 2009, for the second time, the Supreme Court quashed the trial judge's decision and referred the case to the second level court. The Rome Regional Tax Court resolved in favour of the tax authorities and the Parent filed a new petition to the Supreme Court on 6 June 2012. Finmeccanica does not currently expect it will incur significant losses in this respect;

- the litigation commenced by Reid against Finmeccanica and Alenia Space (now So.Ge.Pa. SpA) before the Court of Texas in 2001, whereby Reid claimed that the former Finmeccanica-Space business segment failed to meet its obligations under the contract for the development of the Gorizont satellite programme. The dispute concluded in favour of the Group due to the lack of jurisdiction of the Court involved. On 11 May 2007, Reid served Finmeccanica and So.Ge.Pa. a complaint, whereby it commenced new legal proceedings before the Court of Chancery in Delaware. Reid has reproposed the same claims for damages that it claimed before the Court of Texas, without, however, quantifying the amount of the alleged damage.

  For the appearance before the Court, Finmeccanica filed a motion to dismiss, asserting that the case was time-barred, the statute of limitation had run out and the Court of Delaware did not have jurisdiction. On 27 March 2008, the judge rejected the claim as the case was time-barred. The claimant appealed against this decision before the Supreme Court of Delaware, which issued a decision on 9 April 2009, granting the motion and referring the case to the Court of Chancery for a decision on the other objection raised by Finmeccanica and So.Ge.Pa. concerning the lack of jurisdiction of the Court of Delaware. Therefore, the discovery phase commenced, during which the witnesses requested by Reid were deposed. The discovery phase was completed in December 2013 and on 20 November 2014 the Court issued its decision on the question of jurisdiction, rejecting the objection raised by Finmeccanica and So.Ge.Pa.. The case will proceed on the merits. However, it should be noted that there was a finding of the inexistence of the rights claimed by the plaintiff and that the case is currently pending before the Court of Appeal of Rome;
- the dispute commenced before the Santa Maria Capua Vetere Court in February 2011 by G.M.R. SpA, as the sole shareholder of Firema Trasporti against Finmeccanica and AnsaldoBreda, requesting that

the court admit the defendants' liability for having caused, with their conduct, Firema Trasporti's insolvency, ordering them to pay damages. According to the claimant, during the period in which Finmeccanica held an investment in Firema Trasporti (from 1993 to 2005), its management and coordination were carried out to the detriment of Firema Trasporti and in the sole interest of Finmeccanica Group. Moreover, even after the sale of the investment by Finmeccanica, Firema Trasporti was allegedly *de facto* subjected to an abuse of economic dependence from the Group in performing the various agreements existing with AnsaldoBreda. Finmeccanica and AnsaldoBreda appeared before the court requesting that the claims be dismissed as clearly groundless and asserting, on a preliminary basis, that the Court lacks jurisdiction.

At the hearing held on 22 April 2014, the plaintiff pleaded the existence of another legal action brought before the Court of Naples by Firema Trasporti in Extraordinary Administration, against the directors, statutory auditors and independent auditors of Firema Trasporti SpA asking that they be found liable and convicted – each with regard to their position – for the harm caused to the company and be ordered to pay damages in the amount of around €mil. 51. In the course of such proceedings, the two former directors, Giorgio and Gianfranco Fiore, in turn, brought a third-party action against AnsaldoBreda and Finmeccanica, accusing them of abusing their power of management and coordination based upon the arguments put forth by GMR in the matter brought before the Court of Santa Maria Capua Vetere. Given these circumstances, GMR has requested that the two actions be joined. AnsaldoBreda and Finmeccanica opposed this request and urged the Court to grant its previous motion that the Court lacks jurisdiction.

- On 28 October 2014, the Court of Santa Maria Capua Vetere granted the motion put forth by Finmeccanica and AnsaldoBreda, finding that it lacked jurisdiction and that instead the Court of Naples was the competent forum.
- On 28 April 2015 the suit was dismissed following the failure by GMR to reinstate the action in accordance with the time limits laid down by law. On 23 June 2015, GMR served a new writ of summons before the Court of Naples, through which it once again made the same claims brought in the prior suit and the case is currently underway.

  With regard to the action brought before the Court of Naples by Firema Trasporti in Extraordinary Administration, on 19 November 2014 the Court issued a decision finding the claims made by Giorgio and Gianfranco Fiore against Finmeccanica and AnsaldoBreda to be inadmissible and therefore they were removed from the lawsuit. On 2 March 2015, GMR, as third-party intervener, appealed against the aforesaid order of removal from the lawsuit. On 17 June 2015, the Trial Court reversed the appealed order. Therefore, the proceedings continue before the Court of first instance of

Naples and, solely as regards the appeal against the order subsequently reversed, before the Court of Appeal of Naples;

- the proceedings instituted on 4 March 2013 before the Court of Rome by Mr Pio Maria Deiana, on his own account and in his capacity as Director of Janua Dei Srl and of Società Progetto Cina Srl against Finmeccanica in order to ask the Court to establish the invalidity of the settlement agreement signed in December 2000 by the aforesaid companies and the then-Ansaldo Industria (which was a subsidiary of Finmeccanica until 2004 and which is now cancelled from the Register of Companies). The aforementioned agreement had settled, by way of conciliation, the action brought before the Court of Genoa in 1998 in order to ask the Court to find Ansaldo Industria liable for breach of contract with regard to the agreements for commercial cooperation in the construction of a waste disposal and cogeneration plant in China, which then was not built.
  As stated by the plaintiffs in the writ of summons, the above-mentioned settlement agreement was concluded based on unfair conditions, thus taking advantage of the distress of Mr Deiana and of the economic dependence of the plaintiff companies with respect to Ansaldo Industria. The claim was submitted against Finmeccanica, invoking the general liability of the same arising from the control exercised by it on Ansaldo Industria at the time of the events being disputed. The damages being sought, to be determined during the course of the proceedings, is estimated at €mil. 2,700. Finmeccanica appeared before the Court on 25 September 2013, arguing, among other things, that it lacks the capacity to be sued and asking, on the merits, that the Court deny the plaintiffs' claims as they are entirely groundless in fact and in law. A minority shareholder of Società Progetto Cina Srl and a minority shareholder of Società Janua Dei Italia Srl intervened in the case, respectively, at the hearings of 14 May 2014 and 25 September 2014. Next hearing has been scheduled for 25 January 2017 for the admission of the facts;

Finally, a number of Group companies and certain former directors as well as executives of Group companies or of Finmeccanica S.p.a. itself were and still are the subject of criminal proceedings. The details on the proceedings relating to Group companies can be found in Note 21 of the consolidated financial statements at 31 December 2015.

Below is a summary of the proceedings that are currently being conducted, with specific reference to the events that occurred in 2015 and in early 2016:

- criminal proceedings are pending before the Court of Rome against the former Commercial Director of Finmeccanica, for crime established by Articles110, 319, 319-*bis*, 320, 321 and 322-*bis* of the Criminal Code, concerning the supply contracts signed in 2010 by AgustaWestland, Selex Sistemi Integrati and Telespazio Argentina with the government of Panama. The proceeding is now in the trial phase. In relation to this case, criminal proceedings are pending before the Court of Rome against Finmeccanica Spa for administrative violations pursuant to Article 25 of Legislative Decree 231/01, for crimes established by Articles 321 and 322-*bis* of the Criminal Code attributed to the then Commercial Director of the Company, in the context of the abovementioned criminal proceedings;

- proceedings are being conducted by the Public Prosecutor's Office of Rome against a manager of Finmeccanica, for crimes under Article 314 of the Criminal Code and Article 5 of Legislative Decree 74/2000, as well as against an employee and two managers of the company, for the crime under Article 648-*bis* of the Criminal Code;
- with reference to the immediate trial before the Court of Busto Arsizio in relation to the supply of 12 AW 101 VIP/VVIP helicopters to the Indian government, on 9 October 2014 the Court sentenced the former Chairman and Chief Executive Officer of Finmeccanica Spa and the former Chief Executive Officer of AgustaWestland SpA to a prison term of two years for having committed violations pursuant to Article 2 of Legislative Decree no. 74/2000 (having submitted fraudulent tax returns using invoices or other documents from non-existent transactions) – limited to the May 2009–June 2010 tax period -, and ordering that the amount equivalent to such non-payment of taxes (on a taxable amount of €mil. 3.4) be confiscated from AgustaWestland SpA. In the same decision, the Court found the defendants not guilty of having committed the violations pursuant to Articles 110, 112, paragraph 1, 319, 321 and 322-*bis*, paragraph 2(2) of the Criminal Code (corruption of foreign public officials), due to lack of evidence. The decision is being appealed. The case is currently pending before the Court of Appeal of Milan.

  The Indian Judicial Authority (CBI) also opened its own criminal investigation in late February 2013 into this matter;

- criminal proceedings are being conducted by the Public Prosecutor's Office of Rome concerning the informal tender for awarding a contract in the ICT area for operational, contract management and procurement services held by the Office of the Prime Minister in 2010 and awarded to a temporary association of companies (RTI, *Raggruppamento temporaneo di imprese*) between Selex Service Management and a non-Finmeccanica Group company.

  On 1 July 2015 the Judge for Preliminary Hearings (GUP, Giudice dell'Udienza Preliminare) ordered the committal for trial of the former Chairman and Chief Executive Officer of Finmeccanica, for violations under Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Criminal Code, of the former Chief Executive Officer of Selex Service Management for violations under Articles 110, 319 and 321 of the Criminal Code and Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Criminal Code, as well as for Selex Service Management itself, for violations under Article 25 of Legislative Decree 231/20011. Finmeccanica appeared before the Court as an aggrieved party in the proceedings. The case is now in the trial phase.

In relation to these proceedings, the former Chief Operations Officer of Selex Service Management and former External Relations Officer of Finmeccanica were also charged with respect to crimes established by Articles 81-paragraph 2, 110, 326, 353, paragraphs 1 and 2, of the Criminal Code. The former COO was acquitted and the former External Relations Officer of Finmeccanica was found guilty under art. 444 *et seqq.* of the Code of Criminal Procedure;

- criminal proceedings are pending before the Court of Milan involving certain directors of the then-Breda Termomeccanica SpA, subsequently Ansaldo SpA, who served during the period 1973-1985, charged with having committed the crimes established by Article 589, paragraphs 1, 2 and 3, Article 40, paragraph 2, Article 41, paragraph 1, of the Criminal Code, Article 2087 of the Civil Code and Article 590, paragraphs 1, 2, 3, 4 and 5, of the Criminal Code, for violation of the rules governing the prevention of work-related illness.

  Finmeccanica, following service of civil summons issued by the Court at the request of the civil-suit parties, filed an appearance in the civil action. The proceeding is now in the trial phase.

18. EMPLOYEE BENEFIT OBLIGATIONS

The severance pay provision, amounting to €mil. 3, is substantially unchanged in comparison with 2014. It should be noted that the portion of cost for the year relating to amounts transferred to pension funds or to a treasury fund managed by INPS is recognised according to the rules for defined-contribution plans, without any actuarial assessment.

The main actuarial assumptions used in the valuation of defined-benefit plans and of the portion of the severance pay provision that has maintained the nature of defined-benefit plan are as follows:

	31 December 2015	*31 December 2014*
Discount rate (annual)	1.4%	1.0%
Inflation rate	1.8%	1.6%

The sensitivity analysis for each significant actuarial assumption, which shows the effects on bonds in absolute value, is as follows:

	31 December 2015	
(€ thousands)	***-0.25%***	***+0.25%***
Discount rate (annual)	56	(54)
Inflation rate	(40)	40

The average duration of the severance pay is 9 years.

