FINMECCANICA

ANNUAL REPORT 2012

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HELICOPTERS

AgustaWestland
NHIndustries (*)

DEFENCE AND SECURITY ELECTRONICS

DRS Technologies
Selex ES

AERONAUTICS

Alenia Aermacchi
ATR (*)
Eurofighter GmbH (*)
SuperJet International (*)

SPACE

Telespazio (*)
Thales Alenia Space (*)

DEFENCE SYSTEMS

OTO Melara
WASS
MBDA (*)

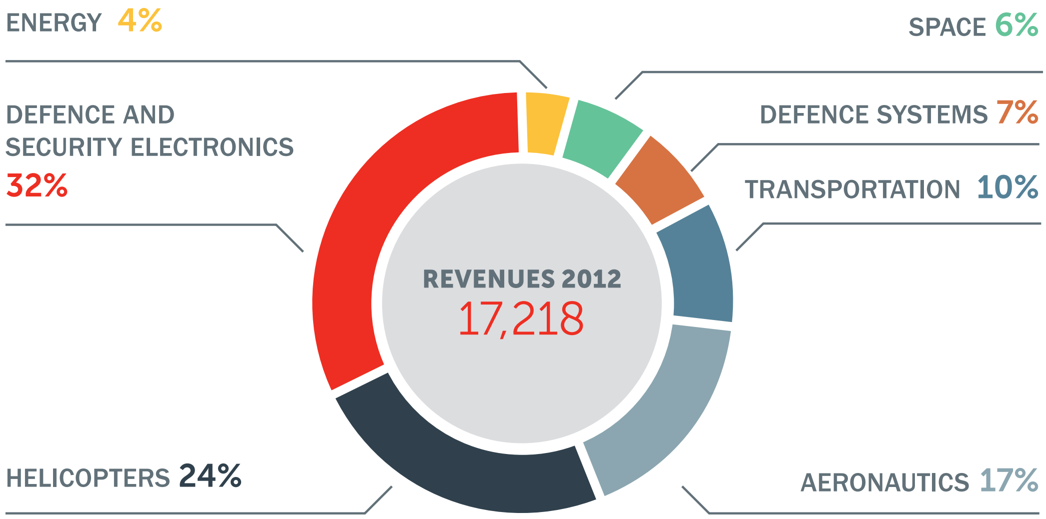
ENERGY

Ansaldo Energia (*)

TRANSPORTATION

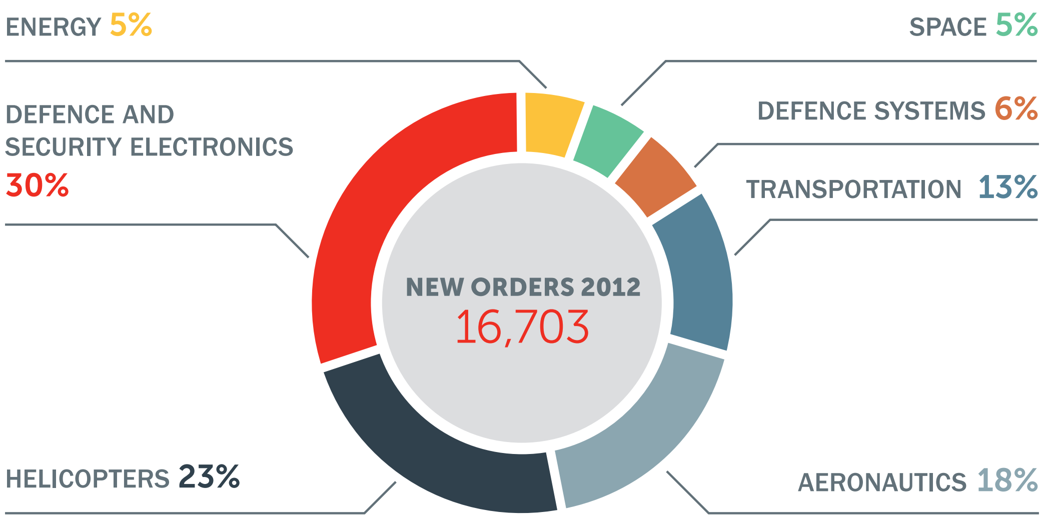
AnsaldoBreda
Ansaldo STS
BredaMenarinibus

(*) JOINT VENTURE / OWNED COMPANY



FINANCIAL HIGHLIGHTS

[2012 GROUP RESULTS € MILLION]



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ALESSANDRO PANSA

Chief Executive Officer
and Chief Operating Officer

LETTER TO SHAREHOLDERS

Shareholders,

We are all aware that 2012 was a particularly challenging year for your Company, both because of the general environment in which we operated in Italy and abroad, and because of a number of internal issues, which made managing the Company considerably difficult. You should be well aware that 2013 will present new additional challenges.

The reduction in Defence budgets in the United States and Europe, as well as the increase in competitive pressures in the Aerospace, Defence and Security sector, have prompted us to reconfigure our industrial approach, with the aim of increasing our capacity to attract public investment and boosting our efficiency and productivity.
In this context, those who do not have sufficient critical mass to support investment in research and development and adequate productivity and competitiveness to operate in foreign markets will gradually be marginalised to the role of first – or even second – level supplier.
Accordingly, the industry's leaders are undertaking restructurings and disposals, and concentrating on core assets and strategic partnerships. Recent attempts to forge agreements between industry players confirm the developments noted above and the start of a sweeping strategic reorganisation of European industry that will alter relationships between operators, with possible repercussions on relations between Countries.

To deal with this complex situation, your Company has initiated a sweeping process of restructuring and rationalisation, supported by numerous initiatives to increase productivity and reduce costs.
In particular, we have initiated efficiency enhancement and restructuring processes in all areas of the Group, which are targeted at leveraging capital employed, adjusting industrial processes to reduce the cost of our products, at enhancing working capital and the cost structure. The "3R" plan (Rationalisation, Restructuring, Relaunch) in the Aeronautics sector and rationalising the business of DRS continued. The year 2012 also saw the on-schedule completion of the merger of SELEX Sistemi Integrati, SELEX Galileo and SELEX Elsag into Selex ES, an initiative that has already made it possible in the early months of this year to reduce overlaps and redundancies, and to start the rationalisation of facilities and the optimisation of engineering and production.
With regard to commercial strategy, results have been mixed: in some Countries we have established a stable presence without, however, always being able to achieve the desired results and on occasion have allowed competitors to erode our market share. Conversely, in geographical areas where our presence was less structured, we have been able to win major contracts thanks to our ability to offer excellent products on competitive terms. This demonstrates that it is not a problem of products, but rather of how we are moving in markets and establishing an on-going presence. In response, we have launched a major review of our commercial strategy, with the aim of exploiting the opportunities offered by an increasingly global international market.
The very globalisation of the market and the rise in the level of competition, as well as the entry of new industrial players from the emerging Countries, requires a considerable improvement in the effectiveness and efficiency of the governance tools at our disposal. In recent months, we have implemented a number of measures to improve and adjust Group governance to the new demands of international competition.
With regard to the outside world, we have established an *ad hoc* committee composed of external persons with proven experience to identify procedural standards for the conduct of commercial activities, as well as actions to ensure adoption of industry best practice. We have signed a "Protocol for the competitiveness of the Finmeccanica Group and for a new model of

labour relations" with the three main Italian Unions. It represents a significant change in our industrial relations, based on a system of information and consultation to involve the unions in understanding and discussing the Group's strategic decisions together.
Internally, we have centralised indirect procurement and Internal Audit, with the goal of exercising tighter, more direct control over the effectiveness of the processes adopted by Group companies, and we have established a Group Management Committee and a new Risk Management unit.
Taken together, these initiatives represent a response to an increasingly perceived need for the real and effective integration of the Group. We need to move beyond the concept of "confederation" of companies to one of "union", with more stringent rules and greater powers, but also more responsibility for the management and coordination role performed at central level.

Bearing in mind the difficult environment we find ourselves in and thanks to the actions that your Company's management has taken in a firm and timely manner, 2012 was largely positive. We were able to stabilise a situation that, initially, appeared highly uncertain.

In 2012, the Group achieved results in line with expectations – except for commercial performance – and significantly improved over those posted in 2011 with reference to Adjusted EBITA and FOCF.
More specifically, revenues in 2012 exceeded €bil. 17.2, compared with revenues of €bil. 17.3 in 2011, while new orders fell from €bil. 17.4 in 2011 to €bil. 16.7 in 2012.
Adjusted EBITA amounted to €mil. 1,080 – compared with a negative €mil. 216 in 2011 – improving in virtually all sectors. Free operating cash flow was positive (cash generation) at 31 December 2012 in the amount of €mil. 89 – compared with a negative €mil. 358 in 2011 – a net improvement of €mil. 447.

The strategic and operational evolution of the Group in the coming years cannot ignore the clear signs of change in the competitive and market conditions in the sectors in which we are present, which are distinguished by different dynamics with regard to investment, customers and competition.
This year will be a challenging and crucial time for the relaunch and consolidation of the Group. We, with the support of the entire Board of Directors, intend to continue along the path we have set out, carefully monitoring developments in the various industrial sectors, particularly in Europe, in order to avoid unpleasant surprises in the consolidation processes that could get under way.
In the Aerospace and Defence segments, we have to achieve a streamlined, flexible and efficient organisation of our business, with well-defined areas of excellence that can be exploited in potential sectoral partnerships or broad alliances, ensuring future sustainability.
The Energy sector is going through a difficult period associated with the general economic slowdown. Competitors are often bigger and have the ability to undertake larger investments than us, while on the other hand, our flexibility and capacity for innovation have so far enabled us to compete. For the future, we have to develop an approach that allows us to combine competitiveness, profitability and innovative capacity most effectively in order to keep pace with technological trends.
In the Transportation segment, recent consolidation could change future industrial arrangements. We can already see the initial effects, with increasingly aggressive competitors seeking to consolidate their presence in the most promising markets. We will do our utmost to respond effectively, enabling our companies that operate in this sector to position themselves sustainably for the long run.
In this context, Finmeccanica has set itself three industrial objectives, aiming to preserve and develop our productive activities, our technological assets and our skilled resources. These objectives must be pursued in a manner consistent with achieving returns on investment and an ability to generate cash flows adequate to the needs of our investment plans, the performance of competitors and market standards.
The results we have achieved and those that we intend to pursue must continue to leverage the unwavering commitment of management and all the people who work for the companies of the

Finmeccanica Group, to whom the Board of Directors extends its sincere appreciation, confident that this effort will be rewarded with the maintenance and possibly the improvement of working conditions within the Group.

For the Board of Directors

Vice-Chairman
Guido Venturoni

Chief Executive Officer and Chief Operating Officer
Alessandro Pansa

BOARDS AND COMMITTEES

BOARD OF DIRECTORS
[for the period 2011-2013]

Guido
Venturoni (2)

Vice-Chairman (*)

Alessandro
Pansa

Chief Executive Officer and Chief Operating Officer (**)

Carlo
Baldocci (1)

Director (***)

Paolo
Cantarella (1) (2)

Director

Giovanni
Catanzaro (2)

Director

Dario
Galli (1) (3)

Director

Ivanhoe
Lo Bello (1)

Director (°)

Silvia
Merlo (2)

Director

Francesco
Parlato (1) (3)

Director

Christian
Streiff (3)

Director

Luciano **Acciari**

Secretary of the Board of Directors

Marco **Iansiti**

Director and member of the Strategy Committee up to 11 May 2012

Franco **Bonferroni**

Director and member of the Remuneration Committee up to 21 September 2012

Giuseppe **Orsi**

Chairman and Chief Executive Officer and member of the Strategy Committee up to 15 February 2013

(1) Member of the Strategy Committee.

(2) Member of the Control and Risks Committee (formerly Internal Audit Committee).

(3) Member of the Remuneration Committee.

(*) Appointed Vice-Chairman by the Board of Director on 13 February 2013.

(**) Chief Operating Officer since 4 May 2011, Director - Chief Operating Officer since 1 December 2011 and appointed Chief Executive Officer and Chief Operating Officer by the Board of Directors on 13 February 2013.

(***) Director without voting right appointed by Ministerial Decree on 27 April 2011, effective from the date of appointment of the Board of Directors by the Shareholders' Meeting, pursuant to Art. 5.1-*ter* letter d) of the by-laws.

(°) Appointed Director, pursuant to Art. 2386 of the Italian Civil Code, by the Board of Directors on 16 May 2012 and by the Shareholders' Meeting on 15 April 2013; member of the Strategy Committee by the Board of Directors on 14 June 2012.

BOARD OF STATUTORY AUDITORS (i)
[for the period 2012-2014]

Regular Statutory Auditors

Riccardo Raul **Bauer**

Chairman

Niccolò **Abriani**

Maurilio **Fratino**

Silvano **Montaldo**

Eugenio **Pinto**

Alternate Statutory Auditors

Stefano **Fiorini**

Vincenzo **Limone**

(i) The former Board of Statutory Auditors, whose mandate is expired with the Shareholders' Meeting as of 16 May 2012, was composed as follows: Regular Statutory Auditors - Luigi Gaspari Chairman, Giorgio Cumin, Maurilio Fratino, Silvano Montaldo, Antonio Tamborrino; Alternate Statutory Auditors - Maurizio Dattilo, Piero Santoni.

INDEPENDENT LEGAL AUDITORS
[for the period 2012-2020]

KPMG SpA (ii)

(ii) The Independent Auditors' engagement entrusted to the PricewaterhouseCoopers SpA expired with the Shareholders' Meeting as of 16 May 2012.

REPORT ON OPERATIONS AT 31 DECEMBER 2012

GROUP RESULTS AND FINANCIAL POSITION

Key performance indicators

€ million	2012	2011 (*)	Change
New orders	16,703	17,434	(4%)
Order backlog	44,908	46,005	(2%)
Revenues	17,218	17,318	(1%)
Adjusted EBITA	1,080	(216)	n.a.
Net profit/(loss)	(786)	(2,306)	65%
Net invested capital	7,076	8,046	(12%)
Net financial debt	3,373	3,443	(2%)
FOCF	89	(358)	n.a.
ROS	*6.3%*	*(1.2%)*	*7.5 p.p.*
ROI	*14.3%*	*(2.4%)*	*16.7 p.p.*
ROE	*(18.9%)*	*(39.4%)*	*20.5 p.p.*
EVA	380	(956)	n.a.
Research and development costs	1,929	2,020	(5%)
Workforce (no.)	67,408	70,474	(4%)

(*) The income statement figures and the orders for Ansaldo Energia group in 2012 are consolidated at 55%. Until 30 June 2011 they had been consolidated at 100%.

Reference should be made to the section entitled “Non-IFRS alternative performance indicators” for definitions thereof.

p.p.: percentage points.

At 31 December 2012, the results of operations of Finmeccanica Group (the “Group”) were higher than those of the corresponding period of 2011, except for the business trend, and in line with the 2012 budget.
Initiatives undertaken to different extents by the various Group companies during 2011 enabled the Group to improve its efficiency by drawing up and rolling out in-depth plans (detailing action plans, costs/benefits, timeframes, constraints and implementation plans) to improve competitiveness and efficiency and to reorganise each company.
These plans regarded all critical business areas: production processes (streamlining of facilities, product/component standardisation, lean manufacturing), purchases (streamlining of suppliers and make or buy policies), engineering (lean engineering, streamlining of investments), workforce (streamlining the indirect to direct ratio), controllable costs, overheads and administrative expense (streamlining of personnel and IT systems and the corporate structure). Guidance and monitoring activities undertaken during the 2012 financial year by the Parent confirmed that the steps being implemented as per the above-mentioned plans are in line with expectations in terms of physical progress and that the trend of the financial statements is consistent with the quantitative targets in terms of overall benefits for 2012 as well as for 2013 (note, the objectives for 2013 equal to €mil. 440).
As early as this reporting period, the results were especially strong in the Aerospace and Defence business segment, while the *vehicles* line of the Transportation business segment is encountering difficulties in pursuing the objectives of the reorganisation plan, mainly due to production issues.
At 31 December 2012, in financial and economic terms, the effects of such benefits were slightly higher than the budget forecasts and equal to about €mil. 280.

As to the analysis of the key performance indicators, it should be noted that the euro depreciated against both the US dollar and the pound sterling. Taking as a point of reference the average values of 2012 and 2011, the euro exchange rates decreased against the US dollar by around 8% and against the pound sterling by around 7%. Between 31 December 2012 and 31 December 2011 the prevailing exchange rates showed a decrease of around 2% against the pound sterling and an increase of some 2% against the US dollar.

Again for comparative purposes, it should be noted that a joint venture agreement with a leading international private equity investor specialised in the energy and natural resources sector, First Reserve Corporation, for the sale of 45% of Ansaldo Energia, was executed on 13 June 2011. Accordingly, the results of operations of the Ansaldo Energia group were consolidated on a line-by-line basis until the transaction date. After such date, they were consolidated on a proportionate basis (55%). Furthermore, the Group's results in 2011 benefitted from a capital gain of €mil. 407, net of taxes.

Finally, for ease of comparison, the results of operations at 31 December 2011 (particularly for the Adjusted EBITA) included "exceptional" expenses, totalling approximately €mil. 1,094.
In particular in the following sectors:

- *Aeronautics*, €mil. 800, of which €mil. 753 related to the B787 programme and €mil. 47 to the C27J programme;
- *Space*, €mil. 50, of which €mil. 34 related to the Göktürk programme;
- *Defence and Security Electronics*, a total of €mil. 168;
- *Transportation*, €mil. 47;
- *Defence Systems*, €mil. 29, in the underwater systems.

In comparing the two reporting periods, this impact has been disclosed in order to give a more accurate representation of the operating performance of the Group and its segments.

The following table sets out the key performance indicators by business segment:

31 December 2012 € million	New orders	Order backlog	Revenues	Adjusted EBITA	ROS %	R&D	Workforce (no.)
Helicopters	4,013	11,876	4,243	473	11.1%	506	13,050
Defence and Security Electronics	5,136	8,831	5,754	384	6.7%	732	25,183
Aeronautics	3,169	8,819	2,974	104	3.5%	310	11,708
Space	866	2,261	1,053	84	8.0%	53	4,131
Defence Systems	1,005	3,381	1,256	164	13.1%	257	3,963
Energy	834	1,978	715	65	9.1%	17	1,830
Transportation	2,290	8,679	1,719	(67)	(3.9%)	49	6,568
Other activities	124	159	347	(127)	n.a.	5	975
Eliminations	(734)	(1,076)	(843)	-	-	-	-
	16,703	**44,908**	**17,218**	**1,080**	**6.3%**	**1,929**	**67,408**

31 December 2011 € million	New orders	Order backlog	Revenues	Adjusted EBITA	ROS %	R&D	Workforce (no.)
Helicopters	3,963	12,121	3,915	417	10.7%	472	13,303
Defence and Security Electronics	4,917	9,591	6,035	303	5.0%	823	27,314
Aeronautics	2,919	8,656	2,670	(903)	(33.8%)	326	11,993
Space	919	2,465	1,001	18	1.8%	77	4,139
Defence Systems	1,044	3,656	1,223	117	9.6%	247	4,066
Energy	1,258	1,939	981	91	9.3%	23	1,872
Transportation	2,723	8,317	1,877	(110)	(5.9%)	46	6,876
Other activities	319	256	305	(149)	n.a.	6	911
Eliminations	(628)	(996)	(689)	-	-	-	-
	17,434	**46,005**	**17,318**	**(216)**	**(1.2%)**	**2,020**	**70,474**

CHANGES	New orders change %	Order backlog change %	Revenues change %	Adjusted EBITA change %	ROS p.p. change	R&D change %	Workforce change %
Helicopters	1%	(2%)	8%	13%	0.4 p.p.	7%	(2%)
Defence and Security Electronics	4%	(8%)	(5%)	27%	1.7 p.p.	(11%)	(8%)
Aeronautics	9%	2%	11%	n.a.	37.3 p.p.	(5%)	(2%)
Space	(6%)	(8%)	5%	367%	6.2 p.p.	(31%)	-
Defence Systems	(4%)	(8%)	3%	40%	3.5 p.p.	4%	(3%)
Energy	(34%)	2%	(27%)	(29%)	(0.2) p.p.	(26%)	(2%)
Transportation	(16%)	4%	(8%)	39%	2 p.p.	7%	(4%)
Other activities	(61%)	(38%)	14%	15%	n.a.	(17%)	7%
	(4%)	**(2%)**	**(1%)**	**n.a.**	**7.5 p.p.**	**(5%)**	**(4%)**

In commercial terms, the Group's **new orders** in the 2012 financial year totalled €mil. 16,703 over the pro-forma figure of 2011 of about €mil. 17,075, determined using the same consolidation percentage in relation to the Energy segment (the final new orders in 2011 amounted instead to €mil. 17,434).

The deterioration in the commercial trend was mainly recorded in the following segments:

- *Transportation,* due to lower acquisitions in the *signalling and transportation solutions* line, which, in 2011, benefitted, in particular, from the important order for the construction, operation and maintenance of the new automated metro system for the City of Honolulu;
- *Energy,* mainly due to the lower acquisitions in the *service* line;
- *Defence Systems,* due to lower acquisitions of missile systems and underwater systems that were affected by the postponement of the expected award of important contracts, both domestic and export, to 2013, which were offset by the increase in the land weapon systems due to a significant order for the supply of additional VBM armoured vehicles to the Italian Army;
- *Space,* mainly due to the postponement of the order relating to the acquisition of the Cosmo 2G contract, which was expected in the latter period of 2012.

This reduction was partially offset by the increase recorded in particular in the following segments:

- *Helicopters,* mainly due to the launch of the new AW169 and AW189 models, which obtained orders for a total of 98 units in 2012;
- *Aeronautics,* due to increased orders in the military line, linked to the EFA, M346 and C27J programmes, which more than offset the drop in the civil line, which had significant orders of ATR aircraft in 2011.

The *Defence and Security Electronics* segment was substantially in line with the 2011 financial year's figure.

The **order backlog** at 31 December 2012 totalled €mil. 44,908, down by €mil. 1,097 over the €mil. 46,005 figure at 31 December 2011. This reduction is attributable to a book-to-bill ratio lower than 1. The order backlog, considered in terms of its workability, ensures, however, around two and a half years of production for the Group.

Reclassified income statement

€ million	Notes	2012	2011
Revenues		**17,218**	**17,318**
Purchases and personnel expense	(*)	(15,431)	(15,915)
Amortisation and depreciation	(****)	(601)	(586)
Other net operating income/(expenses)	(**)	(106)	(1,033)
Adjusted EBITA		**1,080**	**(216)**
Non-recurring income/(expenses)		(147)	(1,124)
Restructuring costs		(152)	(261)
Impairment of goodwill		(1,148)	(701)
Amortisation of intangible assets acquired as part of business combinations		(90)	(84)
EBIT		**(457)**	**(2,386)**
Net financial income/(expense)	(***)	(362)	(66)
Income taxes	36	33	146
NET PROFIT/(LOSS) BEFORE DISCONTINUED OPERATIONS		**(786)**	**(2,306)**
Profit/(Loss) from discontinued operations		-	-
NET PROFIT/(LOSS)		**(786)**	**(2,306)**

Notes to the reconciliation between the reclassified income statement and the statutory income statement:
(*) Includes the caption "purchases", "services" and "personnel expense" and "assessments (reversals) for final losses on orders" (net of "restructuring costs", "internal work capitalised" and "change in finished goods, work in progress and semi-finished products").
(**) Includes the net amount of "other operating income" and "other operating expenses" (net of restructuring costs, impairment of goodwill, non-recurring income/(costs), impairment losses and assessments/(reversals) for final losses on orders).
(***) Includes "financial income", "financial expense" and "share of profits/(losses) on equity-accounted investees".
(****) Total amortisation and depreciation (Note 33) net of the portion referable to intangible assets acquired as a part of business combinations

Revenues at 31 December 2012 totalled €mil. 17,218 and were basically consistent with the corresponding period of 2011 (€mil. 17,318) and forecasts. On a like-for-like basis (using the same consolidation percentage for the Energy group at 31 December 2012), consolidated revenues in the 2011 financial year would have amounted to about €mil. 17,043.

However, note a different contribution of the Group's various business segments. In particular, against growth in the segments:

- *Helicopters*, mostly due to the machines area, which showed a significant increase in some production lines (AW101, AW139);
- *Aeronautics,* due to higher operations in the *civil* segment;
- *Space,* made up of manufacturing activities (65%) and services (35%);

a decline was recorded in the following segments:

- *Defence and Security Electronics,* in which the decrease was, however, mitigated by the appreciation of the US dollar and the pound sterling against the euro. This trend was seen across all lines of the segment, due to the generalised difficulties and the slow-down in purchases and start-up of new orders, worsened by the simultaneous decrease in the contribution of important programmes now in their final stages. This includes the decreased activities for the US Armed Forces, as substantially expected, and the drop in production volumes in the *command and control systems* and, to a lesser extent, the *avionics* and *information technology and security* lines, which were also impacted by the freezing of the Ministry for the Environment, Land and Sea's SISTRI programme;
- *Transportation,* due to decreased revenues in the *vehicles* and *bus* lines, which were partially offset by higher activities in the *signalling and transportation solutions* line;
- *Energy,* mainly due to lower activities in the *plants and components* line.

Adjusted EBITA at 31 December 2012 totalled €mil. 1,080, compared to a negative €mil. 216 in the corresponding period of the previous year. Excluding the above-mentioned "exceptional" costs (€mil. 1,094) Adjusted EBITA in 2011 would have been a positive €mil. 878, with a €mil. 202 increase in the reporting period compared to 2011.
Adjusted EBITA increased in almost all segments and specifically in:

- *Helicopters*, partly due to the above-mentioned increase in production volumes and partly to the streamlining and cost-saving initiatives rolled out at the end of last year;
- *Aeronautics,* due to the above-mentioned higher business volumes, the improvement in operating expenses and the recovery in industrial efficiency deriving from the reorganisation process underway and the benefits arising from the supply chain streamlining and development plan, as well as the renegotiation of the trading agreements of certain programmes;
- *Space,* due to the above-mentioned higher volumes and the benefits brought by the efficiency improvement actions rolled out in 2012;
- *Defence Systems,* due to the marked improvement in the profit margins, mainly in *missile systems;*
- *Other activities,* mainly in the Parent for the positive outcome of the streamlining and cost-saving actions, which are progressing as expected.

On the contrary, Adjusted EBITA decreased, considering the above-mentioned adjustments in relation to 2011, in:

- *Defence and Security Electronics,* following the above-mentioned drop in production volumes and the deterioration in the mix of the activities in the *command and control systems* line, partly offset by savings generated by the plans underway to improve competitiveness and efficiency and for restructuring;
- *Transportation,* mainly in the *vehicles* line. At 31 December 2012, this segment was still negative and lower than expected, and, specifically, was affected by the losses in margins in the *service* line's activities;

- *Energy*, due to lower production volumes and to the lower industrial profitability in the *plants and components* and *service* lines.

The above net change led to an improvement in **ROS**, which was 6.3%, compared to 5.1% over the corresponding period of the previous year (calculated net of the "exceptional" costs).

EBIT at 31 December 2012 was negative for €mil. 457 compared to a negative €mil. 2,386 in the previous financial year, with an overall positive change of €mil. 1,929. However, the 2011 results included costs unrelated to ordinary operations (classified under Adjusted EBITA and EBIT) equal to €mil. 2,086, for the breakdown of which reference is made to the Reports on the 2011 financial statements. At 31 December 2012 these costs were instead equal to €mil. 1,447, of which:

- €mil. 1,148 for the impairment of goodwill in the Defence and Security Electronics segment related to Selex ES (€mil. 155) and mainly to DRS (€mil. 993), as a result of budget cuts in the main domestic markets and, with specific reference to DRS, also taking account of the further negative effects, if any, on the US Defence budget, arising from the rolling out of the sequestration process;
- €mil. 152 related to restructuring costs, mainly attributable to the processes underway on Selex ES and DRS in the Defence and Security Electronics (€mil. 90) and to the Transportation segment (€mil. 35);
- €mil. 147 related to the costs accrued in the *vehicles* line of the Transportation segment, in relation to contracts for the Dutch, Belgian and Danish railways, to take account of changes to be made to the units being supplied, and in the revamping business, for which future activities will solely consist in managing current orders in the backlog until their completion, following the decision to quit this market.

Net financial expense at 31 December 2012 was negative for €mil. 362, with a deterioration of €mil. 296 compared to the corresponding period of the previous year (net financial expense of €mil. 66). However, excluding the gains on the partial sale of the Ansaldo Energia group (€mil. 422), the 2012 figure improved by €mil. 126 compared to 2011, mainly as a result of the improvement in the share of net losses on equity-accounted investments (a negative €mil. 13 in 2012 compared to a negative €mil. 90 in the corresponding period of the previous year) and due to the positive results of the instruments measured at fair value (€mil. 123 compared to a negative €mil. 47 in 2011), mainly as a result of the valuation of the instruments representing the investment in Avio.

Taxes at 31 December 2012 amounted to a positive €mil. 33 (a positive €mil. 146 in 2011). Taxes are as follows for each tax type:

- a value attributable to corporate income tax (IRES) for €mil. 19 (€mil. 25 at 31 December 2011);
- a value attributable to IRAP tax for €mil. 98 (€mil. 79 at 31 December 2011);
- other taxes (mainly relating to foreign companies) for €mil. 95 (€mil. 160 at 31 December 2011);
- net proceeds arising from the recognition of net deferred tax assets of €mil. 245 (€mil. 410 at 31 December 2011).

The **net result** of the 2012 financial year came to a negative €mil. 786 (a loss of €mil. 2,306 in the corresponding period of the previous year), as a result of the changes discussed above. Excluding the impairment, this result would have been a positive €mil. 362.

Reclassified balance sheet

€ million	Notes	31 Dec. 2012	31 Dec. 2011
Non-current assets		12,715	13,543
Non-current liabilities	(*)	(3,964)	(4,145)
		8,751	**9,398**
Inventories	15	5,192	4,486
Trade receivables	(**) 17	8,576	8,932
Trade payables	(***) 25	(13,902)	(13,162)
Working capital		**(134)**	**256**
Provision for short-term risks and charges	22	(876)	(932)
Other net current assets/(liabilities)	(****)	(665)	(676)
Net working capital		**(1,675)**	**(1,352)**
Net invested capital		**7,076**	**8,046**
Equity attributable to the owners of the Parent		3,398	4,301
Equity attributable to non-controlling interests		305	303
Equity	20	**3,703**	**4,604**
Net financial debt/(cash)	21	**3,373**	**3,443**
Net (assets)/liabilities held for sale	(*****)	-	**(1)**

Notes to the reconciliation between the reclassified balance sheet and the statutory balance sheet:
(*) Includes all non-current liabilities net of "non-current loans and borrowings".
(**) Includes "contract work in progress".
(***) Includes "progress payments and advances from customers".
(****) Includes "income tax receivables", "other current assets" and "derivative assets", net of "income tax payables", "other current liabilities" and "derivative liabilities".
(*****) Includes the net amount of "non-current assets held for sale" and "liabilities associated with assets held for sale".

At 31 December 2012, **net invested capital** totalled €mil. 7,076 compared to €mil. 8,046 at 31 December 2011, with a net decrease of €mil. 970, attributable for €mil. 323 to **net working capital** (a negative €mil. 1,675 at 31 December 2012 compared to a negative €mil. 1,352 at 31 December 2011) and for €mil. 647 to **capital assets** (€mil. 8,751 at 31 December 2012 compared to €mil. 9,398 at 31 December 2011), mainly due to the impairment.
In respect of the increase in net invested capital compared to 31 December 2011 (amounts in brackets), ROI was 14.3% (-2.4%), EVA was a positive €mil. 380 (a negative €mil. 956), whereas ROE was negative and equal to -18.9% (-39.4%).

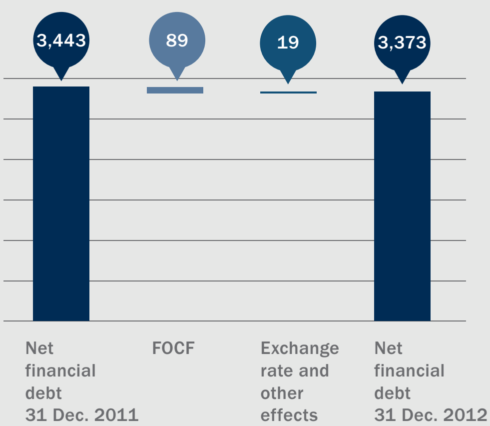
FOCF at 31 December 2012 was a positive (cash generation) €mil. 89 compared to a negative €mil. 358 at 31 December 2011, with a net improvement of €mil. 447, related to cash flows used in operating activities for €mil. 309 and to cash flows used in ordinary investing activities for €mil. 138. In the 2012 financial year, investment activities necessary to develop products were concentrated in the Aeronautics business segment (around 34%), while the Helicopters business segment accounted for 26% and Defence and Security Electronics for 22%.

€ million	2012		2011	
Cash and cash equivalents at 1 January	**1,331**		**1,854**	
Gross cash flows from operating activities	1,964		1,962	
Change in other operating assets and liabilities and provisions for risks and charges (*)	(781)		(1,054)	
Funds From Operations (FFO)		**1,183**		**908**
Change in working capital	(342)		(376)	
Cash flows generated (used) from/in operating activities	**841**		**532**	
Cash flows from ordinary investing activities	(752)		(890)	
Free Operating Cash Flow (FOCF)		**89**		**(358)**
Strategic transactions	-		473	
Change in other investing activities (**)	(18)		(14)	
Cash flows used in investing activities	**(770)**		**(431)**	
Net change in loans and borrowings	743		(352)	
Dividends paid	(17)		(259)	
Cash flows generated (used) from/in financing activities	**726**		**(611)**	
Exchange-rate differences	9		(13)	
Cash and cash equivalents at 31 December	**2,137**		**1,331**	

(*) Includes the amounts of "change in other operating assets and liabilities", "interest paid", "income taxes paid" and "change in provisions for risks and charges".
(**) Includes "other investing activities", dividends received by subsidiaries and coverage of losses carried out in subsidiaries.

The Group's **net financial debt** (greater loans and borrowings than loans and receivables and cash and cash equivalents) at 31 December 2012 was €mil. 3,373, substantially in line with the figure at 31 December 2011 (€mil. 3,443). Changes in the financial year were as follows:

NET FINANCIAL DEBT AT 31 DECEMBER 2012 - €mil



Net financial debt may be analysed as follows:

€ million	31 Dec. 2012	31 Dec. 2011
Short-term loans and borrowings	1,154	414
Medium/long-term loans and borrowings	4,227	4,397
Cash and cash equivalents	(2,137)	(1,331)
NET BANK DEBT AND BONDS	**3,244**	**3,480**
Securities	(5)	(40)
Loans and receivables from related parties	(73)	(184)
Other loans receivables	(558)	(887)
CURRENT LOANS AND RECEIVABLES AND SECURITIES	**(636)**	**(1,111)**
Related party loans and borrowings	634	949
Other short-term loans and borrowings	78	66
Other medium/long-term loans and borrowings	53	59
OTHER LOANS AND BORROWINGS	**765**	**1,074**
NET FINANCIAL DEBT	**3,373**	**3,443**

The net financial debt at 31 December 2012 was not materially impacted by non-recurring transactions. The positive FOCF figure (€mil. 89) did not significantly affect the debt, as well, which included, *inter alia*, the €mil. 17 ordinary dividend paid by Ansaldo STS to its non-controlling interests for 2011.
The Group factored receivables without recourse during the period for a total carrying value of approximately €mil. 1,283 (€mil. 825 in 2011).

