Piazza Monte Grappa, 4
00195 Rome – Italy

Press Office
Ph. +39 06 32473313
Fax +39 06 32657170

finmeccanica.com
ufficiostampa@finmeccanica.com

FINMECCANICA

PRESS RELEASE

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Finmeccanica: the Board of Directors approves the interim financial report at 31 March 2014.

Results in line with forecasts.

New orders up by 11% thanks to the Aerospace and Defence sectors. Order backlog worth EUR 36.7 billion.

The Board of Directors of Finmeccanica, convened today under the chairmanship of Gianni De Gennaro, examined and unanimously approved the Interim Financial Report at 31 March 2014.

The results of the first quarter 2014 posted by the Finmeccanica Group confirm a satisfactory financial and operating performance in line with the guidance for the current year. The good commercial performance and the order backlog provide the Group with good visibility looking forward and support results in line with the targets set.

Financial results

The results for the first quarter are only representative of the performance of the entire financial year to a limited extent, in consideration of the fact that more than half of the Finmeccanica's business is concentrated in the second half-year.

Furthermore, starting from 1 January 2014, the new accounting standards on consolidation have been applied, leading to the deconsolidation of the joint ventures in which the Group participates (mainly ATR in the Aeronautics segment, MBDA in Defence Systems and the joint ventures in the Space segment). The Group indicators do not, however, include the contribution of the joint ventures (as a result, the comparative figures were restated). Only EBITA includes the portion of the net results of the major joint ventures listed above. The other joint ventures only contribute to the net result as shares of equity accounted investments, the results for which are reported in the income section of the income statement.

- **New orders**: amounted to **EUR 2,896 million**, compared to EUR 2,613 million of the first quarter of 2013. The increase of EUR 283 million was mainly due to new orders in the *Helicopters* segment which led to an increase in *Aerospace and Defence* compared to 2013, despite the expected decline in *Aeronautics*. The *Transportation* sector also contributed with better results.
- **Order backlog:** amounting to **EUR 36,732 million** was in line with EUR 36,831 million at 31 December 2013. The order backlog ensures over two and a half years of equivalent production for the Group.
- **Revenues:** amounted to **EUR 2,946 million**, compared to EUR 3,099 million of the first quarter of 2013. The decrease, EUR 153 million, compared to the same period of 2013, was due to expected cuts in defence budgets in Europe and, especially, in the US, which led to a reduction in revenues in *Defence and Security Electronics,* only partly offset by higher revenues in *Aeronautics*.
- **EBITA: positive for EUR 153 million**, compared to positive EUR 161 million of the first quarter of 2013. The slight decrease is attributable to the decline in volumes and lower contribution in the results of the joint ventures. This reduction is partially offset by the improved EBITA in the *Transportation* sector.
- **Net result: negative for EUR 12 million**, compared to positive EUR 6 million of the first quarter of 2013. In addition to the mentioned decline in EBITA, the net loss is the result of higher restructuring costs (EUR 12 million), mainly attributable to the *Defence and Security Electronics* segment.

- **Free Operating Cash Flow (FOCF): negative for EUR 1,185 million**, showed an improvement of EUR 117 million compared to negative EUR 1,302 million of the first quarter 2013. This figure reflects the usual seasonal fluctuations in the Group cash flows.
- **Net financial debt:** amounted to **EUR 5,061 million** improving by EUR 196 million compared to EUR 5,257 million at 31 March 2013. The increase, in comparison with EUR 3,902 million at 31 December 2013, was essentially due to the negative effect of the cash flows of the period, this trend being typical in the Group's performance.
- **Research & Development:** equal to **EUR 317 million**, over 10.7% of revenues.

Outlook

Based upon the results reported by the Group at 31 March 2014 and the information provided herein, **we confirm the outlook for the entire year** as presented in the 2013 Annual Report.