19. OTHER NON CURRENT AND CURRENT LIABILITIES

	31 December 2015		*31 December 2014*	
	Non current	**Current**	**Non current**	**Current**
Employee obligations	2	9	2	17
Deferred income	99	7	102	28
Amounts due to social security institutions	-	11	-	13
Indirect tax liabilities	-	5	-	4
Derivatives	-	429	-	334
Other liabilities	9	2	8	4
Other payables to related parties (Note 29)	-	646	-	491
	110	**1,109**	**112**	**891**

The item increased as a result of the higher fair value of derivatives (Note 13) and higher payables to subsidiaries arising from the Group VAT mechanism.

“Deferred income” specifically includes subsequent years rentals already collected in past years in relation to the agreements for the sale of “Ansaldo” trademark.

20. TRADE PAYABLES

	31 December 2015	*31 December 2014*
Suppliers	47	33
Trade payables to related parties (Note 29)	53	52
	100	**85**

21. GUARANTEES AND OTHER COMMITMENTS

Leasing

The Company is party to a number of operating leases as both lessor and lessee primarily for the purposes of acquiring the use of plant and equipment. The non-cancellable minimum future payments relating to operating lease contracts and commitments taken (as lessor) with respect to finance leases are as follows:

	31 December 2015				*31 December 2014*			
	Operating lease		*Financial lease*		*Operating lease*		*Financial lease*	
	as lessee	*as lessor*	*as lessee*	*as lessor*	*as lessee*	*as lessor*	*as lessee*	*as lessor*
Within 1 year	5	9	-	4	5	9	-	4
2 to 5 years	6	23	-	16	6	29	-	15
Beyond 5 years	-	19	-	43		20	-	47
	11	**51**	**-**	**63**	**11**	**58**	**-**	**66**

With regard to operating leases in which the Company is a lessee, commitments amounted to €mil. 3 with respect to subsidiaries and to €mil. 8 in respect of other parties, mainly for the lease of office space. For those leases in which the Company acts as lessor, commitments amounted to €mil. 50 (€mil. 58 at 31

December 2014). Financial leases in which the Company acts as lessor relate to the contract entered into with AgustaWestland SpA (Note 29).

Guarantees

	31 December 2015	*31 December 2014*
Guarantees in favour of related parties (Note 29)	13,030	16,516
Guarantees in favour of third parties	1,467	29
Other guarantees	2,274	7
Other guarantees for Finmeccanica Commitments	170	213
Unsecured guarantees given	**16,941**	**16,765**

Specifically, these consist of:

- counter-guarantees, totalling €mil. 8,233 (€mil. 6,364 at 31 December 2014), granted by Finmeccanica to third parties, banks and insurance institutions in its own interest for €mil. 21 (€mil. 42 at 31 December 2014), in the interest of related parties for €mil. 6,745 (€mil. 6,293 at 31 December 2014) and in the interest of other companies for €mil. 1,467 (€mil. 29 at 31 December 2014);
- direct commitments issued by Finmeccanica, amounting to €mil. 8,708 (€mil. 10,401 at 31 December 2014), in favour of lenders, the tax authorities and to customers and co-suppliers (Parent Company Guarantee), in its own interest for €mil. 149 (€mil. 171 at 31 December 2014), in favour of related parties for €mil. 6,285 (€mil. 10,223 at 31 December 2014) and in favour of other companies for €mil. 2,274 (€mil. 7 at 31 December 2014).

In addition to the above commitments, the Company issued non-binding letters of patronage on behalf of subsidiaries and certain associates in support for their financial and commercial activities.

22. REVENUE

	2015	*2014*
Revenue from services	1	-
Revenue from related parties (Note 29)	53	64
	54	**64**

“Revenue” refers to the fees Finmeccanica receives for the services provided to the Group companies (management fees) in accordance with the guidance and coordination it exercises.

23. OTHER OPERATING INCOME (EXPENSES)

	2015			2014		
	Income	Expenses	Net	Income	Expenses	Net
Accruals/reversals to provisions for risks	-	(12)	(12)	1	(3)	(2)
Indirect taxes	-	(6)	(6)	-	(7)	(7)
Other operating income (expenses)	2	(8)	(6)	3	(5)	(2)
Other operating income (expenses) from/to related parties (Note 29)	9	(1)	8	10	-	10
	11	**(27)**	**(16)**	**14**	**(15)**	**(1)**

24. PURCHASES AND PERSONNEL EXPENSE

	2015	*2014*
Services rendered by third parties	9	32
Costs of rents and operating leases	5	5
Rental fees	-	1
Services rendered by related parties (Note 29)	56	41
Services	***70***	***79***
Wages and salaries	43	41
Social security contributions	10	13
Costs related to defined-contribution plans	2	2
Employee disputes	5	-
Restructuring costs - net	3	19
Other personnel expenses net of cost recovery	(11)	(1)
Personnel expenses	***52***	***74***
Total purchases and personnel expenses	**122**	**153**

The average workforce at 31 December 2015 numbered 274, as compared with 279 in 2014. The workforce at the end of 2015 numbered 279, down 7 from 286 at 31 December 2014, including 8 executives and other senior managers in secondment at other Operating Companies of the Group, Partnerships and Institutional Bodies.

The workforce breakdown is as follows:

	Average Workforce			Total Workforce		
	31 December 2015	*31 December 2014*	*Change*	*31 December 2015*	*31 December 2014*	*Change*
Senior managers	83	89	(6)	78	88	(10)
Middle managers	85	84	1	89	87	2
Clerical employees	106	106	-	112	111	1
	274	**279**	**(5)**	**279**	**286**	**(7)**

25. AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

	2015	2014
Amortisation of intangible assets	3	3
Depreciation of property, plant and equipment and investment properties (Note 8)	8	8
	11	**11**

26. FINANCIAL INCOME AND EXPENSE

	2015			2014		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Interest to/from banks	1	(13)	(12)	2	(21)	(19)
Interest and other charges on bonds	-	(184)	(184)	-	(30)	(30)
Commissions	2	(18)	(16)	1	(20)	(19)
Dividends	381	-	381	243	-	243
Premiums (paid) received on IRS	6	(6)	-	6	(6)	-
Premiums (paid) received on forwards	6	-	6	3	-	3
Income from equity investments and securities	703	-	703	-	-	-
Value adjustments on equity investments	-	(401)	(401)	-	(126)	(126)
Fair value gains (losses) through profit or loss	1	(1)	-	1	(2)	(1)
Exchange rate differences	135	(135)	-	100	(95)	5
Financial income (expense) - related parties (Note 29)	104	(27)	77	124	(209)	(85)
Other financial income and expense	9	(51)	(42)	1	(16)	(15)
	1,348	**(836)**	**512**	**481**	**(525)**	**(44)**

Value adjustments of equity investments are described in Note 9.

Income from equity investments includes the capital gain (€mil. 702) from the sale of Ansaldo STS.

Interest on bonds increased as a result of the transfer of the bonded loans originally issued by Finmeccanica Finance (Note 16). Financial expense to related parties also decreased as a consequence of the concurrent paying-off of the intercompany loans with Finmeccanica Finance.

Interest to banks decreased by €mil. 6 mainly as a result of the lower indebtedness compared to 2014.

Fair value results through profit or loss are as follows:

	2015			2014		
	Income	**Expenses**	**Net**	**Income**	**Expenses**	**Net**
Exchange rate swap	1	-	1	1	-	1
Interest rate swaps	-	(1)	(1)	-	(2)	(2)
	1	**(1)**	**-**	**1**	**(2)**	**(1)**

27. INCOME TAXES

Income taxes can be broken down as follows:

	2015	2014
Benefit under consolidated tax mechanism	39	23
Tax related to previous periods	2	(15)
Provisions for tax disputes	(18)	(5)
Deferred tax - net	4	-
	27	**3**

The income from the domestic consolidated tax mechanism (equal to €mil. 39 vs €mil. 23 in 2014) arises from the partial exploitation of the tax losses of the year - transferred to the Group's consolidated tax – in an amount equal to the tax rate in effect, as stated in the consolidation agreement signed by the companies participating in the national consolidated tax mechanism.

The accrual to provisions for tax disputes of €mil. 18 stems from the valuation of risks deriving from pending situations related to previous years.

Following is an analysis of the composition of the theoretical and effective tax rates for 2015 and 2014:

	2015	2014
Profit (loss) before income taxes	**417**	**(144)**
Tax rate	**6.5%**	**(2.0%)**
Theoretical tax	(115)	40
Permanent differences	179	(1)
Timing differences	(7)	(37)
Non-deductible residual interest expense		(4)
Dividends	100	63
Revaluations of equity investments	(4)	
Impairment of equity investments	(110)	(36)
Gains on equity investments		(2)
Net deferred tax assets		
Tax provision	(18)	(5)
Previous years' tax	2	(15)
Total tax through profit or loss	**27**	**3**
Theoretical tax	**(27.5%)**	**(27.5%)**
Permanent differences not to reverse in subsequent years	42.9%	0.7%
Timing differences to reverse in subsequent years	(1.6%)	25.7%
Non-deductible residual interest expense		2.8%
Total dividends from profit or loss	23.8%	(44.0%)
Revaluations of equity investments	(0.9%)	
Impairment of equity investments	(26.3%)	25.0%
Gains on equity investments		1.4%
Net deferred tax assets		
Tax provision	(4.3%)	3.5%
Current taxes of previous years	0.4%	10.4%
Total tax	**6.5%**	**(2.0%)**

The effective tax rate went from a positive 2 % in 2014 to 6.5% in 2015.

Net deferred tax assets reported in the balance sheet at 31 December 2015 basically refer to the caption relating to previous tax losses that were transferred to the accounts under the consolidated taxation mechanism for €mil. 32 (€mil. 36 at 31 December 2014, the difference being due to the changed IRES rate), essentially assessed on the basis of a prudent projection of future taxable income on the national consolidated taxation mechanism. In this regard, we specify that there are unrecognised losses of Finmeccanica approximating €mil. 419, which were transferred to the accounts under the national consolidated taxation mechanism.

28. CASH FLOWS FROM OPERATING ACTIVITIES

	2015	2014
Net result	444	(141)
Amortisation, depreciation and impairment losses	11	11
Income taxes	(27)	(3)
Net allocations to the provisions for risks	12	2
Net financial expense /(income)	(511)	44
Other non-monetary items	1	12
	(70)	**(75)**

The changes in other operating assets and liabilities are as follows:

	2015	2014
Changes in provisions for risks	(11)	(9)
Changes in other operating items	177	93
changes in other operating assets and liabilities	**166**	**84**

29. FINANCIAL TRANSACTIONS WITH RELATED PARTIES

Commercial and financial relations with related parties are carried out at arm's length, as is settlement of interest-bearing receivables and payables. Below are the balance sheet amounts of 2015 and 2014:

RECEIVABLES at 31 December 2015	**Non-current loans and receivables**	**Current loans and receivables**	**Trade receivables**	**Receivables from consolidated tax mechanism**	**Other current receivables**	**Total**
Subsidiaries						
AgustaWestland Ltd	-	-	1	-	-	**1**
AgustaWestland SpA	59	295	19	14	-	**387**
Alenia Aermacchi SpA	-	324	27	-	-	**351**
AnsaldoBreda SpA	-	181	3	-	-	**184**
Bredamenarinibus SpA	-	64	-	-	-	**64**
Gruppo DRS	-	-	3	-	-	**3**
Fata SpA	-	5	1	-	-	**6**
Finmeccanica Global Services SpA	26	7	1	1	-	**35**
Finmeccanica UK Ltd	-	1	-	-	-	**1**
Oto Melara SpA	-	-	3	5	-	**8**
Selex ES Ltd	-	-	2	-	-	**2**
Selex ES SpA	-	1,639	21	3	5	**1,668**
So.Ge.Pa.Società Generale di Partecipazione SpA	17	-	-	-	2	**19**
Whitehead Sistemi Subacquei SpA	-	26	2	-	-	**28**
Other with unit amount lower than €mil. 1	-	-	1	1	1	**3**
Joint Venture						
MBDA Italia SpA	-	-	1	-	-	**1**
Superjet International SpA	-	-	1	-	-	**1**
Thales Alenia Space Italia SAS	-	11	-	-	-	**11**
Thales Alenia Space Italia SpA	-	1	1	-	-	**2**
Telespazio SpA	3	2	3	1	-	**9**
Consortiums						
Consorzio Creo	-	2	-	-	-	**2**
Companies subject to the control or considerable influence of the MEF						
Ansaldo Energia SpA	-	-	1	-	-	**1**
Total	**105**	**2,558**	**91**	**25**	**8**	**2,787**
% against total for the period	***99.1%***	***100.0%***	***97.8%***	***100.0%***	***6.4%***	

In addition to the above-mentioned receivables, we highlight the fair value of 15% of Ansaldo Energia share capital which will be sold upon the exercise of the put&call options by Finmeccanica and the related party FSI at a pre-arranged price of €mil. 117 in respect of which capitalised interest accrues at a yearly 6% rate (€mil. 131 at 31 December 2015). In particular, Finmeccanica can exercise its put option between 30 June and 31 December 2017, while the call option of FSI is exercisable in the same period or before if some conditions occur.