The net financial debt, bank loans and borrowings and bonds decreased from €mil. 3,480 at 31 December 2011 to €mil 3,244 at 31 December 2012, mainly due to the following changes:

- an increase in the short-term debt equal to €mil. 740, mainly as a result of the reclassification of bond issues due December 2013 under short-term payables, for a residual nominal amount equal to €mil. 750 (in this regard, reference is made to the Financial Transactions section), as well as due to the use of the Ansaldo Energia SpA's short-term revolving credit to repay the €mil. 273 vendor loan granted by Finmeccanica to support the company's partial sale transaction completed in June 2011;
- a decrease in the medium/long-term debt equal to €mil. 170, as a result of re-purchases of outstanding bonds, which were carried out in the market for a total amount of €mil. 116 and of the above-mentioned reclassification of bonds due December 2013 under the short-term portion. This decrease was partially offset by the new issue of €mil. 600, which was completed by Finmeccanica Finance on the Euro-market in December 2012 (as detailed in the Financial Transactions section);
- an increase in cash and cash equivalents equal to €mil. 806, as broken down in the cash-flow statement; the total amount of said cash and cash equivalents was significantly higher than that of the previous year, mainly due to a positive cash generation, compared to the previous year, as well as due to the inclusion of the same under the proceeds of the above-mentioned new bond issue. These cash and cash equivalents will be mostly used as early as in the first months of 2013 in order to finance the Group's ordinary operations, which, as usual, will record significant cash outflows in the first part of the financial year; taking account of this fact, the available cash was temporarily used for short-term deposits at the main banks that maintain relations with the Group. At 31 December 2012, cash and cash equivalents included, *inter alia*:
  - › cash and cash equivalents directly available to Finmeccanica (€mil. 1,219), which included, as already mentioned, the proceeds from the new bond issue equal to €mil. 600 issued on

the Eurobond market by the subsidiary Finmeccanica Finance, in December;
› cash and cash equivalents available to the Group companies (€mil. 480) which do not fall, for various reasons, within the scope of the cash pooling system;
› cash and cash equivalents available to the Group companies (€mil. 438), which fall within the scope of the cash pooling system, but which, at the end of the financial year, were deposited on the accounts of said companies as a result of year-end collections. In these case, cash and cash equivalents were then made available to the Group's cash pooling in the first days of the 2013 financial year.

"Current loans and receivables and securities" decrease by €mil. 475 and include, especially, the amount due to the MBDA and Thales Alenia Space joint ventures from the other venturers under treasury agreements (€mil. 491 against €mil. 764 at 31 December 2011). Under the consolidation method adopted, these receivables are consolidated by the Group on a proportionate basis, as are all other amounts relating to joint ventures. As stated previously, during the reporting period, Ansaldo Energia repaid the vendor loan granted by Finmeccanica to Ansaldo Energia (recorded for €mil. 126 at 31 December 2012, due to the proportionate consolidation of this company). "Related party loans and borrowings" decreased by €mil. 315 and included the unconsolidated amount of payables to the MBDA and Thales Alenia Space joint ventures (€mil. 450 at 31 December 2012 against €mil. 701 at 31 December 2011), as well as payables of €mil. 124 (€mil. 47 at 31 December 2011) due to Eurofighter, in which Alenia Aermacchi has a 21% investment. Pursuant to existing agreements, Eurofighter lent excess cash to its shareholders which were available at 31 December 2012. The significant reduction in receivables and payables related to joint ventures was mainly referable to the drawdown of the MBDA cash through an extraordinary dividend, within an agreement among the three shareholders.

To fund the Group's ordinary operations, Finmeccanica agreed a Revolving Credit Facility with a pool of domestic and international banks in September 2010 for a total of €mil. 2,400, with a final maturity date of September 2015. At 31 December 2012, it was fully unused. Finmeccanica also has additional short-term uncommitted credit lines of approximately €mil. 612, which were unused at 31 December 2012. There are uncommitted unsecured credit lines approximating €mil. 2,054.

Research and development costs, at 31 December 2012, totalled €mil. 1,929, down by €mil. 91 compared to the previous year (€mil. 2,020).

In the *Aeronautics* business segment, research and development costs came to €mil. 310 (around 16% of the amount for the entire Group) and comprise the progress made on the main programmes under development: M346, C27J, B787 basic version and Unmanned Aerial Vehicles, and in activities related to innovative aerostructures using composite materials and system integration. Development also continued on important military (EFA, AMX and Neuron) and civil (CSeries and B787-9 derivative version) programmes.

In the *Defence and Security Electronics* business segment, research and development costs totalled €mil. 732 (around 38% of the amount for the entire Group) and mainly comprise:

- *avionics and electro-optical systems*: EFA programme developments; new systems and sensors for Unmanned Aerial Vehicles; new surveillance and combat electronic-scan radars; improvements to avionics suites to meet the requirements of new fixed- and rotary-wing platforms;
- *major integrated defence and security systems* and *command and control systems*: the continuation of activities for the upgrade of current SATCAS products; the programme to develop capabilities and technologies for the architectural design and development of major systems for the integrated management of operations by armed ground forces (Combined Warfare Proposal); naval combat systems; the completion of activities for the Kronos 3D surveillance radar and the active multifunctional MFRA;

- *integrated communication systems and networks*: development of TETRA technology products and software defined radio products; satellite receivers and the ground network for the Galileo PRS (Public Regulated Service) programme; communication intelligence solutions; specific functionalities for advanced Unmanned Airborne Systems.

In the *Helicopters* business segment, research and development costs totalled €mil. 506 (around 26% of the amount for the entire Group) and mainly related to the following development activities:

- technologies for mainly military use for a new 8 tonne class helicopter (AW149);
- multi-role versions of the AW609 convertiplane for national security which is fully owned by and under the full responsibility of AgustaWestland;
- a 4.5t twin-engine helicopter (AW169).

The **workforce** at 31 December 2012 numbered 67,408, with a net decrease of 3,066 employees over the 70,474 employees at 31 December 2011, substantially as a result of the steps taken to reduce and streamline the workforce as part of the Group's reorganisation and restructuring plan, especially in the *Defence and Security Electronics*, *Helicopters*, *Defence Systems* and *Transportation* business segments.

The breakdown of the workforce by geographical area in 2012 was substantially unchanged from 31 December 2011, with around 59% located in Italy and 41% abroad, mainly in the United States of America (13%), the United Kingdom (13%) and France (5%).

"NON-IFRS" 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, Adjusted EBITA is used as the primary indicator of profitability, since it allows us to analyse the Group's marginality by eliminating the impact 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:

- ***EBIT***: i.e. earnings before interest and taxes, with no adjustments. EBIT also excludes costs and income resulting from the management of unconsolidated equity investments and other securities, as well as the results of any sales of consolidated shareholdings, which are classified on the financial statements either as "*Financial income and expense*" or, for the results of equity investments accounted for with the equity method, under "Share of profit/(loss) of equity-accounted investees".
- ***Adjusted EBITA***: it is arrived at by eliminating from EBIT (as defined above) 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;
  - other exceptional costs or income, i.e. connected to particularly significant events that are not related to the ordinary performance of the business.

  Adjusted EBITA is then used to calculate return on sales (ROS) and return on investment (ROI) (which is calculated as the ratio of Adjusted EBITA to the average value of capital invested during the two periods being compared).

  A reconciliation of EBIT and Adjusted EBITA for the reporting period and the corresponding prior year is shown below:

€ millions	For the year ended 31 December		
	2012	**2011**	**Note**
EBIT	(457)	(2,386)	8
Impairment	1,148	701	8
Non-recurring (income)/expense	147	1,124	8
Amortisation of intangible assets acquired as part of business combinations	90	84	8
Restructuring costs	152	261	8
Adjusted EBITA	**1,080**	**(216)**	

  Specifically, "non-recurring expense" relates to:
  - €mil. 88 of additional costs accrued for in relation to contracts for the Dutch, Belgian and Danish railways in the Vehicles line of the Transportation business segment to take account of changes to be made to the units being supplied;
  - €mil. 59 of charges incurred in the revamping business within the vehicles line of the Transportation segment, for which future activities will solely consist in managing current orders in the backlog until their completion, following the decision to quit this market.

  At 31 December 2011 this item was mainly related to write-downs and provisions arising from the review of the business areas in which the Group operates. For an extensive analysis of these items, reference is made to chapter "Group results and financial position" of the 2011 consolidated financial statements.
- ***Free Operating Cash Flow (FOCF)***: this is the sum of the cash flows generated by (used in) operating activities and the cash flows generated by (used in) 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". The calculation of FOCF for the periods being compared is presented in the reclassified statement of cash flows shown in the previous section.

- ***Funds From Operations (FFO)***: this is cash flow generated by (used in) operating activities net of changes in working capital (as described under Note 39). The calculation of FFO for the periods being compared is presented in the reclassified statement of cash flows shown in the previous section.
- ***Economic Value Added (EVA)***: this is the difference between Adjusted EBITA net of income taxes and the cost (comparing like-for-like in terms of consolidated companies) of the average invested capital in the two comparative periods and measured on the basis of the operating weighted average cost of capital (WACC for EVA purposes).
- ***Working capital***: this includes trade receivables and payables, contract work in progress and progress payments and advances from customers.
- ***Net working capital***: this is equal to working capital less provisions for current risks and other current assets and liabilities.
- ***Net capital invested***: this is the algebraic sum of non-current assets, non-current liabilities and net working capital.
- ***Net financial debt***: this includes cash, financial receivables and current securities, net of (current and non-current) loans and borrowings.
- ***Research and development costs***: 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. These costs may be partly or entirely reimbursed by customers, funded by public institutions through grants or other incentives under law or, lastly, be borne by the Group. From an accounting standpoint, R&D costs can be recognised in different manners as indicated below:
  - if they are reimbursed by the customer pursuant to an existing contract, they are recognised as "work in progress";
  - if they relate to research activities, that is, the activity is at a stage at which it cannot be demonstrated that the activity will generate future economic benefits, they are expensed as incurred;
  - finally, if they relate to a development activity for which the Group can demonstrate the technical feasibility, the capability and the intention to see the project through to the end, as well as the existence of a potential market such to generate future economic benefits, they are capitalised under "intangible assets". In the case in which a grant is given towards these expenses, the carrying value of the intangible assets is reduced by the amount received or to be received.
- ***New orders***: this is the sum of 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 difference between new orders and invoiced orders (income statement) during the reference period, excluding the change in contract work in progress. This difference is added to the backlog for the preceding period.
- ***Workforce***: the number of employees recorded in the register on the last day of the year.
- ***Return on Sales (ROS)***: this is calculated as the ratio of Adjusted EBITA to revenue.
- ***Return on Investments (ROI)***: this is calculated as the ratio of Adjusted 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 for the financial period to the average value of equity in the two comparative periods.

RELATED PARTY TRANSACTIONS

Finmeccanica acts as a holding company with industrial and strategic coordination of its subsidiaries and joint ventures. As required by IAS 24, in addition to the companies in which Finmeccanica has a direct or indirect controlling interest, related parties include associates, joint ventures and consortiums, key management personnel and their close family members, as well as any entities controlled by the Ministry of Economy and Finance ("MEF").
The transactions, which are carried out and regulated at arm's length, relate to business (disposals and purchases of goods and services within the Group's usual operations), financial (ordinary financing granted/obtained and the charging of related interest income or expense) and other relations (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 updated, a specific "Procedure for Related Party Transactions" pursuant to CONSOB (the Italian Commission for Listed Companies and the Stock Exchange) Regulation 17221 of 12 March 2010, containing provisions on "related party transactions" and to the subsequent CONSOB Resolution 17389 of 23 June 2010, as well as in the implementation of Article 2391-*bis* of the Italian Civil Code – which is available on the Company's website (under *Investor Relations/Corporate Governance*, Related Party Transactions section).
This procedure aims at defining the rules to ensure the transparency and material and procedural fairness of transactions with related parties, as set out later in this document under point 4.9 of the Corporate Governance Report and Shareholder Structure to which reference is made.

Pursuant to Article 5.8 of CONSOB Regulation 17221 of 12 March 2010, note the following most important transactions, which were carried out by Finmeccanica SpA in the 2012 financial year, through subsidiary companies identified on the basis of the indicators provided for by the above-mentioned procedure and by Annex 3 attached to CONSOB Regulation 17221/2010:

Parties involved		Relationship	Purpose of the transaction	Transaction consideration
Alenia Aermacchi SpA	**Cassa Depositi e Prestiti SpA**	Alenia Aermacchi SpA 100% owned by FNM SpA CDP SpA owned by MEF	Assignment of receivables from Alenia Aermacchi SpA to Cassa Depositi e Prestiti SpA	€mil. 233
Alenia Aermacchi SpA	**SACE SpA**	Alenia Aermacchi SpA 100% owned by FNM SpA SACE SpA owned by MEF	Insurance intervention of SACE SpA in favour of Alenia Aermacchi SpA	€mil. 312

The above-mentioned transactions benefitted – pursuant to Article 13.3.c) of CONSOB Regulation 17221/2010, as well as Article 11.2.c) of the above-mentioned procedure – from the exemption envisaged for the ordinary transactions concluded at arm's length or standard conditions. These transactions were notified to CONSOB in compliance with the provisions under Article 13.3.c) of CONSOB Regulation 17221/2010 and were put in place following the execution of the contract between Alenia Aermacchi SpA and the Government of the State of Israel, which was signed on 19 July 2012, for the supply of 30 M346 advanced trainer aircraft and related logistics support to the Israeli Air Force.

Furthermore, note the following most important transactions, which benefitted from the exemption provided for in Article 14.2 of CONSOB Regulation and in Article 11.2.e) of the above-mentioned procedure which did not impact the consolidated financial position or the consolidated results as at 31 December 2012.

Parties involved		Relationship	Purpose of the transaction	Transaction consideration
Finmeccanica SpA	**SELEX Electronic Systems SpA**	Subsidiary (100%)	Sale of the SELEX Galileo Ltd equity investment from Finmeccanica SpA to SELEX Electronic Systems SpA	€mil. 1,177
Finmeccanica SpA	**SELEX Electronic Systems SpA**	Subsidiary (100%)	Sale of the SELEX Galileo SpA equity investment from Finmeccanica SpA to SELEX Electronic Systems SpA	€mil. 365
Finmeccanica SpA	**SELEX Electronic Systems SpA**	Subsidiary (100%)	Granting of financing by Finmeccanica SpA to SELEX Electronic Systems SpA	€mil. 582
Finmeccanica SpA	**Finmeccanica Finance SA**	Subsidiary (100%)	Granting of financing by Finmeccanica Finance SA to Finmeccanica SpA	€mil. 600

With reference to these transactions, it should be noted that the first three transactions, which were completed in the early days of January 2013, relate to the combination of the Group’s activities in the Defence and Security Electronics segment in Europe into a single transnational business, whereas the fourth transaction refers to the medium/long-term loan agreement between the Group’s Luxembourg holding company and Finmeccanica.

It should be noted that there were no other related party transactions, which materially impacted on the Finmeccanica Group’s consolidated financial position or the consolidated results as at 31 December 2012, and that no changes or developments took place in relation to the related party transactions described in the Report on Operations at 31 December 2011.

The disclosures on transactions with related parties required under CONSOB Communication DEM/6064263 of 28 July 2006 are found in this section, in the financial statements and in the explanatory notes to the 2012 consolidated financial statements. There are no transactions that can be identified as atypical and/or unusual as set out in said CONSOB communication.

The following table summarises the amounts of transactions with related parties (a breakdown is shown in Notes 13 and 28) at 31 December 2012 and 2011.

(€ million)

31 December 2012	Unconsolidated subsidiaries	Associates	Joint ventures (*)	Consortiums (**)	Subsidiaries or companies subject to the influence of the MEF (***)	Total	% impact on the total in the financial statements
Non-current receivables							
- financial		181	4			**185**	73.1
- other		6	1			**7**	12.6
Current receivables							
- financial	16	2	53	2		**73**	11.6
- trade	2	568	120	40	225	**955**	18.9
- other	1		3	2		**6**	0.7
Non-current payables							
- financial		10			19	**29**	0.7
- other							
Current payables							
- financial	4	127	467		7	**605**	30.7
- trade	17	110	38	7	21	**193**	3.7
- other	1	7	43	1	1	**53**	3.4
Guarantees			308			**308**	

(€ million)

2012	Unconsolidated subsidiaries	Associates	Joint ventures (*)	Consortiums (**)	Subsidiaries or companies subject to the influence of the MEF (***)	Total	% impact on the total in the financial statements
Revenues	1	1,548	238	19	464	**2,270**	13.2
Other operating income			3	2	1	**6**	0.7
Costs	33	96	58	9	37	**233**	1.9
Financial income			5			**5**	0.8
Financial expenses		4	5		3	**12**	1.2

(*) Amounts refer to the portion not eliminated as a result of proportional consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
(***) The most important transactions must be reported separately, whereas the others must be combined.

(€ million)

31 December 2011	Unconsolidated subsidiaries	Associates	Joint ventures (*)	Consortiums (**)	Subsidiaries or companies subject to the influence of the MEF (***)	Total	% impact on the total in the financial statements
Non-current receivables							
- financial			8			**8**	9.5
- other		2	1			**3**	8.0
Current receivables							
- financial	18		165	1		**184**	17.2
- trade	3	434	143	54	250	**884**	16.8
- other	1	6	4	2		**13**	1.6
Non-current payables							
- financial		10			26	**36**	0.8
- other							
Current payables							
- financial	5	49	852		7	**913**	65.5
- trade	13	78	46	7	16	**160**	3.2
- other	1	7	32		1	**41**	2.6
Guarantees			306			**306**	

(€ million)

2011	Unconsolidated subsidiaries	Associates	Joint ventures (*)	Consortiums (**)	Subsidiaries or companies subject to the influence of the MEF (***)	Total	% impact on the total in the financial statements
Revenues	2	1,477	267	22	425	**2,193**	12.7
Other operating income		1	7			**8**	1.4
Costs	34	86	35	6	45	**206**	1.7
Financial income			6			**6**	0.6
Financial expenses		6	8			**14**	1.4

(*) Amounts refer to the portion not eliminated as a result of proportional consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
(***) The most important transactions must be reported separately, whereas the others must be combined.

CONSOB Market Regulation, Art. 36

In accordance with CONSOB provisions contained in the Market Regulation and specifically Art. 36 of Resolution 16191/2007, Finmeccanica made the checks on the subsidiaries that were incorporated and are governed under the laws of non-EU Member States and that, as a result, became significantly relevant based on the requirements under Art. 151 of the Issuers' Regulations adopted with CONSOB Resolution 11971/1999. As regards the non-EU foreign subsidiaries (DRS Technologies Inc., Meccanica Holdings USA Inc., AgustaWestland Philadelphia Co, AgustaWestland Tilt-Rotor Company Inc., AgustaWestland Inc. and Alenia Aermacchi North America Inc.) identified based on the above regulations and in compliance with the regulations of local laws, these checks revealed the existence of an adequate administrative and accounting system and the additional requirements envisaged in said Art. 36.

Information pursuant to Arts. 70 and 71 of CONSOB Issuers' Regulations

With a Board of Directors' resolution on 23 January 2013 the Company adopted the simplification regime under Articles 70.1 and 71.1-*bis* of the Issuers' Regulations adopted with CONSOB Resolution 11971/1999 as subsequently amended. By this resolution the Company chose the option to make exceptions to the obligation to issue the documents required by the law when significant transactions (such as mergers, spin-offs, capital increases by means of the conferral of assets in kind, acquisitions or disposals) occur.

FINMECCANICA AND THE COMMERCIAL SCENARIO

The global economic situation in 2012 continued to show low growth in industrialised Countries, with a persistent crisis in the Eurozone, and reduced growth of numerous newly-industrialised Countries compared to the previous years. This caused a slowdown in internal demand and barter trades, with a reduction in expected growth rates of industrial production over the coming years. Specifically, in the Eurozone the recurrent tensions about the sovereign debts of some Countries and the general economic stagnation are leading to the adoption of restrictive measures aimed at reaching the balancing of accounts, and an effective economic recovery is expected only after 2014.

The markets in which the Group operates (Aeronautics, Helicopters, Defence and Security Electronics, Space, Defence Systems, Energy and Transportation) continued to suffer from the negative effects of global macroeconomic trends, particularly because of the strong pressure exerted on public budgets and the general slowdown in demand internationally, although the medium/long-term outlook is still positive for the main market segments.

Particularly, in the **Defence** segment, 2012 reported global expenses equal to about $bil. 1,600. For the first time since 1998 the US budget showed a significant decrease of about 1.2%, as a result of the reduction in field operations (Iraq, Afghanistan) and of the postponement of some upgrading programmes. These phenomena now appear to have a structural nature (also following the re-election of President Obama to the White House), with a substantial reduction in supplementary expenses connected with Peace Enforcement operations and stability in the base budget, which is mainly due to the performance of multi-annual programmes of development and acquisition of new military equipment. Another point of interest is the so-called sequestration process which envisages linear cuts within the public budget. Cuts on the military sector would entail a reduction in the range of $bil. 500 in the next 10 years. The gradual reduction in the US expenses is largely offset by further growth in defence investments in newly-industrialised areas (Asia - Pacific region) or areas that are still subject to regional tensions (Middle East, North Africa). In the coming years the traditional BRIC countries (Brazil, Russia, India, China), as well as other "emerging" Countries, which are interested in developing their own skills in advanced and high-tech industrial sectors, will be the main relevant markets in the sector (despite all the limitations related to the transfer of sensitive technology). However, the United States will remain the main national market both in terms of size (about one third of the global total) and in terms of the characteristics of the demand. Europe, where spending should grow by less than

1% per year on average, will still represent about 16-17% of the total global market. However, it is important to note that major investment programmes for new weapons systems were confirmed in the US and in Europe, although some over a more protracted time period or for lower volumes. It is also interesting to note that much of the expertise developed in the Defence industry can be increasingly transferred to related sectors, which are characterised by high growth dynamics, such as, for example, security, environmental monitoring and protection, Cyber Security and Smart City.

Therefore, the global Aerospace, Defence and Security market showed a slight growth trend (thanks in part to good performance in Civil Aeronautics), with important specific characteristics in each of the various business segments.

Within the **Aeronautics** market, the civil aircraft segment, for both commercial and regional transport, showed growth, with an effective recovery to pre-crisis levels starting from 2012. Thanks to higher traffic demand (+5% on average per year for passenger transport), renewed profitability of the major airlines and the resulting need to replace and expand fleets, deliveries of new aircraft are expected to be equal to an overall value of more than €bil. 900 (78% for commercial aircraft, 13% for business jets and 9% for regional aircraft) over the next ten years, with an average annual growth rate of around 4%. The greatest growth rates will be seen in wide-body aircraft (i.e. aircraft with two aisles), the sub-segment worth the most in absolute terms with the most important development and production programmes (B787, A350XWB and A380) and regional aircraft, where the trend should be towards the development of a new-generation aircraft offering better capacity and operational performance than models currently in service. The narrow-body aircraft sub-segment (i.e. aircraft with a single aisle), therefore, was substantially stable, even if it is expected to increase starting from 2016, driven by deliveries of re-engined Airbus (Neo A320) and Boeing (B737Max) aircraft. A new generation of narrow-body aircraft is expected to be launched after 2025. Prime contractors are continuing to make greater use of outsourcing of structural components and sub-systems, while new competitors from newly industrialised Countries continue to enter the market. As a result, the outsourced structural components market is growing at an average rate of about 6% per year.

The military aircraft segment suffered from the stagnation in investments in the Defence market and from the slowdown of some important acquisition programmes, both in the USA and in other Countries. The market will be substantially stable (or will show a slightly reduction) until 2014, and then it will expand significantly in the following years as a result of upgrading and renewal needs of operating fleets that can no longer be postponed. Therefore, the total value of new deliveries over the next ten years is estimated at about €bil. 400, with an additional market for upgrading programmes and logistics of almost €bil. 350. The latest-generation multi-role aircraft segment is the largest, worth over 50% of the total market, followed by aircraft for special missions (applications for naval and coastal surveillance represent a particularly important part), by medium- and large-transport aircraft and advanced training aircraft. The most important technological developments currently being pursued relate to: (*i*) unmanned combat aerial vehicles for reconnaissance and combat applications, which are expected to enter into service in the US in 2020 and in Europe in 2025; (*ii*) use of new materials; (*iii*) the full insertion of vehicles in net-centric systems and (*iv*) fine-tuning new uses that meet asymmetric warfare and rapid response requirements. Despite all the limitations connected to the restrictive regulations governing the use of unmanned vehicles in civil air traffic airspace (the so-called “non-segregated airspace”), a growing demand in unmanned vehicles is being recorded for civil protection and environmental monitoring purposes. Several development programmes are currently being carried out in many countries, also on the basis of the lessons learnt in the military use of this aircraft.

The **Helicopters** segment, both civil and military applications, will show an overall slight increase over the next ten years, with an average annual value (referring to new helicopter deliveries) at around €bil. 15-16, which is much higher than the average for recent years. It should be noted that, while the military market has important characteristics of a cyclical nature (a slight decline is expected to start in 2015 due to cuts on some programmes), the demand in the civil sector is

steadily increasing (the average value of the civil market, which is currently equal to about 25% of the total helicopters sector, will represent, indeed, about 50% of the total around 2021). In fact, this sector includes both the strictly commercial applications (e.g. the VIP/Corporate transport) and the sales of non-military government applications, such as security, environmental monitoring, emergency medical services, connections to off-shore platforms. There are a multitude of factors underlying market growth which regard technology (availability of new satellite navigation technologies, development of unmanned aircraft, success of tilt-rotor technology), operations (larger range of use, higher speeds, use in hostile environments) and regulations (reducing the environmental impact, greater security for over-flight of densely populated areas, utilisation in all weather and visibility conditions).
In particular, technology currently being developed will make helicopters even more important in operational environments for asymmetric warfare, counter-guerrilla warfare, controlling and interdicting illegal activities, monitoring the environment and rescue operations. The gradual growth in the number of operational helicopters increases the importance of maintenance, upgrading and logistics activities, which has been further emphasised by the growing demand for turnkey solutions and operational support over the entire product life-cycle.
From a geographical point of view, Europe and the United States of America remain mature markets, while the BRIC Countries, Asia and Africa represent the most attractive areas for growing requirements for helicopters for different types of applications (i.e. mobility, security and defence).

The **Defence and Security Electronics** market continues to represent the largest market of interest to the Group. Despite cutbacks in the Defence budgets of the major Countries in the world, the volumes and trends in the market have remained stable compared with last year (around €bil. 150 annually), with a shift towards homeland security/security systems (estimated at around €bil. 70 per year) where the growth rate has been higher, at around 5% per year, due to rising demand for security (border surveillance, security systems for critical infrastructures, security for transport systems, etc.), growing demand for cyber-security solutions driven by the need to make ICT systems invulnerable to attempts to access and damage data and information and increased investments in environmental monitoring and managing natural disasters and civil emergencies. In particular, the cyber market is experiencing significant growth at a rate of around 10% annually, with strong investments by the US and the major European nations.
By contrast, the growth trend in defence electronics equipment and systems has been more contained, at around 2% per year.
Within the sector, technology exchanges between military applications and civil and security applications are becoming more evident, so that the main industrial groups in the sector are turning their attention to adjacent areas of application, such as Healthcare, Energy (Clean Renewable Energy), Urban Security and Mobility (Smart and Safe City), by leveraging the traditional planning and management capacity of complex systems for military use.
The continuing global financial crisis and the resulting rationalisation of government spending, as well as the related re-prioritising of budgets given customers' different operational needs, have pushed demand for low-cost solutions and contractual models that include the supply by the industry of support services and solutions for installed capacity. For these reasons, industrial competitiveness and selective investment in R&D are crucial to ensuring complete alignment with market drivers, including responding to growing competition (also a result of the drop in the "captive" component).

The **Space** market includes both production, especially the development and manufacture of satellites and orbiting manned infrastructures, and provision of services (earth observation, satellite navigation, communications, science) for civil and military applications. Another business area includes the in-orbit launch of satellites and control of satellite constellations. The worldwide market is worth around €bil. 80 annually, of which around 25% is for satellite services in those application segments in which the Group operates. The institutional market, both civil and military, represents more than 75% of the total, with a leading role of management government bodies, both national (e.g. NASA in the USA) and supranational (EU, ESA). For this reason, thanks to the proven strategic nature of the space sector at an institutional level (also confirmed by the recent ESA Interministerial Conference), the Space market is among those least sensitive to the downturn in the world economy. In the area of manufacturing, demand by government, even if in the presence of a significant slowdown of some development programmes, has shown for long time annual growth rates by around 2-2.5% on average, and the market for commercial applications is showing interesting signs of recovery. Demand in the military segment is driven by demand for new satellites used for earth observation and secure communications, the development of new satellite systems based on dual purpose technologies and new demand for the development of observations systems for security applications. The government civil systems market, which is expected to receive growing support from the European Union, centres mainly around programmes for replacing and upgrading in-orbit telecommunications satellite capacity and the development of new scientific and navigation applications. The rate of growth is rather high (around 5-6% per year) in the satellite services segment, driven by new technological developments (broadband and related networks, value-added services) and by demand in the security, mobility and environmental monitoring arenas.

The **Defence Systems** market includes the segments land vehicles and land and sea weapons systems, missile systems, and underwater systems. As a result, in part, of the experience with asymmetric warfare in Iraq and Afghanistan, the land vehicles segment has seen peak demand in recent years, based on the need to modernise a large part of the fleets of armoured vehicles (particularly multirole wheeled vehicles and vehicles for personnel transport) so as to ensure greater protection against land mines and light fire. The demand is expected to be substantially stable over the next ten years, with average values of about €bil. 15-16 per year, in line with the trend of the major Countries to cut their expenditure budgets and the resulting delays in major programmes. The demand increasingly tends to lighter vehicles – both wheeled and tracked – which can be used more quickly and flexibly in field operations, including the so-called “protected vehicles” that are able to ensure high personnel safety against light fire and mines. The sector is also supported by important technological developments, which are related to the use of new materials, the development of turrets and remote-control weapon systems, the construction of unmanned vehicles. Interesting developments are also being seen in the naval weapons segment, despite an overall reduction in demand related to a standstill in new construction programmes. The greatest opportunities will continue to be in guided munitions systems to be used, above all, with medium calibre weapons, which are particularly effective in coastal operations and interdiction actions on missions to protect against asymmetrical threats. In the underwater systems segment, together with the traditional demand for on-board sonar systems and for both heavy (launched from naval platforms) and light (also launchable from air platforms) missiles, surveillance systems for protecting coastal and harbour infrastructures are undergoing a profound change with the integration of mobile systems (underwater and surface systems). Navies are attempting to develop new multi-function systems (military, security and environmental protection) over the medium/long term using technologies already available, for integrated protection against land, air and sea threats, which includes protection against nonconventional threats within underwater surveillance.
Moreover, providing Navies with multi-function platforms will also create opportunities in the area of anti-torpedo countermeasures that can even be integrated in small-scale platforms.
Finally, in the missile systems market there has been a slight increase, with an estimated overall value of about €bil. 170 over the next ten years. Almost 60% of the demand relates to the air defense systems, both land based and on board; the United States, at a geographical level, still represent the main national market, but their share, compared to the overall market, is expected to fall from current 50% to 35% in 2021, due to the significant increase in demand in the Asia Pacific area and in the Middle East. The greatest market drivers are related to the need to renew the stock of missiles with new systems that provide greater versatility and attack precision. Another important development is being seen in systems for protecting urban areas and high-value civilian and military infrastructures from the threat of missile attacks. These operating needs positively influence developments in the areas of sensors (both on land and on-board the missiles), flight control, and integrated command and control systems.

The **Energy** market has always been characterised by a strong cyclical demand, which is linked to the renewal and modernisation of systems installed in highly industrialised Countries and to long-term investments programmes for the construction of new power plants and infrastructures

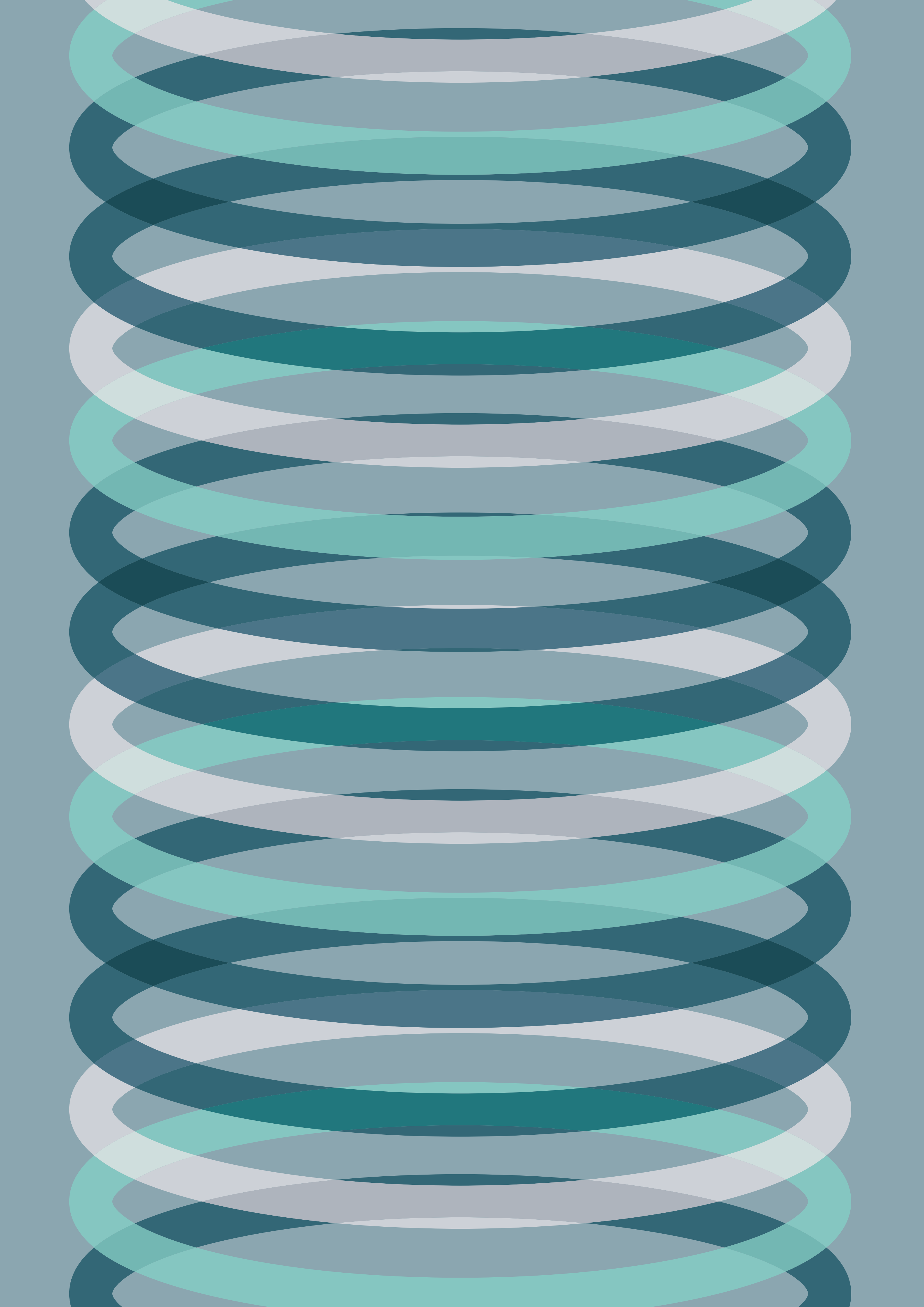
in newly-industrialised Countries. 2011 and 2012 showed a new downturn in trend, after a peak recorded in 2007-2008, resulting from significant orders in the Chinese market and the sharp decline (-35% of the total) recorded in the following years due to the economic crisis. In this case, the demand concerns, above all, the gas turbine systems (both open cycle and combined cycle) and renewable energy plants, above all solar and wind energy. It is estimated that, over the next ten years, global demand for power plants and components for generating electricity from fossil and nuclear fuels and renewable resources will have an annual average market value of around €bil. 340, with a peak of about €bil. 360 between 2017 and 2020. Fossil fuel plants will continue to be the main product segment, recording a gradual growth of importance of the gas turbine technology compared to steam. Renewable energy plants, which represent about 25% of the total demand, are expected to record a contained but constant increase, whereas the nuclear sector shows a further decrease, with a share that is slightly more than 5% of the total market, due to also the negative impact of the Fukushima accident.
In general, customer preferences should, more than in the past, favour components that ensure greater efficiency while reducing emissions and providing greater flexibility in operations. The renewable energy market (i.e. wind, photovoltaic, hydroelectric, etc.) continues to grow, particularly in Europe, thanks to generous government incentive plans, and in China, and is expected to become increasingly important in the United States and the Middle East.
Finally, the post-sale service and maintenance market is also expected to grow because certain Countries, as a result of the crisis, had postponed programmes to replace installed capacities in favour of extraordinary maintenance so as to extend the useful life of their plants. Demand is expected to reach around €bil. 35, mainly in servicing gas turbines. Growth is also expected in servicing nuclear power plants, driven by demand for stress testing and programmes to extend the remaining useful life of plants.