Key figures of the first quarter 2014 (Expressed in EUR million)

*The figures for 2013 were restated as a result of the adoption of **new IFRS 11**, which led to the deconsolidation of the Group's joint ventures. The comparative figures with respect to new orders, revenues, EBITA and FOCF were also restated to remove the contribution of the Energy segment, which was eliminated from the Group's scope of operations in December 2013 and classified among Discontinued Operations until the date of disposal.*

Group	Q1 2014	Q1 2013 (*)	Absolute change	% change	Full Year 2013 (*)
New orders	2,896	2,613	283	*10.8%*	15,059
Order backlog	36,732	36,255	477	*1.3%*	36,831
Revenues	2,946	3,099	(153)	*(4.9%)*	13,690
EBITA (**)	153	161	(8)	*(5.0%)*	878
ROS	*5.2%*	*5.2%*	--	*0.0 p.p.*	*6.4%*
Net result	(12)	6	(18)	*n.a.*	74
FOCF	(1,185)	(1,302)	117	*9.0%*	(220)
Group net debt	5,061	5,257	(196)	*(3.7%)*	3,902
ROI	*7.5%*	*7.8%*	--	*(0.3) p.p.*	*13.5%*
ROE	*(1.3%)*	*0.7%*	--	*(2.0) p.p.*	*2.0%*
EVA	(51)	(59)	8	*13.1%*	76
Research & Development	317	327	(10)	*(3.1%)*	1,545
Headcount	56,003	58,132	(2,129)	*(3.7%)*	56,282

(*) *Figures restated as a result of the adoption of IFRS 11. The performance and financial figures refer to continuing operations only (excluding Ansaldo Energia).*

(**) *The EBITA is arrived at by eliminating from profit before taxes and financial expense the following items:*

- *any impairment of 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;*
- *other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.*

EBITA also includes 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".

Comments on the key figures of Q1 2014

Commercial performance. New orders intake was greater in the *Aerospace and Defence* sector than the corresponding period of the prior year and higher than expected, mainly thanks to the very positive performance of the *Helicopters* segment. Overall, the Group was in line with plan. Transportation was below plan but its results at 31 March 2014 did not yet include the USD 1.2 billion contract for the driverless metro in Lima that has been recently won by AnsaldoBreda and Ansaldo STS.

Business performance. In line with expectations, revenues of the *Aerospace and Defence* sector were lower compared to the first quarter of 2013, mainly as regards the *Defence and Security Electronics* segment as a result of the expected defence budget cuts by the major countries, and because of lower revenues from important programs nearing completion. These dynamics explain the slight reduction in EBITA compared to March 2013 (partially offset by a better performance of the *Transportation* sector), with a stable ROS at 5.2%, despite a deterioration of EUR 16 million attributable to the joint ventures. The improved performance in the *Aerospace and Defence* sector compared with expectations, reflects the ongoing progress made under the restructuring and revitalisation plans in addressing problems in the market resulting from defence budget cuts.

Financial performance. The FOCF was in line with expectations, but showed a material improvement over 2013 (EUR 117 million), in particular due to the lower use of cash by the *Transportation* sector. This performance, which was negative by EUR 1,185 million overall, reflects the normal seasonal fluctuation in Group cash flows, with payments being particularly higher than collections in the first half of the year.

Below are the main changes which characterized the Group's performance in comparison with the corresponding period of the prior year.

First quarter 2014	Aerospace and Defence	Transportation	*Eliminations*	Total Continuing Operations
New orders	2,668	229	*(1)*	**2,896**
Order backlog	28,713	8,234	*(215)*	**36,732**
Revenues	2,495	471	*(20)*	**2,946**
EBITA	147	6	-	**153**
ROS %	*5.9%*	*1.3%*	*n.a.*	***5.2%***

First quarter 2013	Aerospace and Defence	Transportation	*Eliminations*	Total Continuing Operations
New orders	2,471	145	*(3)*	**2,613**
Order backlog (at 31.12.2013)	28,565	8,494	*(228)*	**36,831**
Revenues	2,691	443	*(35)*	**3,099**
EBITA	165	(4)	-	**161**
ROS %	*6.1%*	*(0.9%)*	*n.a.*	***5.2%***

Changes	Aerospace and Defence	Transportation	*Eliminations*	Total Continuing Operations
New orders	8.0%	57.9%	*n.a.*	**10.8%**
Order backlog	0.5%	(3.1%)	*n.a.*	**(0.3%)**
Revenues	(7.3%)	6.3%	*n.a.*	**(4.9%)**
EBITA	(10.9%)	n.a	*n.a.*	**(5.0%)**
ROS %	*(0.2) p.p.*	*2.2 p.p.*	*n.a.*	***0.0 p.p.***