RECEIVABLES at 31 December 2014	**Non-current loans and receivables**	**Current loans and receivables**	**Trade receivables**	**Receivables from consolidated tax mechanism**	**Other current receivables**	**Total**
Subsidiaries						
AgustaWestland SpA	63	92	15	12		**182**
Alenia Aermacchi SpA	-	371	21			**392**
Ansaldo STS SpA	-	10	1	-	-	**11**
AnsaldoBreda SpA	-	319	3	-	-	**322**
Bredamenarinibus SpA	-	87	-	-	-	**87**
Gruppo DRS	-	-	2	-	-	**2**
Fata SpA	-	-	1	-	-	**1**
Finmeccanica Finance SA	-	-	1	-	-	**1**
Finmeccanica Global Services SpA	-	154	3	1	-	**158**
Finmeccanica UK Ltd	-	5	-	-	-	**5**
Oto Melara SpA	-	-	2	-	-	**2**
Selex ES Ltd	-	-	2	-	-	**2**
Selex ES SpA	-	1,700	15	1	1	**1,717**
So.Ge.Pa.Società Generale di Partecipazione SpA	-	-	-	-	10	**10**
Whitehead Sistemi Subacquei SpA	-	25	1	-	-	**26**
Other with unit amount lower than €mil. 1	-	-	-	-	3	**3**
Joint Venture						
MBDA Group	-	-	1	-	-	**1**
Superjet International SpA	-	-	1	-	-	**1**
Thales Alenia Space Group	-	1	1	-	-	**2**
Telespazio Group	5	6	2	-	-	**13**
Consortiums						
Consorzio Creo	-	1	-	-	-	**1**
Companies subject to the control or considerable influence of the MEF						
Ansaldo Energia SpA	-	2	3	-	-	**5**
Total	**68**	**2,773**	**75**	**14**	**14**	**2,944**
% against total for the period	***98.6%***	***100.0%***	***98.7%***	***100.0%***	***10.7%***	

PAYABLES at 31 December 2015	Non-current loans and borrowings	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries							
AgustaWestland Ltd	-	-	-	-	-	-	1,693
AgustaWestland Philadelphia Co	-	-	-	-	-	-	107
AgustaWestland SpA	-	418	1	-	132	**551**	2,573
Alenia Aermacchi SpA	-	1,797	4	5	144	**1,950**	3,554
AnsaldoBreda SpA	-	-	-	55	127	**182**	799
Bredamenarinibus SpA	-	-	-	13	3	**16**	
Gruppo DRS	-	-	7	-	-	**7**	126
Electron Italia Srl	-	-	-	1	1	**2**	
Fata Logistic Systems SpA	-	-	1	-	4	**5**	
Fata SpA	-	-	-	-	8	**8**	341
Finmeccanica Finance SA	-	4	-	-	-	**4**	-
Finmeccanica Global Services SpA	-	11	11	-	5	**27**	1
Finmeccanica North America Inc	-	-	4	-	-	**4**	
Finmeccanica UK Ltd	-	-	4	-	1	**5**	
Meccanica Holdings USA Inc	-	-	-	-	-	-	1,194
Oto Melara SpA	-	46	-	-	26	**72**	156
PZL-Swidnik	-	-	-	-	-	-	6
Selex ES Gmbh	-	-	-	-	-	-	35
Selex ES Ltd	-	278	3	-	4	**285**	71
Selex ES SpA	-	35	15	-	47	**97**	1,212
Selex Service Management SpA	-	-	-	4	7	**11**	30
Selex Sistemi Integrati SpA	-	-	-	-	17	**17**	
Selex ES Inc	-	-	-	-	-	-	5
Sirio Panel SpA	-	-	-	-	3	**3**	1
So.Ge.Pa.Società Generale di Partecipazione SpA	-	2	-	1	2	**5**	8
Whitehead Sistemi Subacquei SpA	-	-	-	1	3	**4**	125
Other with unit amount lower than €mil. 1	-	2	2	2	5	**11**	
Associates							
Eurofieghter Jagoflugzeug Gmbh	-	56	-	-	-	**56**	
Joint Venture	-	-	-	-	-		
Mbda Italia SpA	-	-	-	-	-	-	47
Mbda Treasury Company Limited	-	332	-	-	-	**332**	
Superjet International SpA	-	-	-	2	12	**14**	8
E-Geos SpA	-	-	-	2	-	**2**	
Telespazio SpA	-	2	1	-	4	**7**	211
Companies subject to the control or considerable influence of the MEF							
Ansaldo Energia SpA	-	-	-	-	5	**5**	727
Total	**-**	**2,983**	**53**	**86**	**560**	**3,682**	**13,030**
% against total for the period	***0.0%***	***95.7%***	***53.0%***	***100.0%***	***95.4%***		***100.0%***

PAYABLES at 31 December 2014	Non-current loans and borrowings	Current loans and borrowings	Trade payables	Payables from consolidated tax mechanism	Other current payables	Total	Guarantees
Subsidiaries							
AgustaWestland Ltd	-	-	-	-	-	**-**	1,607
AgustaWestland Philadelphia Co	-	-	-	-	-	**-**	95
AgustaWestland SpA	-	239	1	-	93	**333**	2,520
Alenia Aermacchi North America Inc	-	-	-	-	-	**-**	25
Alenia Aermacchi SpA	-	1,669	3	9	90	**1,771**	1,873
Ansaldo STS SpA	-	-	-	-	-	**-**	1,864
AnsaldoBreda SpA	-	-	-	47	93	**140**	2,381
Bredamenarinibus SpA	-	-	-	4	3	**7**	-
Gruppo DRS	-	-	5	-	-	**5**	69
Electron Italia Srl	-	-	-	-	1	**1**	1
E-Security Srl	-	-	-	1	-	**1**	-
Fata Logistic Systems SpA	-	-	-	-	2	**2**	-
Fata SpA	-	22	1	2	7	**32**	358
Finmeccanica Finance SA	-	1,670	-	-	-	**1,670**	1,550
Finmeccanica Global Services SpA	-	30	16	-	4	**50**	1
Finmeccanica North America Inc	-	-	3	-	-	**3**	-
Finmeccanica UK Ltd	-	-	7	-	1	**8**	-
Meccanica Holdings USA Inc	-	110	-	-	-	**110**	1,071
Oto Melara SpA	-	83	-	6	19	**108**	143
PZL-Swidnik	-	-	-	-	-	**-**	5
Selex ES Gmbh	-	-	-	-	-	**-**	33
Selex ES Ltd	-	234	-	-	5	**239**	65
Selex ES SpA	-	42	11	6	39	**98**	1,018
Selex Service Management SpA	-	-	1	-	5	**6**	42
Selex Sistemi Integrati SpA	-	-	-	-	17	**17**	4
Selex ES Inc	-	-	-	-	-	**-**	5
Sirio Panel SpA	-	-	-	1	3	**4**	2
So.Ge.Pa.Società Generale di Partecipazione SpA	-	11	-	1	2	**14**	4
Whitehead Sistemi Subacquei SpA	-	-	-	4	2	**6**	116
Other with unit amount lower than €mil. 1	-	68	3	-	1	**72**	-
Joint Venture							
MBDA Group	-	345	-	-	-	**345**	62
Superjet International SpA	-	-	-	4	9	**13**	7
Thales Alenia Space Group	-	-	-	-	-	**-**	1
Telespazio Group	-	-	1	2	3	**6**	237
Companies subject to the control or considerable influence of the MEF							
Ansaldo Energia SpA	-	-	-	-	5	**5**	1,354
Ansaldo Nucleare SpA	-	-	-	-	-	**-**	3
Total	**-**	**4,523**	**52**	**87**	**404**	**5,066**	**16,516**
% against total for the period	***0.0%***	***98.4%***	***61.2%***	***100.0%***	***91.4%***		***100.0%***

As regards the most important transactions we note:

- the non-current loans and receivables from AgustaWestland SpA of €mil. 59 (€mil. 63 at 31 December 2014), that refer to the lease agreement, recognised as a finance lease and recorded as a receivable accordingly, for the industrial complex owned by Finmeccanica;

- the non-current loans and borrowings from the Luxembourg subsidiary of the Group, Finmeccanica Finance SA in liquidation (€mil. 4 at 31 December 2015 compared to €mil. 1,670 at 31 December 2014), which decreased in 2015 after Finmeccanica replaced such subsidiary as issuer of the outstanding bonds;
- current loans and borrowings, for a total of €mil. 2,983 (€mil. 4,523 at 31 December 2014), reflect the method adopted by Finmeccanica for centralising the Group Treasury resources and show, by their high amount, the net cash inflows realised by the Group companies during the year, particularly during the final quarter. These loans and borrowings also include the balancing entry for cash surpluses that a number of Group companies pay to Finmeccanica outside the cash pooling system as their share, under treasury agreements signed with the latter, the corresponding balancing entry of which is found under cash and cash equivalents. Similarly, current loans and receivables of €mil. 2,558 (€mil. 2,773 at 31 December 2014) arise from financing activities conducted by Finmeccanica in favour of the Group companies, again as a result of this centralisation of Treasury resources;
- other receivables and payables, which include amounts deriving from the consolidated tax mechanism (€mil. 25 and €mil. 86 respectively) and from the Group VAT mechanism (€mil. 4 of receivables and €mil. 502 of payables), are recognised by the Parent Company, the sole party having a legal relationship with the Tax Authority, against payables and receivables recognised by the companies that adopt the national tax consolidation and the Group VAT. Receivables and payables recognised by the Company did not have any impact on the income statement since these items were offset with balancing tax items in the balance sheet. Moreover, payables include debts to the subsidiaries in relation to the refund they are entitled to following the allowed deductibility of IRAP for IRES purposes (€mil. 49);
- trade receivables amounted to €mil. 91 (€mil. 75 at 31 December 2014), and include, specifically, amounts due for services rendered to and on behalf of Group companies, consistent with the Company's guidance and coordination function.

The changes during the year and the composition of assets by maturity, currency and geographical area are shown in Appendices nos. 3, 4, 5 and 6 to these Notes.