In the rail **Transportation** market, the competitive rolling stock segment (according to the definitions of the trade association UNIFE - *Union des Industries Ferroviaires Européennes*, Union of European Railway Industries) is substantially stable at about €bil. 16 per year. These values, which are related to the supply of new vehicles, must be added to the service market (maintenance, spare parts, upgrades and revamping of operational fleet), which increased significantly from €bil. 14 per year in 2007-2011 to €bil. 18 per year in 2017-2021. The demand is particularly stable in the regional and urban transport sector, thanks to the increasing demand for transport in densely populated regions both in Europe and in newly-industrialised Countries, particularly Brazil and China. This trend is being also favoured by technically more complex customer needs (for driverless trains, catenary-free pick-up systems, etc.). Western Europe is the area of greatest interest in terms of the technical characteristics of the products and the rate of technological innovation required due to infrastructure constraints and to increase safety. Nonetheless, in terms of the size of the market, Asia has now surpassed Europe. In the regional rail transport segment, we expect to see strong growth due to a combination of growth in emerging nations and the replacement of rolling stock in the industrialised Countries. In the area of high-speed trains, growth is expected to be strong over the next few years thanks to environmental concerns that support rail transport, as well as to the development of the trans-European network and the liberalisation of passenger transport in Europe, the USA and China. Finally, in the area of post-sale service and maintenance, customers continued to prefer “turnkey” solutions.
With regard to the signalling and transport systems segment, the market, worth around €bil. 12-13, continues to expand despite the impact of the crisis, and demand is tending to grow at an average annual rate of around 3.5%. The main drivers for this market are the important programmes to construct new transportation infrastructures that enable different modes and different standards to interoperate, as well as by the need to increase safety, efficiency and traffic capacity. Technological development in terms of upgrading railway lines and pressure on the service and maintenance costs for signalling systems remain of key importance. The transport systems market is expected to grow at an average annual rate of 6%, more than double the 2% growth expected for the signalling market.
In the bus segment, over the last two years the European market has posted a slight decline (-4%) compared to the previous two-year period. In Italy, however, the lack of national government funding has considerably slowed purchases by local authorities.

HELICOPTERS

	31 Dec. 2012	31 Dec. 2011
New orders	4,013	3,963
Order backlog	11,876	12,121
Revenues	4,243	3,915
Adjusted EBITA	473	417
ROS	11.1%	10.7%
Research and development	506	472
Workforce (no.)	13,050	13,303

€ million



Finmeccanica, through the subsidiary AgustaWestland NV and its investees, is a world leader in the civil and military helicopter industry.

The total volume of **new orders** at 31 December 2012 came to €mil. 4,013, a slight increase of 1.3% compared to the previous year-end (€mil. 3,963). New orders break down into 69.3% for helicopters (new helicopters and upgrading) and 30.7% for product support (spare parts and inspections), engineering and manufacturing.
The increase is largely due to the launch of the new AW169 and AW189 models in the market, which received orders for 98 units in 2012. Among the most important new orders of the period received in the *military-government* line there are the following:

- the supply of integrated operational support services for the Sea King British fleet (SKIOS programme) (Q4);
- the supply of seven AW139 helicopters to the Swedish Maritime Administration for Search and Rescue operations (Q4);
- three AW139 units, configured for medical emergency, search and rescue, law enforcement and homeland security missions, for the Maryland State Police Aviation Command (Q3);
- one AW139 helicopter for the *Polícia Federal do Brasil* (Q3);
- six AW Super Lynx 300 helicopters for a key customer in the southern Mediterranean area (Q2);
- five AW169 units for a United Arab Emirates governmental customer (Q2);
- two law enforcement-configured AW139 helicopters for the Japanese National Police Agency (Q1);
- one AW109 helicopter to the Chilean military police (Q1).

The most important new orders in the *civil-government* line include:

- the supply of seven AW139 and two AW189 helicopters to the Azerbaijan Airlines for medical emergency services, for VIP transportation, for Search and Rescue operations and offshore transportation (Q4);
- the supply of two AW169 and one AW139 helicopters to the Kaan Air company for the VIP/Corporate transportation missions (Q4):
- the contract with Heli One to supply four AW 139 helicopters (Q3);
- the supply of fifteen AW139 helicopters in the offshore configuration to Gulf Helicopters to provide support for oil rigs in the Middle East (Q1);
- the supply of five AW169 helicopters to the air rescue services provider Inaer Aviation Spain (Q1).

The value of the **order backlog** at 31 December 2012 came to €mil. 11,876, showing a decrease compared to 31 December 2011 (€mil. 12,121). The order backlog breaks down into 67% for helicopters (new helicopters and upgrading), 33% for product support (spare parts and inspections), engineering and manufacturing. This amount ensures around 2.5 years of production.

Revenues at 31 December 2012 came to €mil. 4,243, up by 8.4% compared to 31 December 2011 (€mil. 3,915), largely due to the significant growth in certain helicopter production segments (AW101 and AW139).

Adjusted EBITA at 31 December 2012 came to €mil. 473, up (+13.4%) compared to 31 December 2011 (€mil. 417). This improvement is partially due to the above-mentioned increase in production volumes and partly to the streamlining and restructuring initiatives rolled out at the end of last year. Accordingly, **ROS** increased (up 0.4 p.p.) to 11.1% from 10.7% for the period ended 31 December 2011.

In 2012, **research and development** costs came to €mil. 506 (€mil. 472 in 2011) and mainly related to the development of:

- technologies, primarily for military use, for a new 8 tonne class helicopter named AW149;
- multi-role versions of the AW609 convertiplane for national security which is fully owned by and under the full responsibility of AgustaWestland;
- a 4.5t twin-engine helicopter (AW169).

Technology research programmes principally comprise activities concerning the European Clean Sky and ALICIA projects.

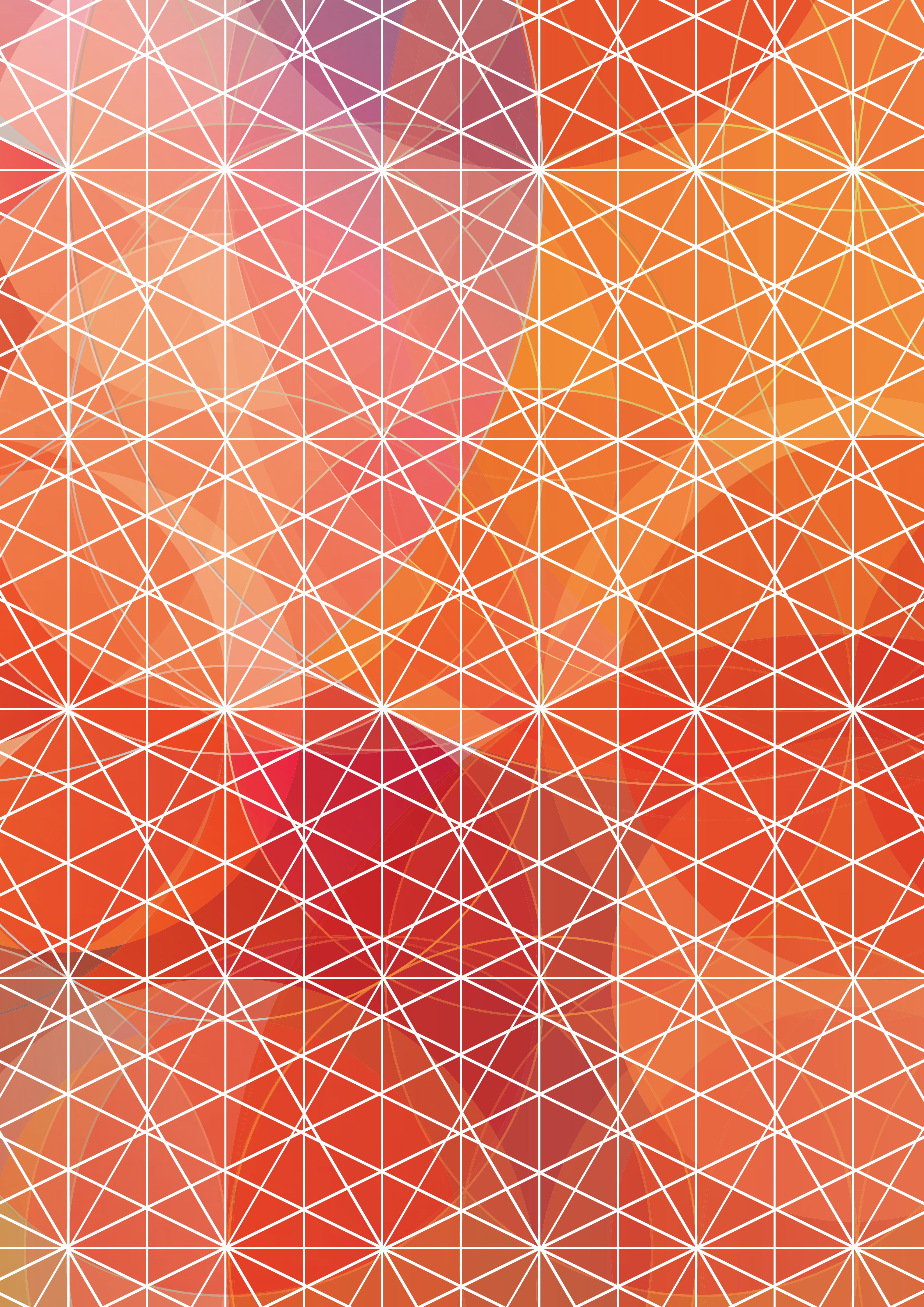
The **workforce** at 31 December 2012 came to 13,050, down by net 253 employees on the 13,303 employees at 31 December 2011. This is mainly due to:

- the restructuring plan at the British site of Yeovil, which was fully funded by the British Ministry of Defence, with the laying off of 375 employees at 31 December 2012;
- the outsourcing of certain non-core activities of the Polish site of Świdnik.

DEFENCE AND SECURITY ELECTRONICS

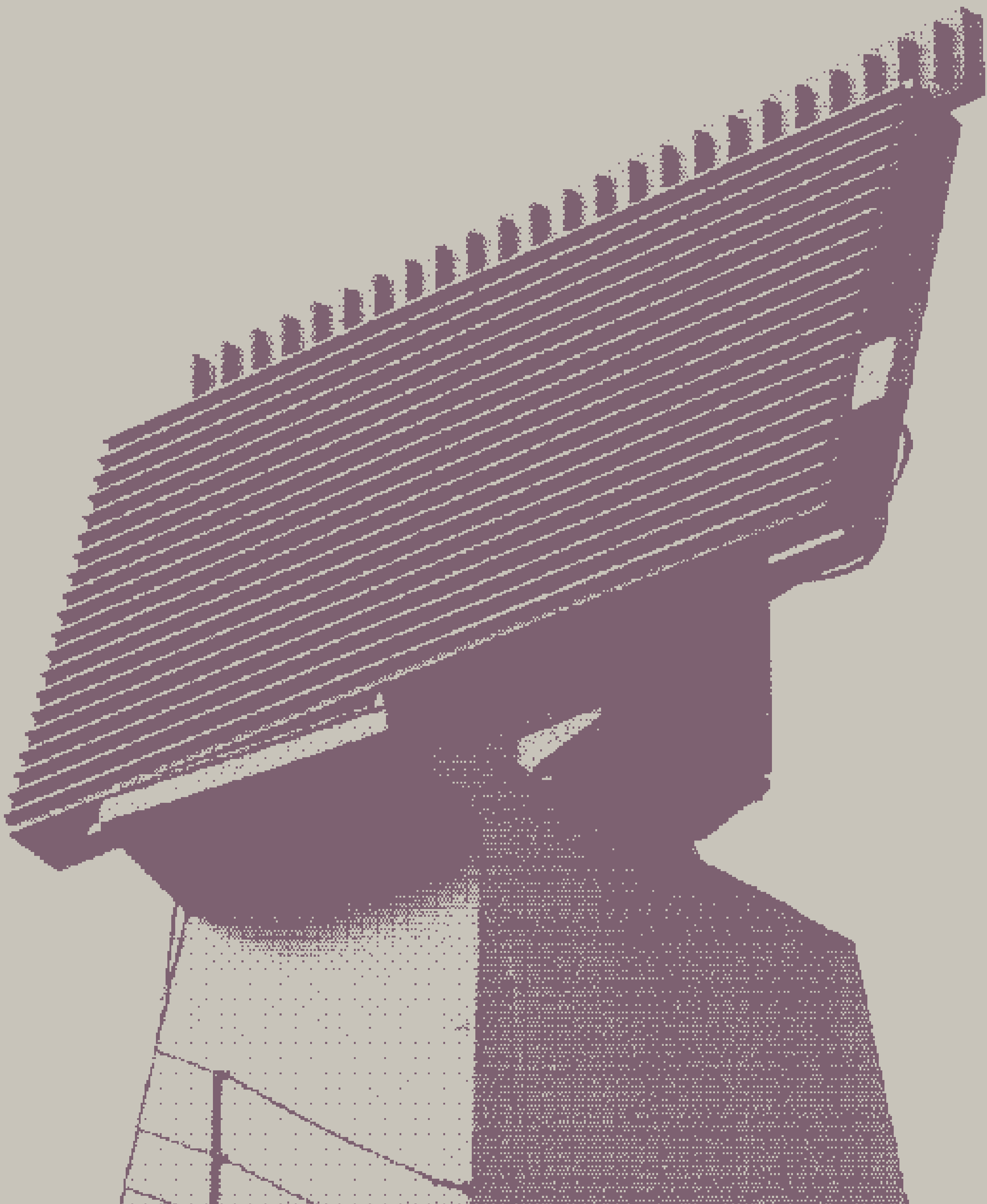
	31 Dec. 2012	31 Dec. 2011
New orders	5,136	4,917
Order backlog	8,831	9,591
Revenues	5,754	6,035
Adjusted EBITA	384	303
ROS	6.7%	5.0%
Research and development	732	823
Workforce (no.)	25,183	27,314

€ million



REPORT ON OPERATIONS AT 31 DECEMBER 2012

DEFENCE AND SECURITY ELECTRONICS



Finmeccanica operates in the Defence and Security Electronics industry through the Selex ES group and the DRS Technologies (DRS) group.
The segment covers activities relating to the creation of major integrated defence and security systems based on complex architectures and network-centric techniques; the provision of integrated products, services and support for military Forces and government Agencies; the supply of avionics and electro-optical equipment and systems; unmanned aircraft, radar systems, land and naval command and control systems, air traffic control systems, integrated communication systems and networks for land, naval, satellite and avionic applications; activities for private mobile radio communications systems, value-added services and IT and security activities.

Security, also including the protection against threats deriving from the unauthorised use of digital information and communications systems (cyber security), has become one of the priority issues of governments and decision makers. Leveraging their distinctive expertise, the companies have developed an offering of products and services for government and civil security operators aiming at the protection of critical and strategic infrastructures and locations, while paying particular attention to issues related to the security of telecommunications networks and IT systems that are the crucial core on which the modern digital economy is based.

New orders at 31 December 2012 totalled €mil. 5,136, up by the figure posted for the same period of the previous year (€mil. 4,917). Key new orders in the various lines include:

- *avionics and electro-optical systems*: orders for the EFA programme, specifically avionics equipment and radars for the third lot, as well as logistics (Q1-2-3-4); the order for activities related to the fixed and mobile component of the ground-based part of a surface-to-air surveillance system forming part of NATO's Alliance Ground Surveillance programme (Q2); orders for various space programmes and, specifically, as part of the Aurora Exomars and Galileo programmes (Q1-2-3-4); orders for countermeasure systems (Q1-2-3); orders for the NH90 helicopter programme (Q1-2-3-4); the order from SAAB for development activities of the active electronic-scan radar of the Gripen NG multirole fighter (Q2); the order from the Italian Navy for the ground station supporting ATOS surveillance systems on the ATR 72 aircraft as part of its P72A programme (Q1); the order for Unmanned Aerial Vehicle systems for a foreign Country (Q1); the order from the British Ministry of Defence for the supply of electro-optical turrets for the fleet of Chinooks (Q2); the order to upgrade the laser targeting capability of the Apache helicopters used by the US Army (Q2); customer support (Q1-2-3-4);
- *major integrated defence and security systems*: the further lot of the contract with the Italian Ministry of Defence to raise the level of protection at Italian operating and support bases in Afghanistan (Q3);
- *command and control systems* in the *defence systems* area: the order from the Italian Navy to implement the TESEO system on Orizzonte vessels (Q1); orders for the Medium Extended Air Defence System programme (Q1); the order from the Indian Navy to supply a RAN 40L ship-detection radar (Q2). In the *civil systems* area: contracts with Uruguay's Civil Aviation Department and the Royal Bahraini Air Force for the supply of primary and secondary radar systems to control and manage air and airport traffic (Q2); the order to upgrade the control tower at Kuala Lumpur's airport in Malaysia (Q3); the contract with the National Centre for Natural Disaster Monitoring and Alerts (*Centro Nacional de Monitoramento e Alertas de Desastres Naturais*) in Brazil for the supply of nine weather radars (Q4); the order from the Aeronautical Radio of Thailand for the supply of six secondary radars, civil works and radio devices (Q4);
- *integrated communication systems and networks*: the order from NATO to develop, implement and manage the Computer Incident Response Capability - Full Operating Capability programme to protect data from threats and weaknesses as part of cyber security at numerous NATO command centres and locations in various Countries (Q1); the order, as part of NATO's above-mentioned Alliance Ground Surveillance programme, to supply the broadband data link (Q2); further orders in the EFA programme to supply various communications devices (Q1-2-3-4); orders for communications systems for helicopter platforms (Q1-2-3-4); orders for

communications systems of the VBM and VTMM vehicles from the Italian Army (Q2-3-4); the order, as part of a cooperation agreement between the Italian and Israeli governments, for the supply of identification and communication systems and flight control computers for Alenia Aermacchi's M346 training aircraft and, via ELTA Systems Ltd, communication subsystems (NATO standard), tactical data links and identification systems for two Conformal Airborne Early Warning aircraft for the Italian Air Force (Q3); the order for the supply of radio jammers for the Italian Directorate General for Land Weapons Systems (*Direzione Generale Armamenti Terrestri*) (Q4); the order for a tactical transmission system for the German Army (Q4); the order from Ansaldo STS to supply the communication system for the Shah-Habshan-Ruwais railway section in the United Arab Emirates (Q2); the order from ENAV for the supply and installation of Ground Stations aimed at implementing and upgrading the data link system for aircraft (Q4);

- *information technology and security:* the order to develop and manage the Ministry of Education, University and Research's IT system (Q1); further orders from the Russian postal service to supply systems for their revenue protection programme (Q1-4); the order for maintenance and technical assistance services for Poste Italiane SpA's mail sorting lines and equipment (Q2-3); the order for the turnkey supply of the postal sorting centre in Budapest (Q4); orders for various system and software support initiatives for the Ministry of Justice (Q3);
- *DRS*: the order to supply modular fuel tanks for the US Army's Modular Fuel System (Q1); the order from the US Navy to supply electronic security services to the Space and Naval Warfare Systems Command (Q2); further orders to supply Thermal Weapon Sight vision systems used by the US Armed Forces (Q1-2); additional orders for the upgrade of the target acquisition sub-systems of the Bradley fighting vehicles (Q1-2-3); orders for support, technical assistance and logistics services for the Mast Mounted Sight vision system for OH-58D Kiowa Warrior helicopters (Q1-4); additional options to the contract in order to provide logistics support to the fleet of E6-B aircraft of the US Navy (Q1-2-3-4); orders to supply satellite communication services as part of the Future Commercial Satellite Communications Services Acquisition programme (Q2-3).

At 31 December 2012, the **order backlog** came to €mil. 8,831, compared to €mil. 9,591 at 31 December 2011. Around 80% of this amount related to operations of European companies active in the sector.

At 31 December 2012, **revenues** came to €mil. 5,754, with a €mil. 281 decrease over the corresponding period of the previous year (€mil. 6,035), which was mitigated by the appreciation of the US dollar and the pound sterling against the euro. This trend was seen across all lines of the segment, due to the generalised difficulties and the slow-down in purchases and start-up of new orders, worsened by the simultaneous decrease in the contribution of important programmes now in their final stages. This includes the decreased activities for the US Armed Forces, as substantially expected, and the drop in production volumes in the *command and control systems* and, to a lesser extent, the *avionics* and *information technology and security* lines, which were also impacted by the freezing of the Ministry for the Environment, Land and Sea's SISTRI programme (reference should also be made to Note 22 of the notes to the financial statements).
This is also confirmed by new orders/revenues ratio of less than one, like in 2011. The sluggish demand in this business segment will impact its growth in the coming year.
Revenues in the various lines were mainly generated by:

- *avionics and electro-optical systems*: the continuation of activities relating to Defensive Aids Sub-System production and the production of avionics equipment and radar for the EFA programme; countermeasure systems; equipment for the helicopter and space programmes; combat and surveillance radar for other fixed-wing platforms; customer support and logistics;
- *major integrated defence and security systems:* continuation of the Forza NEC programme; progress on activities related to the Phase 2 Coastal Radar programme; activities related to the Panama Maritime Security System programme;
- *command and control systems*: the continuation of activities relating to air traffic control

programmes, in Italy and abroad; contracts for FREMM and upgrading Italian Navy vessels; the programme to supply combat systems for the Algerian logistic support amphibious vessel; progress in the Medium Extended Air Defence System international cooperation programme; progress on the programme to supply Fixed Air Defence Radar ground radar for the domestic customer; progress on the supply of fighting systems for vessels for various foreign customers;

- *integrated communication systems and networks*: the development and manufacture of equipment for EFA and helicopter platforms; the provision of communication systems for the military both in Italy and the UK; the continuation of activities relating to the FREMM programme and to the construction of the national TETRA network;
- *information technology and security*: activities relating to postal and industrial automation services both in Italy and abroad, to monitoring and physical security for domestic customers and ICT services for government agencies;
- *DRS*: the additional supply of Thermal Weapon Sight system issued to soldiers as sight device; additional deliveries for programmes to upgrade the target acquisition sub-systems for Bradley fighting vehicles; activity pertaining to the repair and provision of spare parts for the Mast Mounted Sight system for helicopters; the continuation of deliveries of rugged computers and displays, particularly for the Joint Battle Command - Platform programme (JBC-P); provision of services and products for the Rapid Response contract and satellite communications services.

At 31 December 2012, **Adjusted EBITA** came to €mil. 384, showing an increase compared to 31 December 2011 (€mil. 303), mainly due to the negative effect of some "exceptional" events, which were recorded at the end of the previous financial year. These events related to the review of the assumptions of development and competitiveness in various areas of activity in the segments of *major integrated defence and security systems* and *command and control systems*. Beyond this situation, Adjusted EBITA was affected by the above-mentioned drop in production volumes, as well as by the continuing difficulties in the *command and control systems* line and in some areas of activity of the *information technology and security* line, which were partially offset by savings generated by the plans underway to improve competitiveness and efficiency and for restructuring. **ROS**, consequently, was 6.7%, higher compared to the value recorded at 31 December 2011 (5.0%).

The sector was affected by the implementation of competitiveness, streamlining and restructuring plans, as well as by the integration of the European businesses into a single company, aimed at developing, within the set timeframes, a significantly streamlining technologies, product lines and industrial facilities. This entity will operate in conjunction and in coordination with DRS (which will not be affected by the business combination given the special regulations to which it is subject). The single entity will be able to successfully take on key industry players, compete on the main markets and take advantage of a technological, financial and production structure that will make it possible to generate significant cash flows and an adequate return on invested capital.

Research and development costs at 31 December 2012 came to €mil. 732 (compared to €mil. 823 at 31 December 2011) and mainly relates to:

- *avionics and electro-optical systems* line: development for the EFA programme; new systems and sensors for Unmanned Aerial Vehicles; new electronic-scan radar systems for both surveillance and combat; improvements to avionics suites to satisfy the demands of the new fixed and rotary-wing platforms;
- *major integrated defence and security systems* and *command and control systems* lines: the continuation of activities for the upgrading of the current SATCAS products; the programme to develop capabilities and technologies for architectural design and construction of major systems for the integrated management of operations by armed ground forces (Combined Warfare Proposal); naval combat systems; the completion of activities for the Kronos 3D

surveillance radar and the active multifunctional MFRA;

- *integrated communication systems and network*s line: the development of TETRA technology products and software defined radio products; satellite receivers and the ground network for the Galileo PRS programme and communication intelligence solutions; specific functionalities for advanced Unmanned Airborne Systems.

At 31 December 2012, the **workforce** numbered 25,183, down by a net 2,131 on the 27,314 employees at 31 December 2011, attributable to the on-going reorganisation process of various segments, particularly at DRS.

AERONAUTICS

	31 Dec. 2012	31 Dec. 2011
New orders	3,169	2,919
Order backlog	8,819	8,656
Revenues	2,974	2,670
Adjusted EBITA	104	(903)
ROS	3.5%	(33.8)%
Research and development	310	326
Workforce (no.)	11,708	11,993

€ million

REPORT ON OPERATIONS AT 31 DECEMBER 2012
AERONAUTICS

The Aeronautics segment includes Alenia Aermacchi SpA (production of military aircraft for combat, transport, special missions and training, as well as civil applications such as regional turboprop aircraft, aerostructures and engine nacelles) and its subsidiaries, including: Alenia Aermacchi North America Inc., operating in the US market through a joint venture, GIE-ATR (final assembly and marketing of ATR aircraft) and SuperJet International SpA (sale and assistance for Superjet aircraft) joint ventures, which are consolidated on a proportional basis at 50% and 51%, respectively.

New orders at 31 December 2012 came to €mil. 3,169, up by €mil. 250 (+8.6%) compared to 31 December 2011 (€mil. 2,919). The increase was due to increased orders in the *military* line, related to EFA, M346 and C27J programmes, which more than offset the drop in the *civil* line, which had experienced significant orders of ATR aircraft in 2011.

The main orders received in 2012 included the following:

- in the *military* line:
  - for the EFA programme, the contract to supply technical-logistics services for five years. This order forms part of a broader contract agreed by the Eurofighter consortium with NETMA to support the fleet of aircraft of the programme's four partner nations: Italy, Germany, Spain and the United Kingdom (Q1);
  - for the M346 programme, the order for the supply of 30 training aircraft to the Israeli Air Force, which was signed in July as part of a cooperation agreement between the Italian and Israeli governments;
  - for the C27J programme, the order for ten aircraft for the Australian Air Force via a Foreign Military Sales agreement with the government of the United States, with the contract awarded to the partnership between L-3 – as prime contractor – and Alenia Aermacchi (Q2);
  - for the Maritime Patrol version of the ATR 72 aircraft, the additional order for logistical support for the four aircraft under production ordered by the Italian Air Force in 2008 for maritime patrol (Q1);

- in the *civil* line:
  - for the ATR aircraft, GIE-ATR received new orders for 74 aircraft (59 in the fourth quarter), from various airlines, 20 of which from Malaysia Airlines (Q4), 15 from the Colombian Avianca Taca Airline (Q4), 9 from Taiwan TransAsia Airways (Q2-4), 7 from the Australian Sky West Airlines (Q4) and 8 from the Irish Aer Arann Airlines (Q4);
  - for aerostructures, orders for additional lots of the B767, B777, A380, ATR and A321 programmes and for engine nacelles (Q1-2-3-4).

The **order backlog** at 31 December 2012 came to €mil. 8,819 (€mil. 8,656 at 31 December 2011) and is expected to continue expanding over the medium/long term. The breakdown revealed a significant portion for the EFA (36%), B787 (15%), ATR (17%), M346 (9%) and C27J (6%) programmes.

Revenues at 31 December 2012 came to €mil. 2,974, up by €mil. 304 (+11.4%) compared to 31 December 2011 (€mil. 2,670), due to increased operations in the *civil* line and, in particular, to the increased production rates for the B787, ATR, A380 and A321 aircraft.
In the *military* line, revenues were essentially in line with the previous year, due to increased activities for EFA (supply of equipment and logistics activities), M346 and ATR special version aircraft, which offset the reduced production rates of transport aircraft (C27J and G222).

Adjusted EBITA at 31 December 2012 came to €mil. 104 compared to a negative value of €mil. 903 at 31 December 2011, which included considerable "exceptional" costs totalling €mil. 800, €mil. 753 of which related to the B787 programme. Excluding these "exceptional" events, the final result posted at 31 December 2012 showed an improvement of €mil. 207 compared to the corresponding period of the previous year and was mainly attributable to:

- higher volumes of activities (€mil. 36);
- increase in profitability (€mil. 89), mainly attributable to the renegotiation of trade agreements and to the higher contribution from some programmes (A380, Falcon, ATR special version and transport aircraft), which recorded higher costs for the completion of some supplies in 2011;
- the improvement in industrial efficiency as a result of the on-going restructuring and reorganisation plan, the reduction in operating costs and the benefits arising from streamlining the supply chain (€mil. 82).

Accordingly, **ROS** came to 3.5% compared to a negative value recorded at 31 December 2011.

In 2012, **research and development** costs came to €mil. 310 (€mil. 326 at 31 December 2011) and comprise the progress made on the main programmes under development: M346, C27J, B787 basic version, and Unmanned Aerial Vehicles and in activities related to innovative aerostructures using composite materials and system integration. Development also continued on important military (EFA, AMX and Neuron) and civil (CSeries and B787-9 derivative version) programmes.

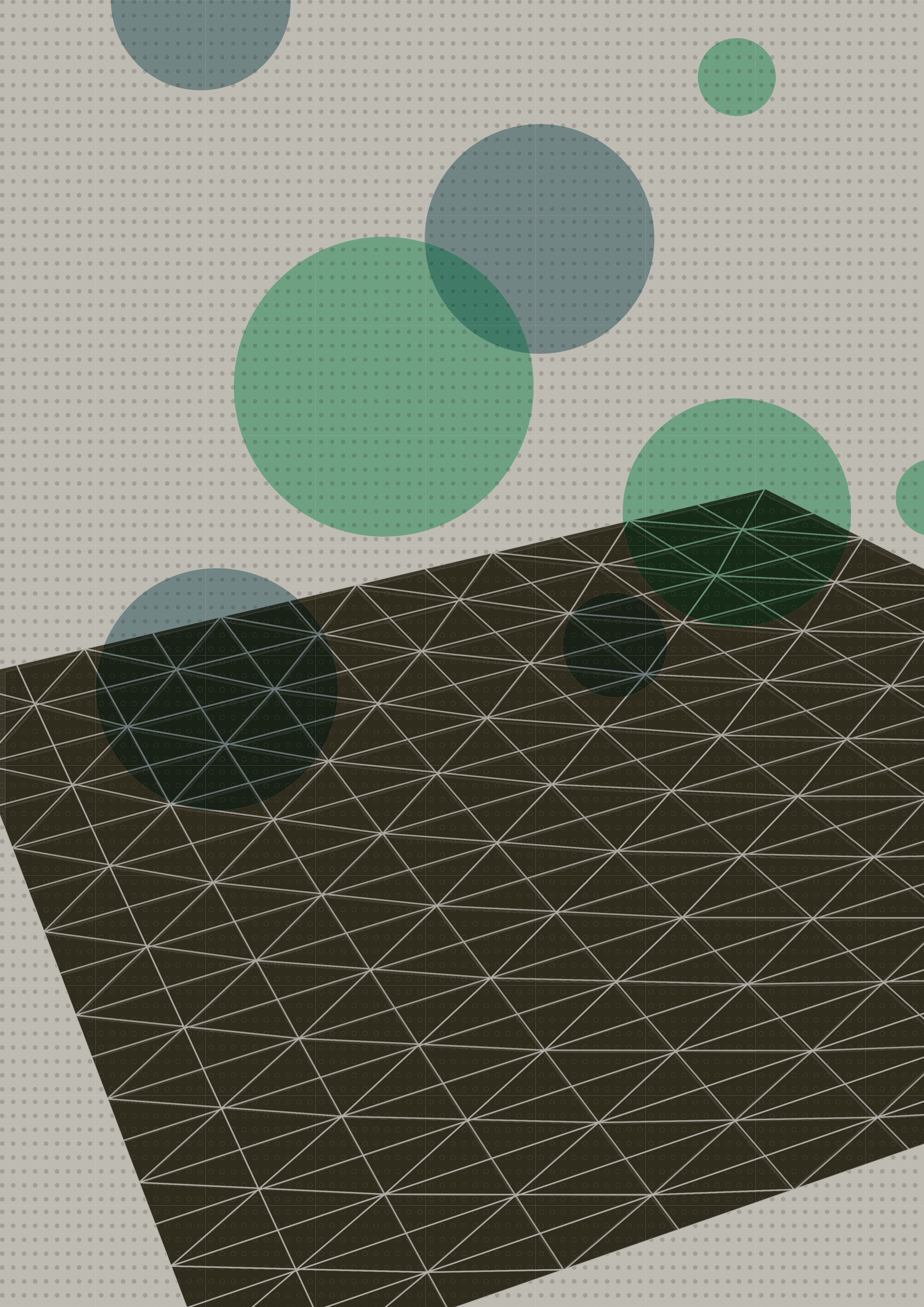
The **workforce** at 31 December 2012 numbered 11,708, down by a net 285 on the 11,993 employees at 31 December 2011. This is due, *inter alia*, to:

- the final hiring of 472 employees, former temporary workers, as per the agreement reached with the trade unions on 8 November 2011;
- the early retirement incentive and redundancy scheme of 620 employees as part of the restructuring and business reorganisation underway.