Analysis of key figures of Q1 2014

New orders were higher than in the corresponding period of 2013, due mainly to new orders in the *Helicopters* segment (up 67% for a total of EUR 608 million), largely for the contracts for the upgrading of the fleet of 25 AW101 Merlin helicopters in the context of the Merlin Life Sustainment programme (MLSP) and for the five-year maintenance and support on the fleet of Apache AH Mkl helicopters, both for the British Ministry of Defence. These new orders led to an increase in *Aerospace and Defence* (up 8% for a total of EUR 197 million over 2013). This was despite the expected decline in *Aeronautics* (down 44% for EUR 336 million), that in first quarter of 2013 had benefitted, in the *civil* segment, from an order of 50 series on the B787 programme, while in the *military* segment, higher orders for training aircraft offset in the period, the reduction in the defence and transportation aircraft. The better results reported by the *Transportation* sector were also important (up 58% for a total of EUR 84 million). There was an increase over the first quarter of 2013 in both new orders received by AnsaldoBreda, including the exercise of the option for additional regional service trains by a Ferrovie Nord Milano group company and the equipment order for the Sirio tram in China, and new orders received by Ansaldo STS.

The **order backlog** was essentially in line with 31 December 2013, with a book-to-bill close to 1 (0.98). The order backlog ensures <u>over two and a half years of equivalent production for the Group.</u>

Revenues at 31 March 2014 fell compared with 2013 due to cuts in defence budgets in Europe and, especially, in the US, which led to a EUR 203 million (-18%) reduction in revenues in *Defence and Security Electronics,* only partly offset by higher revenues in *Aeronautics* (up 15% for a total of EUR 86 million), mainly due to growth, in the *civil* segment, in the production rate for the Boeing 787 programme; in the military segment the growth in revenues for the defence aircraft offset the reduction in revenues for transportation aircraft and special versions. The *Transportation* sector grew over 6% across all its segments.

EBITA showed a slight decrease compared with first quarter of 2013, attributable to the mentioned decline in volumes and the deterioration in the results of the joint ventures (EUR 16 million), mainly attributable to MBDA. This reduction is partially offset by the improved EBITA in the *Transportation* sector (EUR 10 million).

In addition to the mentioned decline in EBITA, the **net loss** is the result, in comparison with 2013, of higher restructuring costs (EUR 12 million), mainly attributable to the *Defence and Security Electronics* segment.

Net capital invested rose compared with 31 December 2013, due to the increase in net working capital as a result of the seasonal fluctuation in cash flows.

The **Free Operating Cash Flow** (FOCF) reflects usual seasonal factors in the quarter, with payments considerably higher than collections. At 31 March 2014, FOCF was negative (use of cash) for EUR 1,185 million compared to negative EUR 1,302 million at 31 March 2013, showing an improvement of EUR 117 million.

The Group's **net financial debt** (loans and borrowings greater than receivables, cash and cash equivalents) at 31 March 2014 amounted to EUR 5,061 million, improving by EUR 196 million compared to EUR 5,257 million at 31 March 2013. The increase, in comparison with the debt posted at 31 December 2013 (EUR 3,902 million) is essentially due to the negative effect of the cash flows of the period for EUR 1,185 million, this trend being typical in the Group's performance.

Headcount at 31 March 2014 was 56,003 with a net reduction of 279 employees in comparison with 56,282 employees at 31 December 2013, recorded mainly in the *Defence and Security Electronics.*

Industrial and financial transactions

As to ***financial transactions***, in January 2014, the subsidiary Finmeccanica Finance SA seized a favourable opportunity in the capital market to place an additional EUR 250 million on the EUR 700 million bond issue carried out in December 2013. The new bonds, placed solely with Italian and international institutional investors, carry the same conditions as those placed in December 2013. The issue price was equal to 99.564%, higher than that of the December issue.

All the bond issues of Finmeccanica Finance and Meccanica Holdings USA are irrevocably and unconditionally secured by Finmeccanica, and are given a medium/long-term financial credit rating by the three international rating agencies: Moody's Investors Service (Moody's), Standard and Poor's and Fitch.

At the date of presentation of this document, Finmeccanica's credit ratings were as follows:

Agency	**Date of most recent rating**	**Current position**		**Previous position**	
		Credit Rating	*Outlook*	*Credit Rating*	*Outlook*
Moody's	September 2013	**Ba1**	negative	Baa3	negative
Standard&Poor's	January 2013	**BB+**	stable	BBB-	negative
Fitch	July 2013	**BB+**	negative	BBB-	negative

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The officer in charge of the company's financial reporting, Gian Piero Cutillo, hereby declares, in accordance with the provisions of Article 154-bis, paragraph 2, of Legislative Decree no. 58/1998, that the accounting information included in this press release corresponds to the accounting records, books and supporting documentation.