Below are all income statement transactions with the Company's related parties for the years 2015 and 2014:

Income statement transactions at 31 December 2015	Revenue	Other operating income	Costs net of recoveries (1)	Cost recovery (2)	Financial income	Financial expenses
Subsidiaries						
AgustaWestland Ltd	-	-	-	2	3	-
AgustaWestland SpA	14	2	1	18	13	3
Alenia Aermacchi SpA	10	-	2	19	12	13
AnsaldoBreda SpA	4	-	-	1	8	-
Bredamenarinibus SpA	-	-	-	-	1	-
Gruppo DRS	-	-	2	-	-	-
Fata Logistic Systems SpA	-	-	1	-	-	-
Fata SpA	1	-	1	1	1	-
Finmeccanica Finance SA	-	-	-	-	-	5
Finmeccanica Global Services SpA	-	-	17	3	3	-
Finmeccanica UK Ltd	-	-	9	-	-	-
Meccanica Holdings USA Inc	-	-	-	-	6	-
Oto Melara SpA	1	-	-	2	-	-
Selex ES Ltd	-	-	3	3	-	1
Selex ES SpA	11	6	20	18	52	1
Selex Service Management SpA	-	-	1	-	-	-
Whitehead Sistemi Subacquei SpA	-	-	-	2	1	-
Other with unit amount lower than €mil. 1	1	-	(2)	1	3	-
Joint Venture						
Mbda Italia SpA	9	-	-	-	-	-
Mbda Treasury Company Limited	-	-	-	-	-	4
Thales Alenia Space France Sas	1	-	-	-	-	-
Telespazio SpA	-	-	1	3	1	-
Companies subject to the control or considerable influence of the MEF						
Ansaldo Energia SpA	1	1	-	-	-	-
Total	**53**	**9**	**56**	**73**	**104**	**27**
% against total for the period	***98.1%***	***81.8%***	***45.9%***		***7.7%***	***3.2%***

Income statement transactions at 31 December 2014	Revenue	Other operating income	Costs net of recoveries (1)	Cost recovery (2)	Financial income	Financial expenses
Subsidiaries						
AgustaWestland Ltd	-	-	-	1	2	-
AgustaWestland SpA	17	2	-	7	22	6
Alenia Aermacchi SpA	13	-	-	9	20	15
Ansaldo STS SpA	2	-	-	1	2	-
AnsaldoBreda SpA	3	-	-	2	7	-
Bredamenarinibus SpA	-	-	-	-	2	-
Gruppo DRS	-	-	3	1	-	-
Fata SpA	1	-	1	1	1	-
Finmeccanica do Brasil Ltda	-	-	1	-	-	-
Finmeccanica Finance SA	-	-	-	-	-	186
Finmeccanica Global Services SpA	-	-	17	1	4	-
Finmeccanica North America Inc	-	-	3	-	-	-
Finmeccanica UK Ltd	-	-	9	-	-	-
Meccanica Holdings USA Inc		-	-	-	5	-
Oto Melara SpA	2	-	-	1	-	-
Selex ES Ltd	-	-	-	1	-	-
Selex ES SpA	14	7	5	9	54	1
Selex Service Management SpA	-	-	1	-	-	-
Whitehead Sistemi Subacquei SpA	-	-	1	2	1	-
Other with unit amount lower than €mil. 1	-	-	-	-	1	1
Joint Venture						
MBDA Group	10	-	-	-	-	-
Thales Alenia Space Group	1	-	-	-	-	-
Telespazio Group	-	-	-	2	1	-
Companies subject to the control or considerable influence of the MEF						
Ansaldo Energia SpA	1	1	-	-	2	-
Total	**64**	**10**	**41**	**38**	**124**	**209**
% against total for the period	***100.0%***	***71.4%***	***26.8%***		***25.8%***	***39.8%***

(1) Costs are indicated with + and recoveries with -.

(2) Recoveries are indicated with + and negative differences on recoveries with -.

"Financial income (expense)" relates to interest on financial receivables and payables and commissions, mainly connected with the centralisation of the management of Group treasury resources within Finmeccanica. In carrying out its treasury management functions, the Company acts as the main counterparty, always at arm's length, for the financial assets and liabilities of the subsidiaries within the scope of such centralization.

30. FINANCIAL RISK MANAGEMENT

Finmeccanica Spa is exposed to financial risks associated with its operations, specifically related to these types of risks:

- *interest-rate risks*, related to exposure to financial instruments;

- *exchange-rate risks*, related to operations in currencies other than the reporting currency;
- *liquidity risks*, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from normal commercial transactions or financing activities.

The Company closely and specifically follows each of these financial risks, with the objective of promptly minimising them, even using hedging derivatives.

The sections below provide an analysis, conducted through sensitivity analysis, of the potential impact on the final results deriving from assumed fluctuations in reference parameters. As required by IFRS 7, these analyses are based on simplified scenarios applied to the final results of the reference periods and, by their own nature, they cannot be considered as indicators of the actual effects of future changes in reference parameters with different financial statements and market conditions, and cannot reflect the inter-relations and the complexity of reference markets.

For further details on the management policy of financial risks reference is made to Note 37 to the Consolidated Financial Statements.

Interest rate risk

Finmeccanica is exposed to the interest-rate risk on its floating-rate debt instruments, primarily tied to the EURIBOR. The management of interest-rate risk is consistent with the long-standing practice of reducing the risk of fluctuations in interest rates while seeking to minimise borrowing costs.

To that regard and with reference to the financial debt at 31 December 2015, prior to interest-rate transactions, the fixed-rate percentage amounted to around 58%, while the floating-rate percentage is around 42%.

At 31 December 2015, the outstanding transactions were the following:

- *interest-rate swap fixed/floating/fixed rate for €mil. 200*, related to the Finmeccanica Finance issue due 2018 (totalling €mil. 500), which guarantees a fixed rate of 5.30% compared to the bond issue rate of 5.75%. Therefore, the average interest rate related to this issue is 5.57%;
- *options for €mil. 200* (CAP and Knock out at 4.20% in relation to the 6-month euribor interest rate), originally purchased in order to partially cover the bond issue due 2025. Moreover, given the low cost of the transaction, it is currently deemed appropriate not to settle the transaction, in order to use it in the event of the Group’s strategy providing for a return to the floating rate, or against an unfavourable floating-rate indebtedness.

The detail of the main derivative instruments in interest-rate swaps (IRS) at 31 December 2015 is as follows:

	Notional		Underlying (maturity)	Fair value 01.01.2015	Changes			Fair value 31.12.2015
	2015	2014			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	3	-	(1)	-	2
Options	200	200	Bond 2025	(4)	-	1	-	(3)
Total notional	**400**	**400**		**(1)**	**-**	**-**	**-**	**(1)**

	Notional		Underlying (maturity)	Fair value 01.01.2014	Changes			Fair value 31.12.2014
	2014	2013			Income	Expense	CFH Reserve	
IRS fixed/floating/fixed	200	200	Bond 2018	4	-	(1)	-	3
Options	200	200	Bond 2025	(3)		(1)	-	(4)
Total notional	**400**	**400**		**1**	**-**	**(2)**	**-**	**(1)**

The table below shows the effects of the sensitivity analysis for 2015 and 2014 on IRS at 31 December 2015 deriving from the 50-basis-point shift in the interest rate curve:

Effect of shift of interest rate curve	***31 December 2015***		***31 December 2014***	
	Increase of 50 bps	**Decrease of 50 bps**	**Increase of 50 bps**	**Decrease of 50 bps**
Net result	1	(1)	-	(1)
Equity (*)	1	(1)	-	(1)

(*) Defined as sum of earnings and cash-flow hedge reserve

Exchange rate risk

Exchange-rate risk management for the Group is governed by the directive issued by Finmeccanica. The purpose of the directive is to standardise for all the companies the management criteria based on industrial-not speculative-strategies so as to contain risks within specific limits by carefully and constantly assessing all foreign currency positions.

The Company hedges its own risks related to short-term financial payables and receivables denominated in currencies other than the euro and enters into foreign exchange transactions in the interest of other Group companies totalling €mil. 6,462 (notional amount) (up by 18% compared to the same period of the previous year), as detailed in the following table:

	Notional 2015			Notional 2014		
	Sales	Purchases	Total	Sales	Purchases	Total
Swap and forward transactions	3,282	3,180	6,462	2,906	2,549	5,455

As a result of the financial centralisation, the cash flows of the Group's foreign companies were recharged in several ways to Finmeccanica SpA through intercompany transactions mainly denominated in GBP and USD. For this type of risks, the income statement is hedged using mirror transactions of payables/receivables to/from third parties in the currency of intercompany items or through specific exchange-rate derivatives, classified as fair-value hedges. As a result, even though the Group has no economic exposure, it is subject to balance-sheet volatility directly impacting the amount of Group net debt, which is affected by the realigning of payables/receivables in foreign currency to/from third parties or, similarly, by the cash effects deriving from the renewal of hedges.

The table below shows the expected due dates of receipts and payments related to derivative instruments broken down by main currencies:

	31 December 2015				*31 December 2014*			
	Notional Receipts		**Notional Payments**		**Notional Receipts**		**Notional Payments**	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedges								
Within 1 year	-	141	9	769	-	45	102	567
2 to 3 years	-	-	-	434	-	-	-	513
4 to 9 years	-	-	-				-	
Total	**-**	**141**	**9**	**1,203**	**-**	**45**	**102**	**1,080**

The table below shows the effects of the sensitivity analysis carried out on the change in the exchange rates of the euro against the pound sterling and the US dollar, assuming a +/-5% change in the euro/US dollar exchange rate and the euro/pound sterling exchange rate compared with the reference rates at 31 December 2015 (1.0887 and 0.7339, respectively) and at 31 December 2014 (1.2141 and 0.7789, respectively):

	31 December 2015				*31 December 2014*			
	Effect of change in the €/GBP rate		**Effect of change in the €/USD rate**		**Effect of change in the €/GBP rate**		**Effect of change in the €/USD rate**	
	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps	Increase of 50 bps	Decrease of 50 bps
Net result	(1)	(2)	(2)	2	1	(1)	1	(1)
Equity (*)	(1)	(2)	(2)	2	1	(1)	1	(1)

(*) Defined as sum of earnings and cash-flow hedge reserve

Liquidity risk

Finmeccanica is exposed to liquidity risk, i.e. the risk of not being able to efficiently finance its usual business and investment operations, as well as the requirements connected with the volatility of the relevant commercial markets and with the effects of the current reorganisation of the Group, specifically with regard to the financial outlays relating to efficiency-improvement processes and to activities linked to business contracts at risk of renegotiation. Furthermore, there is the risk of not being able to repay debts at the expiry dates.

In order to face the above-mentioned risks, Finmeccanica has adopted a series of instruments aimed at optimizing the management of financial resources.

During 2015, €mil. 47 was repaid of the principal portion of the EIB loan, which was signed by Finmeccanica in 2010. Furthermore, in order to finance its own ordinary and extraordinary operations, Finmeccanica can use the €bil. 2.0 Revolving Credit Facility signed in 2014, whose maturity date has been extended to 2020.

Credit risk

Finmeccanica Spa, given its special position as industrial holding company exercising guidance and control, is exposed to limited counterparty risk in its commercial dealings; vice versa it is exposed to considerable risk with respect to its financing and investing activities, as well as for the guarantees it issues, mainly on behalf of Group companies, for payables or commitments to non-Group parties (Note 21). To that end, the Company has adopted a policy of prudently assessing financial counterparties.

The table below summarises trade receivables at 31 December 2015 and 2014, claimed from third parties:

	31 December 2015	*31 December 2014*
Portion due	1	1
- of which: for more than 12 months	-	-
Portion not yet due	1	-
Total trade receivables	**2**	**1**

Both trade and financial receivables are impaired individually if they are significant.

Classification of financial assets and liabilities

The table below shows the fair value hierarchy of financial assets and liabilities measured at fair value.