SPACE

	31 Dec. 2012	31 Dec. 2011
New orders	866	919
Order backlog	2,261	2,465
Revenues	1,053	1,001
Adjusted EBITA	84	18
ROS	8.0%	1.8%
Research and development	53	77
Workforce (no.)	4,131	4,139

€ million



REPORT ON OPERATIONS AT 31 DECEMBER 2012
SPACE

Finmeccanica operates in the space industry through the **Space Alliance** between Finmeccanica and Thales through two joint ventures dedicated, respectively, to satellite services (Telespazio SpA, in which Finmeccanica SpA holds 67% and Thales SAS 33%) and to manufacturing (Thales Alenia Space SAS, which is based in France and has its main industrial facilities in France, Italy, Belgium and Spain, in which Finmeccanica SpA holds 33% and Thales SAS 67%).

Telespazio focuses on *satellite services* in the following segments: networks and connectivity (fixed and mobile telecommunications services, network services, TV, defence and security services, value-added services); satellite operations (in-orbit satellite control, telemetry services, command and control and Launch and Early Operation Phase services, operational management of infrastructures and systems for satellite communications and television broadcasting); satellite systems and applications (earth centre design, development and management, consulting and engineering services, development of navigation, training and meteorology applications) and geoinformation (data, thematic maps, operational services, monitoring services and territorial surveillance).
Thales Alenia Space focuses on *manufacturing* (design, development and production) in the following segments: telecommunications satellites (commercial, government and military), scientific programmes, earth observation systems (optical and radar), satellite navigation, orbital infrastructures and transport systems, equipment and devices.

New orders at 31 December 2012 totalled €mil. 866, down by approximately 6% compared to 31 December 2011 (€mil. 919). This decrease mainly related to the postponement of the order relating to the acquisition of the Cosmo 2G contract, which was expected in the latter period of 2012. The most significant new orders for the period relate to the following lines:

- in the *commercial telecommunications* line, the contract with the satellite operator Arabsat for the implementation of the payload of the BADR-7 sixth-generation satellite (Q4); contracts for the supply of the Turkmensat and Eutelsat 8 West B satellites (Q3); new orders for TV satellite capacity and services (Q1-2) and satellite telecommunications services (Q1-2-3);
- in the *military telecommunications* line, additional lots of the order from the Italian Space Agency and the French Space Agency (CNES) for the Athena Fidus satellite (Q1) and orders for military satellite telecommunications services (Q1-2-3);
- in the *earth observation* line, additional lots of the order for third-generation Meteosat satellites (Q1-2); the order for the supply of the OPSAT - 3000 optical satellite system (Q3); orders for Cosmo data and stations and for GeoEye data (Q1-2-3);
- in the *satellite navigation* line, the order related to the Egnos programme (Q1);
- in the *science programmes* line, an additional lot for the Bepi-Colombo (Q1) and Exomars (Q1-2-3) programmes.

The **order backlog** at 31 December 2012 totalled €mil. 2,261, a decrease of €mil. 204 from the figure at 31 December 2011 (€mil. 2,465). The order backlog at 31 December 2012 is composed of manufacturing activities (58%) and satellite services (42%).

In 2012, **revenues** came to €mil. 1,053, an increase of €mil. 52 compared to the corresponding period of the previous year (€mil. 1,001). Production, broken down for 65% to manufacturing and for 35% to services, mainly relates to the continuation of activities in the following lines:

- in the *commercial telecommunications* line, for the Russian AM8/AT1&AT2, Yamal-401 and 402 satellites and payloads; for the O3B and Iridium NEXT satellite constellations; for the provision of satellite telecommunications services and the resale of satellite capacity;
- in the *military telecommunications* line, for the Sicral 2 and Athena Fidus satellite and for the provision of military satellite telecommunications services;
- in the *earth observation* line, for the satellites for the Sentinel mission (Kopernikus programme, previously known as GMES); for the Göktürk satellite system for the Turkish Ministry of Defence; for the third-generation Meteosat constellation;
- in the *science programmes* line, for the Exomars and Bepi-Colombo programmes;
- in the *satellite navigation* line, for the ground mission segment of the Galileo programme and activities related to the Egnos programme.

Adjusted EBITA at 31 December 2012 came to €mil. 84 compared to €mil. 18 recorded at 31 December 2011, which included “exceptional” costs totalling €mil. 50 due only to the satellite services line. Excluding these “exceptional” events, the final result posted at 31 December 2012 showed an improvement of €mil. 16 compared to the corresponding period of the previous year and was attributable to the above-mentioned higher volumes for €mil. 6 and to the benefits from efficiency-improvement actions started in 2012, for the remaining €mil. 10. Accordingly, **ROS** amounted to 8.0%, compared to 1.8% recorded at 31 December 2011.

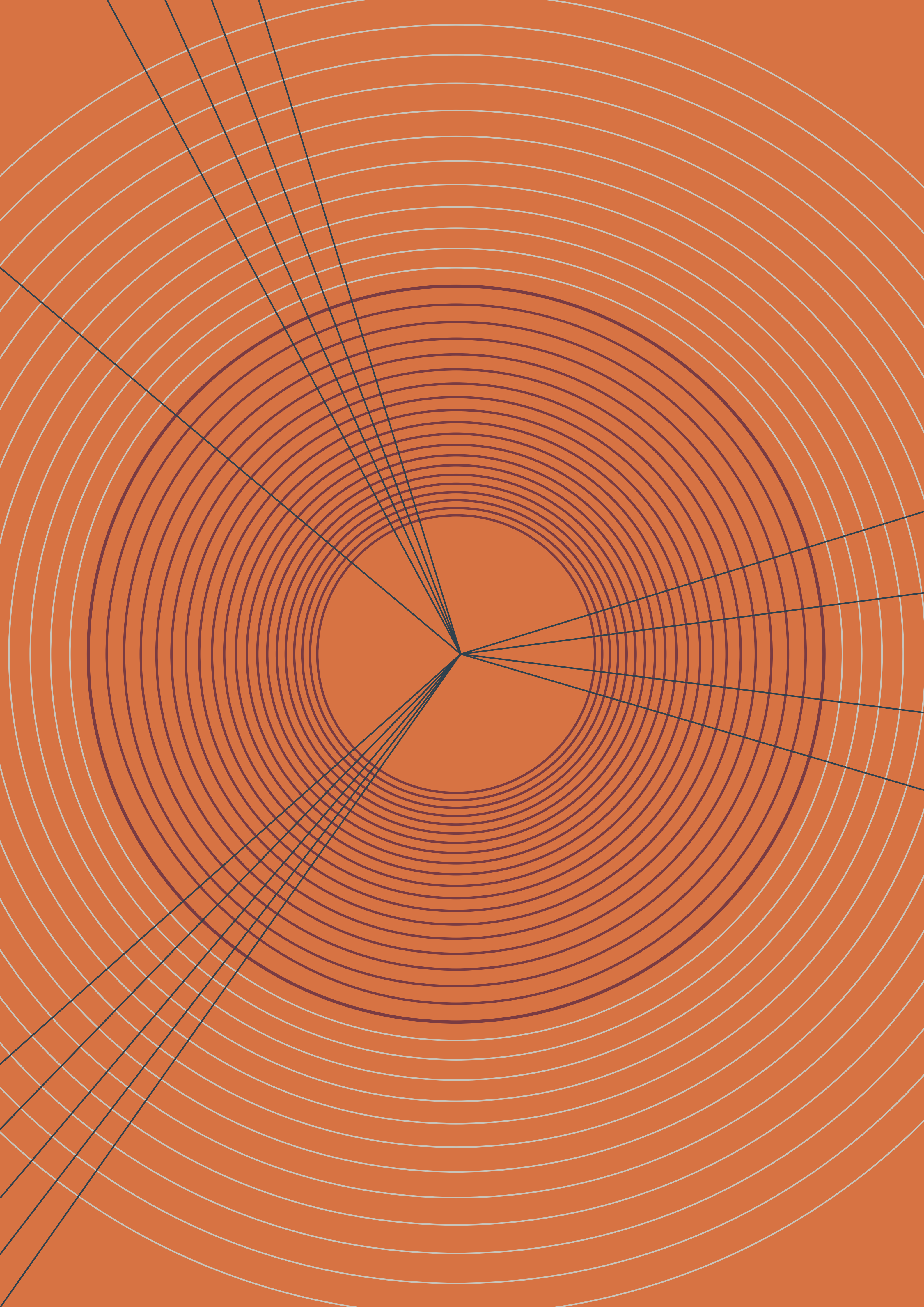
In 2012, **research and development** costs came to €mil. 53, a decrease of €mil. 24 from the figure posted in the corresponding period of the previous year (€mil. 77).
Activities in this area largely included the continued development of systems, solutions and applications for security, emergency management, homeland security (Kopernikus programme) and for navigation/infomobility services (Galileo programme); aerial communications solutions (SESAR); solutions for optimising the satellite band; processing systems for earth observation SAR data; flexible payload devices for military communications applications; studies on landing systems for planetary exploration and on technologies for orbiting structures and life-support systems.

The **workforce** at 31 December 2012 came to 4,131, essentially in line with the value of employees reported at 31 December 2011 (4,139 units).

DEFENCE SYSTEMS

	31 Dec. 2012	31 Dec. 2011
New orders	1,005	1,044
Order backlog	3,381	3,656
Revenues	1,256	1,223
Adjusted EBITA	164	117
ROS	13.1%	9.6%
Research and development	257	247
Workforce (no.)	3,963	4,066

€ million



The Defence Systems segment includes the activities of MBDA, the joint venture with BAE Systems and EADS in which Finmeccanica SpA holds a 25% stake, in missile systems, OTO Melara group in land, sea and air weapons systems and WASS SpA in underwater weapons (torpedoes and countermeasures) and sonar systems.

New orders at 31 December 2012 came to €mil. 1,005, a slight decrease over €mil. 1,044 figure at 31 December 2011, due to lower purchases of *missile systems* and *underwater systems,* which were affected by the postponement of important contracts, both domestic and export and which were offset by the increase in the *land weapon systems* segment, due to a significant order for the supply of additional MAVs to the Italian Army.
Key new orders of the reporting period include:

- in the *missile systems* line: the order to supply Mica air-to-air missiles as part of the upgrade of the Mirage 2000 fleet used by the Indian Air Force (Q1); an order for naval air defence systems in Eastern Europe (Q4); an important contract from domestic customers for support activities within the air defence programme Aster (Q3); customer support orders (Q1-2-3-4);
- in the *land, sea and air weapons system* line: the order for an additional lot of VBM to the Italian Army (Q2-4); the acquisition of the contract for two 127/64 LW naval cannons from Algeria (Q3); the orders for four 76/62 SR naval cannons and eight Marlin 30mm machine gun systems from Oman (Q4); an additional contract related to the *Forza NEC* programme for the Italian Army (Q4) and logistics orders from various customers;
- in the *underwater systems* line: orders related to the FREMM programme from France (Q2) and various logistics orders, as well as other minor contracts in the business areas of heavy and light torpedoes and countermeasures.

The **order backlog** at 31 December 2012 came to €mil. 3,381, compared to €mil. 3,656 at 31 December 2011, of which about 63% related to *missile systems*.

Revenues at 31 December 2012 came to €mil. 1,256, up by about 3% compared to 31 December 2011 (€mil. 1,223), essentially recorded in the *underwater systems* line. Revenues were the result of the following activities in the various lines:

- in the *missile systems* line: activities for the production of Aster surface-to-air missiles, Spada air defence missile systems and Exocet anti-ship missiles; the first deliveries of air-to-surface missiles as part of an important programme for a foreign Country; activities relating to the development of the air defence system in connection with the Medium Extended Air Defence System programme; customer support;
- in the *land, sea and air weapons systems* line*:* production of VBM for the Italian Army; Hitfist turrets kits for Poland; FREMM programme activities; production of SampT missile launchers; the production of machine guns for various foreign customers and logistics;
- in the *underwater systems* line: activities relating to the Black Shark heavy torpedo and the A244 light torpedoes and to countermeasures; activities relating to the FREMM programme and logistics.

Adjusted EBITA at 31 December 2012 totalled €mil. 164, up on the figure reported for 31 December 2011 (€mil. 117), mainly due to the considerable improvement in the profit margins in *underwater systems* segment, which, however, in the latter part of the previous year, reflected the impact of some "exceptional" events related to the deterioration in relationships with certain counterparties and to higher costs on a programme, and in *missile systems* segment*,* which benefitted, in particular, from the start of the deliveries on an important export programme and from successful achievement of some technical milestones. Accordingly, **ROS** came to 13.1% (9.6% at 31 December 2011).

Research and development costs at 31 December 2012 came to €mil. 257, 4% higher compared to €mil. 247 recorded at 31 December 2011. Key activities included: in the *missile systems* line, activities for the Medium Extended Air Defence System programmes and activities for the development programmes for the UK Ministry of Defence, as well as the continuation of development of the Meteor air-to-air missile; in the *land, sea and air weapons systems* line, activities for guided ammunition programmes and for the development of the 127/64 LW cannon; in the *underwater systems* line, activities relating to the A244 light torpedo and the Black Shark heavy torpedo.

The **workforce** at 31 December 2012 came to 3,963, down by 103 employees on the 4,066 employees at 31 December 2011.

ENERGY

	31 Dec. 2012	31 Dec. 2011
New orders	834	1,258
Order backlog	1,978	1,939
Revenues	715	981
Adjusted EBITA	65	91
ROS	9.1%	9.3%
Research and development	17	23
Workforce (no.)	1,830	1,872

€ million

REPORT ON OPERATIONS AT 31 DECEMBER 2012

ENERGY

Finmeccanica is active in the Energy segment through Ansaldo Energia SpA (55% joint venture) and its investees, Ansaldo Nucleare SpA, Asia Power Projects Private Ltd, Ansaldo Swiss AG, the Ansaldo Thomassen group and Yeni Aen Insaat Anonim Sirteki.

The Energy segment specialises in providing *plants and components* for generating electricity (conventional thermal, combined-cycle and simple-cycle, cogeneration and geothermal power plants), post-sale *service*, *nuclear* activities (plant engineering, service, waste and decommissioning) and services related to power generation from *renewable energy* resources.

New orders at 31 December 2012 amounted to €mil. 834, down by €mil. 424 over the €mil. 1,258 figure of the corresponding period of the previous year. Using a like-for-like basis of accounting, new orders decreased by €mil. 65, mainly due to lower orders in the *service* line. Key new orders of the reporting period include:

- in the *plants and components* line: an open-cycle plant in Algeria (Hassi Messaud) (Q2); supply of a gas turbine and alternator in Algeria (Labreg) (Q2); supply of two steam turbines and alternators in Chile (Cochrane) (Q2-Q4); the supply of a steam turbine and alternator in Egypt (Giza North) (Q3); supply of a combined-cycle plant in Tunisia (Sousse D) (Q4); supply of two alternators in Italy (Codrogianos) (Q4); supply of four gas turbines and related alternators in Russia (Moscow and Saint Petersburg) (Q4);
- in the *service* line: the solution contract (changing parts of the turbine) related to the revamping of the nuclear turbo alternator for a power station in Argentina (Embalse) (Q1); the Long Term Service Agreement (LTSA) related to the combined-cycle plant in Tunisia (Sousse D) (Q4); various contracts for spare parts and field service operations;
- in the *nuclear* line: the plant engineering order in Argentina (Embalse) (Q1); the order for the full-scale prototype of the divertor’s inner vertical target for a nuclear power station in France (Cardache) (Q2); the supply of emergency diesel generators, related components and services for the nuclear plant in Embalse, in Argentina (Q4).

The **order backlog** at 31 December 2012 totalled €mil. 1,978, up by €mil. 39 over the €mil. 1,939 at 31 December 2011. The composition of the order backlog is attributable for 41% to *plants and components,* 56% to *service* activities (72% of which is represented by long-term service agreements - LTSAs for scheduled maintenance contracts) and the remaining 3% to *nuclear*.

Revenues at 31 December 2012 amounted to €mil. 715, a decrease of €mil. 266 from the €mil. 981 reported for 2011. Using the same basis of accounting, revenues decreased by €mil. 13, mainly attributable to lower operations in the *plants and components* line. Revenues were mainly generated by the following activities:

- in the *plants and components* line: orders from Italy (Aprilia), Tunisia (Sousse), Egypt (El Sabtia - Cairo, Giza North), Turkey (Gebze) and Algeria (Ain Djasser II, Labreg and Hassi Messaud);
- in the *service* line: LTSAs in Italy (Servola, Rizziconi, Ferrara, Naples, Sparanise, various Enipower facilities), in Poland (Rzeszów) and in Northern Ireland (Ballylumford); in the spare part area, the activities on the gas and steam turbines in Spain (Algeciras and Escatron), Jordan (Amman-East), Bolivia (Carrasco), Turkey, Algeria (Hamma, Batna) and Greece (Chania); activities in Italy (Ravenna, Ferrera and Mantua) and in Chile (Mejillones) in the field service area;
- in the *nuclear* line: in the *plant engineering* area*,* activities continued on the Sanmen project in China with Westinghouse for the new AP1000 nuclear reactors and engineering activities on the Slovakian power station to complete the two VVER 440 reactors (Mochovce). In the *services* area, revamping activities at the power station in Argentina (Embalse). In the *waste and decommissioning* area*,* note the activities on the nuclear power plant in Ignalina in Lithuania and the treatment and storage of radioactive waste from submarines in Russia (Andreeva Bay);

- in the *renewable energy* line: in the *wind* area, note the activity relating to the order from Avellino (Bisaccia) for construction of a 66 MW wind farm; in the *photovoltaic* area, progress on the orders relating to Siracusa (Francofonte*),* Avellino (Bisaccia), Lecce (Martano and Soleto) and L'Aquila (Pratola).

Adjusted EBITA at 31 December 2012 came to €mil. 65, down by €mil. 26 over the €mil. 91 at 31 December 2011. Using the same basis of accounting, Adjusted EBITA showed a decrease of €mil. 7 compared to the previous year, mainly due to lower production volumes and lower industrial profitability in *plants and components* and *service* lines*.* At 31 December 2012, **ROS** was 9.1%, compared to 9.3% at 31 December 2011.

Research and development costs at 31 December 2012 came to €mil. 17, down by €mil. 6 compared to the previous year (€mil. 23). Using the same basis of accounting, there were no substantial changes with respect to the corresponding period of the previous year.

The **workforce** at 31 December 2012 stood at 1,830, down by 42 employees on the 1,872 employees at 31 December 2011.

TRANSPORTATION

	31 Dec. 2012	31 Dec. 2011
New orders	2,290	2,723
Order backlog	8,679	8,317
Revenues	1,719	1,877
Adjusted EBITA	(67)	(110)
ROS	(3.9%)	(5.9%)
Research and development	49	46
Workforce (no.)	6,568	6,876

€ million

The Transportation business segment comprises Ansaldo STS group (*signalling and transportation solutions*), AnsaldoBreda SpA and its investees (*vehicles*) and BredaMenarinibus SpA (*bus*).

New orders at 31 December 2012 totalled €mil. 2,290, down by €mil. 433 compared to the previous year (€mil. 2,723). This decrease mainly related to the lower purchases in the *signalling and transportation solutions* line, which, in 2011, benefitted, in particular, from the recording of the important order for the construction, operation and maintenance of the new automated metro system in Honolulu.
Key new orders of the reporting period include:

- for the *signalling and transportation solutions* line:
  - in the *signalling* area, the order for the first two stages of a signalling system for the train line for heavy traffic use for the Roy Hill Iron Ore project in Australia (Q2); the contract agreed with South-eastern Pennsylvania Transportation Authority for the Positive Train Control integrated signalling system (Q1); the order for the High Speed/High Capacity Line between Treviglio and Brescia stations (Q4); the order for the new Shah-Habshan-Ruwais line in the United Arab Emirates (Q1); the contract for the supply of the railway traffic control system for a high-speed line in Korea (Q3); the order for the development of the computer-based interlocking system (*Apparato Centrale Computerizzato*, ACC) of Brescia central station (Q4); various components and service & maintenance contracts;
  - in the *transportation solutions* area, the AutoHaul™ contract to develop and supply an automated train management system for the heavy transport of the iron ore for Rio Tinto Iron Ore, awarded as part of the master agreement signed with Rio Tinto Iron Ore (Q2); other contracts under the same master agreement, in Australia, and changes relating to the automated metro system project in Copenhagen, named Cityringen;
- in the *vehicles* line, the order for the supply of vehicles for the Miami metro system (Q4); the contract for the supply of vehicles for line 1 and 2 of the Milan metro system (Q4); the change to Trenitalia's 2010 order for high-speed trains (Q2); additional vehicles that had already been optioned for the Fortaleza metro system in Brazil (Q2); service orders;
- in the *bus* line, orders for nineteen buses and various post-sales orders.

At 31 December 2012, the **order backlog** totalled €mil. 8,679, up by €mil. 362 compared to 31 December 2011 (€mil. 8,317). The *signalling and transportation solutions* line accounts for 64.9%, the *vehicles* line for 34.9% and the *bus* line for 0.2%.

At 31 December 2012, **revenues** came to €mil. 1,719, down by €mil. 158 compared to 2011 (€mil. 1,877). This decrease mainly related to lower revenues from the *vehicles* and *bus* lines, which were partially offset by the increased activities in the *signalling and transportation solutions* line. In particular, revenues were generated by the following orders:

- for the *signalling and transportation solutions* line:
  - in the *signalling* area, high-speed projects, train control systems and the Turin-Padua stretch in Italy; contracts for the Bogazkopru-Ulukisla-Yenice and Mersin-Toprakkale railway lines and for the Ankara metro in Turkey; orders for Australian Rail Track in Australia; the contract for the Red Line of the Stockholm metro in Sweden; the order related to the Shah-Habshan-Ruwais line, in the United Arab Emirates; the Union Pacific Railroad project in the US; various components contracts;
  - in the *transportation solutions* area, the Copenhagen, Rome Line C, Naples Line 6, Milan, Brescia, Genoa, Milan and Riyadh (Saudi Arabia) metros; the Rio Tinto projects in Australia;
- in the *vehicles* line, double-decker carriages for Trenitalia; trains for the Danish railways; high-speed trains for Trenitalia; trains for the Dutch and Belgian railways; vehicles for the Fortaleza (Brazil), Milan and Riyadh (Saudi Arabia) metros;
- in the *bus* line, various bus orders, representing 56% of this line's revenues, and post-sales activities.

At 31 December 2012, **Adjusted EBITA** was negative for €mil. 67, up by €mil. 43 compared to the value recorded at 31 December 2011 (negative for €mil. 110).
It should be noted that, at 31 December 2011, Adjusted EBITA included an "exceptional" provision in the *vehicles* line to cover risks related to "non-quality costs" (€mil. 47); excluding this impact, at 31 December 2012, **Adjusted EBITA** in the sector showed a reduction of €mil. 4 compared to the previous year, mainly due to the *vehicles* line. Therefore, at 31 December 2012, this sector showed profitability which was still negative and lower than the expected performance, and which was affected, in particular, by losses in profits in the *service* area.
The *bus* line also showed a decrease (€mil. 3), compared to 2011, in production volumes, which were significantly lower than the previous year and the expected performance (due to lack of new orders), whereas the *signalling and transportation solutions* line showed an increase, due to higher production volumes and lower structure costs, which were partially offset by a negative effect arising from the different composition of the activities developed during the reporting period. Accordingly, **ROS** recorded a negative value of 3.9% (a negative 5.9% at 30 December 2011).

Research and development costs at 31 December 2012 came to €mil. 49 (€mil. 46 at 31 December 2011) and mainly related to projects in the *signalling and transportation solutions* line.

The **workforce** at 31 December 2012 numbered 6,568, down by net 308 employees on the 6,876 employees at 31 December 2011. This relates to the *vehicles* line and to the *signalling and transportation solutions* line.

OTHER ACTIVITIES

	31 Dec. 2012	31 Dec. 2011
New orders	124	319
Order backlog	159	256
Revenues	347	305
Adjusted EBITA	(127)	(149)
ROS	n.a.	n.a.
Research and development	5	6
Workforce (no.)	975	911

€ million

The business segment includes, *inter alia*, Finmeccanica Group Services SpA, which manages group services, Finmeccanica Finance SA and Meccanica Holdings USA Inc., which provide the Group with financial support, Finmeccanica Group Real Estate SpA (FGRE), which manages, streamlines and enhances the Group's real estate assets, and So.Ge.Pa. SpA in liquidation. It also includes the **FATA** group, which provides plant and equipment for the processing of aluminium and steel and contracting services to electricity generation and primary aluminium production companies.

At 31 December 2012, the FATA group had received **new orders** of €mil. 124, down by €mil. 195 compared to the previous year (€mil. 319). At 31 December 2011, the FATA group was positively affected by a large new order received from Oman.

At 31 December 2012, **revenues** of the FATA group totalled €mil. 221, up by €mil. 60 compared to 31 December 2011 (€mil. 161).

At 31 December 2012, the **workforce** of the FATA group numbered 469, compared to 346 employees at 31 December 2011.

The business segment's figures also include **Finmeccanica SpA**, which has been undergoing an in-depth transformation process for several years, redirecting its focus from financial to industrial (guidance and coordination). This process was boosted in previous years by management's commitment to continue steps towards industrial, technological and commercial integration. The Group will, therefore, benefit from an additional stimulus to its profitability through streamlining and cost-saving processes. These processes, aimed at reducing costs and which are progressing as planned, also involved Finmeccanica SpA directly, which has benefitted significantly at 31 December 2012.

RECONCILIATION OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP PARENT WITH THE CONSOLIDATED FIGURES AT 31 DECEMBER 2012

€ million	Equity	of which: Net profit/(loss) for the year
Group Parent equity and net profit/(loss) at 31 December 2012	**4,231**	**(700)**
Excess of shareholders' equities in the financial statements compared with the carrying amounts of the equity investments in consolidated companies	(2,490)	1,660
Consolidation adjustments for difference between purchase price and corresponding book equity	3,904	(1,235)
Consolidation adjustments for:		
› elimination of intercompany profits	(2,227)	1
› deferred tax assets and liabilities	393	60
› dividends from consolidated companies	-	(614)
› currency translation differences	(401)	-
› other adjustments	(12)	-
Group equity and net profit/(loss) at 31 December 2012	**3,398**	**(828)**
Non-controlling interests	305	42
Total equity and net profit/(loss) at 31 December 2012	**3,703**	**(786)**

SIGNIFICANT EVENTS IN 2012 AND EVENTS SUBSEQUENT TO CLOSURE OF THE ACCOUNTS

Industrial transactions

In the **Helicopters** business segment, AgustaWestland signed an agreement on 18 September 2012 with the US-based Northrop Grumman Corporation to take part in the forthcoming tender of the US Air Force for a new Combat Rescue Helicopter (CRH) and the future tender for the new presidential helicopter Marine One (VXX) which is under the responsibility of the US Navy. The partnership between AgustaWestland and Northrop Grumman brings together Finmeccanica's leadership in the rotary-wing sector and the US company's long experience in the area of mission systems and equipment integration on aircraft for the United States Department of Defense.

On 21 January 2013, AgustaWestland and Embraer announced that they had signed a Memorandum of Understanding to set up a joint venture in order to produce the AgustaWestland helicopters in Brazil (for military and commercial applications) intended for local and Latin American markets.

In the **Aeronautics** business segment, the merger of subsidiaries Alenia Aermacchi SpA and Alenia SIA SpA by incorporation into Alenia Aeronautica SpA took effect on 1 January 2012.

On 17 January 2013, Alenia Aermacchi and General Dynamics signed a Letter of Intent that ratifies the partnership of the two companies in the tender for the supply of the future advanced trainer to the US Air Force (T - X programme). The two companies will offer the customer an integrated training system for pilots based on Alenia Aermacchi's T-100 platform, which is a variation of the M-346 advanced trainer in the US market.
General Dynamics will play the role of Prime Contractor – through the C4 Systems business unit – and will share with the team its proven experience as a system integrator in order to deliver to the customer: aircraft, flight simulators, multimedia training courses and logistics support.

The programme to upgrade Finmeccanica's industrial structure in the **Defence and Security Electronics** ("**D&SE**") business segment, which was launched as early as 2010, continued with the corporate streamlining process, in response to the new strategic plan, which provides for an integrated organisation at a European level. This will provide all business areas with a centralized and consistent direction and will further streamline the industrial and investment structure, thus adopting a unique approach to domestic and international customers. In this respect, 2012 saw the completion of the merger of Seicos SpA and Amtec SpA by incorporation into SELEX Elsag SpA, as well as the corporate combination of SELEX Galileo SpA, SELEX Elsag SpA and SELEX Sistemi Integrati SpA into Selex ES SpA, with legal effect from 1 January 2013, and of the related businesses into SELEX Galileo Ltd (now Selex ES Ltd) in the United Kingdom.

On 19 December 2011, Finmeccanica – through SELEX Elsag and Vega – and Northrop Grumman signed a collaboration agreement to meet the NCIRC (NATO Computer Incident Response Capability) - Full Operating Capability (FOC) programme requirements. The programme's aim is to ensure information security at around 50 NATO locations and sites across 28 Countries, thus enabling a rapid and effective detection and response to Cyber Security risks and vulnerabilities. On 29 February 2012, Finmeccanica and Northrop Grumman were awarded the related contract by NATO NC3A (Consultation, Command and Control) Agency.

On 23 July 2012, Finmeccanica signed a strategic partnership agreement with the Italian and Russian postal services for the supply by its subsidiary SELEX Elsag of know-how and technology to develop and modernise the Russian postal network (comprising 42 thousand offices) by upgrading the logistics network and rolling out new digital services. Under this agreement, joint activities will also be carried out in 2012, which will be aimed at identifying further business opportunities that permit the application of Italian know-how to the Russian postal services.

On 15 November 2012, Finmeccanica and EXPO 2015 SpA signed an agreement according to which the Group will be the technology partner of the Universal Exhibition (*Esposizione Universale*) to be held in Milan from 1 May to 31 October 2015, for the Safe City & Main Operation Center platform. The partnership involves the supply of goods, infrastructures and services for a value of €mil. 28.3 and will allow the Finmeccanica Group – through its subsidiary Selex ES – to implement, for the first time in Italy, the innovative Smart, Safe and Secure City model for the surveillance and protection of the exhibition site, pavilions and other infrastructures, as well as for the security of operators and visitors, leveraging on an operating center that is able to monitor and oversee the event in terms of safety.

At the end of October 2012, as to DRS, the new Proxy Agreement was signed with the Defense Security Service, which will be applied to the entire DRS group. The company will be managed by a governance system, which on the one hand considers the needs to protect the national security interest of the United States, and, on the other, ensures higher transparency and governability on the part of the non-US shareholder with respect to the rules imposed by the previous Proxy Agreement.

In the **Space** business segment, the overhaul of Telespazio group's organisational and management model involved the merger of Telespazio Holding Srl, Telespazio group's holding company (67% owned by Finmeccanica and 33% owned by the French company Thales) by incorporation into the operating company Telespazio SpA, as well as the restructuring of certain operations in Germany, through the merger of VEGA Space GmbH and Telespazio Deutschland GmbH into a single company (Telespazio VEGA Deutschland GmbH).

In the **Energy** business segment, the merger of the parent Ansaldo Energia Holding into the subsidiary Ansaldo Energia was completed on 30 June 2012. One of the aims is to streamline the corporate structure, with a view to decreasing operating expenses and increasing profitability.

In the **Transportation** business segment, on 17 July 2012 Ansaldo STS reached a strategic agreement with the China-based Cnr Dalian and the Taiwan-based General Resources Company for licensing the “TramWave” technology to the joint venture, which will be formed by Cnr Dalian and General Resources. The TramWave solution offers cable-free electric power distribution and was developed and patented by Ansaldo STS for use in urban transport systems, thus eliminating the visual impact of traditional overhead cables.

On 17 October 2012, AnsaldoBreda signed a trade agreement with Cnr Dalian for the transfer of AnsaldoBreda’s technology related to the Sirio platform for 600 new trams to be used for public transport in China. With the exception of the first ten vehicles that will be produced by AnsaldoBreda in its Pistoia facilities and that will be used to train Cnr Dalian personnel, the vehicles will be produced by Cnr Dalian in China under licence from AnsaldoBreda.

On 30 August 2012, Finmeccanica (on behalf of SELEX Sistemi Integrati, SELEX Elsag, Thales Alenia Space Italia, MBDA and Elettronica) and the University of Trento signed a three-year master agreement whereby Centro di Ricerca di Diagnostica Elettromagnetica ELEDIA (ELEctromagnetic DIAgnostic) – against financial consideration – grants the above companies a right of option on all results that should arise from the basic research into issues regarding innovation in the RF antennas area, including radiating systems architecture and new-generation sensing devices, as well as Wireless Power Transmission techniques.

On 23 November 2012, Finmeccanica signed a Memorandum of Understanding with the Ministry of Education, University and Research and with the Ministry of Labour and Social Policies, to launch, for the first time in Italy, the “Ticket to Work” project, which is aimed at supporting young generations in the transition from school to work through the enhancement of skills acquired in different work experiences: in Italy and abroad, on both a part-time and full-time basis, either formal or less formal such as internships, temporary and seasonal jobs.