RECLASSIFIED INCOME STATEMENT			
€mil.	**1Q 2014**	**1Q 2013 (**)**	***Chg. % y/y***
Revenues	**2.946**	**3.099**	**(153)**
Purchases and personnel expense	(2.724)	(2.822)	
Amortisation and depreciation	(117)	(128)	
Other net operating income/(expense)	48	(4)	
Equity-accounted strategic JVs	-	16	
EBITA (*)	**153**	**161**	**(8)**
EBITA (*) margin	*5,2%*	*5,2%*	
Restructuring costs	(22)	(10)	
Amortisation of intangible assets acquired as part of business combinations	(20)	(21)	
EBIT	**111**	**130**	**(19)**
EBIT margin	*3,8%*	*4,2%*	
Net financial income/ (expense)	(98)	(102)	
Income taxes	(25)	(26)	
Net profit (loss) before discontinued operations	-	4	
NET PROFIT/(LOSS)	**(12)**	**6**	**(18)**
attributable to the owners of the parent	**(21)**	0	**(21)**
attributable to non-controlling interests	*9*	*6*	**3**
EPS (EUR)			
Basic and Diluted	(0,036)	-	
EPS from continuing operations (EUR)			
Basic and Diluted	(0,036)	(0,007)	

(*) Operating result before:

-any impairment in goodwill;

-amortisations of intangibles acquired under business combination;

-reorganization costs that are a part of significant, defined plans;

-other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

(**) Figures restated as a result of the adoption of IFRS 11. The performance and financial figures refer to continuing operations only (excluding Ansaldo Energia). Comparative figure amount at 31 March 2013 also restated consistently with the new definition of Group net debt

RECLASSIFIED BALANCE SHEET		
€mil.	**31.03.2014**	**31.12.2013 (*)**
Non-current assets	12.196	12.172
Non-current liabilities	(3.100)	(3.152)
Net fixed assets	**9.096**	**9.020**
Inventories	4.979	4.754
Trade receivables	7.069	7.254
Trade payables	(10.959)	(11.524)
Working capital	**1.089**	**484**
Provisions for short-term risks and charges	(713)	(1.007)
Other net current assets (liablities)	(755)	(916)
Net working capital	**(379)**	**(1.439)**
Net invested capital	**8.717**	**7.581**
Equity attributable to the owners of the parent	3.350	3.381
Equity attributable to non-controlling interests	306	298
Equity	**3.656**	**3.679**
Net financial debt/(cash)	**5.061**	**3.902**

(*) Figures restated as a result of the adoption of IFRS 11. The performance and financial figures refer to continuing operations only (excluding Ansaldo Energia). Comparative figure amount at 31 March 2013 also restated consistently w ith the new definition of Group net debt.

CASH FLOW		
€mil.	**1Q 2014**	**1Q 2013 (*)**
Cash and cash equivalents at 1 January	**1.455**	**1.874**
Funds From Operations (FFO)	**(72)**	**31**
Changes in working capital	(896)	(1.138)
Cash flow from ordinary investing activities	(217)	(195)
Free operating cash flow (FOCF)	**(1.185)**	**(1.302)**
Change in other investing activities	(9)	(2)
Net change in borrowings	370	648
Net increase/(decrease) in cash and cash equivalents	**(824)**	**(656)**
Exchange rate gain/losses and other movements	2	(6)
Cash and cash equivalents at 31 March	**633**	**1.212**

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FINANCIAL POSITION		
€mil.	**31.03.2014**	**31.12.2013(*)**
Bonds	4.537	4.305
Bank debt	657	544
Cash and cash equivalents	(633)	(1.455)
Net bank debt and bonds	**4.561**	**3.394**
Fair value of residual stake in Ansaldo Energia	(118)	(117)
Current loans and receivables from related parties	(146)	(125)
Other current loans and receivables	(62)	(61)
Current loans and receivables and securities	**(326)**	**(303)**
Hedging derivatives in respect of debt items	(5)	(9)
Effect of transactions involving Fyra contract	86	86
Related-party loans and borrowings	665	629
Other loans and borrowings	**80**	**105**
Group net financial debt	**5.061**	**3.902**

(*) Figures restated as a result of the adoption of IFRS 11. The performance and financial figures refer to continuing operations only (excluding Ansaldo Energia). Comparative figure amount at 31 March 2013 also restated consistently w ith the new definition of Group net debt.