The fair value is determined on the basis of measurement techniques which consider directly observable market inputs (the so-called "Level 2" as defined in IFRS 7). In particular, the inputs used for the fair value measurement are the foreign exchange rate and interest rate observable on the market (spot exchange rates and forwards), exclusively in relation to options, and the volatility of these inputs. Vice versa, the fair value of the remaining 15% interest in Ansaldo Energia, subject to put&call options (classified under other non-current assets) is determined on the basis of measurement techniques which do not consider directly observable market inputs (the so-called "Level 3"). In particular, the fair value of the stake in Ansaldo Energia was calculated on the basis of the price of the sale, as established in the related agreements and increased by capitalised interest at a yearly 6% rate.

	31 December 2015			31 December 2014		
	Level 2	Level 3	**Total**	Level 2	Level 3	**Total**
Other non current assets	-	131	131	-	124	124
Other assets	4	-	4	19	-	19
Other non-current liabilities	-	-	-	-	-	-
Other current liabilities	17	-	17	4	-	4

31. REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have strategic power and responsibility of the Parent is €mil. 3 (€mil. 10 at 31 December 2014 including termination indemnities of €mil. 6).

Remuneration paid to directors, excluding managers with strategic responsibility, amounted to €mil. 1 for 2015 and 2014. This figure includes fees and other compensation, pensions and other benefits, including the portion borne by the Company

32. SHARE-BASED PAYMENTS

As largely reported in the section “Finmeccanica and Sustainability” of the report on operations, in order to implement an incentive and retention system for the Group’s employees and associates, in 2015 Finmeccanica adopted incentive plans which provide for the assignment of Finmeccanica shares, subject to assessing the attainment of pre-set business targets. These shares will be awarded to the beneficiaries at the end of the vesting period, provided that they have met the condition of being still employed with the company. The cost recognised in the income statement for the share incentive plans amounted in 2015 to €mil. 1 (no cost in 2014).

With specific regard to the Long-Term Incentive Plan, the fair value used to measure the portion linked to the performance indicators (Group Net Debt for 25% and ROS for 25%) was equal to € 13.12, namely the value of Finmeccanica shares at the grant date (31 July 2015). Vice versa, the award of the remaining 50% of the shares depends upon market conditions which affect the determination of the fair value (“adjusted fair value”). The adjusted fair value, calculated using the “Monte Carlo” method in order to simulate the possible performance of the stock and of the other companies within the basket, was equal to €10.90. The input data used to calculate the adjusted fair value were:

- the stock price at the grant date;
- the average share price in the three months preceding the performance period;
- the risk-free interest rate based on the zero-coupon yield curve in 36 months;

- the expected volatility of the price of Finmeccanica shares and of the shares of the other companies within the basket based on time series in the 36 months prior to the grant date;
- correlation coefficients between Finmeccanica and the other companies within the basket on the basis of logarithms of the daily performance of the stocks in the 36 months prior to the grant date;
- dividend distribution forecasts on a historical basis.

With reference to the co-investment plan, rights equal to 194,303 shares were assigned to the management of Finmeccanica and of the Group companies in respect of the "certain" component from the conversion of part of the bonus under the MBO plan. Conversely, in respect of the bonus shares ("matching shares") the requirements for the award of the rights have not yet been fulfilled.

Appendices

Appendix no.1 (€ mil) - EQUITY INVESTMENTS

%		31.12.2014 Cost	31.12.2014 Impairment	31.12.2014 Carrying amount	Transfers/acquisition of business unit (a)	Acquis./Subscriptions/payments of capital	Disposal (b)	Reclass. (c)	Stock grant	Financial Revalut./Impairment	Capital replenishment	Other changes (d)	31.12.2015 Cost	31.12.2015 Impairment	31.12.2015 Carrying amount
	Equity investments in subsidiaries														
100	AGUSTA WESTLAND SpA	2,171	-	2,171					1				2,172	-	2,172
100	ALENIA AERMACCHI SpA	542	-	542									542	-	542
40	ANSALDO STS SpA	44	-	44			(44)						-	-	-
100	ANSALDOBREDA SpA	509	(509)	-						(182)	182		509	(509)	-
100	BREDAMENARINIBUS SpA	48	(48)	-							4		48	(44)	4
100	FATA SpA	22	-	22									22	-	22
100	FINMECCANICA DO BRASIL LTDA	-	-	-									-	-	-
100	FINMECCANICA FINANCE SA	79	(13)	66			(27)			(39)			-	-	-
100	FINMECCANICA GLOBAL SERVICES SpA	497	-	497									497	-	497
100	FINMECCANICA NORTH AMERICA Inc	3	-	3									3	-	3
100	FINMECCANICA UK Ltd	-	-	-									-	-	-
100	MECCANICA HOLDINGS USA, Inc	2,389	(1,290)	1,099									2,389	(1,290)	1,099
100	OTO MELARA SpA	103	-	103									103	-	103
100	SELEX ES SpA	2,000	(214)	1,786					1				2,001	(214)	1,787
100	SO.GE.PA.- Società Generale di Partecipazioni SpA	14	(2)	12						(7)			14	(9)	5
67	TELESPAZIO SpA (*)	171	-	171									171	-	171
100	WHITHEAD SISTEMI SUBACQUEI SpA	25	-	25									25	-	25
		8,617	**(2,076)**	**6,541**	**-**	**-**	**(71)**	**-**	2	**(228)**	**186**	**-**	**8,496**	**(2,066)**	**6,430**
%	**Equity investments in associates**														
50	AMSH BV (*)	873	(392)	481									873	(392)	481
25	ATITECH SpA	1	(1)	-		6							7	(1)	6
14	AVIO SpA	54	-	54									54	-	54
14	BCV INVESTMENTS SCA	-	-	-									-	-	-
31	ELETTRONICA SpA	54	(47)	7									54	(47)	7
50	EUROSYSNAV SAS	-	-	-									-	-	-
11	EUROTECH SPA	18	(12)	6									18	(12)	6
31	IND. A. E M. R. PIAGGIO SpA (Amm.strd)	31	(31)	-									31	(31)	-
25	LIBYAN ITALIAN ADVANCED TECH. Co.	2	-	2						(2)			2	(2)	-
30	NGL PRIME SpA	-	-	-									-	-	-
33	THALES ALENIA SPACE SAS (*)	546	(145)	401									546	(145)	401
		1,578	**(627)**	**951**	**-**	**6**	**-**	**-**	**-**	**(2)**	**-**	**-**	**1,585**	**(630)**	**955**
%	**Other companies**														
20	INDUSTRIA ITALIANA AUTOBUS SpA	1	-	1									1	-	1
	Other companies with unit amount lower than €mil. 1	1	-	1									1	-	1
		3	**(1)**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
	TOTAL EQUITY INVESTMENTS	**10,198**	**(2,704)**	**7,494**	**-**	**6**	**(71)**	**-**	2	**(230)**	**186**	**-**	**10,083**	**(2,696)**	**7,387**

(*): joint control

(b) Of which cost: (71)

Appendix no.2 (€mil.) - LIST OF EQUITY INVESTMENTS

Name	Office	Reporting date	Share capital (total)	Currency	Equity	Total Assets	Total Liabilities	Prifit (loss)	Ownership	Net equity in financial statements	Carrying amount
Equity investments in subsidiaries											
AGUSTA WESTLAND SpA	Roma	31/12/15	702,537,000		2,221.0	7,188.0	4,967.0	202.0	100.0	2,221.0	2,171.7
ALENIA AERMACCHI SpA	Roma	31/12/15	250,000,000		421.0	7,159.0	6,738.0	91.0	100.0	421.0	542.2
ANSALDOBREDA SpA	Napoli	31/12/15	55,839,139		(170.0)	479.0	649.0	(364.0)	100.0	(170.0)	-
BREDAMENARINIBUS SpA	Bologna	31/12/15	1,300,000		6.0	87.0	81.0	2.0	100.0	6.0	4.0
FATA SpA	Pianezza - Torino	31/12/15	20,000,000		11.0	90.0	79.0	(3.0)	100.0	11.0	21.9
FINMECCANICA DO BRASIL LTDA	Brasilia (Brasile)	31/12/15	279,055		0.5	0.5	-	0.3	100.0	0.5	0.5
(EURO al 31.12.2014 = BRL 3,2207)			1,203,200	BRL	2.0	2.0		-			
FINMECCANICA GLOBAL SERVICES SpA	Roma	31/12/15	49,945,983		525.0	708.0	183.0	6.0	100.0	525.0	496.6
FINMECCANICA NORTH AMERICA, Inc	Delaware (USA)	31/12/15	919		3.7	3.7	-	0.8	100.0	3.7	3.4
(EURO al 31.12.2014 = $ 1,2141)			1,000	$	4.0	4.0					
FINMECCANICA UK Ltd	Yeovil (Inghilterra)	30/09/15	1,362		5.4	-	-	1.4	100.0	5.5	-
(EURO al 31.12.2014 = GBP 0,7789)			1,000	GBP	4.0			1.0			
MECCANICA HOLDINGS USA, Inc	Wilmington (USA)	31/12/15	3,306,696,060		1,389.7	2,569.1	1,179.4	5.5	100.0	1,389.7	1,099.4
(EURO al 31.12.2014= $ 1,2141)			3,600,000,001	$	1,513.0	2,797.0	1,284.0	6.0			
OTO MELARA SpA	Roma	31/12/15	92,307,722		152.0	524.0	372.0	22.0	100.0	152.0	102.8
SELEX ES SpA	Roma	31/12/15	350,000,000		1,086.0	5,011.0	3,925.0	26.0	100.0	1,086.0	1,786.8
SO.GE.PA.- Società Generale di Partecipazioni SpA	Genova	31/12/15	1,000,000		5.0	62.0	57.0	(2.0)	100.0	5.0	5.4
TELESPAZIO SpA (*)	Roma	31/12/15	50,000,000		211.0	571.0	360.0	6.0	67.0	141.4	170.9
WHITHEAD SISTEMI SUBACQUEI SpA	Roma	31/12/15	21,346,000		19.0	156.0	137.0	(6.0)	100.0	19.0	24.8
											6,430.4
Equity investments in associates											
AMSH BV (*)	Amsterdam (Olanda)	31/12/15	36,296,316		852.0	852.0	-	108.0	50.0	426.0	480.8
ATITECH SpA	Capodichino - Napoli	31/12/14	6,500,000		8.3	40.7	32.4	0.5	25.0	2.1	6.4
AVIO SpA	Torino	30/09/15	40,000,000		303.9	-	-	7.0	14.3	43.5	54.1
ELETTRONICA SpA	Roma	31/12/15	9,000,000		93.0	541.0	448.0	24.0	31.3	29.1	7.2
EUROSYSNAV SAS	Parigi (Francia)	31/12/15	40,000		4.0	7.0	3.0	-	50.0	2.0	-
EUROTECH SpA	Udine	31/12/15	8,878,946		105.3	145.5	40.1	(6.2)	11.1	11.7	5.8
IND. A. E M. R. PIAGGIO SpA(Amm.strd)	Genova	31/12/13	103,567		n.d.	n.d.	n.d.	n.d.	31.0	n.d.	-
LIBYAN ITALIAN ADVANCED TECH. Co.	Tripoli (Libia)	31/12/11	8,984,716		3.1	18.7	15.6	(2.5)	25.0	0.8	-
(EURO al 31.12.2014= lyd 1,45389)			13,568,000	lyd	4.7	28.2	23.5	(3.8)		-	
NGL PRIME SpA	Torino	31/12/13	120,000		0.2	0.2	-	-	30.0	0.1	-
THALES ALENIA SPACE SAS (*)	Parigi (Francia)	31/12/14	918,038,000		1,099.3	1,420.7	321.4	158.4	33.0	362.8	400.9
											955.2
Consortiums											
CONS. CREO	L'Aquila	31/12/15	774,685		0.3	2.4	2.1	(0.5)	99.0	0.3	0.2
CONS. PISA RICERCHE S.c.r.l (in Fall.)	Pisa	31/12/11	1,061,613		1.0	9.6	8.5	(0.1)	7.7	0.1	-
											0.2
Other companies											
BCV MANAGEMENT SA	Lussemburgo	31/12/14	36,470		-	0.1	-	-	15.0	-	-
DISTRETTO LIGURE DELLE TECNOLOGIE MARINE S.c.r.l	La Spezia	31/12/14	1,140,000		1.1	2.0	0.9	-	5.3	0.1	0.1
EMITTENTI TITOLI SpA	Milano	31/12/14	4,264,000		16.0	16.3	0.3	10.1	3.7	0.6	0.2
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH (in Liq.)	Ottobrunn (Germania)	12/11/12	264,000		-	-	-	-	18.9	-	0.1
INDUSTRIA ITALIANA AUTOBUS SpA	Roma	31/12/14	4,250,000		1.0	-	-		20.0	0.2	0.9
SOC.INFORM ESPERIENZE TERMOID. SpA	Piacenza	31/12/14	697,820		0.8	3.0	2.2	-	2.2	-	-
											1.3
	TOTAL EQUITY INVESTMENTS										**7,387.1**