Financial transactions

In December 2012 Finmeccanica seized a favourable opportunity in the capital market, which is characterised by high availability of liquidity, with the consequent drop in price levels, and completed a new issue of Eurobonds on the market of institutional investors. More in particular, the Luxembourg company Finmeccanica Finance SA launched a 5-year bond issue for a nominal value of €mil. 600 and with an annual coupon of 4.375%. The issue price was equal to 99.4% of the nominal value. The coupons will be paid on an annual basis. The issue, like all the other issues which have been previously completed by Finmeccanica Finance, is fully guaranteed by Finmeccanica SpA, is listed in the Luxembourg Stock Exchange and has been implemented within the EMTN programme of a total amount of €mil. 3,800, about €mil. 3,450 of which have been used after the above-mentioned last issue. The proceeds from the issue will be used to refinance, at favourable conditions, part of the current debt expiring in December 2013, in line with the prudent borrowing policy which Finmeccanica has always pursued, extending the average term of the Group’s debt and allowing a reduction in its average cost. In this framework, during 2012, a nominal amount of €mil. 65 of bonds, due December 2013 and with a coupon of 8.125%, was repurchased in the market, at an average purchase value equal to 106.4% of the nominal value. Said purchases must be added to those that were already carried out in 2011, thus determining a total average repurchase value equal to 105.88% of the nominal value of the bonds and reducing the outstanding amount to a nominal amount of €mil.750. The issue was implemented by Banca IMI, Barclays, BNP Paribas, Citi, Commerzbank, Crédit Agricole, HSBC, JP Morgan, RBS, Société Générale and UniCredit.
Furthermore, it must be recalled that in 2012 Meccanica Holdings USA redeemed (in several tranches) bonds to an overall amount of $mil. 66, due July 2019, with a coupon of 6.25%, issued by the company in 2009 to an overall amount of $mil. 500. The average repurchase price totalled 89.81% of the nominal amount, with an average annual yield of 8.13%. Unlike with bonds issued for the Euromarket, these bonds do not need to be cancelled immediately.

Below is a list of bond issues outstanding at 31 December 2012 which shows, respectively, the Euro-denominated bonds issued by Finmeccanica ("FNM") and by the subsidiary Finmeccanica Finance ("FinFin"), the pound sterling-denominated bond issued by Finmeccanica Finance, as well as the bonds issued by Meccanica Holdings USA ("MH") for the US market, specifying switches (if any) from fixed-rate to floating-rate bonds. The average residual life of bond issues is about 10 years.

Issuer	Year of issue	Maturity	Currency	Outstanding nominal amount (mil.)	Annual coupon	Type of offer
FinFin (1)	2003	2018	€	500	5.75%	European institutional
FNM (2)	2005	2025	€	500	4.875%	European institutional
FinFin (3)	2008	2013	€	750	8.125%	European institutional
FinFin (4)	2009	2019	GBP	400	8.00%	European institutional
FinFin (5)	2009	2022	€	600	5.25%	European institutional
FinFin (6)	2012	2017	€	600	4.375%	European institutional
MH (7)	2009	2019	USD	434	6.25%	American institutional Rule 144A/Reg. S
MH (7)	2009	2039	USD	300	7.375%	American institutional Rule 144A/Reg. S
MH (7)	2009	2040	USD	500	6.25%	American institutional Rule 144A/Reg. S

1. Bonds issued as part of the EMTN programme for a maximum of €bil. 3.8. The transaction was authorised pursuant to Art. 129 of Legislative Decree 385/93. Bonds listed on the Luxembourg Stock Exchange. Rate derivative transactions were made on these bonds and led to benefits throughout 2005 from low floating rates with an effective cost of some 3.25%. During 2006, the effective cost of the loan returned to a fixed rate better than the coupon and corresponding to an average of some 5.6%.
2. Bonds issued as part of the EMTN programme for a maximum of €bil. 3.8. The transaction was authorised pursuant to Art. 129 of Legislative Decree 385/93. Bonds listed on the Luxembourg Stock Exchange. It must be recalled that, at the end of 2011, the related transactions on interest rates were terminated in advance, which have allowed to turn the fair value into liquidity for €mil. 36; accordingly, the bond returned to a fixed rate of issue equal to 4.875%.
3. Bonds issued as part of the EMTN programme for a maximum of €bil. 3.8. Bonds listed on the Luxembourg Stock Exchange. To date, the entire residual value of the transaction (€mil. 750) was converted into a floating-rate bond, with a benefit of over 200 basis points in 2012; as currently expected, it should be confirmed in 2013 as well.
4. Bonds issued as part of the EMTN programme for a maximum of €bil. 3.8. Bonds listed on the Luxembourg Stock Exchange. The proceeds of the issue were translated into euros and the exchange-rate risk arising from the transaction was fully hedged. Finmeccanica does not rule out the possibility of re-converting the bond into pound sterling to partially hedge strategic investments in Great Britain.
5. Bonds issued as part of the EMTN programme for a maximum of €bil. 3.8. Bonds listed on the Luxembourg Stock Exchange.
6. Bonds issued as part of the EMTN programme for a maximum of €bil. 3.8. Bonds listed on the Luxembourg Stock Exchange.
7. 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.

All the bond issues of Finmeccanica Finance and Meccanica Holdings 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 presentation date of this Report, Finmeccanica's credit ratings are as follows: Baa3 with a negative outlook from Moody's, BBB- with a negative outlook from Fitch and BB+ with a stable outlook from Standard and Poor's. Specifically, it should be noted that Moody's rating was changed first on 24 October 2012, following its decision to place Finmeccanica's debt "on review for downgrade" in July as a result of the further downgrading of the Italian Republic.

Following the closing date of the financial year, Moody's changed the outlook previously assigned, from stable to negative, in consideration of the financial and operative profile of the Group, as well as of delays in the implementation of the disposals announced on which could weigh further uncertainties also considering judicial measures that involved some senior managers of the Group. On the basis of similar considerations, in February 2013 Fitch decided to place the rating of Finmeccanica on credit watch for a period of six months.

In January 2013, Standard and Poor's decided to downgrade the rating assigned to the medium/long-term debt of Finmeccanica from the previous BBB- with a negative outlook to BB+ with a stable outlook, essentially in consideration of the extension of the time limits relating to the implementation of the disposal plan.

In this regard, it must be recalled that, in rating companies' debt, Standard and Poor's and Moody's use methodologies that take account of a company's strong connection with its government or of significant state interest in a company which may result in the issuer receiving a rating other than what it would have been given on a stand-alone basis. Moreover, the current credit ratings assigned by Standard and Poor's and Moody's do not show, to date, any difference between the "stand alone" rating and the rating determined based on Standard and Poor's "Government related entities" (GRE) and Moody's "Government related issuers" (GRI) methodologies. Overall, Finmeccanica is rated "Investment Grade", with a negative outlook, by Fitch and Moody's, while, after the last downgrading, the rating assigned by Standard & Poor's is "sub investment grade".

Finally, it should be noted that the overall changes that have occurred in the rating of the Finmeccanica's debt have not determined any significant effects on the loans in place that have been confirmed. However, it could be more difficult and costly to use some of the sources of financing used to date. On the other hand, the Group is actively committed to rolling out the steps of the restructuring plan launched in 2011, which include, *inter alia*, the reduction of debt. Moreover, the Group's financial and investment and contract selection policies mean the Group constantly monitors the soundness of its financial position and its financial debt level, which also enable compliance with the indicators the rating agencies refer to.

All the bonds above are governed by rules with standard legal clauses for these types of corporate transactions on institutional markets. In the case of the above issues, these clauses 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 capital) 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 quality 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 Art. 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 preset limits.

Other events

As part of the Group's focus on its strategic sectors, on 21 December 2012 Avio SpA signed an agreement with the General Electric group ("GE") for the transfer of its businesses concerning its aeronautical engine division. The completion of the transaction is subject to the antitrust and regulatory conditions precedent. It is expected that, at the time of the closing of the transaction, Finmeccanica will collect a gross amount of about €mil. 260, to be applied to reduce the Group's debt level, against a total initial amount equal to about half of the sum invested in 2006. Furthermore, Finmeccanica will remain a shareholder holding 14.3% of BCV, which is the company that wholly owns Avio SpA, together with the majority shareholder Cinven. At the end of the transaction, Avio SpA will only conduct the business in the Space sector that has not been acquired by GE. The shareholders have also agreed to start a process, led by Finmeccanica, aimed at increasing the value of the business outside Cinven control, in accordance with the national regulations on the management of strategic companies, also considering the possibility to increase the stake held by Finmeccanica through an option which is exercisable, independently or with third parties, if certain conditions are met. Finally, it must be recalled that the stake indirectly held in Avio was already the object of a previous agreement with Fondo Strategico Italiano SpA ("FSI"), with the condition precedent of Avio's listing on the stock exchange before the end of 2012 under favourable market conditions, which would have allowed FSI to become a shareholder of Avio with a stable approximate 15% investment, acquiring Finmeccanica's entire investment therein. However, this agreement is expired without the conditions for its entry into force having been fulfilled.

FINMECCANICA AND RISK MANAGEMENT

RISKS		ACTIONS
The Group reported significant operating losses. Returning to profitability and a fully sustainable financial position is connected to the success of the restructuring plan launched by management	Management has launched a plan to thoroughly restructure the Group, particularly the Aeronautics, Defence and Security Electronics and Transportation segments, in order to become more industrially efficient and reduce debt. If this plan should not prove to be successful, the Group's ability to effectively compete in global markets, as well as its financial stability, could be negatively affected.	In 2011, the Group launched a thorough restructuring plan, in addition to that begun in 2010, designed to restore efficiency, cut production costs and rationalise its product portfolio and production structure, along with identifying assets to be sold. During 2012 the implementation of this plan has continued and the first significant results were obtained.

RISKS		ACTIONS
The Group is strongly dependent on the level of expenditure of national governments and public institutions which, in the reference sectors of the Group, are affected by further cuts	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 was affected by the reduction in the expense budgets of the public institutions. Given that the expenditure programmes adopted by governments may be subject to delays, changes underway, annual reviews or cancellations, in particular in periods with high instability like those that mark the global economy now, the Group's industrial plans, as well as the financial resources necessary for their implementation, might be affected by changes, even significant ones. The worsening of the reference economic scenario, with a possible negative review of the expense budgets of public authorities that are intended for the sectors in which the Group operates, might affect not only the volumes and results, but also Group debt, due to lower amounts received as advances or down payments on new orders. Moreover, following the acquisition of DRS, the Group is greatly exposed to the risk of US Defence budget cuts. For a description of such situation and of the sequestration process, reference should be made to Note 9 of the notes to the financial statements. Finally, situations of political instability, if any, in those Countries where the Group operates (such as those occurred in North Africa in 2011) could affect the trade activity of the Group in those Countries.	The Group continues pursuing an international diversification policy, which led to the identification of three "domestic markets" (Italy, the UK and the US), and to competition in emerging markets marked by high growth rates, in particular 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 restructuring 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.

RISKS		ACTIONS
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 strong tensions on public budgets have already reduced and could further reduce public grants for R&D activities, for which the Group invested €bil. 1.9 in 2012, 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, were suspended in 2012. Even if the 2012 Stability Law envisages new grants starting from 2013, a non-compliance of the granting levels with that 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 limited resources available on the most efficient programmes with the highest potential of return.

RISKS		ACTIONS
The persistence of the economic crisis could reduce the Group's profitability and its ability to generate cash flow even in the civil sectors	The persistence of the economic crisis not only involves budget cuts by public institutions, which represent a significant portion of the Group's customers, but also significantly affects civil markets, in particular helicopters, civil aeronautics and energy, thereby increasing competition in the sectors in which the Group operates. 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.

RISKS		ACTIONS
Certain Group companies are involved in judicial investigations	As more fully explained in the "Corporate Governance Report and Shareholder Structure", certain Group companies and the Parent Company itself are involved in judicial investigations which, *inter alia*, led to the arrest of the Chairman and Chief Executive Officer of Finmeccanica SpA. Such investigations are currently underway, as well as the closer examinations started by the Group which are described in the same section. These investigations may potentially have significant effects both on the existing contracts and on the outlook for the acquisitions of new orders. In this regard and considering that these legal proceedings are in an initial stage and on the basis of the information obtained and the analyses performed, the directors did not make any specific provision during 2012. However, further developments presently unforeseeable and undefinable could have significant impacts on the Group's performance and financial position, as well as on its relationships with its customers. In this respect, it is noted that investigations have been already started and partially completed at Finmeccanica and other Group companies, aiming at verifying inadequate behaviours, if any, and at setting out more effective processes for the governance system.	The Group has taken all steps necessary to more thoroughly examine any irregularities and to prevent employees, directors and suppliers from continuing to engage in inappropriate practices. These actions, together with the outcome of the actions completed to date, are described in detail in the "Corporate Governance Report and Shareholder Structure".

RISKS		ACTIONS
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 (as in the "Training and operation of the Board of Directors and Boards of Statutory Auditors of

RISKS		ACTIONS
<<<		subsidiaries" directive). 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, as provided in the "Order risk management" directive, Lifecycle Management and Risk Assessment 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 quality, production and finance departments are all involved in making these assessments ("phase review"). 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.

RISKS		ACTIONS
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.	Group companies usually take out insurance policies available on the market to cover potential damages. However, it cannot be excluded that there may be damages that are not covered by insurance policies, that exceed the limit of liability insured or that insurance premiums may be increased in the future. Moreover, 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.

RISKS		ACTIONS
The Group's debt position was affected by the acquisition of DRS in 2008 and by the negative cash-flow of the Transportation sector. This debt could have an impact on the Group's operational and financial strategies	At 31 December 2012, the Group's net financial debt came to €mil. 3,373, equal to 90% of its shareholders' equity at that date. This level of debt is attributable to the acquisition of DRS Technologies (DRS) in October 2008, which caused the Group's debt to rise by €bil. 3.6. Following this acquisition, Finmeccanica reduced its impact through a successful capital increase, the selling off of non-core assets, and a debt rescheduling through the issue of bonds in Europe, the US and the UK. This strategy made it possible to repay DRS's debts and the bridge loan used for the acquisition. However, the inadequate cash flow levels obtained by the Group, also due to the negative performance of the Transportation sector, did not make possible to further reduce the indebtedness. Such debt level is still high, thereby reducing the Group's profitability through higher borrowing costs and exposing it to future fluctuations in interest rates (as to the floating portion), which could influence the Group's strategy, limiting its operational and strategic flexibility, in part due to current market conditions, which could cause the Group's funding needs to increase, at least during certain periods of time. Potential future liquidity crises could also restrict the Group's ability to repay its debts.	The Group has implemented a financial strategy allowing it to significantly extend the remaining life of its debt to over 10 years, and to reduce its exposure to interest-rate fluctuations by issuing fixed-rate bonds. Following the €mil. 600 bond issue, successfully placed in December, the Group already possesses the funds necessary to refinance short-term debts (the next maturity that needs to be refinanced is the redemption of the €bil. 1 bonded loan at 8.125% maturing in December 2013, for which, from 2011, the Group already partially bought back a nominal €mil. 250. The Group also has confirmed short-term credit lines totalling €mil. 2,400 (until September 2015) from a pool of leading Italian and foreign banks. 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. Finally, the Group seeks to continually reduce its debt by keeping a close eye on cash generation and the disposal of assets.

RISKS		ACTIONS
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: Baa3 with a negative outlook from Moody's (from Baa2 with a negative outlook), BBB- with a negative outlook from Fitch and BB+ with a stable outlook from Standard and Poor's. In January 2013, Standard and Poor's lowered its rating on the medium/long-term debt of Finmeccanica from the previous BBB- with a negative outlook to BB+ with a stable outlook. The downgrading of the Group's credit rating in 2011 and 2012 is attributable to the deterioration in the Group's performance, to the delays in the execution of the expected disposal plan and, in part, to the downgrade in the rating for the Italian Republic. Overall, Fitch and Moody's assigned the "Investment Grade" status to Finmeccanica, with a negative outlook, while after the last downgrading performed Standard & Poor's assigned it the "sub-investment grade" rating. A further downgrade in the Group's credit rating below investment grade status, even	As noted previously, the Group is actively engaged in implementing actions identified under the restructuring plan for reducing its debt. Moreover, the Group's financial policies and careful selection of investments and contracts involve being constantly alert to maintaining a balanced financial structure. In seeking out alternatives to pursue, the Group always takes into account the potential impact such could have in the indicators used by the rating agencies.

RISKS		ACTIONS
<<<	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.	

RISKS		ACTIONS
The Group realises part of its revenues in currencies other than the currencies in which costs are incurred, exposing it to the risk of exchange-rate fluctuations. A part of consolidated assets 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 US dollar and pound sterling exchange rates also give rise to translation differences recognised in Group equity that are partially mitigated through the afore-mentioned pound and dollar issues. Moreover, in intercompany financing activities denominated in currencies other than the euro individual positions are hedged at the Group level.

RISKS		ACTIONS
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 and Defence area are MBDA, held at 25% (with partners BAE Systems and EADS), 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 EADS). These joint ventures, which are consolidated by the Group on a line-by-line basis, jointly generated 18% of the revenues consolidated in 2012. 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 share or transfer technological skills or know-how that were originally contributed to the joint venture.	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.

RISKS		ACTIONS
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	The Group keeps a close eye on plan deficits and investment strategies and takes immediate corrective action when necessary.

RISKS		ACTIONS
<<<	recognises the amount of the deficit among liabilities; at 31 December 2012, this amounted to €mil. 289. 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.	

RISKS		ACTIONS
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 in the consolidated financial statements to cover any potential liabilities (totalling €mil. 242 at 31 December 2012). Some of these proceedings in which the Finmeccanica Group is involved – for which a negative outcome is unlikely or 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.

RISKS		ACTIONS
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 authorisation to export the products might have significant negative impact on the Group's operations and financial situation. Moreover, non-compliance with these regulations could result in withdrawal of authorisations.	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.

RISKS		ACTIONS
A significant portion of the consolidated assets relate to intangible assets, specifically goodwill	At 31 December 2012 the Group reported intangible assets of €mil. 7,388, of which €mil. 4,384 relate to goodwill (14% of total assets) and €mil. 1,507 to development costs. The recoverability of these amounts is linked to the realisation 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 consistency of the amounts posted is assessed, in the expected flows used for the impairment tests.

FINMECCANICA AND THE ENVIRONMENT

Strategic guidelines and management approach

In an international context that is evolving and increasingly attentive to sustainable development and to the needs of the future population, the adoption of business strategies aimed at safeguarding the environment and protecting natural resources are the key elements for the long-term maintenance of the value, both economic and social, of a company.

Finmeccanica, which is fully aware of the importance of these issues, works proactively and hard, in particular integrating the concept of environmental sustainability into its business: focus on the management and use of natural resources; research and development of advanced technological solutions; continuous monitoring of corporate performance on environmental issues and health and safety of workers at the workplace.

The Group has renewed its commitment, once again ranking among the leading companies in terms of sustainability in the Aerospace and Defence sector: after having been confirmed once again in the prestigious Dow Jones Sustainability Indexes (DJSI, both Europe and World) in 2012, Finmeccanica is the only company in the sector worldwide, which has been included in both Indexes since 2010. The DJSI, through specific analyses drawn up by the Sustainability rating agency SAM - Sustainable Asset Management, assesses the performance of leading companies in terms of economic, environmental and social sustainability.

Furthermore, Finmeccanica has been voluntarily participating, since 2008, in the Carbon Disclosure Project (CDP), an independent, non-profit organisation that is committed to reducing greenhouse gas emissions and to the sustainable use of water resources. The CDP, on behalf of 655 institutional investors, asks companies to declare corporate strategies, objectives and practices adopted for the management of climate change in a transparent manner. This information is then used by financial analysts and decision makers for their investments. In 2012 Finmeccanica, which is included in the Industrial sector of Italy 100 (represented by the top 100 Italian companies by market capitalisation listed on the Italian Stock Exchange, in nine different market segments), once again obtained excellent results, thus reflecting the intense activity carried out by the Group in relation to Climate Change issues.

The Group's third Sustainability Report for 2012, which has been prepared in accordance with the Guidelines of the Global Reporting Initiative (GRI), version 3.1, in all material aspects, including environmental issues, increasingly shows Finmeccanica's determination to build sustainable value as a driver of technological innovation and an important market opportunity. Therefore, for a detailed analysis of these issues, reference is made to the Sustainability Report.

In 2012, thanks to the implementation of numerous actions, as regards both plants and structures and operations, the Group continued its sustainable path, allocating considerable financial resources to environmental and health and safety activities, which were devoted both to projects implemented and managed directly by the companies, and to the Group's centralised projects. In particular, in relation to the development and implementation of environmental projects that can be used by all companies, the EHS - Environment, Health and Safety organisational unit of Finmeccanica Group Real Estate (FGRE) – which has been tasked with the direction, coordination and control of the Group's activities on environmental and health and safety issues – completed, during the year, the implementation and testing of the Risk Gate model, i.e. the mathematical model which allows the calculation of the environmental risk of the Group's industrial sites through self-assessment. The first survey was carried out on the main Italian sites of the Group and allowed the assessment of the environmental risk associated with various aspects (air, water, soil, ecosystem), thus providing companies with useful indications as to the aspects that require intervention on a priority basis and allowing the same to define a targeted and structured plan of action for the reduction of risks. The implementation of campaigns using the Risk Gate model will be a valid support to the periodical assessment of the risk concerning the Group companies' sites. Furthermore, the Group is considering to also extend the application of the Risk Gate model to the main foreign sites.

In addition to the activities aimed at implementing the Risk Gate model, a number of actions were performed which were aimed at improving the performance of the new web-based system for the Group's EHS reporting: it should be noted that the main actions taken for the 2012 campaign to gather EHS data and information included, in particular, the creation of a number of environmental indicators aimed at making reporting even more complete and exact (e.g. improving reporting of carbon data and of the Group's Carbon Management System - CMS, which is already integrated in the platform), the improvement of procedures for the calculation of emissions into the atmosphere, the introduction of additional checks for consistency aimed at testing, in real time, the consistency and strength of any data entered into the system.

Within the CMS, which has been developed in line with the relevant international rules and standards, in particular with the Greenhouse Gas Protocol (GHG), activities continued in relation to the assessment and management of the environmental impact due to the emissions of climate-changing gases: conducting analyses in relation to the corporate performance achieved in terms of reduction of emissions of carbon dioxide; design, implementation and dissemination of dedicated Group Guidelines (CO_2 and Climate Change: Carbon Management in the Finmeccanica Group; Guidelines for the management of Fluorinated Greenhouse Gases (F-gases) at the sites of the Finmeccanica Group) that can help both to improve the environmental management of these aspects and to improve future performance; implementation by the companies of a number of projects and initiatives aimed at reducing emissions of CO_2, which are subject to monitoring and control in order to assess and establish their environmental and economic benefits (also through the Group's EHS reporting system).
This approach, which is structured in line with the methodology known as PDCA Plan-Do-Check-Act, represents a crucial element for the correct management of aspects connected to environmental protection and, furthermore, forms an integral part of the Environmental Management Systems (EMS) and of the Management Systems for Health and Safety in the Workplace (EHS), which are largely widespread within the Group. For any additional information, reference is made to the 2012 Sustainability Report.

Finally, within the analysis, direction and support activities carried out by FGRE for the Group companies in relation to the Italian environmental crimes legislation (Legislative Decree 121 of 7 July 2011), the Group reviewed the Organisational, Management and Control Models (OMCM) pursuant to Legislative Decree 231 of 8 June 2001 in relation to the Group companies based in Italy. Reviews, additions and updating activities are in progress in relation to the internal procedures for the management of corporate processes on the part of the companies.

Innovation and disclosure of best practices

In the last few decades consumers have become increasingly aware that they can influence market dynamics through a "positive selective pressure" towards products with lower environmental impact, while at the same time pushing the economic and industrial world to these issues, in order to achieve an advantage in a competitive global environment.
Finmeccanica sees Sustainability as both the rationalisation of natural resources that are necessary to the production of finished products, while also going through the redefinition of production processes, and the manufacturing and supply of products and services with lower environmental impact. Therefore, the innovation and sharing of the Group's best practices represent two essential aspects, which form an integral part of the business and of the sustainable commitment of Finmeccanica. Corporate know-how with respect to environmental, health and safety matters is the property of the Group EHS Community, which is coordinated by FGRE and is currently made up of more than 100 dedicated staff members who meet periodically to share best practices and their own management experience.

Communication, education and training

Finmeccanica is committed to creating a corporate culture of sustainability by spreading awareness that every action, though minimal, can actually make a difference, as well as the communication and information at all levels regarding the need to build and implement sustainability on a daily basis.

The numerous opportunities to meet and share experience aim to implement an all-round sustainable vision: during 2012 FGRE organised and coordinated a number of meetings on environmental, health and safety issues (workshops, roundtables to discuss and share plans/projects), which involved all Group companies all over the world. Furthermore, the implementation of the new EHS Portal, the EHS Web Community, which was developed by FGRE in 2011 and is operational since 2012, with more than 150 technical papers and in-depth studies on EHS issues, including Guidelines and sector studies, and which is accessible to more than 190 EHS Resources of the Group located in 4 continents, contributes even more concretely to the dissemination of best practices and to specialist training in these areas.

Energy issues

The structured management of energy issues is of primary importance to the large industrial groups, which are called to face challenges linked to international markets that are increasingly complex and rapidly changing.
Since 2003, Finmeccanica Group Services (FGS), in close collaboration with the community of Energy Managers of the Operating Companies, has developed an Energy Management model for the Group, with the aim of managing energy costs in an integrated manner, thus freeing up economic and financial resources in order to structurally reduce consumption and the environmental impact of the same.
The areas of intervention are divided into 3 macro-areas:

- Energy Supply*:* centralised management of the Group's energy costs, equal to more than €mil. 120 per year, through competitive and transparent negotiations and a constant evolution of procurement models. The negotiations concluded on 2013 supplies will allow the companies to benefit, in the course of the next year, from an estimated reduction in energy costs equal to about €mil. 5.8[1].
  Furthermore, 23% of the Group's Italian consumption will be certified as from renewable source (RECS - Renewable Energy Certificate System).
- Energy Demand: structural reduction in energy demand from sites, through a model that supports the re-investment of savings from negotiations in efficiency improvement initiatives and feasibility studies aimed at encouraging implementation of technology for the use and production of high-efficiency energy from renewable source.
  In the period 2006-2012 the long-term energy efficiency programme of FGS reported investments by the Group companies equal to about €mil. 18, with an average payback of 3-4 years.
- Sustainability, Communication and Social Services: supporting the Group Parent in any initiatives linked to sustainability and communication issues, including the Finmeccanica Sustainability Report, the Dow Jones Sustainability Indexes and the Carbon Disclosure Project.

Relevant environmental issues and Group performance

The most significant environmental aspects of the activities carried out by Finmeccanica are associated with the consumption of energy resources, water resources, production and waste management, use of hazardous substances, emissions into the atmosphere. Apart from these, other aspects are reported, which are particularly connected with biodiversity, soil and subsoil, the management of ozone-depleting substances. A brief description in this regard is reported below. For more details, please refer to the environmental section of the Finmeccanica website (Sustainability/Finmeccanica and the environment).

Energy consumption, emissions into the atmosphere and Emission Trading

The energy sources used within the Group are:

- electricity;
- natural gas;
- diesel fuel for generating power and heat;
- other energy sources (e.g. district heating).

1. This estimate only refers to the negotiable "energy and pure gas" components, excluding system charges, taxes and duties.

Electricity and natural gas represent approximately all the power consumption.
The reporting of the Group's energy consumption has been made even more complete thanks to the introduction of specific indicators by which it has been possible to improve reporting on fuels used for product tests (aircraft, trains, etc.).
Even though Finmeccanica's activities are not in high-energy intensity sectors, the rationalisation of energy consumption is one of the most significant environmental issues for the Group's companies, which have performed and perform operations to improve plant energy efficiency, mainly relating to:

- heat recovery;
- improvements to lighting efficiency;
- replacement of obsolete machinery with more efficient machines.

Of significant importance is the gasification process which has been started by AgustaWestland for some years at the main Italian sites: in 2012, for example, the Vergiate site eliminated the use of fuel oil thanks to the conversion of the plant serving the factory from a thermal power plant to a natural gas plant, thus obtaining a significant reduction in CO_2 emissions.
Furthermore, 2012 saw the completion of the certification of SELEX Galileo Ltd according to the standard ISO 50001:2011 "Energy management systems", which sets out requirements to establish, start, maintain and improve an energy management system.

The atmospheric emissions produced by Group sites are due to both combustion processes and industrial processes: the improvement of the reporting procedures introduced in the web-based system in 2012 has helped to make reporting of air quality parameters (in addition to CO_2 calculated through the CMS, NO_x, SO_2, Volatile Organic Compounds - VOC, Volatile Inorganic Compounds - VIC, heavy metals – Pb, Hg, Cd, Cr, As, Co, Ni – and particulate are also reported) even more precise.

In the scope of application of the Emission Trading Directive (Emission Trading Scheme - ETS) (Directive 2003/87/EC), which implements the Kyoto Protocol for the reduction of greenhouse gas emissions, all the sites covered by the scheme, located throughout Italy, have received certification of their emissions from a body accredited by the Ministry for the Environment, Land and Sea.

Water resources management
In recent years, the issue of water and the problems arising from its management has become central in the global debate. A corporate commitment to sustainability cannot be separated from the definition of strategies on the efficient use of water resources capable of also generating economic benefits, in addition to environmental benefits.
For this reason, Finmeccanica promotes the adoption of a sustainable water management model at its sites, which should not be limited to achieving or maintaining regulatory compliance, but it must necessarily consider the possibility of reducing water consumption in terms of quantity and the pollution caused by waste water in terms of quality.
The definition of performance indicators related to the use of water resources at the Group sites has allowed the identification of several areas for improvement over the years and the subsequent definition and implementation of specific projects. In particular, activities continued in 2012 to establish systems for recycling and reuse of water (including stormwater) at plants, with the conversion of open cycles in closed cycles, where possible.

Waste production and management
Waste production and management, which is among the most important aspects connected to the activities of the Finmeccanica Group, constitute an important environmental sustainability indicator: Finmeccanica, as expressed through its Environmental Policy, pursues the objective of reducing the amount of waste produced and increasing the amount sent for recovery.
Waste is monitored during all phases of operation (storage, transport, treatment, disposal/recovery). The awareness-raising activity carried out by the companies just aims to

make their staff and suppliers working at the sites integral to a virtuous cycle that sees, in the foreground, the reduction in waste production and the recovery of the same, thus maximising their separate collection.

Soil and subsoil

The Group companies have performed environmental investigations to ascertain the state of the soil in the areas that are potentially exposed to a risk of pollution due to the industrial activities carried out there; where necessary, safety and/or reclamation procedures have been started.
In some cases, companies have started the process of developing environmental profiles to identify potential sources of contamination of environmental receptors, so that these can be eliminated and potentially contaminated areas can be remediated and developed. In many cases, the site profiles find no contamination at the sites investigated.
One of the main potential sources of soil pollution at industrial sites is the presence of underground tanks, which are used to store liquid raw materials, fuels and/or liquid waste.
Wherever possible, the Group is taking steps to gradually eliminate or replace underground tanks – which are used to store liquid raw materials, fuels and/or liquid waste and which are one of the main potential sources of soil pollution at industrial sites – with aboveground tanks, in order to reduce the risk of soil contamination.

Biodiversity

In 2011 Finmeccanica launched, due to the large variety of local areas in which it operates and being aware of the importance played by biodiversity, some activities connected to the reporting of the related aspects.
For the second consecutive year, the survey was conducted in line with the GRI and with best practices in sustainability reporting and returned a detailed picture of the location of the sites falling within the scope of the EHS reporting with respect to protected and/or high-biodiversity natural areas (sites inside, containing portions of or near these areas). This allowed the Group to understand, given the type of activities that are carried out therein, the environmental impact on these areas.
The analysis continued through screening of business plans (strategies, plans and actions) in place for managing impacts on biodiversity. The geographical areas in which the Group companies operate are extremely diversified: therefore, the definition of strategies and actions aimed at protecting biodiversity is functional and connected to the characteristics of the related land and habitats, as well as to the particular production activities conducted.

Hazardous substances

Consistently with the Group’s Environmental Policy, the Finmeccanica Group companies implement measures aimed at controlling and reducing the use of substances that are classified as hazardous substances as defined by the legislative, regulatory and administrative provisions for the classification, packaging and labelling of hazardous substances, in order to prevent and minimise risks for the workers’ health and safety and for the environment.
The Group’s sustainable approach to hazardous substances management sees, as a priority, the elimination of hazardous substances, by also changing production processes, where possible; alternatively, the Group may take steps to replace hazardous substances with other lower-impact substances. The operational approach, which is in line in particular with the REACH Regulation (Registration, Evaluation and Authorisation of Chemicals) (EC) 1907/2006, is aimed at improving protection of human health and of the environment, while at the same time maintaining competitiveness and strengthening the spirit of innovation of the European chemical industry.
Due to the amounts of substances and preparations used in the processes typical of companies in the Aeronautics and Helicopters sectors and due to the size of the galvanising baths used for surface treatment of metals, some of the Group sites included in these sectors of activity are classified as being of Major Accident Hazard (MAH). Some of these sites, together with others which are not considered as being of MAH, are subject to the Integrated Pollution Prevention & Control (IPPC) Directive; the aim of the IPPC regulation is to minimise pollution caused by various sources, requiring the compulsory issue of Integrated Environmental Authorisations (IEAs) for

certain types of plant. All the sites subject to IEA must consider using Best Available Techniques (BAT) in their processes to reduce environmental impact.

Ozone-depleting substances

The attention paid by Finmeccanica to climate-changing gases is further demonstrated by the procedures adopted to manage ozone-depleting substances, which are mainly present in cooling and air-conditioning systems of the plants and whose audit is being completed.
During 2012, activities were conducted at various sites in order to remove systems containing these substances and/or to replace them with other ozone-friendly ones, as provided in international agreements and current regulations.
Furthermore, the adoption by the sites of the already mentioned Guidelines for the management of Fluorinated Greenhouse Gases (F-gases), which deals, among other things, with the management and disposal of ozone-depleting substances, can positively contribute to the reduction of the impacts arising therefrom.

FINMECCANICA AND RESEARCH AND DEVELOPMENT

Consistent with its strategic objectives, in 2012 Finmeccanica continued programmes already underway and initiated new research and development (R&D) programmes, focusing on those that contribute to strengthening its technological and competitive position and featuring highly innovative content.

Aerospace, Defence and Security

In the Aerospace, Defence and Security sectors, the subdivision of R&D into the areas of (a) **technological research and development** and (b) **research and development applied to products**, each under a different timeline, allows for proper planning with containment of risk, optimising the incorporation of new technologies in Group products and launching them in such a way that they are able to be commercially successful over time and remain competitive.

a) Technological research and development

These are technological developments that are sometimes described as “basic”, in that they are highly strategic and long term, and that by their very nature require highly-qualified staff and specialised facilities.
Activities in the microelectronics field progressed in various sectors, from the materials and technologies to be used for microelectronic integration, ranging from individual SoC (System on Chip) components to miniaturised, to the hybrid analogue/digital SiPs (System in Package), involving several of the Group’s major companies (**Selex ES** and the **MBDA** and **Thales Alenia Space Italia** joint ventures).

In the area of advanced on-chip integration, in the development of gallium nitride (GaN)- based solutions for creating high-powered, highly-efficient and reliable Monolithic Microwave Integrated Circuits (MMIC) for radar and active array applications, activities continued to optimize and validate the reliability of phase-essential devices for integration into products, especially in critical applications such as space applications. At the same time activities started, which were aimed at developing powered MMIC for AESA (Active Electronic Scanning Array) radars, specifically operating in C-band.