EARNINGS PER SHARE			
	1Q2014	**1Q2013**	***Var % YoY***
Average shares outstanding during the reporting period (in thousands)	578.118	578.118	*0,0%*
Earnings/(losses) for the period (excluding non-controlling interests) (€ million)	(21)	-	
Earnings/(losses) - continuing operations (excluding non-controlling interests) (€ million)	(21)	(4)	
Earnings/(losses) - discontinued operations (excluding non-controlling interests) (€ million)	-	4	
BASIC AND DILUTED EPS (EUR)	(0,036)	**-**	
BASIC AND DILUTED EPS from continuing operations	(0,036)	(0,007)	

1Q2014 (EUR million)	Helicopters	Defence Electronics and Security	Aeronautics	Space	Defence Systems	Eliminations/ Other	Tot. A&D	Transportation	Eliminations	Tot. Transportation	Eliminations	Total
New orders	1.514	731	432	-	33	(42)	2.668	222	7	229	(1)	**2.896**
Order backlog	12.457	8.277	7.478	-	1.251	(750)	28.713	7.981	253	8.234	(215)	**36.732**
Revenues	903	914	651	-	103	(76)	2.495	434	37	471	(20)	**2.946**
EBITA (*)	**112**	**16**	**28**	**7**	**3**	**(19)**	**147**	**6**	**-**	**6**	**-**	**153**
EBITA (*) margin	*12,4%*	*1,8%*	*4,3%*	*n.a.*	*2,9%*	*n.a.*	*5,9%*	*1,4%*	*n.a.*	*1,3%*	-	***5,2%***
EBIT	**110**	**(16)**	**22**	**7**	**3**	**(19)**	**107**	**4**	**-**	**4**	**-**	**111**
Amortisation and depreciation	24	49	43	-	2	14	132	5	-	5	-	**137**
Investments	66	29	65	-	2	12	174	4	-	4	-	**178**
Research and development	104	122	65	-	12		303	14	-	14	-	**317**
Workforce (no.)	13.117	22.585	11.201	-	1.517	560	48.980	6.458	565	7.023	-	**56.003**

1Q2013 (EUR million) (**)	Helicopters	Defence Electronics and Security	Aeronautics	Space	Defence Systems	Eliminations/ Other	Tot. A&D	Transport	Eliminations	Tot. Transportation	Eliminations	Total
New orders	906	744	768	-	85	(32)	2.471	141	4	145	(3)	**2.613**
Order backlog (31/12/2012)	11.834	8.485	7.716	-	1.320	(790)	28.565	8.213	281	8.494	(228)	**36.831**
Revenues	948	1.117	565	-	124	(63)	2.691	393	50	443	(35)	**3.099**
EBITA (*)	**112**	**27**	**25**	**4**	**21**	**(24)**	165	**(4)**	**-**	(4)	**-**	**161**
EBITA (*) margin	*11,8%*	*2,4%*	*4,4%*	*n.a.*	*16,9%*	*n.a.*	*6,1%*	*-1,0%*	*n.a.*	*-0,9%*	-	***5,2%***
EBIT	**110**	**(1)**	**25**	**4**	**21**	**(24)**	**135**	**(5)**	**-**	**(5)**	**-**	**130**
Amortisation and depreciation	34	64	31	-	2	12	143	6	-	6	-	**149**
Investments	45	42	76	-	3	7	173	4	-	4	-	**177**
Research and development	86	157	59	-	13		315	11	1	12	-	**327**
Workforce (no.) (31/12/2012)	13.121	22.851	11.157	-	1.531	544	49.204	6.540	538	7.078	-	**56.282**

(*) Operating result before:
- any goodwill impairment;
- amortisations of intangibles acquired under business combination;
- restructuring costs of major, defined plans;
- other extraordinary income and expenses, i.e. relating to particularly significant events unconnected with the ordinary operations of the company's core businesses.

(**) Figures restated as a result of the adoption of IFRS 11. The performance and financial figures refer to continuing operations only (excluding Ansaldo Energia). Comparative figure amount at 31 March 2013 also restated consistently with the new definition of Group net debt.

Key performance indicators for DRS and SES

	New orders	Revenues	EBITA	ROS %
SES (€mil.) March 2014	443	626	6	1.0%
SES (€mil.) March 2013	476	720	6	0.8%
DRS ($mil.) March 2014	395	395	13	3.3%
DRS ($mil.) March 2013	364	524	27	5.2%