(*): joint control

Appendix no.3 (€ mil.)- NON-CURRENT RECEIVABLES

	31/12/14								31/12/15		
	Residual nominal amount	Impairment	Carrying amount	Disbursement	Reclassifications	Reimbursements	Other changes	Impairment (-) Reversal (+)	Residual nominal amount	Impairment	Carrying amount
Receivables	1		1						1		1
AgustaWestland SpA	63		63		(4)				59		59
Finmeccanica Global Services SpA	-		-		26				26		26
SO.GE:PA - Società Generale di Partecip. SpA	-		-	18		1			17		17
Telespazio SpA	5		5		(2)				3		3
Total receivables	**69**	**-**	**69**	**18**	**20**	**1**	**-**	**-**	**106**	**-**	**106**

Appendix no. 4 (€ mil.) - ASSETS BROKEN DOWN BY MATURITY

	31/12/15 Amounts due			31/12/14 Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Loans and receivables	1		1	1		1
Non-current loans and receivables from relates parties	62	43	105	21	47	68
Other non current assets	142		142	136		136
Total receivables and non-current assets	**205**	**43**	**248**	**158**	**47**	**205**

Appendix no.5 (€ mil.) - FOREIGN CURRENCY ASSETS

	31/12/15			31/12/14		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Loans and receivables		1	1		1	1
Non-current loans and receivables from relates parties		105	105		68	68
Other non current assets		142	142		136	136
Total receivables and other non-current assets		248	248		205	205
Deferred tax assets		40	40		36	36
Total non-current assets		288	288		241	241
Loans and receivables form related parties		2,558	2,558		2,773	2,773
Trade receivables		2	2		1	1
Trade receivables from related parties		91	91		75	75
		93	93		76	76
Other assets	3	538	541	11	493	504
Other receivables from related parties		33	33		28	28
	3	571	574	11	521	532
Income tax receivables		97	97		92	92
Cash and cash equivalents	191	1,174	1,365	46	699	745
Total current assets	**194**	**4,493**	**4,687**	**57**	**4,161**	**4,218**

Appendix no.6 (€ thous.) - ASSETS BY GEOGRAPHICAL AREA

	31/12/15					31/12/14				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Loans and receivables	1				1	1				1
Non-current loans and receivables from relates parties	105				105	68				68
Other non current assets	142				142	136				136
Total receivables and other non-current assets	248	-	-	-	248	205	-	-	-	205
Deferred tax assets	40				40	36				36
Total non-current assets	**288**	**-**	**-**		**288**	**241**	**-**	**-**		**241**
Loans and receivables form related parties	2,547	11			2,558	2,768	5			2,773
Trade receivables	2				2	1				1
Trade receivables from related parties	85	3	3		91	68	4	3		75
	87	3	3	-	93	69	4	3	-	76
Other assets	540	1			541	503	1			504
Other receivables from related parties	33				33	28				28
	573	1	-	-	574	531	1	-	-	532
Income tax receivables	97				97	92				92
Cash and cash equivalents	1,318	47		-	1,365	744			1	745
Total current assets	**4,622**	**62**	**3**	**-**	**4,687**	**4,204**	**10**	**3**	**1**	**4,218**

Appendix no.7 (€ thous.) - AVAILABLE AND DISTRIBUTABLE RESERVES

Nature/descriptiom	Amount	Possible use	Available portion
Share capital (*)	2,522,471		
Capital reserves:			
Treasury share reserve	313	B	
Revenue reserves			
Legal reserve	214,283	B	
Extraordinary reserve	391,462	A,B,C	391,462
Reserve for unexercised rights	3,630	A,B,C	3,630
Reserve for prescribed dividends	431	A,B,C	431
Reserve for actuarial gains (losses) in equity	217	B	
Stock grant Reserve	4,324		
Retained earnings	599,225		285,829
Total	3,736,356		681,352
Net profit/(loss) for the period	443,927		
Total equity	4,180,283		

Keys:
(*) less treasury shares for € thous. 313 and costs for capital increase for € thous. 18.690
A: for capital increase
B: for loss coverage
C: for distribution to shareholders

Appendix no.8 (€ mil.) - LIABILITIES BROKEN DOWN BY MATURITY

	31/12/15			31/12/14		
	Amounts due			Amounts due		
	from 2nd to 5th subsequent year	beyond 5th year	Total	from 2nd to 5th subsequent year	beyond 5th year	Total
Other non-current liabilities	110		110	112		112
	110	-	110	112	-	112
Loans and borrowings (non current)	1,638	1,883	3,521	1,795	635	2,430
Non-current loans and borrowings from related parties			-			-
	1,638	1,883	3,521	1,795	635	2,430
Total non-current liabilities	**1,748**	**1,883**	**3,631**	**1,907**	**635**	**2,542**

Appendix no.9 (€ mil.) - FOREIGN CURRENCY LIABILITIES

	31/12/15			31/12/14		
	In foreign currency	in Euro	Total	In foreign currency	in Euro	Total
Loans and borrowings (non current)	434	3,087	3,521	513	1,917	2,430
Non-current loans and borrowings from related parties			-			-
	434	3,087	3,521	513	1,917	2,430
Other non-current liabilities		110	110		112	112
Total non-current liabilities	**434**	**3,197**	**3,631**	**513**	**2,029**	**2,542**
Loans and Borrowings	1	132	133		74	74
Related-party loans and borrowings	762	2,221	2,983	654	3,869	4,523
	763	2,353	3,116	654	3,943	4,597
Trade payables	1	46	47	2	31	33
Trade payables from related parties	16	37	53	16	36	52
	17	83	100	18	67	85
Other liabilities		464	464	11	389	400
Other payables to related parties		646	646		491	491
	-	1,110	1,110	11	880	891
Income tax payables		1	1		15	15
Total current liabilities	**780**	**3,547**	**4,327**	**683**	**4,905**	**5,588**

Appendix no. 10 (€ mil) - LIABILITIES BY GEOGRAPHICAL AREA

	31/12/15					31/12/14				
	Italy	Rest of Europe	North America	Rest of the world	Total	Italy	Rest of Europe	North America	Rest of the world	Total
Loans and borrowings (non current)	3,243				3,243	2,430				2,430
Non-current loans and borrowings from related parties					-					-
	3,243	-	-	-	3,243	2,430	-	-	-	2,430
Other non-current liabilities	110				110	112				112
Total non-current liabilities	**3,353**	**-**	**-**	**-**	**3,353**	**2,542**	**-**	**-**	**-**	**2,542**
Loans and Borrowings	133				133	74				74
Related-party loans and borrowings	2,312	671	-		2,983	2,096	2,317	110		4,523
	2,445	671	-	-	3,116	2,170	2,317	110	-	4,597
Trade payables	37	8	1	1	47	30	1	2		33
Trade payables from related parties	35	7	11	-	53	36	7	8	1	52
	72	15	12	1	100	66	8	10	1	85
Other liabilities	464				464	400				400
Other payables to related parties	645	1			646	490	1			491
	1,109	1	-	-	1,110	890	1	-	-	891
Income tax payables	1				1	15				15
Total current liabilities	**3,627**	**687**	**12**	**1**	**4,327**	**3,141**	**2,326**	**120**	**1**	**5,588**

For the Board of Directors
The Chairman
(Giovanni De Gennaro)

Statement on the separate financial statements pursuant to art. 154-bis, paragraph 5 of Legislative Decree 58/98 as amended

1. The undersigned Mauro Moretti Chief Executive Officer and General Manager, and Gian Piero Cutillo as the Officer in charge of Financial Reporting for Finmeccanica Spa, certify, in accordance with Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998:
   - the appropriateness of the financial statements with regard to the nature of the business and
   - the effective application of administrative and accounting procedures in preparing the separate financial statements at 31 December 2015.

2. In this respect it is noted that no significant matters arose.

3. It is also certified that:

   3.1 The separate financial statements:
   - were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   - correspond to the entries in the books and accounting records;
   - were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/1998 and subsequent amendments and integrations and they provide a true and fair view of the financial position and results of operations of the issuer.

   3.2 The Report on Operations includes a reliable analysis of the performance and the operating result, as well as the position of the issuer, together with a description of the main risks and uncertainties it is exposed to.

This statement also is made pursuant to and for the purposes of Article 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 16 March 2016

Chief Executive Officer and General Manager Mauro Moretti	Officer in charge of Financial Reporting Gian Piero Cutillo

Indipendent Auditors' Report on the separate financial statements as at 31 December 2015

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Finmeccanica S.p.a.

Report on the separate financial statements

We have audited the accompanying separate financial statements of Finmeccanica S.p.a. (the "company"), which comprise the statement of financial position as at 31 December 2015, the separate income statement and statements of comprehensive income, changes in cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the separate financial statements

The company's directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Independent auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) promulgated pursuant to article 11.3 of Legislative decree no. 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements give a true and fair view of the company's financial position as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 31 of Legislative decree no. 2015/05.

Report on other legal and regulatory requirements

Opinion on the consistency of the directors' report and certain information presented in the report on corporate governance and ownership structure with the separate financial statements

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion, as required by the law, on the consistency of the directors' report and the information presented in the report on corporate governance and ownership structure required by article 123-bis.4 of Legislative decree no. 58/98, which are the responsibility of the company's directors, with the separate financial statements. In our opinion, the directors' report and the information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Finmeccanica S.p.a. as at and for the year ended 31 December 2015.

Rome, 18 March 2016

KPMG S.p.A.

(signed on the original)

Renato Naschi
Director of Audit

Report of the Board of Statutory Auditors to the Shareholders' Meeting

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING (ARTICLE 153 LEGISLATIVE DECREE 58/98 ("T.U.F.") AND ARTICLE 2429 CIVIL CODE

Dear Shareholders,

1. *Introduction*

The Board of Statutory Auditors, represented by Prof. Riccardo Raul Bauer, Chairman, Prof. Niccolò Abriani, Dott. Luigi Corsi, Prof. Francesco Perrini and Dott.ssa Daniela Savi, statutory auditors, was appointed by the Ordinary Shareholders' Meeting of 11 May 2015 of Finmeccanica S.p.a. (the "Company") for three years until the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2017.

2. *Supervisory activities*

During the year, the Company's Board of Statutory Auditors carried out the supervisory activities required by law (in particular by Article 149 T.U.F.), also taking into account the Consob communications and recommendations on corporate controls and the activities of the Board of Statutory Auditors (in particular, communication DAC/RM97001574 of 20 February 1997 and communication DEM/1025564 of 6 April 2001, subsequently amended by communication DEM/3021582 of 4 April 2003, communication DEM76031329 of 7 April 2006 and communication DEM/0007780/16 of 28 January 2016), of the Code of Conduct for the boards of statutory auditors of listed companies, as recommended by the Italian National Council of Accountants and Tax Consultants, and the recommendations contained in the Corporate Governance Code for listed companies, by the Corporate Governance Committee of Borsa Italiana S.p.A., which the Company adheres to.