With regard to multi-chip integration, activities continued for the development of high-density integration technologies utilising 3D solutions and for the study of advanced solutions for the thermal management of SiPs. Within the technology for the 3D integration of SiPs, new important progresses were achieved in the development of solutions for the radio frequency (RF) front end of active array antennas, both in airborne applications, for X-band radars, and in naval and land applications, for C-band radars. These developments were aimed, on one side, at lowering costs by going beyond the traditional architectures populated by individual transmit/receive modules developed orthogonally to the radiant plane, to concepts involving combinations of sub-arrays on plane boards or tiles and, on the other side, at the implementation of “conforming” antennas of considerable strategic importance for airborne applications.

As regards the issue of thermal management in SiP context, the studies on the inclusion of Diamond microstructures in materials used in bonding led to significant results in terms of increase in thermal conductivity.
There was continued activity in the area of Micro Electro-Mechanical Systems (MEMS) focusing both on electronics, especially on some key components for electronic scanning antennas, such as high-isolation switches and on inertial sensor applications (**Selex ES**), gyroscopes and accelerometers, and chemical/bacteriological sensor applications.
Research continued in the fields of metamaterials and metastructures to be used in miniaturising microwave devices and advanced antennas (**Selex ES**). Within this sector, a study was started on the potential solutions in metamaterials for the cloaking of structures adjacent to radar antennas, i.e. aimed at reducing their “visibility” in the radiation path, thus mitigating any interferences caused to the functionality of the radar by reflexes from obstacles such as radome supports or other structures on board ship.

With regard to materials for electro-optical applications, within the collaboration between **DRS Technologies** (**DRS**) and **Selex ES**, studies continued for the optimisation of the material (CMT - Cadmium Mercury Telluride) and configuration of the sensor, in order to increase the operating temperatures of the IR radiation detectors up to and beyond 150-160°K, within the MWIR (Mid-Wave Infrared) range, compared to the 70-90°K of traditional solutions. These solutions, named HOT (High Operating Temperature) solutions, allow a considerable reduction of the workload of the cryogenic system with a consequent drastic reduction in the electricity consumption of the thermal chamber system and the increase in operating life. The significant reduction in the powers necessary to manage the IR sensor makes it possible to develop man-portable and un-attended applications, which have so far been the uncontested domain of uncooled technologies, less performing than CMT-based cooled technologies.

Selex ES continued to make advances in its activities (which had been previously developed by SELEX Sistemi Integrati) in the innovative photonic field applied to radar systems, particularly as regards the implementation of delay lines in optic fibres in which it is possible to set up the delay with a resolution of up to 10 bits by directing the optical signal to paths of different length by using optical switches, and fibre-optic network architectures for broadcasting digital and analogue signals using active array antennas.

Work continued to expand the use of fibre optic sensors in detecting chemical, biological and explosive (CBE) threats (**Selex ES**).

There was continued development of uses for photonic technologies in underwater settings, where **WASS** is developing sensor and fibre optic networks for passive monitoring of maritime areas and for advanced sonar equipment, and in the area of rail transportation, where **Ansaldo STS** is researching the installation of sensors using fibre optics on railway lines. Specifically, a device for the dynamic weighing of train cars in transit was developed in 2011 using this technology.

Activity in the area of nanotechnologies has progressed on several fronts: in the field of microelectronics on the use of carbon nanotubes for the manufacture of nano-electronic devices (**Selex ES**), cold cathode emitters for tubes operating in the range of GHz to THz, and material with high thermal conductivity for microelectronic packaging (**Thales Alenia Space Italia** and **Selex ES**).

In the aeronautics field, work continues into the use of nanotechnologies in composite materials, particularly in building electrically conductive composite aerostructures for protection against lightning strikes, and the nanostructuring of metal alloys (**Alenia Aermacchi**). **MBDA** is currently conducting studies of high-resistance nanostructured ceramics to create radomes operating in the millimetric band. **Thales Alenia Space Italia** is researching high-resistance shields to be used on re-entry vehicles and hypersonic flights.

In addition, new materials and structures technologies stimulate future development and production capabilities, both with low infrared and electromagnetic footprints and with high resistance, thanks to the use of composite materials and specific welding treatments that are also intended for use on future national security projects (**AgustaWestland**, **Alenia Aermacchi** and **OTO Melara**).

b) Research and development applied to products

All of our companies are heavily involved in maintaining, improving and streamlining their range of products to maintain and increase their competitiveness and customer satisfaction ratings thanks to the mentioned basic research and development. The Group is conducting technological and systems development primarily in the following areas:

- in **radar**, with modern electronic phased-array (PA) scanning systems with integrated personal mobile radio module arrays for earth-observation by satellite (**Thales Alenia Space Italia**); aircraft and helicopter navigation and surveillance (**Selex ES**) and detection of and

defence against aircraft from sea and land-based platforms, including those for air traffic control (**Selex ES**). In the field of on-board radar for airborne platforms (fixed-wing or rotary-wing), activities continued on the transmit-receive module active in X-band, both in terms of production of the standard module and in terms of development of advanced versions for an increased power radiated by the standard module and for the new configurations of the module and of arrays of modules. The transmit-receive module is the fundamental building block for the entire family of active-array avionic radar products of **Selex ES**, which range from highly-compact PICOSAR surveillance radar, specifically designed for use with UAVs (Unmanned Aerial Vehicles), and advanced SEA SPRAY radars, to a multiple-mode avionic radar called VIXEN-E with active electronic scanning, that will form the future system for combat aircraft, which has already been chosen for the new-generation Swedish Gripen NG aircraft.
Meanwhile, **Selex ES** has continued developments to revamp the exciter receiver processor which, using new digital technologies, will improve performance, particularly of very-high resolution image modes (Synthetic Aperture Radar - SAR), with regard to mechanical scanning radars (which have retained a level of market penetration) and to new electronic scanning radars. Particularly important is the completion of the development of the compact digital receiver which, as a result of the cooperation between **Selex ES** and **Thales Alenia Space**, will represent a key building block common to the different radar systems of the companies involved. The family of C-band and active-array ground and naval radars continued to be developed through the KRONOS family and the innovative MFRA (Multi-Functional Radar Active) system. In the area of passive covert location radars, the transportable demonstrator of the Aulos system allowed the solutions adopted to be validated. Further progress has been made in the field of multi-functional and multi-role radar systems (Multirole Active Electronically Scanned Array-MAESA), designed to satisfy a growing demand for radar solutions integrated into a single antenna system;

- the electronic warfare segment of **defence electronics** continues to be part of **SELEX Galileo**'s core business (now Selex ES). With its variety of systems for electromagnetic defence against radars and missiles, the Group's product range has expanded, allowing Finmeccanica to complete its integrated on-board defence and surveillance range for all air platforms. **DRS** has achieved important developments in the area of SIGINT (SIGnal INTelligence), even cooperating with the former **SELEX Elsag** on field and on man-portable applications, where an integrated COMINT (Communications Intelligence) product and a cutting-edge Direction Finding antenna were developed. In 2012, the Group continued to upgrade its avionics products, expanding its catalogue with new high-performance, more compact solutions, particularly suitable for use on UAVs, and new interesting developments began on land applications. These developments include the continual upgrading and extension of the protection bands of **Selex ES**'s counter-improvised explosive devices (IED) product;
- in **intelligence, surveillance, and reconnaissance (ISR) systems**, significant progress was made in **Selex ES** in avionics through the upgrading of products such as the Airborne Tactical Observation and Surveillance System (ATOS) and with the launch of various projects aimed at developing integrated multisensory systems able to significantly improve performance while reducing cost, size and weight, with potential application in manned and unmanned aerial vehicles. Within this context, note the significant progresses made in the development of the SkyISTAR system, i.e. a modular, multi-mission ISR system designed for UAV platforms and developed based on the expertise acquired with the ATOS project;
- in **electro-optics** for battlefield applications and for both land and sea integrated weaponry systems, and fixed-wing and rotary-wing aircraft applications (**DRS**, **Selex ES**). **Selex ES**, in cooperation with a well-known American company, is focusing on new laser sources and more compact systems in the development of a new generation of Direct Infrared Counter Measures (DIRCM) for active protection of both military and civil aircraft against man-portable missiles, at the same time as the ancillary developments that, in **DRS** context, are oriented towards a DIRCM system based on elements distributed on the platform. Development still continues on the EO Hyperspectral system for avionics applications.

Thanks to the analysis of the high-resolution image capture, this system, also designed for space applications, using hundreds of channels in the visible and infrared bands, even permits determination of the type of material of which the object observed is made from a distance (**Selex ES**).
DRS has completed the development of a family of smaller stabilisation platforms capable of holding more electro-optic sensors and several types of lasers. **DRS** successfully completed development of highly-integrated, low-cost, night-vision products based on non-cooling technologies, which are also of high value to the consumer market. Finally, **Selex ES**, and **DRS** began development on multi-sensory solutions, based on visible and infrared band imaging, for detecting IED threats;

- in **land defence systems** and related components, **OTO Melara** has intensified development efforts geared towards solutions applicable in asymmetric scenarios to provide solutions that enable operating capacity, starting with those that improve situation awareness while reducing soldiers' exposure to risk. Developments continued for innovative active and passive protection Counter-Rocket, Artillery, and Mortar (CRAM) systems and the wheeled and tracked Unmanned Ground Vehicle (UGV) families (Moving and Land Robotics), which represent cutting-edge technology with significant market potential for that sector. **OTO Melara** has begun work on extending the range of solutions in the field of guided munitions;
- in **missiles systems**, with special reference to advanced seeker missiles, both infrared (IR) (**Selex ES**) and radar, and to active proximity fuses and related command and control systems (**MBDA**), development continued on the application of new digital receivers to improve existing seekers (Aster Meteor) and the use of passive PA antennas for missile-based applications (**MBDA**);
- in the area of architectures for major systems for land, naval and air traffic management **command and control systems** (**Selex ES**), and that of specialised avionics systems based on advanced processing, presentation and control devices for fixed-wing and rotary-wing aircraft (**AgustaWestland**, **Alenia Aermacchi**, and **Selex ES**). In this segment, the simulation aspect is taking on a great deal of importance, particularly with the activities of **AgustaWestland** and **Selex ES**. The latter continued in defining a new generation of flight simulators.
Also as to naval systems, there have been benefits from the development presently underway on network-centric architectures with an impact on Combat Management Systems (CMS) using modular solutions for the new generation command and control systems market (**Selex ES**).
Following the completion of the detailed architectural design for the Forza NEC (Network Enabling Capability) project conducted by the Integrated Project Office consisting of representatives of the Ministry of Defence and of the industrial companies (**AgustaWestland**, **Alenia Aermacchi, MBDA, OTO Melara** and **Selex ES**) the implementation phase began. Forza NEC is a project launched by the Italian Army to make its components network-centric in order to provide an effective response to the commitment needs of the Italian Army in the face of a continuing increase in missions outside of Italy and to the demand for interoperability with other Coalition Forces operating internationally;
- in **security** (homeland security), where there continues to be a strong commitment to the development of technologies and solutions for major systems for territorial control systems, maritime traffic control systems, maritime and land border control systems, civil protection and crisis management systems, as well as port and critical infrastructures security systems. **Selex ES** has been given the mission of coordinating the Group companies in developing joint, integrated solutions. Among **Selex ES**'s achievements, those that deserve particular mention are the studies, feasibility analyses and testing conducted in the following areas, building upon what was done the previous year:
  - › testing of the first LYRA 10 prototype installed on the Lince multirole light tactical vehicle;
  - › integrating LYRA Ka-band sensors into the system for monitoring traffic in the Venice Lagoon, which is part of the MOSE (*MOdulo Sperimentale Elettromeccanico*) project;
  - › researching the integration of a monitoring system based on a network of unattended sensors capable of interfacing with other types of monitoring and surveillance systems;

› developing passive electro-optical surveillance systems with automatic target tracking;
› developing architectural solutions that are inherently resistant to cyber-attacks on command and control systems and critical infrastructures;
› research in the field of secure quantum cryptographic protocols for encrypting information; specifically, studying the design of the Quantum Key Distribution Network for metropolitan area applications;
› developing modelling and simulation tools and systems in order to consolidate and extend the ability to evaluate the performance of integrated systems in scenarios involving multiple heterogeneous interrelated entities (sensors, surveillance centres, command and control sensors, land- and sea-based actuators).

Also in the area of homeland security, **DRS** is continuing to develop command and control and situational awareness systems for the protection of borders, forces and critical infrastructures. These systems use a wide variety of data from surveillance systems consisting of distributed radar, electro-optical sensors, sonar and unguarded ground sensors, blended into a single operating vision using a service-based distributed architecture.

Selex ES continued R&D activities as previously planned within the Law Enforcement system as a structured support for investigative activities (identifying vehicles using the Automatic Number Plate Reader - ANPR, Make and Model Recognition - MMR) and Physical Security systems (intrusion detection systems, video-surveillance and monitoring of urban areas, critical infrastructures and events), integrating video-analysis algorithms and benchmarking performance with off-the-shelf products.
Within the context of Integrated Security (physical security and logical security) some synergistic solutions that might provide an adequate offering of SCADA systems in conjunction with Cyber Security systems are at an advanced stage of research and implementation as are the algorithms and models of Cyber Intelligence in support of the security of critical Infrastructures and Sites and of large archives and systems for the processing, presentation and transmission of information.

Together with the developments of the Perseus-CSP (Communication Service Platform) platform, interoperability of heterogeneous communication systems was further implemented that allow different organisations to communicate and interoperate if necessary, extending it to broadband (WiFi, 3G, 4G) communications and services according to new operational requirements in professional and military arenas. In this area, special consideration was given to information security, for which development of IP (Internet Protocol) ciphers, multilevel security solutions, key and access management systems have continued, with increased focus on secure receivers under Galileo PRS.
Again as regards security, **Selex ES** continued to develop products and solutions for the identification and protection of networks from cyber-attacks (Cyber Security), particularly as regards the most serious ones of an ATP (Advanced Persistent Threat) type. Specifically, some very important contracts were won, such as the NCIRC (NATO Computer Incident Response Capability) for the protection of the NATO sites, and a Supercomputer was activated that makes it possible to work also in terms of prevention of attacks through a correlation of events on the web;

- the **smart solutions**, in which following the audit activities known as Green Technology Audit completed in 2011 by the Parent, with the support of the Chief Technology Board of the Group, which made it possible to assess the applicability of technologies, products and solutions of the Group companies to sectors “adjacent” to the core business, particularly with reference to green/clean technologies. In 2012 the decision was taken to register the trademark “Planet Inspired” as a play-off characterising the technological output of the Group. This decision is associated to specific classes of products related to the sustainable innovation, and is being increasingly used by Finmeccanica.
Adopted since the beginning of 2012 to promote and enhance the positioning of the Group on specific markets with significant growth, the Planet Inspired Solutions offer addresses

the following specific market sectors: Earth monitoring (Climate Change), Natural Resources management, Energy Management, Sustainable Mobility, Healthcare & Education and Environmental Security & Response and, more in general, the Smart Cities & Communities.

Thanks to the development activities carried out by joint working groups between the Parent and the Operating Companies (**Selex ES**), it is now possible to note two first successes achieved with the newly-implemented integrated technology offer "Planet Inspired Solutions":

› in October 2012, **Finmeccanica** was selected as strategic partner of a Real Estate company, Rudin Management in New York, for the development and installation, in the next two years, of a software solution for energy optimisation and security aimed at managing information and energy flows in 16 skyscrapers located in Manhattan;
› the **Finmeccanica** Group will be the technological partner of Expo 2015, the Universal Exposition which will be held in Milan from 1 May to 31 October 2015, for the Safe City & Main Operation Center platform.

Work continued on the development and functional consolidation of integrated intelligent transportation systems, particularly as they relate to security and safety, for the transport of goods and people and for new needs required for smart cities. **Selex ES**, **Ansaldo Energia** and **Ansaldo STS** have begun collaborating on researching and developing integrated solutions for the management and security of industrial plants, oil and gas pipelines, power plants and grids and transportation systems, using **Selex ES** base products such as HMI-GRS SCADA (for transport supervision and control) and S3I (for video-surveillance), and **Ansaldo STS**'s SMS product, particularly tailored to metro and railway applications. With regard to supervisory control and data acquisition (SCADA), efforts are being made to obtain SIL2 certification;

- in naval, land, aeronautics and satellite **communications**, especially secure tactical and strategic communications networks, work continued in the field of architectures for future communications networks and network-centric services and in the development of a family of solutions based on the software defined radio (SDR) paradigm, an essential aspect of the emerging, irresistible need for integrated global communications (**Selex ES**). In 2012, tests were carried out on hand-held and single-channel vehicular terminals, while development activities continued on a four-channel vehicular terminal and on the Man-Pack. The R&D activities are increasingly focusing on the development of the SW Waveforms, in order to expand the usability of the radios to the different operating missions and to ensure the interoperability thereof with traditional radios.

With regard to the SDR Avionics, analyses were carried out in order to define the best configuration which could be proposed on the basis of operational requirements. Furthermore, activities continued within the Wideband Data Link satellite communications segment, based on SDR platform, in order to increase the data rate of the Line of Sight version. The development of IFF (Identification of Friend or Foe) and ADS-B (Automatic Dependent Surveillance-Broadcast) solutions for use in UAV and military aircrafts travelling in civilian corridors and civil aircraft led to the achievement of an important contract with Honeywell for civil application. **DRS** is also working on integrating high-performance computers, on networking and on signal processing capacity within an intelligence communications sub-system capable of, among other things, performing functions such as locating the source of the signal and its processing, for air and land applications and for troops.

In the area of *military and space (ground terminals) communications*, efforts continue to strengthen the Group companies' role as a telecommunication system provider by fully introducing IP-based convergence platforms. In this segment, **Selex ES** is continuing to develop network-centric solutions for Forza NEC forces, for the range of All-IP products, for IP encryption and related key management systems, for satellite communications (mesh ground terminal) where the development of SOTM (satcom-on-the-move) terminals with X- and Ka-band phased-array electronic scanning antennas is being completed.

In *professional secured communications*, work continued, as part of the TETRA (TErrestrial Trunked RAdio) project and the Digital Mobile Radio (DMR) standard, on building communications networks in Italy and abroad, in sectors ranging from public safety and security to oil and gas, to transportation, in addition to numerous applications for local agencies. Besides the completion of the TETRA catalogue and the setup of complex network solutions for the DMR, the Core Network solutions for heterogeneous networks were further developed, implementing a Core (CSP-Perseus) solution based on IP and SIP, capable of supporting several radio access technologies. These also include, in addition to the traditional technologies such as TETRA and DMR, broadband technologies such as WiFi and LTE (Long Term Evolution), as well as extensions to military communications. In particular, some experiments were carried out abroad as regards LTE communications in Homeland Security context, which proved that today ours is a cutting edge solution.

In the area of *professional communications for transportation*, the Group continued the development of the equipment for on-board applications, as well as the analysis of changes related to IP signalling and movement towards broadband (LTE) began, with a strong commitment within the standardisation bodies and in close collaboration with **Ansaldo STS**. On-board systems for high-speed trains and metro systems were also successfully developed and offered. Furthermore, development activities continued for Air Traffic Control communications, with the programmes related to the VoIP (Voice over IP) use in the land networks and to the future development connected to the European SESAR (Single European Sky ATM Research) programme.

In the area of *satellite telecommunications*, the research activities were focused on the study of advanced solutions for new-generation broadband and military payloads, post Sicral 2, and flexible payloads for dual applications with dedicated developments on agile frequency converters. Self-financed activities continued for the study of new-generation UHF-band systems and telemetry and secure command systems based on numeric architectures. The development of payload technologies and components, such as low-noise amplifiers and telemetry transmitters in the different bands available also continued.

In the area of *satellite navigation and infomobility*, studies continued for the SESAR programme for the purpose of providing technological solutions in the area of safety of life satellite communication for new-generation ATM (Air Traffic Management) or of NavCom platform for aviation use. Activities continued in support of railway transportation with the GRAIL-2 project, aimed at enhancing the autonomy capacity of a train in defining its position, without the support of the automatic train control system (ATC).

In line with its goal of acquiring its own satellite capacity, **Telespazio** continued activities, which started in 2011, for developing a satellite system capable of providing communications services and broadband Internet access for residential customers and small businesses in Latin America. It also continued to analyse the requirements for the development of a product capable of offering a higher level of security of the transmitted data, thanks to an innovative system for the local management and regeneration of encryption keys that permits the regeneration of keys in a short time, thus allowing the optimisation of the band. A patent application has been filed for this innovative system;

- in the area of **space**, **Thales Alenia Space Italia** activities related to radar technology were focused on the critical developments of enabling technologies such as new-generation transmit-receive modules based on Gallium Nitride components, calculation platforms with very high computational capacity and deployable antennas for compact synthetic aperture radars. Furthermore, activities were completed for the development of critical elements regarding payloads and platform with funds of customer-funded R&D for the 2nd generation COSMO-SkyMed system.

In *orbital infrastructures and transport systems*, **Thales Alenia Space Italia** continued to develop enabling technologies for the space exploration within the specific programme of the Piedmont Aerospace District and of calls for the seventh framework programme of the European Commission. Specifically, studies related to environmental control and life support (ECLS) systems and energy generation systems (regenerative fuel cells). Furthermore, studies continued on the re-entry and exploration vehicles technologies, the integrated analysis of multi-physical phenomena and the resulting aero- thermo-dynamic design optimisation. Within the demonstration for pressurised and landing modules, innovative mechanisms were tested for rendezvous and docking, locomotion (i.e. hub motor) and landing (shock absorber per landing legs), while research is being conducted into interfaces and algorithms for collaboration between the crew and robotic systems.

In the area of GNSS (Global Navigation Satellite System) services and infrastructures, **Telespazio** completed activities for the SCUTUM (SeCUring the EU GNSS adopTion in the dangeroUs Material transport) programme, whereas activities continued for SIRÂJ - “SBAS Implementation in the Regions ACAC and ASECNA” programme and were started for MEDUSA (MEDiterranean follow Up for EGNOS Adoption) programme. All the programmes were financed by GSA (European GNSS Supervisory Authority). MEDUSA aims at implementing actions capable of bringing the Euromed (Euro Mediterranean) Countries towards the adoption of EGNOS (European Geostationary Navigation Overlay Service) services.

As regards “Scientific Systems and Applications”, **Telespazio** started activities related to the CIRCE (Cooperative International Space Station Research data Conservation and Exploitation) project, within the FP7-INFRASTRUCTURE context, which is aimed at developing an international infrastructure capable of effectively supporting the exploitation of the scientific data generated by the International Space Station and by other important space missions. This project is the continuation of the previous programme ULISSE (USOCs knowLedge Integration and dissemination for Space Station Experimentation) funded by the European Commission and designed on a network of operating centres for space research and experimentation.

In 2012 **Telespazio** continued its research into GAL PRS (Galileo Public Regulated Service), while carrying out troubleshooting and the development of solutions for operation automation and planning, system certification, simulation of satellite service scenarios and developing user applications.

As regards the issues of scientific and planet exploration, **Thales Alenia Space Italia** continued research into automation technology for entry descent and landing aimed at studying stages of descent and precise landing on planets using algorithms and guidance navigation and control (GNC). An entry, descent and landing facility was completed and tested, which was developed as part of the project based on a diorama representing the Martian terrain and a “drone” that simulates the descent module.

Telespazio actively participated both in the studies of missions for the direct exploration of NEOs (Near Earth Objects), the small celestial bodies that risk to collide with our planet, and in the Space Situational Awareness programme of the ESA. Within this context, it was granted a loan from the European Commission (CIPS Programme - Critical Infrastructure Protection) for the implementation of the “SPARC” (Space Awareness for Critical Infrastructures) project, within the European Union Programmes for the prevention and management of risks for the safety and protection of European Critical Infrastructures. The objective of the SPARC project is to analyse any risks that might be caused by certain space phenomena and objects (space debris, solar activity, Near Earth Objects) and that might represent a threat for critical space infrastructures and for critical earth infrastructures (e.g. systems for energy production and distribution, transport infrastructure, telecommunications networks). After the risk analysis, the project will identify any possible (technology and operating) countermeasures and will define strategies for the mitigation of risks and of any possible consequences. The SPARC project continues and extends the activities developed by Telespazio in two previous projects ("SecureSpace" and "2SI") funded within the scope of the European Programmes for the Protection of Critical Infrastructures, thus allowing the strengthening and consolidation of corporate experiences and expertise in this important field.

Another project of **Telespazio** which was launched in 2012 was "VIRGILIUS - a Guide to Elders' Well Being" presented within the context of the Call for proposal AAL-2011-4 for Ambient Assisted Living funded by the MIUR. The objective of this project is to provide a transnational, indoor and outdoor localisation service to elderly people by using a specific terminal, integrated into a group of value-added services depending on the local context.

As regards the "User services & Applications" products, **Telespazio**, together with other **Finmeccanica Group** Companies, started activities related to the Corporate Project FASST (Finmeccanica Application Simulation STore and collaboration environment), which intends to create a distributed on-line simulation environment on the model of the "App Store", in order to allow the Finmeccanica companies to share know-how, simulators, models and sample codes so as to extend the offering of simulations and training of the Finmeccanica Group.
In 2012, the proposal for the implementation of an Aerospace District (financed by the MIUR) in the Campania region successfully passed the assessment phase and **Telespazio** (the lead manager of one of the four projects, "Mistral - MIcro SaTelliti con capacità di Rientro AvioLanciati", Air-Launched Micro-satellites with re-entry capacity) launched the detailed preparation of the project, the objective of which is the Development of an Air-launchable Space Micro-platform.

Finally, in the field of *robotics,* activities continued for the development of a test bench for the purpose of studying and validating technologies, architectures, GNC algorithms and Rover autonomous cooperation, robots and rendezvous and docking systems.

As to the *geo-information* line, **e-GEOS** (80% **Telespazio** and 20% Italian Space Agency) has continued to develop innovative architectural solutions aimed at containing production costs and improving the performance of terminals for commercial users when it comes to COSMO-SkyMed data and products. The analysis and study related to the application of the GNSS Radio Occultation (RO) technique were also started, which is an innovative method to observe the atmosphere from the space, making it possible to obtain high-resolution and accuracy data of extended coverage.
Furthermore, **e-GEOS** continued activities aimed at consolidating pre-operational services on key GMES (Global Monitoring for Environment and Security) Emergency products, at developing web solutions for the management and distribution of geospatial products, as well as studies on the GMES security governance and for enlarging the R&D portfolio for the development of GMES security products in support of the European External Action Service (Thematic Mapping, Monitoring Services, Near Real Time Services). Finally, activities continued for the development of image processing and data fusion solutions for products within the context of maritime surveillance and for the study and development of products on interferometry processing from SAR and processing/data fusion for ground deformation analysis;

- with respect to **aeronautical platforms**, in the helicopters division **AgustaWestland** continued its strategy of investing in technology along three main areas: technologies that enable the use of the platform "every time" with even better performance in terms of comfort and of being eco-friendly, that of the unmanned technologies, particularly for solutions in support of naval operations; and that of technologies related to tilt-rotor aircrafts. Among the major technological development activities involving materials are those related to the use of thermoplastic materials: as to their structural use, there are those related to the drop testing of new flight control models rather than fly-by-wire controls, which can also be used to support European initiatives (Clean Sky); as to the eco-friendly technologies mentioned above, there are those related to actively reducing vibrations and noises, as well as research into propulsion solutions and improvements to achieve greater efficiency and lower fuel consumption. Work continued on research into technologies for "all-weather" helicopters, including experiments with the Enhanced Vision System (EVS) and avionics upgrades for fly-by-wire flight controls and for prognostic components (Health & Usage Monitoring System - HUMS);

- in terms of products, **AgustaWestland** continued the development of the AW169, which was unveiled during the Farnborough International Airshow in 2010 and which completed its first flight in May 2012. The AW169 is a new-generation, twin-engine helicopter designed to satisfy the growing market demand for 4.5 tonne class helicopters. At the 2011 Paris Air Show, **AgustaWestland** presented the AW189, a twin-engine multipurpose helicopter (8 tonne), available in configurations from 12 to 16 passengers (excluding crew), which made the first flight at the end of the same year, an ideal product for long-range operations for the oil and gas market. As to new products, the main technological developments pertain to new active rotors, which replace traditional systems with electrical-controlled elastomer actuators along with variable rotors to optimise performance. In-flight testing continues, also for certification purposes, of the prototype of the AW609, the first tilt-rotor aircraft employing cutting-edge systems and technologies with regard to flight, propulsion and transmission controls integrated into highly-reliable nacelles. Against this background, **AgustaWestland** has begun technological research into the next generation of tilt-rotor aircraft (Erica) that can operate independently as both a fixed-wing and rotary-wind platform. Finally, development has continued on the AW149 medium-class (8.5 tonne class) multi-purpose vehicle, equipped with an advanced integrated mission system, capable of responding to the most modern operational demands.

Alenia Aermacchi continued to make developments regarding training aircraft, especially relating to the ultra-modern M346-Master military trainer, for which various orders have already been received.
Activities continued for the development of M346 Light Combat (Affordable Advanced Defence Aircraft - AADA) which is suitable for specific homeland protection missions and out-of-area operations, based on the integration of new sensors (radar, Electronics Surveillance Measurement - ESM, targeting pod) and weaponry. The company is also developing integrated training systems (ITS) based on an advanced training philosophy that incorporates a Ground Based Training System (GBTS), Mission Support System, Training Management Information System and logistics support. **Alenia Aermacchi** is continuing to develop aerostructure technologies that are contributing greatly to the full production of the main components (fuselage) of Boeing's B787 aircraft (the Dreamliner).

With regard to technologies, specifically those within the National Military Research Plan, work continued on the "Future Technology for Aerial Refueling" (FTAR) and "Damage Management of Aircraft Composite Structures Monitored by Embedded Sensor" (MACMES) projects. The company is also involved in the "Guided Bomb IMU/GPS" project (led by **OTO Melara**) with regard to the preliminary studies on the integration and aerodynamic configuration of an unmanned aircraft.
In Europe, work is continuing on the MIDCAS (MIDair Collision Avoidance System) project, aimed at developing and testing advanced technologies and solutions to protect against airborne collisions, in which the company is partnering with other major European groups.

As part of domestic initiatives, **Alenia Aermacchi** is participating in the SMAT (advanced land observation system) project sponsored by the Region of Piedmont. Based on the positive results achieved by the investments made in PHASE 1, the Piedmont Region recently refinanced the project (PHASE 2) for 2012-2013, in which **Alenia Aermacchi** still participates. Moreover, the company, under the initiatives by the Region of Puglia, is taking part in the development of two research projects: I-Design Foundation and AEROCOMP. As for the remaining domestic programmes, the company is moving forward with the Plan for Development and Innovation in Aerostructures Integration Technologies (TIAS) which aims to develop, design, optimise and build innovative structures for commercial aircraft and UAVs in order to consolidate its role as independent prime contractor.

Finally, activities continued to design the Neuron prototype (technologies for the Unmanned Combat Air Vehicle - UCAV, which carried out its first flight in December 2012.

The Falco Medium Altitude Endurance (MAE) UAV system (**Selex ES**) for surveillance and tactical observation (Maximum Take-Off Weight <500 kg class) is fully operational. Activities continued to develop an advanced version (Falco EVO) with a significant increase in payload through some changes to the Falco, including an increased wingspan, which carried out its first flight in July 2012.

Transportation and Energy

Companies that operate only in the civil sector also continue to carry out significant R&D activities, in part in collaboration with companies operating in the Defence and Security sector. Specifically, important activities are being carried out in the following areas:

- in **Transportation**, development activities primarily regarded tracked transportation systems and vehicles for city, suburban and heavy railway vehicles, as well as related signalling and traffic controls systems (**Ansaldo STS**) and security systems. The main areas were:
  - › the European PROTECTRAIL (for which **Ansaldo STS** coordinates 29 European partners) and Secur ED projects in the security area*;*
  - › the European ALARP project, for the research, design and construction of a more efficient Automatic Track Warning System (ATWS) for train yard worker safety;
  - › the research and development of integrated solutions, targeted at reducing electricity consumption and minimising environmental impact, particularly within a regional urban context. In Naples **Ansaldo STS** conducted extensive testing of the TRAMWAVE catenary-free pick-up system (magnetic ground power supply system) developed by the two companies for trams, within the Sitram project (2015 industry);
  - › activities continued for the implementation of techniques of controlling the converters and the permanent magnet motors. In the testing phase, the permanent radial flow magnet motor created for urban rail was bonded with new class-220 C resin of engines. The continuation of the development of axial-flow permanent magnet motor for "electric wheel" tram applications (**AnsaldoBreda**) is being assessed;
  - › the SICURFER project, within which **Ansaldo STS** coordinates a group of scientific and industrial entities, including **AnsaldoBreda**, which aims at developing and experimenting technologies for monitoring railway infrastructures in order to enhance their safety and security levels and to increase efficiency of the maintenance activities;
  - › developments in the field of signalling (train distancing platform) have focused on creating new generations of wayside and on-board European Rail Traffic Management Systems (ERTMS) for high-speed lines and Communications Based Train Control (CBTC) for metros. In the field of ERTMS, functional adaptations to the new European UNISIG standard (S.R.S. 2.3.0.d) are being made for both wayside and on-board platforms; in addition, the new signal encoder and the smaller transponders (balise) have application not just for railways, but also for CBTCs. Moreover, progress is being made, with regard to CBTCs, on ground/train integration in configuring the system that envisages the "driver" on board trains, while the task of defining the functional requirements for driverless operation has been completed. Also with regard to ERTMS (on-board equipment side), the designing of a new, cutting-edge BTM (Balise Transmission Module) and a new odometry management system are at an advanced stage;
  - › following the growing demand from the railway market, in the second half of 2012 Ansaldo STS launched activities related to satellite localisation and to the ERTMS satellite system; specifically:
    - the type of the satellite receiver to be used in the component dedicated to the localisation function, defined as LDS (Localisation Device System) was defined;

- the specification of the functional requirements of the satellite localisation system, with the "virtual boa" principle, is currently being consolidated, in order to support the first Australian contract of Roy Hill. This work will also represent a reference for the European standardisation activities related to the new ERTMS satellite system, of which Ansaldo is the leader within the Unisig context;
- the 3INSAT project was launched, funded by the European Space Agency (ESA), in which Ansaldo STS is the lead manager of an industrial consortium. The study and experimentation in Sardinia of the application to railway signalling of the communication networks alternative to the GSMR, such as public GSM and TETRA, are planned; these experimental activities will support the developments focused on the RioTinto AutoHaul contract, recently acquired;

› developments in the field of entirely automated (i.e. driverless) subway systems have confirmed their effectiveness (**AnsaldoBreda** and **Ansaldo STS**). Innovative manufacturing technologies have been developed by riveting the chassis of the trains for the Taipei metro. The new integrated power pack that combines the traction converter, auxiliary converters, battery charger and redundant control logic into a single integrated module has been completed;

› development of new component and system solutions (wayside platform) for the progression of interlockings towards the Wayside Standard Platform (WSP). The new interlocking WSP platform has been completed and work has begun on customising it to extend its use to RBC/PTC (Radio Block Centre/Positive Train Control) using GSM-R, GPRS and other radio networks. Also in the wayside field, the designing of a new track circuit with an audio frequency capable of transmitting, in the FSK mode, the conditions for the free/busy management of the track circuit, and in ASK mode, the information for the train of safe speeds;

› cross-over technologies regarding which **AnsaldoBreda** has activities involving predictive diagnostics for carriages, basic architectures for traction converters equipment standardisation projects, polymers/thermoplastics and structural adhesives (a bumper has been designed for pedestrian impact for trams and bonded junctions for metro lines), high-performance electric motors, manufacturing processes and software engineering;

› the technologies related to the energy efficiency of the electrified transportation systems are currently being developed; **AnsaldoBreda** coordinates the SFERE project (*Sistemi Ferroviari: Ecosostenibilità e Risparmio Energetico*, Railway Systems: Environmental Sustainability and Energy Saving), funded by the Ministry for the Research (PON 2007-2013), which sees the participation of **Ansaldo STS**, the target of which is to study the employment of supercapacitors on board and on land for the recovery of brake energy;

› again within the PON 2007-2013 projects, Digital Patterns relate to the development of the design IT aids, which sees the involvement of both **AnsaldoBreda** and **Ansaldo STS**;

- in **Energy**, in 2012, activities of Innovation and Development of Products of **Ansaldo Energia** mainly focused on developing innovative solutions for plants that generate electricity from fossil fuels and on related services. It also maintained a significant commitment in the nuclear sector and to the diversification of renewable resources. Specifically, work continued with regard to the development of gas turbines featuring **Ansaldo Energia** technology, the programme to further develop the AE94.3A, a Class-F turbine, in order to optimise it and improve its performance in terms of power and efficiency (through the redesign of the first phases of the compressor, the optimisation of the use of cooling air and the redesign of the profiles of the turbine phases), and expanding its operational flexibility and the range of fuels that can be used.

  Also as regards the Class-E machine, the design phases related to the improvement of the performance were completed, with reference both to the compressor, by increasing its evolving capacity, and to the turbine part, by changing the optimisation development of the cooling air realised in Class F and generating new profiles of rotor and stator blades in order to construct new blades suitable for the new operating point defined by the new compressor; therefore, activities continued for the qualification of the micro-cast products for the turbine hot blades and the production of the modified cool blades of the compressor.

A significant development effort was also dedicated to the service programmes, designed to satisfy the requests for greater flexibility of the combined-cycle plants and for the operational optimisation of gas turbines. A line of business has been dedicated to the assessment of the deterioration of the critical parts of the units subject to frequent on/off cycles, fast load variations and prolonged hold times at minimum running power, for the purpose of offering maintenance plans dedicated and optimised for this type of functioning. Furthermore, programmes continued for the creation of advanced tools for assessing the "residual life" of the forged parts of the rotor for gas turbines (based on appropriate non-destructive investigation techniques and on databases of characterisation of materials), which will be able to enhance the offer of Ansaldo Energia for those plants for which an extension of the operating life compared with the normal expected life, is required.

As regards steam turbines, the development programmes are aimed at implementing the catalogue of new products to be used on machines both in conventional cycles and in combined cycles. Specifically, the attention was focused on the construction of a new 41" discharge vane for those machines that work with high pressures on the condenser.

In 2012 activities also continued for the development of the product generator, with the completion, in particular, of design activities, with the support of the most powerful instruments for the electromagnetic thermal three-dimensional calculation, of the hydrogen and stator water-cooled turbo-generator (1000 MVA) suitable for the coupling with the ultra-supercritical turbine (USC) of 850 MW.
The basic project was developed for a new and more performing model of air turbo-generator of 220 MVA suitable for the coupling with a gas turbine AE94.2 Evo of 180 MW.

At the same time as the developments carried out with the machines, the Group also focused on the machinery and plant automation, set up the development of the new control and protection systems for gas and steam turbines (under the **Ansaldo Energia** brand), based on Symphony Plus (ABB - co-development agreement) platform, including the SIL3 protection system.
The activities related to the "augmented reality" were implemented with the field test of the "Smart Powerful Eye" (Sant'Anna High School of Pisa) multimedia helmet provided with a bidirectional audio and video support (monocular video cameras and monitors) that allows the connection and interaction between the operator on the field (e.g. inside the combustion chamber) with other engineers within the company.

With regard to the development of renewable energies, a Cooperation Agreement was signed with the German company Bekon Holding AG, which holds an innovative technology for dry anaerobic digestion. The Agreement provides, *inter alia*, for **Ansaldo Energia** to contribute to the development of the technology, and for this reason some studies were started to assess the feasibility of the replacement of the composting section (which generates a product of limited commercial value) with a thermal treatment that would allow significant increases in the overall production of energy per unit of product treated and to achieve savings in the disposal of by-products at the landfill, with the aim of acquiring a considerable competitive advantage over the competitors (these activities were supported by the expertise developed on pyrogasification systems). The acquisition of the Turbec and Turboenergy business unit at the end of 2012 led to the launch of research and development activities related to the mini-turbines, focused mainly on cogeneration deployment, on the development of machine diagnostics and on the review of maintenance plans and programmes.

As to the nuclear segment, the subsidiary **Ansaldo Nucleare** continues the studies and the developments into Generation IV nuclear reactors, specifically in the development of the lead-cooled fast reactor through the EU-FP7 LEADER contract, of which it is the coordinator.

An Italian coordination board was established regarding to this technology, which includes further interested industries, research centres and Universities. **Ansaldo Nucleare** also participates in other European projects and specifically in the CDT project for the design of the European irradiation facility Myrra, located at the site of the Belgian nuclear research centre (SCK-CEN) in Mol.

All activities relating to Generation IV nuclear reactors fall within the development framework established by the Sustainable Nuclear Energy - Technology Platform (SNE-TP), specifically, the European Sustainable Nuclear Industrial Initiative (ESNII), in which the leading European stakeholders are taking part.

Group Governance of Technologies and Products

To further strengthen Group Technology Governance, improve the interoperability of the companies and find technological synergies, **Finmeccanica** continued with the CTO (Chief Technology Officer) Board, which was introduced in 2011.
This Board was comprised of all the CTOs and heads of R&D for the Group companies. Its primary responsibilities are: managing the companies' innovative strategies at the Group level by coordinating the Innovation and R&D Strategy Plans, scouting out future BVR (Beyond Visual Range) technologies, coordinating and handling relations with universities and research centres, identifying and managing collaborative projects on common technological platforms, involving a greater number of companies of various sectors, the governance of MindSh@re® [2] and Group intellectual property.
The Technological Communities within the MindSh@re® platform remain active. Given its intercompany configuration, they represent an important tool for sharing information and steering development, research and integration activities and implement in operating terms those cross-sector projects necessary to the growth of the Group that would increase its heterogeneity.
To date, the seven Mindsh@re communities include around 350 technicians, researchers and engineers from all the Group companies:

- ***Radar Community***: advanced radar system technologies;
- ***Software Community:*** technologies, systems and methods for avionics, naval and land-based software as well as military, civil and security software;
- ***Advanced Materials and Enabling Technologies Community***: basic emerging technologies, including innovative materials, metamaterials, MEMS, photonics, robotics, nanotechnologies, and the design and management of eco-compatible products;
- ***Integrated Environments for Design and Development Community***: analysis and rationalisation of processes, methods and tools along the entire product development cycle, system engineering, and all stages of mechanical and electrical design;
- ***Simulation Technologies Community***: local and distributed simulation technologies and systems and advanced training of operational personnel;
- ***Intellectual Property Community***: dissemination, rationalisation, management and enhancement of intellectual capital and technologies (patents, trademarks, know-how, trade secrets);
- ***Autonomous System Community***: for promoting internally the strategy for the enhancement of autonomous systems and ensuring the success of the Finmeccanica products. This community was created in 2012 following the initiative of the CTO, who deemed this issue worthy of being appreciated at a Group level. In 2012, initiatives originating within the communities of the MindSh@re® project continued through numerous workshops and the re-financing of the projects started in 2011 and with a new Corporate R&D project (partially financed by the Group Parent), with the goal of promoting collaboration between the various Group companies and universities, research centres and end users. The re-financed projects are on the following issues:
  - **MITRA** (Microwave Integrated Tile for Radar Application). Development of a demonstrator of a highly-repetitive subset for an active array electronic scanner (microwave tile), to reduce its cost and make it easier to manufacture the antenna;

2. MindSh@re® is a registered trademark of Finmeccanica SpA.

- **FASST** (Finmeccanica Application Simulation STore and collaboration environment). Collaborative online environment using the App Store concept to allow companies to share their internal know-how, experience, tools and simulation modules;
- **IPL@ab**. A central Group service to aid in rationalising and exploiting the patents, trademarks and technologies held by the Finmeccanica companies.

The new project submitted and funded in 2012 is MULTIPRO, related to the development of a software environment with a multi-scale approach for the analysis of the behaviour of structures made in composite materials and in metallic materials, and devices for electronics, in applications in the sector of the plants for energy production, air transportation, space and defence electronics.

Other research and development activities - Domestic Platforms

Domestically, Finmeccanica promoted the SEcurity Research in ITaly (SERIT) technological platform, along with the National Research Council (CNR), for the development of a technological roadmap in the area of security.
Another domestic platform in which Finmeccanica participates through its companies, including **Telespazio**, is SPIN-IT (Space Innovation in Italy), created to promote innovation and strengthen Italy’s presence in European and international research programmes in the space field.
Many Group companies continue to take a significant direct part in the ACARE Italia platform for guiding R&D in the aeronautics field by coordinating the action of all the Italian players in the sector.
Finmeccanica also participates in numerous Italian Technology Alliances (ATI) promoted by the directorate-general of the Ministry of Education, University and Research (MIUR) for the internationalisation of research in order to meet the targets and challenges of the Europe 2020 Strategy.
Today ATI represents the synthesis and the convergence on targets deemed of priority for growth, such as nanotechnologies, electric mobility, product innovation, biometric technologies, the future of the Internet, photonic sensors and sources, and space.

Aerospace Technological Cluster

On 30 May 2012 the MIUR launched a Call for Tenders known as “Notice for the development and enhancing of National Technological Clusters”, which saw the participation of the association named “Cluster Tecnologico Nazionale Aerospazio” (CTNA) as a result of the initiative of the Founder Members, among which **Finmeccanica**.
The Strategic Plan of the CTNA has been developed by a team of highly qualified industrial and R&D experts, both in the aerospace and space fields, belonging to major groups, universities, research centres and innovative services, in collaboration with **AgustaWestland**, **Alenia Aermacchi, MBDA, Selex ES, Telespazio, Thales Alenia Space.**
The plan outlines the initial selection of four projects for the participation in the call for tenders, which was carried out in a structured manner so as to ensure compliance with the national and European innovation policies, with the technological needs of the companies and the scientific and technological relevance of the contents of such projects for the growth and competitiveness of the Italian industry. Of the four projects selected, three come under the leadership of Finmeccanica companies, namely: as regards the rotary wing TiltrotorFX (Enhancement of the Control System of Tilt-rotor aircraft for the Reduction of the Work and Pilot Load and the Protection of the flight envelope) with the leadership of **AgustaWestland** and with the participation of **Selex ES**; TIVANO (Innovative Technologies of New-Generation General Aviation Aircraft), for the fixed wing control, under the leadership of **Alenia Aermacchi** and SAPERE (Space Advanced Project Excellence in Research and Enterprise) in the space sector under the leadership of **Thales Alenia Space.**

European and NATO Programmes

This section outlines new R&D projects and international programmes in which the Group companies or the Parent Company itself were involved in 2012.

- As regards the **EDA** (European Defence Agency), below are reported the projects/activities that are expected to start in 2013 and 2014, as well as an update on the activities described in the previous Reports, respectively for:
  - **Selex ES** (activity on the part of the former SELEX Elsag);
  - the ESSOR programme. The strategic objective of the ESSOR programme is to provide the basis for the development and production of Software Defined Radio (SDR) in Europe with the goal of having equipment operating in Europe through 2015;
  - CORASMA (COgnitive RAdio for dynamic Spectrum MAnagement) - Cat. B, Status: in progress, where **SELEX Elsag** is the Leader of the System Architecture;
  - TACTICS (TACTICal Service oriented architecture) - Cat. B., Status: negotiations underway; **SELEX Elsag** is in charge of the Tactical Service Infrastructure, Technology Studies on SOA Stack & Services.

  Please note the completion of the projects:
  - ETARE (Enabling Technology for Advanced Radio in Europe) - Cat. B., **SELEX Elsag** was the Leader regarding the Security aspects;
  - WOLF (Wireless rObust Link for urban Force operations) - Cat. A., Status: completed; **SELEX Elsag** was in charge of the Interoperability requirement, System Architecture Modulation and Access scheme.
- **Selex ES** (activity on the part of the former SELEX Galileo):
  - the System-on-Chip (SoC) programme. The System-on-Chip (development of a family of System on Chip & Digital Processing platforms for Defence and Space applications) is still in progress (Role: Computing and Architecture Requirements);
  - DUCAS - Detection in Urban scenario with Combined Airborne Sensors, leaded by SELEX Galileo (Role: Database acquisition with hyperspectral sensor), is currently in progress, although the activities to be carried out by the subsidiary have already been completed;
  - ECOMOS - European Computer Model for Optronic Systems Performance Prediction, the Project Arrangement of which has already been signed by Italy and is currently waiting for the signature of the other Countries (Role: Validation of the model on SELEX Galileo products – Thermal Chambers – and preparation of the user's manual);
  - Long Range IR System - study of (SW and HW) technologies and techniques for an infra-red vision that would allow better detection and recognition distances than those currently available (Status: phase 1 completed in May 2012. Awaiting for the authorisation of the phase 2 that was expected to start in Sep./Oct. 2012 - Value: €mil. 1,749);
  - SIT-GA - Hyperspectral System operating based on infra-red systems (Status: phase 1 completed in December 2012. Awaiting for information on the allocation of funds for phase 2 - Value: €mil. 1,509);
  - SS-IRST - Static Starting InfraRed Search and Track (for Naval Applications) (Status: phase 1 completed in November 2012. Awaiting for information on the allocation of funds for phase 2);
  - IED Standoff detection through Modulated Electromagnetic Emissions (Status: Project in progress);
  - TIME CRITICAL TARGETING in an URBAN ENVIRONMENT utilising Assisted Target Recognition (ATR) and Automatic Data Prioritization (ADP). Short Title: TCTUE - Study of operational concepts, Study and development of algorithms and models (Validation through simulations) (Status: project in progress);
  - WIRELESS Communication Systems between Systems and Sub-systems of Naval, Land and Avionic Platforms (Status: project in progress);
  - Smart Dust Sensing (SDS) for the Stand-Off Detection of traces of explosives and chemical agents (Status: phase 1 signed on 28 December 2012);

› it should be noted that 2012 saw the completion of the EOMAP (European Optical Roadmap) project (Role: Technologies Definition and Roadmap of Electro-Optical Systems).

- **Selex ES** (activity on the part of the former SELEX Sistemi Integrati):
  › TELLUS Follow-on - Technology Enablers for Low Power and Low Cost Urban RF Systems (start of operations: 2013);
  › TACTICS - Tactical Service Oriented Architecture (start of operations: 2013);
  › ANEVA - Automatic Network Explorer and Vulnerability Assessment frame work (start of operations: 2013);
  › ESPERANCE - FARADAYS Implementation (start of operations: 2014);
  › Feasibility Studies, starting in 2013, involving the Radar Implementation of Compressive Sensing, JIP CBRN (RAMBO and BIOTYPE).
- **WASS**, for the Underwater Maritime System (UMS) programme.
- **Seventh Framework Programme - Security (2007-2013):** in 2012, the results of the fifth call for the “Security” area were announced and Finmeccanica was given significant portions of the following projects:
  › ISITeP (Inter System Interoperability for Tetra-TetraPol Networks), coordinated by **Selex ES**, the purpose of which is to realise a legal and operational framework for the connection of networks, based on TETRA and Tetrapol technology, that would allow the interoperability of the European first intervention teams (police, health care, etc.);
  › GAMMA (Global AtM security Management), coordinated by **Selex ES**. The objective of the project is to implement a Security Management framework within an ATM context that would take into account all aspects related to regulations, operating procedures and technologies with an holistic approach (System of Systems) starting from the Threat Assessment analysed in SESAR;
  › SAWSOC (Situation AWare Security Operations Center) coordinated by **Selex ES**, the purpose of which is to develop techniques for the correlation of physical and logical security services in order to reach a consistent vision of the situation in an integrated platform that offers sophisticated security services by combining, in a modular manner, into a Security Operation Centre (SOC) different information from different sources;
  › HARMONIZE (A Holistic Approach to Resilience and Systematic Actions to Make Large Scale Urban Built Infrastructure Secure), in which **Selex ES** is participating and whose objective is to develop a comprehensive, systematic, multifaceted and coordinated concept to increase security, resilience and sustainability of major urban infrastructures (buildings) enhancing the designing thereof;
  › **Telespazio** and **e-GEOS** submitted a set of proposals, one of which is coordinated by Astrium whereas Telespazio acts as co-coordinator. The objective of this proposal is to analyse the requirements for the development of new tools capable of increasing the security of the ground infrastructures of space systems;
  › the Group was awarded the DESTRIERO proposal (A DEcision Support Tool for Reconstruction and recovery and for the IntEroperability of international Relief units in case Of complex crises situations, including CBRN contamination risks), which was submitted in 2011 and involving **Selex ES** as coordinator and **e-GEOS** in the partnership.
- **Seventh Framework Programme - ICT (2007-2013)**: **Selex ES**, as “Coordinator”, in the Call FP7-SEC-2013-1, submitted the METPOLIS (MEdia neTworks for Preventing and alarming Over LIfe and environment Security) project, related to the development of a “cloud-based” platform to support the decision making process in critical situations and emergencies, through the extraction and analysis of the information from the Social Media.

Finmeccanica successfully joined the CRISTAL proposal, through **Alenia Aermacchi, Ansaldo STS** and **Selex ES**, in the fifth call of JTI Artemis. Purpose of the CRISTAL project is to strengthen the competences of the European industry in designing high quality and low costs electronic systems to be employed in applications intended for the transportation industry (air and railway transportation, in this case) with particularly high levels of reliability (safety critical). CRISTAL is based on the results achieved in the previous Artemis CESAR and MBAT projects.

- **Seventh Framework Programme - Space (2007-2013):** in 2012, **Telespazio** and **e-GEOS** achieved significant participations in the following projects:
  - G-NEXT (GMES pre-operational security services for supporting external actions), coordinated by **e-GEOS**, aiming at defining a series of innovative services for the Crisis Management Response, in line with the needs of the European and International Institutions. The projects develops the activities already started in the previous European Projects coordinated by **Telespazio** and **e-GEOS**;
  - G-SEXTANT (Service provision of geo-spatial intelligence in EU External Actions Support), with the participation of **e-GEOS**, aiming at developing a portfolio of new products and services for earth observation, within the activities related to the European GMES/Copernicus programme;
  - CIRCE (Cooperative International Space Station research data conservation and exploitation), coordinated by **Telespazio**, aiming at supporting the development of an e-infrastructure that is able to promote the exploitation of scientific data produced by the International Space Station and other Space Missions.
- **Seventh Framework Programme - Infrastructures (2007-2013):** in the FP7-Infrastructures segment, as mentioned above, the Group was awarded the CIRCE project, which was presented in 2011 by **Telespazio** that started related activities in 2012.
- **Seventh Framework Programme - Transportation, including Aeronautics (2007-2013):** in relation to the fifth call for the Seventh Framework Programme (Aeronautics and Air Transportation). **Alenia Aermacchi** is participating in a large-scale proposal for reducing the costs of producing composites (LOCOMACHS). The company is also taking part in several of the L1 projects focusing on manufacturing and integration technologies.

Selex ES presented a proposal within the “Integrated environment for optimised airline maintenance and operations” sector. The purpose of the proposal is to reduce maintenance costs within the civil aviation sector, keeping an appropriate level of safety and timeliness of the flights.

In 2012, the sixth call opened with the participation of the **Selex ES** in the ASHLEY project on modular avionics and the participation of **Alenia Aermacchi** in AFLoNext, on active wing, in ATOME, on advanced maintenance technologies and in TOICA, for an integrated thermal analysis project of a commercial vehicle.

Group companies are continuing to provide committed, experienced participation in research in the aeronautics field, for which European funding has been allocated, particularly to the Clean Sky and SESAR Joint Technology Initiatives:

- the Clean Sky Joint Technology Initiative seeks to develop the most suitable technologies for drastically reducing the environmental impact of aircraft. Finmeccanica is co-leader of two of the six ITD (integrated technology demonstrators): the Green Regional Aircraft (**Alenia Aermacchi**) and the Green Rotorcraft (**AgustaWestland** in cooperation with Eurocopter). Avio and **Selex ES** are also involved;
- the SESAR Programme, instead, seeks to develop the new European ATM system through 2020 with the active involvement of **Selex ES** and **Alenia Aermacchi** (top-level leaders), and **Telespazio**.

Finally, partnerships continued with leading Italian universities (**Genoa**, **Federico II of Naples**, **Sant'Anna of Pisa**, **La Sapienza** and **Tor Vergata of Rome**, **Politecnico of Turin**, **Politecnico of Milan**, **IUSS of Padua** and **others**) in the fields of aeronautics, radar, security, transportation and communications. A framework agreement was also signed with the **University of Trento** for research into electromagnetism.

Patents

In 2012, the patent portfolio was managed in the ordinary course of business, which involves monitoring registration procedures and performing all activities required to maintain and renew domestic and foreign patents, as well as to protect patents, especially strategic ones, in order to ensure that the Group's know-how is safeguarded throughout the world. During the year, the Group also began promoting, exploiting and developing its patented know-how amongst the Group companies.
The patent portfolio covers the business segments as follows:

- Defence and Security Electronics: 43%;
- Energy: 14%;
- Helicopters: 11%;
- Aeronautics: 9%;
- Transportation: 9%;
- Defence Systems: 8%;
- Space: 3%;
- Other: 3%.

FINMECCANICA: HUMAN RESOURCES

Organisation

As regards the organisational development, 2012 saw a significant and delicate transition for the Finmeccanica Group. Some of the most important processes/interventions of macro-organisational redesign or review are reported below, which were implemented during the year.

In January, at **Alenia Aermacchi**, following the merger by incorporation between Alenia Aeronautica, Aermacchi and SIA, the new corporate organisational structure was launched, with 2 Directorates General ("Operations" and "Business"), and 2 new units, which directly report to the CEO, for the coordination of the civil (with operational headquarters in Pomigliano d'Arco, Naples) and military (with operational headquarters in Caselle, Turin) segments of the Group's aeronautics sector. Specifically, within the Production area (Operations Directorate General), "Integrated Centres" (plants) have been created, specialised in different technologies/products. In July, the Directorate General for the Boeing Programmes was established, in the framework of the partnership agreements that have been entered into. The month of September saw the launch of the new organisational structure of the Business Directorate General (which includes the different structures of the business area, international sales, business development and customer service units), whilst the mission and structure of the Security Officer and the new structure of the External Relations unit were redefined. In November, the industrial model and the corporate production processes ("central role of the factory" and enhancement of the skills and expertise of the people who work at the workshop) were reviewed with a view to improving efficiency of the plants and the competitiveness of the company, with the introduction of a new organisational model for the factory. December saw the definition of the streamlining of the structure of the Operations Directorate General.

The first half of the year saw the establishment of the new Geographic Unit AW Philadelphia and of the new Industrial Presences unit of **AgustaWestland**, which directly report to the COO, and the establishment of the new Financed Government Programmes unit, which reports directly to the CEO. Additionally, several turnovers took place in some important first-level positions (Business Development, External Relations & Communication, Manufacturing Planning & Control, etc.). In September some significant organisational and responsibility changes were defined within the Human Resources unit.

July 2012 saw the establishment of the Security Officer unit of **AnsaldoBreda**, which directly reports to the CEO. Furthermore, the organisational structure of the CFO, of the Service BU and of the HR, Change Management & EOS Project Implementation unit was redefined.

October saw the completion of the reorganisation and streamlining of the Standard Platforms & Products (SPP) unit, with the merger of all manufacturing activities, both internal and external, under a single organisational profile (Manufacturing) in order to enhance the central role of plant management.

In October 2012, the first-level unit Company Secretary & General Counsel of **Ansaldo STS** was superseded: accordingly, the units External Communication, Legal Business Affairs & Litigation and Corporate Affairs & Group Insurances now directly report to the CEO.

Works were carried out in January for the maintenance and organisational streamlining of **Telespazio**, with the merger of the CTO with the Subsidised Research and Patents unit under the COO. Significant turnovers took place in some first-level positions (Göktürk Programme, Internal Audit, etc.), with the enhancement of some internal resources.

In May, following the changes in the Top Management of **DRS Technologies** at the beginning of the year, the organisational structure was streamlined through the integration and merger of the business activities, including the Defence Solutions sector (the area subject to the so-called

"Proxy Agreement" with the DoD of the United States), into 3 new groups against the previous 5 Business Groups (Network and Imaging Systems - NIS; Power, Environmental and Sustainment Systems - PESS; Integrated Defence Systems and Services - IDSS).

In November, following the completion of a complex process of organisational analysis and planning, the new structure of **Selex ES** was formalised into a single transnational management structure, for the new European division of the Group within the Defence and Security Electronics sector, into which SELEX Galileo, SELEX Elsag and SELEX Sistemi Integrati have been integrated. The new model has been built on the basis of the following organisational elements and criteria:

- 3 Divisions structured by markets/clients, divided into Lines of Business (LoBs) and provided with their own sales forces and dedicated programme execution/delivery structures;
- Design and generally-centralised Operations (COO);
- centralisation of cross-sector "basic technology" (CTO) to ensure their "reusability";
- staff areas divided between Chairman and CEO;
- functions in support of the business shared between CEO and COO;
- strong coordination between marketing and central business development and departmental sales structures;
- "non-domestic" foreign markets/Countries (Overseas Subsidiaries) covered through the coordination of a dedicated unit, which reports to the CEO.

At the end of December, the second-level organisational structures were also launched.

As regards the **organisational structure of the Parent Company**, following the resolutions passed by the Board of Directors of Finmeccanica SpA on 16 May 2012, the following first-level changes were defined:

- the General Manager, who is confirmed as a member of the Board of Directors of the Holding company, has been vested with the responsibility for the control over Operating Companies (both subsidiaries and direct investee companies), it being understood that the Chairman and Chief Executive Officer retain responsibility to ensure the unitary management of the Group;
- the head of the Administration, Finance and Control unit has been designated as Chief Financial Officer (CFO) of the company, as well as "Officer in charge of preparing the Company's accounting documents", and reports directly to the General Manager;
- the Legal and Corporate Affairs unit now directly reports to the Chairman and Chief Executive Officer;
- the Mergers and Acquisitions unit has been merged into the Operations unit, under the responsibility of the General Manager.

In addition, in 2012 the following organisational changes were defined:

- the unit in charge of governing and coordinating the Security of the Group has been reorganised and structured, which now reports directly to the Chairman and Chief Executive Officer;
- the unit dedicated to the Business Coordination and Business Development, named Market and Business Development, has been integrated into one single structure and reorganised, in order to redesign and optimise the business network of the Group worldwide;
- in the External Relations and Communications area, which reports directly to the Chairman and Chief Executive Officer, the activity/responsibility areas have been reorganised within the organisational units Communications and Image, Relations with the Media and External Relations;
- the new organisational structure of the Legal and Corporate Affairs unit and some significant changes in the organisation and responsibilities of the Human Resources unit have been defined, in addition to the new structure of the Strategies unit;

- finally, the organisational unit Directives and Procedures has been established within the Organisational Development, Staff Planning and Labour Cost unit (Human Resources), which will be responsible for coordinating the process for the preparation, approval and release of the Group Directives, of the corporate Procedures and of the Policies/Guidelines (either at Group or corporate level).

At the end of 2012, the Group operated through a world-wide local structure including 406 offices/sites, 271 of which are located in foreign countries (67% of the total) and 135 in Italy. Of the sites located in foreign Countries, 85 sites are located in the United States, 38 in the United Kingdom, 16 in France, 14 in Germany, 9 in Australia and 8 in India. The “operational” offices (plants and other sites that are considered to be mainly production sites) are 172 (61 of which are located in Italy), equal to 35% of the total.

Management Review, Succession Plans, Compensation and Incentive Systems

In the 2012 financial year, the Finmeccanica Group continued its activities for the shift in perspective and an evolution in strategy that since 2011 has led to a review of certain of the basic processes of the System for Managing and Enhancing Human Resources.
This review also touched the well-established **Management Review** process, which, since 2002, has been the primary forum for analysing, sharing and verifying human resources policies and programmes, as well as an opportunity for Finmeccanica to gather all the information and assessments needed to introduce sustainable, merit-based processes for managing the Groups’ Human Capital, particularly management personnel.
Finmeccanica confirmed that the Management Review process is crucial to the development of an added-value partnership between the Parent Company and the Operating Companies, making it possible to optimise resource management and development processes, also through increased actions of job rotation and redundancy of managers. At the same time, new operating procedures were defined for 2012, which were implemented during the “one-to-one” meetings with the Group companies. Such innovations strengthened the relevance, in management terms, of the Management Review process, through the shared definition of a more structured approach to the planning and implementation of the career paths, thus neutralising the logic of the very short term “emergencies” in the management of redundancy processes.

Analysis and discussion of the **Succession Plans** for all the Top Management positions and the top organisational level of the main Group companies held a central place in the agendas for the Management Review meetings. With this in mind, in 2012 work completed on defining and implementing the so-called **Finmeccanica Elite Management System**: the design of the architecture for an integrated management and improvement of the talent pool, which was started in 2010, is aimed at creating and enhancing an international managerial class that will make it possible for the Group to successfully face upcoming challenges in international markets. The targeted pool of employees, called the **Group Elite**, consists of about 600 managers divided into three categories based on the organisational importance of the positions held and on personal characteristics, such as the “Development Potential” and the characterising features of “Talented Persons” with a view to a long-term investment on the part of the Company: at the top of the new pyramid are the “Top 100”, i.e. those who hold top positions in Finmeccanica and the Group companies; the intermediate level holds the “200 Successors”, i.e. those who are set to succeed the Top 100 in the short term; at the bottom of the pyramid are the “300 Top Talents”, i.e. those with great medium/long-term development potential, with international standing and highly motivated, identified from among Group companies’ executives and middle managers. Identifying the profiles that fill the three Group Elite levels was a priority for 2012, conducted in cooperation with the companies, ensuring system consistency through centralisation. Alongside this a system of managerial positions was defined, grouped based on organisational complexity and the related professional content. This makes it possible to govern, using a common, structured approach, the management of career development paths.

Within this framework, management of more valuable management personnel translated into establishing individual **Career Plans** for Group employees deemed strategic and for a portion of those individuals, chosen from among the highest-potential managers. The individual career plans designed around organisational, professional and managerial rules and criteria will be completed for all Group Elite employees in 2013 in light of corporate organisational requirements and the motivations and aptitudes of each employee.

With regard to **Compensation Systems**, 2012 saw the confirmation of the scope of the beneficiaries of the **MBO System** (covering almost 100% of Group senior managers and executives): as regards its underlying rationales, this system is based on the general structure and operational mechanisms, which were already present in 2011, aimed at ensuring a strict correlation between the incentives and the “excellence” in operating performance.

Furthermore, due to the fact that no medium/long-term incentive plans were allocated in 2011, during the financial year the Remuneration Committee and the Board of Directors prepared and approved a structured Remuneration Policy, under which two medium/long-term incentive schemes were launched for the Group management, so as to allow for the definition and optimisation of said plans in the light of the changed market situation and of the Group’s strategic directions. The first of these instruments, named **Performance Cash Plan** 2012-2014, is reserved for those belonging to the workforce defined as “Group Elite”, comprised of approximately 600 managers divided into the three categories outlined above. This plan provides for incentives granted in cash, payable against the achievement of certain management-economic results of the Group and of the Operating Companies, in line with business strategies and objectives.

2012 also saw the launch of the 2012-2014 cycle of a Plan that provides, for the Top Management of Finmeccanica SpA and of the main Group subsidiaries, for the payment of **cash incentives** upon achieving certain ambitious targets of the Group, on a full self-financing basis.

According to the traditional approach of “rolling” schemes, this Plan is additional to the three-year cycles launched from time to time in each financial year, with the purpose of maintaining a high level of attention and motivation towards the joint attainment of a medium/long-term performance that is considerably higher than the budget targets - based on the economic-management indicators of the Finmeccanica Group.

The Remuneration Committee, after the expiry of each one of the relevant financial years of the Plans, and following the approval of the related draft separate and consolidated financial statements by the Board of Directors of Finmeccanica SpA, shall assess – based upon the representations and the data provided by the Company’s departments that are duly certified according to the Group procedures – the degree to which the assigned performance objectives have been reached and shall determine, for each one of the beneficiaries, the amount to be paid in compliance with the provisions of the Regulations of such Plans.
For more details relating to the remuneration of the Management, reference is made to the Remuneration Report of the Company.

Industrial Relations and Social Affairs

In 2012, Finmeccanica was also able to uphold its tradition of unified Industrial Relations, a hallmark of collaborating to find solutions to problems, with good results, despite the drawn-out, difficult organised labour situation, which was determined both by internal factors (the need to accelerate the restructuring and reorganisation of many Group companies and the decision to dispose of non-strategic businesses), and by external factors (conflicts between FIOM on the one part and FIM-UILM on the other part, which has led to the separate signature of the new national collective bargaining agreement).

In 2012 there was an increased commitment of Finmeccanica in Confindustria, aimed at bringing the Association closer to the Enterprises and making it more adequate to satisfy the needs of such Enterprises in the current negative economic situation.
Finmeccanica actively participated in all the stages of the negotiations that led to the renewal of the national collective bargaining agreement on 5 December 2012 with FIM and UILM, which represents a turning point in the Labour Relations at a national level. The qualifying aspects of the agreement may be summarised as follows:

- the acknowledgement of the need to increase productivity by expanding the range of flexibility instruments in managing working hours and by immediately applying at a corporate level the provisions agreed upon at a national level;
- leaving behind the complex and cumbersome regulations on the treatment of sickness leave, thus ensuring a greater cover to serious illness and introducing concrete actions to fight absenteeism;
- the payment of salary increases that, despite the difficult situation, represent a sign of confidence and responsibility towards the over one million workers in the sector.

Furthermore, as regards the general scenario, it should be noted that the initiative of the Parliament and of the Government made it possible to positively settle the issue of the protection of the redundancy agreements signed prior to the entry into force of the Fornero Reform, with very positive effects for the Group, as detailed below. Specifically, a description is provided, at the Sector level, for the main actions taken by the Group companies in relation to the **restructuring, reorganisation and revitalisation plan**.