2.1. During the financial year ended 31 December 2015, the Board of Statutory Auditors supervised compliance with the law and the current Bylaws, as well as with the principles of sound administration.

To that end, the Board of Statutory Auditors also relied on the documents produced by the Company, which are deemed adequate to allow the Board to verify that the organisational structure, the internal procedures, the actions of the Company and the resolutions of its executive bodies comply with the provisions of the law, the Bylaws and the applicable regulations.

In order to complete its work, the Board of Statutory Auditors held 20 board meetings during the year.

The Board of Statutory Auditors has carried out verifications and has gathered information from the managers of the various Company's functions. With regard to the administrative and accounting system, and its fitness to provide a proper representation of the business operations, the Board acquired the necessary information from the Company's structures (also through the Independent Auditing Firm) and thus had confirmation that there is a continued commitment to developing and improving the overall adequacy of the existing systems.

In addition, in order to obtain an adequate, effective flow of information, the Board:

– attended the Shareholders' Meeting;

– attended all the meetings of the Board of Directors (14, in 2015), during which it was informed of the Company's activities and of the main financial and capital transactions carried out by the Company and by its subsidiaries. On the basis of that information, the resolutions and operations carried out as a result comply with the law and the Bylaws and do not highlight any potential conflicts of interest with the Company. They are not manifestly imprudent, reckless, atypical or unusual, nor do they conflict with the resolutions passed by the Shareholders' Meeting or otherwise are prejudicial to the integrity of the Company's assets;

– attended all the meetings of the Control and Risks Committee (8, in 2015);

– attended, also through some of its members, all the meetings of the Remuneration Committee (6 in 2015) and the Nomination Committee (3 in 2015);

– systematically held meetings with the Officer in charge of the Company's financial reporting ("Officer in Charge");

– met regularly the auditing firm KPMG S.p.A. (the "Independent Auditing Firm") charged with carrying out the legal audit of the Company's annual and consolidated accounts.

With regard to the decision-making processes of the Board of Directors, the Board of Statutory Auditors supervised compliance with the law and with the Bylaws of the management operations performed by the Directors, and checked that the related resolutions did not conflict with the Company's interest.

In that regard, the Board of Statutory Auditors acquired knowledge and, within the extent of its remit, verified the Company's compliance with the principles of sound administration and the adequacy of its administrative structure for that purpose.

The Board of Statutory Auditors considers that the principles of sound administration have been complied with and, on the basis of the information acquired, considers that the management decisions were based on the principles of sound administration and reasonableness, and that the Directors are aware of the risks and effects of the operations.

2.2. The Board of Statutory Auditors has acquired periodic information about the general business performance and outlook, as well as the most significant transactions, by size or special characteristics, carried out by the Company. It verified that the decisions taken were compliant with the law and with the Bylaws and that were not imprudent nor in potential conflict of interest, nor otherwise were prejudicial to the integrity of the Company's assets.

Among the significant events occurring during the year ended 31 December 2015, we may confirm that the Report on Operations as submitted by the Directors (to which please refer) contains an illustration of the key operations carried out during the year. In particular, the following should be highlighted:

(i) completion of the "*One Company*" restructuring process, which translated into an aggregation realised through the merger by incorporation of OTO Melara S.p.A. and Whitehead Sistemi Subacquei S.p.A. and a partial spin-off of Agusta Westland S.p.A., Alenia Aermacchi S.p.A. and Selex S.p.A. This process has changed the nature of the Company from a holding company to an operational company, which is now divided into various divisions and sectors in accordance with the organisational model in force with effective date 1 January 2016;

(ii) the gradual confluence of the Group companies' real estate portfolio into the first-level subsidiary Finmeccanica Global Services S.p.A;

(iii) completion of the process of disposing of the non-core equity investments, which began in 2014 and continued with the further disposals of the transport subsidiaries BredaMenarinibus, Ansaldo Breda and Ansaldo STS, of certain non-strategic assets within the DRS perimeter and most recently of Fata S.p.A., which was completed in the first quarter of 2016. With regard to the most significant disposal carried out in 2015, which related to the business units of Ansaldo Breda and the controlling interest in Ansaldo STS, the Board of Statutory Auditors supervised the processes applied. We report that the independent Directors have chosen to rely on their own adviser to handle the disposals.

2.3. This Board did not find any atypical and/or unusual intercompany and/or related-party and/or third-party transactions during the year 2015.

The ordinary intercompany and related-party transactions, as described by the Directors in their Report on Operations and in the Notes to the separate Financial Statements (to which please refer) are consistent with and correspond to the interests of the Company.

The Report on Operations as presented by the Directors contains adequate information about the intercompany and related-party transactions, which are all consistent with and meet the interests of the Company and were conducted at arm's length. The financial impact of the related-party transactions is described in Note 29 to the financial statements of Finmeccanica S.p.a. and in Note 35 to the consolidated financial statements; their effects on the cash flows is described directly in the financial statement schedule.

In reference to the above operations, the Board considers that the information provided by the Directors in the Report on Operations and in the Notes is adequate.

2.4. The Board of Statutory Auditors, within its remit, has acquired information and has supervised the organisational structure of the Company, finding it to be adequate on the whole, also in the light of the latest changes in the organisation, as described in the *One Company* model.

The Board also verified the definition and operation of the various control levels.

In relation to the Group’s structure, the Company has continued with its restructuring aimed at achieving a strategic international repositioning, and a significant organisational reworking with the aim of improving operational efficiency partly by means of a sharp reduction in costs, especially by intervening in the key operational processes of engineering, production and supply chain, reinforcing and consolidating the internal governance in line with the structural initiatives undertaken by its main competitors.

The Group has continued to operate in markets that are now showing signs of improvement, despite the continued difficulties.

2.5. During the course of 2015, the Board of Statutory Auditors gave the following opinions: (i) an opinion on the "Impairment Test Procedure of the Finmeccanica Group" on 20.02.2015; (ii) an opinion on the proper application of the criteria used to evaluate the independence of dDrectors, on 18.3.2015; (iii) an opinion concerning the proposal regarding the remuneration of the Manager of the Group Internal Audit, given to the CEO and General Manager on 2.7.2015.

In accordance with the recommendations in the joint Bank of Italy-Consob-ISVAP document no. 4 of 3 March 2010, the Board of Statutory Auditors notes that the impairment test procedure (IAS 36) was approved by the Control and Risks Committee on 18 February 2016, and was approved by the Board of Directors on the same date.

In accordance with the contents of the Corporate Governance Code, the Board of Statutory Auditors also verified:

a) the proper application of the criteria and verification procedures adopted by the Board of Directors to evaluate the independence of its members, in accordance with the provisions of the law and of the Corporate Governance Code;

b) the existence and continued application of the independence requirements for the statutory auditors themselves, pursuant to the law and Corporate Governance Code criteria, noting that if a statutory auditor has an interest in a certain operation carried out by the Company, he or she must give full and prompt disclosure to the other members of the Board of Statutory Auditors and to the Chairman of the Board with regard to the nature, terms, origin and the scope of his or her interest, either on his or her own account or with regard to a third party.

During the year, no situations emerged in which the Statutory Auditors had any interest in the completion of a certain operation, either in their own interests or in those of a third party.

2.6. During 2015 the Board of Statutory Auditors received the following complaints, all made by the same shareholder (Mr. Tommaso Marino):

- communications dated 23.6.2015 and 27.6.2015, relating to alleged criticisms about the safeguarding of the shareholders' rights to information and to raise questions. The Board, having acknowledged the explications given by the relevant functions of the Company, considered that no further investigation needed to be carried out in this regard;
- a communication dated 1.9.2015, in which the Board was asked to carry out "investigations into infringement of the law on asbestos" with reference to the production and production sites of the subsidiary Agusta Westland. In this regard the Board requested specific information from the Board of Statutory Auditors of Agusta Westland, made the necessary inquiries with the manager of Finmeccanica Global Service, the owner of the buildings, and checked that the internal procedures had been correctly followed and applied. Therefore, no actions that were open to criticism under the terms of Article 2408 of the Italian Civil Code were found;
- a communication dated 8.10.2015, concerning relations with a supplier with regard to which the Board carried out a specific investigation.

2.7. During 2015, the Board of Statutory Auditors organised meetings to obtain all the relevant information about the main legal actions involving the Finmeccanica Group.

The updates on the progress of investigations by the legal authorities, which involve the activities of several Finmeccanica Group companies are described in the above-mentioned Note 21 to the consolidated financial statements - "*Provisions for risks and potential liabilities*", which summarises the cases that the Company is aware of and also describes the various actions undertaken by Finmeccanica S.p.a. and by the subsidiaries involved.

2.8. The Board of Statutory Auditors verified that the Company has its own internal control and risk management system, which is formed of a set of rules, procedures and organisational structures aimed at identifying, measuring, managing and monitoring the principal company risks.

In order to supervise the adequacy of the Company's internal control system, the Board liaised with the Control and Risks Committee, with the head of Internal Control and Risk Management System, with the head of the Internal Audit function and with the Supervisory Body.

In addition, in relation to its function as the internal control and accounts auditing committee (Article 19 of Legislative Decree 39/2010), the Board of Statutory Auditors established a continuous flow of information with the Control and Risks Committee, regularly communicated with the independent auditing firm and acknowledged the certification given by the same (Article 19 paragraph 3 Legislative Decree 39/2010) on the absence of significant shortcomings in the internal control system.

With reference to the provisions of Article 36 of Consob resolution no. 16191 of 29 October 2007 concerning the accounts information system of the significant subsidiaries, incorporated and governed by the laws of non-EU countries, Group Internal Audit carried out a specific audit which was brought to the attention of the Control and Risks Committee. From that audit it emerged that all the selected companies have an adequate administration and accounting system, and they met the other requirements mentioned in Article 36 of the above resolution. Therefore no plan of adjustment was necessary.

The Board of Statutory Auditors verified that the Company has updated its procedure on the Company's related-party transactions, and also verified compliance with the applicable regulations.

With reference to the provisions of Legislative Decree 231/2001, following regulatory changes regarding that Decree, the Company has updated its organisational, management and control model and has implemented a Supervisory Body which has been integrated with the Group Internal Audit Manager in order to improve the efficiency of that manager's legal functions, as described in the Report on corporate governance and shareholder structure in paragraph 10.4. A further update of the Model is currently pending, in the light of the Company's move towards "*One Company*".

The Board of Statutory Auditors also verified that the Company has approved the guidelines of the new Group Organisational and Operational Model, included in the operational guidelines of the Control and Risks Committee at the meeting held on 18 February 2016.

The Board has regularly communicated with the Supervisory Body since the date of its formation, and asked it to attend certain meetings. It has also acquired the information necessary or useful for the completion of its own activities. From this exchange of information between the Board of Statutory Auditors and the Supervisory Body, no critical issues have emerged with regard to the proper implementation of the organisational model.

The Board has also examined the annual report prepared by the Supervisory Body for 2015, and has no observations to make in that regard.

The Board of Statutory Auditors has periodically participated in the work of the Remuneration Committee, attending its meetings with the chairman or other members, and has obtained information useful in the exercise of its supervisory activities in this area.

The Board may state that the Control and Risks Committee has operated in accordance with the provisions of the Corporate Governance Code. The collaboration with the Control and Risks Committee has been profitable and proactive, and has also allowed a coordination of the respective activities, avoiding duplication that would impair the efficiency of controls. In general this has resulted in an efficient joint coordination and assessment of the overall of internal control and risk management system.

The Board of Statutory Auditors: (i) examined the periodic reports of Group Internal Audit on its activities in 2015, and the main audit reports, (ii) carried out the audits within its remit concerning the preparation of the half-yearly and annual financial reports, and (iii) verified, through periodic meetings with the independent auditing firm, that the accounting standards are adequate and consistent for the purposes of the half-year and annual financial reports.

In the light of its supervisory activities, and taking into account the assessments regarding the adequacy, efficiency and effective functioning of the internal control system as formulated by the Control and Risks Committee and by the Board of Directors, this Board considers, to the extent of its responsibility, that this system is overall adequate.

2.9. The Board of Statutory Auditors supervised the adequacy of the directions given by the Company to its subsidiaries in accordance with Article 114 (2) T.U.F. and the proper flow of information between them, and considers that the Company is able to fulfil the communication obligations imposed by the law.

In fact, during 2015 the Board continued its meetings and exchange of information with the Boards of Statutory Auditors of the main companies in the Finmeccanica Group (12 meetings) and checked that the flows of information between the parent company and the other Group companies are exchanged promptly and that adequate instructions were given to the subsidiaries in accordance with Article 114 paragraph 2 of Finance Consolidation Act.

The aim of the above investigations is to evaluate the companies' administration and control systems, including the adoption of directions issued by the parent company Finmeccanica, and to obtain information about the general business performance. In this regard the Boards of Statutory Auditors of the subsidiaries did not highlight any critical issues that require reporting. All the Boards of Statutory Auditors involved also expressed a positive opinion about the adequacy of the respective companies' organisational, administrative and accounting systems.

In addition, following the implementation during 2015 of the Operational Interrelational Model and the centralisation of the Internal Auditing function with Finmeccanica, this Board asked the Boards of Statutory Auditors of the direct subsidiaries to provide a brief assessment of the audits carried out by Group Internal Audit, and of the remediation plans and their progress.

Once again during 2015, as in the previous year, no indications emerged from those meetings that could lead to concerns about the adequacy and efficiency of the internal control systems, or the non-compliance with procedures.

Finally, with regard to the supervisory activities, this Board contacted the relevant bodies of the subsidiaries and, if applicable, made use of its powers under Article 151 Finance Consolidation Act.

2.10. The Board of Statutory Auditors supervised the Company's administrative and accounting system and its reliability in terms of providing a proper representation of the business operations, by obtaining information from the Officer in Charge and from the managers of the relevant functions, by examining documentation prepared in that regard by the Company, and by analysing the results of the work done by the independent auditing firm.

In particular, this Board was able to verify that during 2015 the Officer in Charge carried out an assessment of the adequacy and effective application of the administrative and accounting procedures referred to in Article 154-*bis* T.U.F.. This activity enabled the Officer in Charge to attest that the accounting documents provided a truthful and accurate representation of the financial situation and assets of the Company, and of all the companies within the Consolidation perimeter.

The declarations, procedures and certifications provided by the Officer in Charge on the basis of the information obtained, appear to be complete.

In the light of the supervisory activities performed and also taking into account the assessment of the organisational, administrative and accounting structure of the Company as formulated by the Board of Directors, this Board considers, within the extent of its remit, that this system is essentially adequate and reliable for the purposes of providing a proper representation of the business operations.

2.11. During the year, the Board of Statutory Auditors regularly met the managers of the auditing firm KPMG S.p.A. in order to exchange information relevant for the purposes of Article 150 paragraph 3 T.U.F..

At those meetings the auditing firm did not communicate any irregularities or events that would require a mention in this report.

2.12. The Board of Statutory Auditors supervised the legal audit pursuant to Article 19 Legislative Decree 39/2010 by means of periodic meetings with the managers of the auditing firm engaged for that purpose, which illustrated the quarterly audits and outcomes, the auditing strategy, and the basic issues encountered during the audit. Those meetings did not reveal any critical issues or irregularities that would affect the opinions on the separate and consolidated financial statements of Finmeccanica.

The report by the auditing firm KPMG S.p.A. on the annual and consolidated accounts, issued in accordance with Articles 14 and 16 Legislative Decree 39/2010 of 18 March 2016, do not contain any findings or requests for information and confirm that the annual and consolidated accounts have been drafted clearly and in accordance with the applicable drafting criteria, and that they represent a true and accurate picture of the financial situation, income and cash flows of the Company and of the Group for the year ended 31 December 2015. The reports also confirm that the report on operations and the information given (pursuant to paragraph 1 letters c), d), f), l), m) and paragraph 2 letter b) of Article 123-*bis* T.U.F.) in the Report on Corporate Governance and Shareholder Structure, are consistent with the annual and consolidated accounts.

The Board of Statutory Auditors, in its capacity as the internal control and accounts auditing committee (Article 19 Legislative Decree 39 of 27 January 2010) also received confirmation that, on the basis of the work done by the auditing firm on the annual and consolidated accounts for the year ended 31 December 2015, no significant shortcomings emerged in the internal control system with regard to the financial reporting process that needed to be brought to the attention of the internal control and accounts auditing committee.

In addition, the Board of Statutory Auditors examined the certifications given by the auditing firm on 18 March 2016, in accordance with Article 17 Legislative Decree 39 of 27 January 2010, in which (i) it confirmed that it had not found any situations that would be prejudicial to the independence or provide grounds for incompatibility under Articles 10 and 17 of the above Decree; (ii) it gave details of the non-auditing services provided to KPMG S.p.A., also by its own network.

The Independent Auditing Firm has today issued the reports on the annual and consolidated accounts as at 31.12.2015 of Finmeccanica S.p.a., issuing an opinion without any findings.

2.13. For 2015, the Independent Auditing Firm is entitled to fees of: (i) €420,000 for the auditing of the Company; (ii) €133,000 for certification services, mainly relating to the sustainability report.

With reference to the mandate given to the Independent Auditing Firm, please refer to the information provided in accordance with Article 149-*duodecies* of the Issuers' Regulations included in the annual financial report. The Independent Auditing Firm has confirmed the object of that report and has issued the declaration required by Article 17 Legislative Decree 39/2010.

With regard to the supervision of the auditing firm's independence, the Board of Statutory Auditors has monitored observance with the procedures and directives concerning the awarding of mandates to Group auditing firms, which provides for specific flows of information and authorities and procedures regarding the award of such contracts, in order to ensure that Finmeccanica's Board of Statutory Auditors can adequately fulfil its supervisory activities.

Taking into account the above, the certification of independence and the absence of reasons for incompatibility given by the auditing firm KPMG S.p.A., the Board of Statutory Auditors considers that no critical aspects have emerged with regard to the independence of the auditing firm.

2.14. The Company follows the Corporate Governance Code for listed companies issued by the Corporate Governance Committee of Borsa Italiana S.p.A., as confirmed in the Report on Corporate Governance and Shareholder Structure for 2015 approved by the Board of Directors on 16 March 2016 and made available to the public on the Company's website. That report was drafted in accordance with the instructions in the Regulation of Organised Markets managed by Borsa Italiana S.p.A.

The Report contains a detailed description of the corporate governance system adopted by the Company. The system is in compliance with the rules of governance models laid down in the Corporate Governance Code mentioned above, and those principles are effectively and properly applied.

Paragraph 10 of the Report on Corporate Governance and Shareholder Structure summarises the Directors' conclusions about the confirmation of the adequacy and efficiency of the Company's organisational, administrative and accounting structure with particular reference to the system of internal control and risk management, also in the light of specific investigations into the legal actions in which the Group companies are involved in various capacities. The Report also contains details of the following measures taken in 2015 with regard to the system of internal control and risk management:

- the issuing of directives and procedures specifically aimed at "sensitive" activities, with regard to control systems;
- the full operativity of the "Finmeccanica Group Committee for Integrity and Anticorruption", composed of the chairpersons of the Control and Risks Committee, of the Board of Statutory Auditors and of the Supervisory Body (Legislative Decree 231/01) and chaired by the chairman of the Board of Directors of Finmeccanica;
- the approval by Finmeccanica's Board of Directors of the guidelines on whistleblowing, on 18.3.2015, also in accordance with Recommendation no. 4 of the "Flick Committee" contained in the report submitted to the Board of Directors on 31 March 2014 in relation to the behavioural standards required to ensure compliance with the international best practices on "business ethics";

- the approval by Finmeccanica’s Board of Directors of the Finmeccanica Group Anticorruption Code on 21.4.2015, which was also adopted by the executive bodies of the Group companies through the formation of a specific working group.

2.15. In 2015, the Board of Statutory Auditors was specifically informed of the requests made by Consob to the Company and carried out the necessary investigations, also making the communications required by the Finance Consolidation Act.

The Board monitored, with the necessary attention, the communications given to the market and also recommended the adaptation of the related procedures in the light of past experience.

2.16. In connection with these advisory and control operations carried out during 2015, no events emerged that were open to criticism, nor any omissions or irregularities that would require a mention in this report.

3. Annual financial statements

The Board of Statutory Auditors has examined the draft financial statements for the year ended 31 December 2015. The Board, to the extent of its knowledge, may state that no provisions of the law were violated in the preparation of the annual and consolidated financial statements.

As the Board of Statutory Auditors is not responsible for the legal audit, it supervised the general structure of the legal audit with regard to its compliance with the law in terms of its formation and structure. In that regard we have no comment to report. The Board verified compliance with the law concerning the preparation of the Report on Operations and we have no comment to report in that regard.

The financial statements for the year ended 31 December 2015, drafted by the Directors in accordance with the law and duly communicated to the Board of Statutory Auditors (together with the Report on Operations) shows a profit for the year of €443,927,397. The Board of Directors has set out in detail, in the Report on Operations and in the Notes, the formation of this result and the events that led to it.

On the basis of the activities carried out, the Board of Statutory Auditors has waived the terms of Articles 2429 Italian Civil Code and 154-*ter* T.U.F. concerning the provision of the annual report by the Board of Directors.

4. Conclusions

The Board of Statutory Auditors, also considering the findings of the audit done by the Independent Auditing Firm has not, with regard to its own remit, found any impediments to the approval of the financial statements for the year ended 31 December 2015, as prepared and approved by the Board of Directors at the meeting held on 16 March 2016, nor to the Board of Directors' proposal regarding distribution of the profit for the year, with 5% to be allocated to the legal reserve, and with the use of the profits carried forward.

Rome, 18 March 2016

THE BOARD OF STATUTORY AUDITORS

Riccardo Raul Bauer (Chairman)

Niccolò Abriani

Luigi Corsi

Francesco Perrini

Daniela Savi

Information pursuant to article 149. duodecies of the issuer regulation

The following statement reports the fees for the year 2015 for auditing and certification services and for tax and other services provided by the same auditing firm and entities belonging to the auditing firm's network.

	Entity providing the service	To	Fees for the year 2015 (€ thousands)	Note
Auditing services	KPMG SpA	Parent Company	420	
	KPMG SpA	Subsidiaries	3,510	
	KPMG network	Subsidiaries	4,698	
Certification services	KPMG SpA	Parent Company	133	(1)
	KPMG SpA	Subsidiaries	423	(2)
	KPMG network	Subsidiaries	25	
Tax consulting services	KPMG SpA	Parent Company	-	
	KPMG network	Parent Company	63	
	KPMG SpA	Subsidiaries	-	
	KPMG network	Subsidiaries	124	
Other services	KPMG SpA	Parent Company	-	
	KPMG SpA	Subsidiaries	53	
	KPMG network	Subsidiaries	-	
Total			**9,448**	

(1) Certification services mainly related to the sustainability report.

(2) *Certification services relating to the sustainability report of Group companies and engagement to perform agreed-upon procedures as agreed with the companies concerned pursuant to International Standard on Related Services (ISRS) 4400.*