In the implementation of the Revitalisation, Restructuring and Reorganisation Plan (in force for years 2012-2014), which was signed with the Trade Unions on 8 November 2011, the following measures were adopted at **Alenia Aermacchi**:

- as at 31 December 2012, 1,560 workers left work through recourse to the voluntary redundancy with pension contributions. Furthermore, further 515 resources left the operating staff in order to be subject to the Extraordinary Wages Guarantee Fund (CIGS, *Cassa Integrazione Guadagni Straordinaria*), who, within the term of the Plan (by 31 December 2014), will have access to the voluntary redundancy with pension contributions. The foregoing is in line with expectations and, in fact, it is likely that – by 2014 – a more effective implementation of the staff reductions envisaged in the agreements signed in 2010 and 2011 will take place;
- on 20 December 2012, the CIGS Agreement was signed at the offices of the Ministry of Labour and Social Policies for the Rome office, as a result of the corporate crisis caused by its winding up. The CIGS programme will remain in force for a period of 12 months as from 1 January 2013 and will affect 40 resources. The closure of the Rome office involved an aggregate of 140 resources, for whom the following operational actions were also implemented:
  - transfers to the plants of Caselle (Turin) and Pomigliano d'Arco (Naples);
  - transfers to other Group companies;
  - early retirement incentives;
- in view of the closure of the plant in Casoria, the process was started for transferring the activities of the site to the plant of Nola, with the simultaneous reallocation of the personnel involved. In view of the closure of the plant in Venice, the process was started for the reallocation of the personnel to AgustaWestland and SuperJet International;
- in 2012, 160 people were hired, who will be dedicated to direct production activities at the plants/sites of Cameri (Novara), Foggia and Grottaglie-Monteiasi (Taranto);
- furthermore, the process for the outsourcing of the "Sales and Purchasing Cycle" activities of the Accounting Function was completed, with the reallocation and requalification to a production environment of the employees dedicated to such activities and of the surveillance service for the sites of Venegono Superiore (Varese), Turin, Caselle, Venice, Capodichino (Naples), Foggia and Grottaglie-Monteiasi, whereas the gradual outsourcing of the activities related to the plant logistics was also started, initially involving the plants of Foggia and Grottaglie-Monteiasi.

Within the **Defence and Security Electronics** sector, the most relevant commitments in 2012 were linked to the restructuring, reorganisation and realignment of the companies SELEX Galileo, SELEX Elsag and SELEX Sistemi Integrati, aimed at the integration into one single company Selex ES. For this purpose, in 2012, all the procedures envisaged in Article 47 of Law 428/1990, as amended and supplemented, were completed. Specifically:

- with reference to **SELEX Elsag**, the implementation of the efficiency-improvement plan, launched in 2011, was continued, the most significant 2012 events of which are summarised below:
  - in April, a memorandum of agreement was signed with the national and local Trade Unions and with the RSU (*Rappresentanze Sindacali Unitarie*, Single Bargaining Units) for the continuation of the CIGS programme for corporate reorganisation, which involved an average number of 415 units on an annual basis;
  - in December a memorandum of agreement was signed with the national and local Trade Unions and with the RSU for the continuation of the corporate reorganisation process through the use of the CIGS programme, for an average number of 415 units up to 3 July 2013 and through the continuation of the ordinary redundancy programme for a maximum number of up to 230 units until 31 December 2013;
  - again in December, a memorandum of agreement was signed at the Ministry of Labour with the national and local Trade Unions and with the RSU, in which it was agreed that the corporate reorganisation programme was to continue in 2013 with the use of CIGS and ordinary redundancy procedures, to the extent set forth in the preceding subparagraph, within the context of Selex ES, until their natural expiry;
  - in February the minutes of meeting (pursuant to Article 47 of Law 428/1990) were signed with the national and local Trade Unions and with the RSU of the companies SELEX Elsag and AMTEC for the completed procedure related to the merger of the latter by incorporation into the former, as from 1 March 2012;
  - in July, an agreement was signed by SELEX Service Management for the application of the Ordinary Wages Guarantee Fund (CIGO, *Cassa Integrazione Guadagni Ordinaria*) for a period of 13 weeks starting from 6 August 2012, which affected, to different extents, the entire workforce (121 units) with zero-hour CIGO for the staff personnel. This measure was the consequence of the suspension, pursuant to Decree Law 83 of 22 June 2012 bearing “Urgent measures for the country’s growth”, of the contract related to the control system for waste tracking (SISTRI).

  In 2012, together with the application of the CIGS, the process for ordinary redundancy and incentives to resign continued, with the termination of the employment relationship with 140 units, of which 41 under the redundancy programme, 51 for incentives to resign (of which 21 senior managers), and 48 due to other causes. The overall CIGS hours at SELEX Elsag amount to 618,530, whereas the CIGO hours at SELEX Service Management were approximately 51,338;

- with reference to **SELEX Sistemi Integrati** a corporate reorganisation process was started in 2012, which was aimed at boosting the Company’s competitiveness and achieving adequate levels of efficiency to face the challenges posed by the relevant market, through an efficiency-improvement plan with the purpose of affecting the structure of the main corporate processes, the operating flows and the related functioning procedures of the organisational structure, and through a rebalancing of the workforce as regards the ratio of general to specialised employees. Based on these requirements:
  - in October, a memorandum of agreement was signed with the national and local Trade Unions and with the RSU, which provided for the application of ordinary redundancy to 350 units starting from 1 November 2012 and until 31 October 2014, allocated to all corporate offices, and for the continuation of the process of incentives to resign;
  - in December 2012, a memorandum of agreement was signed with the national Trade Unions, which provided for the continuation of the reorganisation programme for Selex ES until its expected natural expiry on 31 October 2014.

Leaves under the redundancy programme led to the termination of the employment relationship with 5 units, whereas the process of incentives to resign led to the termination of the employment relationship with 263 units, including 14 senior managers;

- with reference to **SELEX Galileo**, the implementation of the reorganisation plan started in 2011 in the United Kingdom to face difficulties arising from the situation in the relevant market, continued; this process led to the termination of the employment relationship with 126 units. A plan of incentives to resign was implemented also in Italy and determined the termination of the employment relationship with 91 units, including 3 senior managers.

In 2012, a restructuring and reorganisation plan was launched in the **DRS Group**, which led to the closure of the offices in Parsippany, New Jersey, with the transfer of the corporate functions to Virginia on the one hand, and, on the other, to the reorganisation of the business units and the transfer of some production departments. The afore-mentioned plan involved 1,386 employees, whose employment relationships were terminated according to the same criteria as those already used in the past, laid out in union agreements (applicable to registered union members) or based on standard policies followed in the United States (applicable to non-union members).
The incentive policy provides for offering one week's pay for each year of service and the recognition of certain benefits, such as health insurance coverage for one or two months, outplacement services, and so forth.

At **AgustaWestland**, the efficiency-improvement process already initiated continued in 2012, particularly through the increase in the flexibility of shifts in Anagni and Frosinone and through the outsourcing of non-core activities.

At **Ansaldo Energia**, the redundancy procedure started in 2011, together with a careful policy of early retirement incentives, made it possible to achieve predetermined objectives of a change in the professional mix. For the same reasons, however, the possibility of activating a new "voluntary" redundancy procedure in early 2013 is currently under consideration.

At **MBDA Italia**, following some significant industrialisation processes that led to the introduction of new technologies, the need emerged for both an updating of the skills available at the company and a change in the professional mix. For this purpose, on 30 October 2012 a voluntary redundancy agreement was signed for 51 units of the Fusaro site (Naples).

At **OTO Melara**, 2012 saw the completion of the reorganisation of the Brescia site, with the closure of the mechanical processing department and the outsourcing of logistics activities. At the same site, 2012 saw the application of a redundancy scheme for 28 employees, whereas the same scheme will be applied for further 12 employees by May 2013.

At **WASS**, the closure of the Genoa offices was completed, with the reallocation of the resources to the other Group companies.

At **Telespazio**, in January 2012 the trade union procedure was carried out, on the basis of an agreement and in compliance with Article 47 of Law 428/1990, which was aimed at the merger by incorporation of Telespazio Holding Srl.

In December 2012, the officers of the Ministry of Labour went on with their inspections, which were aimed at assessing the performance of the CIGS programme in its second year (trade union agreement signed in July 2011 at the offices of the Ministry). The third quarter of 2012 was characterised by a trade union agreement for a CIGS programme of 13 weeks, to be applied to 19 people by rotation, for the Space Centre of Scanzano (Palermo) due to a temporary downturn in business.

At **Thales Alenia Space Italia**, 2012 started with the conclusion of the negotiations with the Trade Unions on the Industrial Restructuring Plan (by an agreement signed on 19 January). Therefore, 2012 was dedicated to the implementation of the measures agreed with the Trade Unions, including:

- the closure of the offices in Vimodrone (Milan) and Florence (with a staff of about 300 units) and the reallocation of 200 resources to the staff (effective from January 2013) of the Thales Italia plant in Gorgonzola (Milan);
- the transfer of the electronics production activities to the new location in L'Aquila (which is under reconstruction after the earthquake in 2009);
- the management, during the year, of the remaining resources (about 100 units) with the transfer to other TAS Italia offices (Turin, Rome and L'Aquila), with the application of the Redundancy programme pursuant to Law 223/1991, with the partial and mutual assistance of the companies of the Finmeccanica Group and of Thales Italia (implementation of the so-called "Crisis Areas") and with other management tools provided for in the Agreement with the Trade Unions.

For the purpose of facilitating this significant change in the industrial structure of TAS Italia, on 22 December 2011 the Company signed an Agreement with the Trade Unions at a national level, which provided for the application of the Redundancy programme (aimed at the retirement of the resources), for an overall number of 90 units, whose employment relationships could have been terminated by 31 December 2012. This further element, in fact, led to the termination of 51 employment relationships during the year, which facilitated the virtuous turnover of those TAS Italia employees in Vimodrone who were not destined to the new offices in Gorgonzola. These interconnected actions allowed the change of mix necessary to support the industrial policy of the Company.

At **AnsaldoBreda,** in 2012, the Company started, in conjunction with the Trade Unions and in compliance with the trade union agreement of March 2010, the implementation of the EOS Plan for the restructuring and revitalisation of the Company, aimed at:

- the overall improvement of the corporate performance, so as to realign it with market standards;
- achieving the competitiveness necessary to win new orders;
- creating the condition for a possible growth of the Company.

Furthermore, 2012 saw the completion of the ordinary redundancy and early retirement incentives process started with the trade union agreement of 4 March 2010.

At **Ansaldo STS** March 2012 saw the completion of the redundancy procedure, which was started in March 2010. The objective of this procedure, which was shared with the Trade Unions, was to implement a significant change in the mix of expertise/professionalism aimed at an increased competitiveness. In 2012 there were 55 terminations of employment relationships (43 of which under the redundancy scheme and 12 under the scheme of incentives to resign).

BredaMenarinibus, the relevant market of which was characterised by a particularly negative performance in recording the "all time low" of the last twenty years as regards calls for tenders, made recourse to the CIGO scheme for an aggregate of 46 weeks, again in coordination with the Trade Unions and involving, by rotation, the entire workforce of the company, particularly with regard to production activities, thus recording an average of 116 employees on the CIGO scheme per week. The on-going negative economic situation imposed the activation of a CIGS procedure for the year 2013, due to the company's crisis, which will involve no more than 200 employees and is currently being negotiated with the Trade Unions.

Finmeccanica also continued to selectively control hiring, a process begun in 2009. It did this by monitoring hiring practices in order to maximise intragroup mobility and to more closely focus on hiring from outside the Group, verifying that the proper types of contracts are used in bringing employees into the Group companies.

On a regulatory level, the working group formed in 2009, consisting of the Regulatory affairs officers of some companies, continued to monitor regulatory changes and to apply the common guidelines necessary for ensuring that there is a steady flow of information and that new rules are properly applied.
It focused in particular on the impacts of the new pension regulations which were issued in 2011 and which entered into force on 1 January 2012, as well as on the Reforms of the Labour Market and of social shock absorbers, which had been the subject of multiple legislative amendments over the year, particularly in July, August and December 2012.

Work begun in past years on promoting and implementing social services continued. Finmeccanica employee healthcare services were also strengthened and coordinated by uniting the traditional healthcare activities (ambulatory physician and check-ups) with a series of preventive medicine and staying healthy initiatives. Within this context, three screenings were carried out in 2012, in relation to:

- the prevention of cardiovascular damage, through the identification of risk factors, medical and instrumental examinations;
- the prevention of any damage caused by ageing and photoageing, and prevention of cancerous skin lesions through dermoscopy and dermatological examinations;
- the assessment of intestinal dysbiosis through laboratory tests and infectious and gastroenterological disease examinations.

Again in 2012, a physiotherapist held a series of semi-individual sessions of postural training. These initiatives were combined with monitoring activities, which required a medical consulting room open daily and the execution of individual check-ups through pre-screening.

Training and Development of Human Resources and Knowledge Management Systems

Consistent with the objectives set out in the Human Resources Operating Plan, in 2012 Finmeccanica continued to implement its Integrated Development and Training System in order:

- to identify the most Talented Group employees, for the purpose of facilitating the recognition of their worth using a system for measuring individual performance at various levels;
- to enhance intellectual capital, promoting the development and transmission of “key” skills by strengthening inter-generational dialogue;
- to provide an international approach and forge a distinctive Finmeccanica identity;
- to strengthen the business partnership between the Human Resources Professional Family and the line by developing core skills;
- to contribute to making processes and tools for measuring results more efficient, also by sharing a common System of Macro-Roles and Competence within the Group Professional System (Finmeccanica CMS - Competence Management System).

In 2012, Finmeccanica obtained, for the fifth consecutive year, the **UNI EN ISO 9001:2008 Quality Certification** with reference to its activities for “Designing, Delivering and Managing Human Resources Training and Development Projects of the Finmeccanica Group”. This recognition was awarded by the international body Globe Certification.
In 2012, Finmeccanica was also confirmed as one of the companies of excellence in matters such as human resources training, development and management. In fact, the Group obtained the “**Top Employer” certification** in two Countries, Italy and the United Kingdom, thus improving its results achieved in 2011, when the recognition was awarded only with reference to the Italian area. The certification was assigned by the CRF Institute, an international organisation that analyses and recognises virtuous and deserving companies for their efforts to improve their human capital and their best practices in the HR field.

The main initiatives pursued in 2012 can be categorised as follows:

1. ***Development Projects*** aimed at the construction of processes, tools and paths of professional and managerial training within the Group's Talent Management System (TMS), in order to ensure that the criteria are more transparent and that business targets and personal characteristics, aspirations and motivations are consistent, so as to prepare and support the renovation of the management and foster the implementation of adequate succession plans at the different levels of the organisation.
2. ***Dedicated courses for talented employees*** at various organisational levels, from recently hired young persons to Top Management (the Young People Programme and the Executive and Middle Manager Programme).
3. ***Initiatives*** aimed at reinforcing ***Group Culture*** to promote:
   - the strengthening and development of core competencies, starting from the processes of Programme Management and Supply Chain Planning and Execution (**Business Culture & Knowledge Management**);
   - the identification, thanks to the contribution from inter-company task forces, of possible critical areas, within the corporate processes that characterise the management of orders and the sharing of the related improvement actions;
   - the strengthening of an integrated and international distinctive identity, which is capable of listening to and involve the "Finmeccanica people" from all over the world, thus increasing their creative potential and engagement, fostering the recognition of the Group as the Employer of Choice (**Group Identity and Employer Branding**);
   - a concrete support to the recovery of the Italian economy and the promotion of youth employment, through projects aimed at **boosting the culture of "know-how**".
4. ***Specialist Training Paths*** intended for the personnel of Finmeccanica SpA.

In details:

1. With reference to **Development Projects**, activities continued for the implementation of the Talent Management System, both at Group level and at Operating Companies level. Specifically:
   - the **Operating Development Manual** was released to the companies, which contains the description of the processes (guidelines), instruments and methods that comprise the System. This way, each company was put in the condition to implement it in its own environment, to customise it based on specific needs and to ensure, at the same time, a considerable reduction in development costs, thus satisfying the requests from the Group;
   - the **Call for Talent 2012-2013** process was started; such process, within the broader **Talent Tracking** process, is aimed at searching for and identifying the most appropriate profiles for the **Key Talent and High Potential (Group Talent)** categories, for the purpose of identifying, developing and managing the best Talents globally, so as to ensure continuity in the succession pipeline of the Group Elite, and of defining professional growth paths consistent with individual attitudes, expertise, ambitions and motivations, and in line with the organisational needs;
   - both the **Call for Talent process** and the Group Professional System (Role Matrix) were implemented on the **Group SAP HR**. The **Role Matrix**, in particular, enables the uniform representation, at a Group level, of corporate roles and professions, enhancing the specific professional dimension (Professional Families) and the organisational complexity managed. Thus, it is like the alphabet of a language common to the Human Resources and to the Management of Finmeccanica at an international level;
   - finally, 2012 saw the full use of the **Assessor Academy** by Finmeccanica. The Assessor Academy is comprised of a pool of professionals, from the HR Departments of the different companies of the Group, specialised on the assessment and valuation of potentials, and capable of providing an internal advice on the self-development and growth paths of people. Over 100 assessments were issued in 2012, to ensure the utmost consistency of methods, instruments and processes in the analysis and assessment of the potential of the Group resources.

2. With reference to the **Dedicated courses for talented employees**, these have been structured in two directions:

a) Early Career Programme, which includes:

- the **FHINK Master** (the Finmeccanica Masters in International Business Engineering), which saw, in 2012, the conclusion of the 6th edition, with the awarding of diplomas to 16 students, with an average age of about 25 years. Currently, 121 Masters programme graduates are working for Group companies;
- **FLIP**, the Finmeccanica Learning Induction Programme, dedicated to recent graduates newly hired by the various companies. Since 2005, about 1,500 young persons have taken part. Its goal is to guide and familiarise young people with the Group. The 3rd FLIP Final Conference was held in July, which is the closing ceremony of a path that involved 170 Finmeccanica young persons from all over the world, who used this event to discuss between themselves and with a panel of Top Managers about the changes that the Group is experiencing. In September 2012, the 4th edition of the FLIP International was launched, which involved 155 persons at an international level and which will be concluded in June 2013.
- **BEST**, the Master blended in General Management for the Group companies' people who show high potentials, which closed, in 2012, editions 33, 34 and 35 and saw the start of its reorganisation, aimed at making it more focused on the development of an international mind-set and leadership expertise;
- **CHANGE**, a project aimed at leveraging skills and developing the Group's Key Talent segment, i.e. resources of international standing and growth potential, to take on more complex management roles. In 2012, the content of the path that will be provided in 2013 was designed, in line with the timetable and results of the "Call for Talent";
- to meet the need to share and integrate a Group which is increasingly more internationally oriented as Finmeccanica, 2012 saw the launch of the design of a **web portal** dedicated to the resources who attended a number of induction and training initiatives (e.g. FLIP, BEST, FHINK). Besides being an edge-cutting e-learning platform, it will have the purpose, *inter alia*, of enhancing best practices, spreading the culture and values of the Group, supporting the most junior resources of Finmeccanica in their path of continuous learning and development.

b) Executive and Middle Manager Programme, which includes:

- the **Competency Lab**, a life-long learning system for developing Finmeccanica leadership skills, aimed at promoting the formation of a distinctive, international management identity. The educational programme is structured in 19 courses that meet the need to develop basic managerial competences, through an approach based on experience and the inter-company dimension for exchange, discussion and integration, and offers a set of related services available through the dedicated platform. In 2012, 69 executives and 381 middle managers attended a "pilot" course on the effective communication within the "Skills Laboratory" dedicated to Professionals (36 participants) for a total of 486 resources. With the completion of the 2nd project wave, at the end of 2012 the most appropriate procedures were defined for the "release" of the initiative to the Group companies and the sharing of the new governance procedures of the project, in force starting from 2013;
- the **From Technology to Values** international seminar, aimed at high-potential managers (the so-called Top Talent) to expand their ability to manage business complexities and to govern processes of change. The 18th edition of the initiative was held in 2012 with 20 managers. The Community now has 327 executive members who are periodically appointed as mentors for young people taking part in the FLIP programme;
- the **Finmeccanica Executive Leadership Programme** (ELP), a higher level of managerial development and training for a select number of executives at an international level (the so called "Successors"), which is aimed at developing a leadership style that boosts the management's entrepreneurship, vision and execution competences required to guide the Group in the future in a global market which is increasingly competitive. In 2012, the 4th edition of the programme was provided, with the participation of 26 resources who hold key positions within the companies. The programme was developed in cooperation with the Business Schools of the Imperial College of London and Columbia University in New York, which hosted the activities. Today, the Community is comprised of 112 executives.

2. With reference to **Group Culture**, the activities followed three main lines:

a) **Industrial Culture & Knowledge Management.** In this context, 2012 saw the completion of the 1st edition of the **Supply Chain Programme** (**SCP**), the training and development initiative of the Group addressed to colleagues working in Italy and abroad on the Supply Chain Planning and Execution processes. The programme, designed in cooperation with over 60 corporate experts on these issues, is aimed at sharing a common point of reference and language (*Finmeccanica Way*) to the different entities of the Group on the processes in question, at strengthening the "key" expertise for the management of the Supply Chain, at creating a *Group Professional Community* and, for a number of selected candidates, at the preparation for the APICS certification.
Based on the phases of modelling of processes, definition of roles and technical-specialist competences that took place in 2011, after the mapping of the workforce operating on these processes, 600 colleagues (490 in Italy, 65 in the United Kingdom and 45 in the United States) were selected to participate in the 1st Edition of the Programme, which saw the supply of 15 different training modules for a total of 68 Editions and over 24,000 in-class training hours. The workforce involved was divided with reference to the role and level of professional maturity. Following an individual assessment process of the competences structured in three phases (self-assessment, assessment of the supervisor and counselling interview) supported by the on-line tool implemented by Finmeccanica, all the participants attended the basic modules named "**Supply Chain in Finmeccanica Way**". The training activities carried out in Italy have been funded entirely through the inter-professional fund Fondimpresa. This made it possible to extend, in Italy, the training structure providing for additional technical-specialist modules to carry out in-depth analysis on specific issues (Demand Planning, Supplier Performance Management, Negotiation Techniques, Configuration Data Management). In addition to some important training providers (both academic and international training and consultancy companies), 22 experts accredited at the Finmeccanica Faculty intervened as co-teachers and testimonials.
The 2nd edition of the **Faculty** programme was offered in collaboration with the Business School of INSEAD in Fontainebleau (France), aimed at identifying, selecting, certifying and managing a group of internal Subject Matter Experts (SME) in order to capitalise upon and spread the Group's distinctive knowledge. SMEs have been involved in a training path aimed at enhancing their ability to transfer their know-how and facilitating organisational learning and cooperation.
Based on past experiences made within the PMP and Supply Chain Programme context, the first phase of the **Competence Management System**, the Group's initiative which is aimed at defining frameworks shared by the companies on macro-processes, roles, technical-specialist expertise in the main professional areas starting from Engineering, Manufacturing and Field Operations, Service Management, Marketing, Business Development and Sales, was completed. For each professional area, inter-company working groups were created, which involved an aggregate of over 50 process owners from all the Group companies. Thanks to the activities carried out, frameworks are available for the reclassification of the workforce belonging to the Professional Areas studied, into roles that are "common" to all Group Companies, as well as dictionaries of the technical-specialist competences broken down by role/level of professional maturity with the precise indication of the level of proficiency desired for each competence. This will allow the identification of the main gaps existing and the implementation of targeted training and development initiatives.
An inter-company "work site" was launched, named "**Expertise Strengthening and enhancement of the Programme Management**". Starting from the experiences made within the context of the PMP initiative, in which over 2,300 colleagues in Italy and worldwide were involved from 2008 to date, the project's objective is to contribute in operating terms to the solution of the problems emerged regarding the processes for the Programme Management, which are often common to several companies. Purpose of this "work site" is to identify and qualify in detail any possible improvement proposal, using best practices and corporate experience. Approximately 80 PMs, who stood out in the previous PMP editions, are involved in these activities, coordinated by the SMEs of the Finmeccanica Faculty. 15 areas of intervention were selected which, after having been detailed and adjusted to the context of the individual company, will allow the implementation of the improvement actions identified.

Finally, in the last quarter of 2012, the training requirements of the Group companies were gathered in order to assess the feasibility of a 5th Edition of the PMP, to be held in 2013. Based on a partially renovated training structure, over 600 applications to be enrolled in the different modules were filed, based on which the application for the funding of the project has been filed with the inter-professional fund Fondimpresa.

b) **Group Identity and Employer Branding.** 2012 saw the completion of the improvement actions started in response to the criticalities emerged from the **3rd Finmeccanica Corporate Climate and Culture Survey**, conducted in 2010, which involved 38,000 persons from 27 Countries and revealed two major areas requiring Group action: improving the talent pool and optimising industrial processes. In response, the companies implemented 117 improvement projects, whose results have been monitored and communicated, both at Group level and at the level of each individual company.
Being aware of the audience, in 2012 Finmeccanica launched **two** additional **Instant Surveys** on specific targets of the Company's workforce: the first survey, preparatory to the design of the contents of the Finmeccanica Day that took place in May, involved 380 managers from the communities From Technology To Values and Executive Leadership Programme; the second one, preliminary to the FLIP Final Conference of July, involved 650 newly hired young persons of the FLIP.
In order to stimulate the contribution of everyone to the continuous growth of Finmeccanica, offering visibility and awards to those who propose solutions to improve the corporate performance, the Group has been promoting the **Innovation Award** since 2004, an international award open to all Group employees who present innovative ideas for the various corporate business areas. Over the years, there have been more than 19,000 participants worldwide, for a total of 6,500 innovative projects submitted, many of which have resulted in patent applications. In 2012, the 9th edition was launched, which introduced some new developments, including the enhancement of proposals related to dual-application technologies and the awarding of special rewards for projects focused on social and environmental issues, for original ideas and for proposals submitted by the new generations within the Group.

To strengthen its reputation in the labour market and to present the tools put in place by the Group to facilitate the young people's entry into the same, Finmeccanica also took part in **Job Orienta 2012**, a job fair focusing on career counselling, education, training and employment held in Verona in November. At its stand, it offered to the over 55,000 visitors of the fair, an opportunity not only to learn about the **Finmeccanica ITS - Istituti Tecnici Superiori** project, the special technology schools of the Group, but also to have some orientation interviews about its work opportunities with people from the Human Resources department of the companies that participated in the three days of the event (AgustaWestland, SELEX Galileo and Alenia Aermacchi).

As regards the **communication of HR initiatives**, besides having ensured the continuous updating of the contents of the internal (Group Portal, Notice Boards, Finmeccanica Magazine) and external (website, Sustainability Report) communication tools, in 2012 the development and training function approved the first **on-line catalogue** aimed at offering to all the employees an overview of the growth opportunities available within the Group, which will be published within the context of a new Finmeccanica Group Portal, highlighting the access criteria and the procedures to apply for the different initiatives.

c) **Enhancement of the "know-how" Culture.** In 2012, Finmeccanica undertook to transfer, at a Country level (Italy), some internal best practices of the Group and to capitalise on its technical/technological expertise, also through the consolidation of the network with the Institutions (Ministries, Schools, Regions) and Employers' Associations (Confindustria).

The **Ticket to Work** project, which is aimed at acknowledging and appreciating, during the selection and recruitment process, the value of each work experience as a precious source of personal and professional enhancement, resulted, after an initial phase for the internal application in the recruiting, selection and on-boarding processes of two Operating Companies (Alenia Aermacchi and AgustaWestland), in an important Memorandum of Understanding with the Ministry of Labour and Social Policies and the Ministry of Education, University and Research.

In fact, being confident that this experience would be useful and applicable also outside the Group, Finmeccanica made available the project to the Country, in order to provide a concrete response to issues such as youth employment, and to contribute to the relaunch of the "know-how" culture, orienting and moving young people towards the real work opportunities offered by the local areas, confident that every experience generates expertise and that it is necessary to create, at a national level, a mechanism capable of appreciating and enhancing these assets. In 2012, the **Finmeccanica ITS - Istituti Tecnici Superiori** were recognised as a "good practice" at a national level: the Minister of Education, University and Research, Mr Francesco Profumo, in fact, defined the initiative as an example of an efficient channel to foster the contact between young people and enterprises. The ITSs are "special technology schools", two-year post-secondary school technical educational paths managed by private Foundations, where the students have the opportunity to learn qualified "professions" in an environment that allows a profitable exchange between school, university, laboratory and enterprises. The ITSs represent a significant opportunity: in fact, they prepare "super engineers" who have not only the expertise defined by the schools, but also the abilities expected by the enterprises, with the major objective to contribute towards the competitive boost of the Italian economy. Below are the figures related to the Finmeccanica ITSs for 2012: 7 Regions (Piedmont, Lombardy, Friuli, Liguria, Tuscany, Campania, Puglia), 211 young persons who studied in the classrooms and laboratories of the 8 Operating Companies involved (WASS, OTO Melara, Alenia Aermacchi, SuperJet International, AgustaWestland, Ansaldo STS, AnsaldoBreda, Selex ES), approximately 150 people of the Group who helped them over the path as internal teachers and tutors.

4. With reference to **Training Paths by Finmeccanica SpA**, in 2012 training activities continued for the Parent Company. With specific regard to Health and Safety at Work – pursuant to the requirements provided for in Legislative Decree 81/2008, as amended, and in the application of the provisions of the State-Regions Agreement of December 2011 – an Integrated Training and Information Plan was developed, which was intended for all the employees of Finmeccanica. Specifically, the following actions were taken:
   - training of First Level senior managers (8 hours). The training was attended by 13 senior managers;
   - training of the remaining senior managers (8 hours). 75 resources were involved in 3 editions, each one of which was structured in two sessions of 4 hours, and 71 senior managers completed the training path;
   - training of the RLS (32 hours). Mandatory training was supplied, for a total of 32 hours structured on 4 training days, to the 4 Workers' Health and Safety Representatives (*Rappresentanti dei Lavoratori per la Sicurezza* or RLS) of Finmeccanica;
   - training of workers (8 hours). In accordance with the State-Regions Agreement, the Training Plan provides for 4 general training hours – supplied in e-learning mode on a dedicated environment accessible via Finmeccanica Intranet – completed by 170 resources, and 4 hours of specific training, to be supplied in class as from March 2013.

   In the second half of 2012, the Language Training courses for the Personnel of Finmeccanica were started again, with a greater focus on "Business English" and on the attainment, by each participant, of an International Certification attesting the level of learning reached (TOEIC - Test of English for International Communication). In 2012, the Project involved 125 people from Finmeccanica in traditional, in-class training paths structured in semi-individual courses (for 100 middle managers and office workers), and individual, on-demand training paths (for 25 senior managers).

INCENTIVE PLANS

As reported in detail in the previous Report on operations as at 31 December 2011, following the end – on 31 December 2011 – of the exercise period related to the stock options assigned under the Stock Option Plan 2002-2004, as well as the delivery – that was completed on 1 December 2011 – of the shares awarded for 2010 in relation to the Performance Share Plan 2008-2010, the period for the implementation of such plans was finally concluded.

The Company did not take any steps to create new incentive plans based on financial instruments, privileging the adoption of medium/long-term incentive plans that are cash-based, as widely described in the Report on Remuneration prepared pursuant to Article 123-*ter* of Legislative Decree 58/1998, to which reference should be made.

FINMECCANICA AND THE FINANCIAL MARKETS

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.

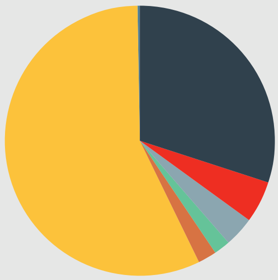
Relations with the financial market

Finmeccanica boasts an on-going dialogue with the national and international financial community – financial analysts and institutional investors – through continuous communication by Investor Relations unit with both the stock and the bond markets.
The Investor Relations provides qualitative and quantitative information on the Group's expected financial and commercial performance, helping the financial market develop a perception of the Group and attribute a value to Finmeccanica stock that reflects the Group's intrinsic value.
The methods used by the Investor Relations unit are described in the paragraph "Shareholders' Relations" of the Corporate Governance Report and Shareholder Structure section.
The Investor Relations organises various events aimed at improving the financial community's knowledge of Finmeccanica and dealing with specific issues arising out of the dialogue with the financial community. In addition to daily contacts with analysts and investors, the conference calls when the first and third quarter results are published, or in occasion of significant transactions, are particularly important. Institutional Road shows are organised when annual and half-year results are published, and Deal Road shows when extraordinary transactions are carried out. The Investor Day is usually held once a year and is considered the ideal platform for presenting the Senior Executive Management of Finmeccanica, together with the CEOs of the companies. This event gives financial analysts and institutional investors the opportunity to gain a deeper understanding of the Group's operations, understand its dynamics, commercial, industrial and financial outlook and have direct access to its Top Management.
More information on the shareholder activities performed by Finmeccanica's Investor Relations is available in the Investor Relations section of the Company's website (www.finmeccanica.com).

The institutional website provides online access to share performance and financial data, market presentations, financial statements and prospectuses on financial transactions; it is also possible to access live or on demand audio/video web casts, on the occasion of the annual and half-year results.

Major shareholders

As at 31 December 2012, Finmeccanica's share capital is divided into 578,150,395 ordinary shares, broken down as follows:



30.20%	Ministry of the Economy and Finance
4.98%	Tradewinds Global Investors LLC
3.60%	Deutsche Bank Trust Company Americas
2.05%	Grantham, Mayo, Van Otterloo & Co. LLC
2.01%	Libyan Investment Authority (Arab Bkg Corp/Libyan Investment Management)
57.16%	Minority Shareholders
0.01%	Treasury Shares

At 31 December 2012, in addition to the Ministry of Economy and Finance, 5 institutional investors own more than 2% of the share capital of Finmeccanica, for a total of more than 14.87% of the share capital[3]. For more information, please refer to the page "Shareholding Structure" of "Investor Relations" section at Finmeccanica's website (www.finmeccanica.com).

Finmeccanica stock included in Dow Jones Sustainability Indexes again in 2012

As already illustrated in the section "Finmeccanica and the Environment", Finmeccanica appeared in the prestigious Dow Jones Sustainability Indexes World and Europe for the third year in a row. On the basis of the results obtained in the 2012-2013 edition, Finmeccanica has obtained the qualification of "Bronze Class" within the A&DS segment. At worldwide level, Finmeccanica is the only company in the "defence" sector, among the four companies admitted, which is present in the index.

Performance of Finmeccanica stock in the Morgan Stanley A&D Europe Index and the leading Italian and European indexes (at 2 January 2012 = 100)

At worldwide level, 2012 was the year in which the economic crisis that started in 2008 showed the first signs of slowdown, at least as regards the financial markets, while there were still evident negative effects on the real economy. The basic macro-economic indicators of the so-called BRIC Countries continued to deteriorate, following the trend started in 2011. On the contrary, the Eurozone addressed the severe liquidity crisis that had hit it in the last two years, as a result of the sovereign debt crisis that has affected almost all European Countries, in a decisive manner. Therefore, the European Central Bank has put together an extensive plan of long-term financial intervention, the so-called LTRO (Long Term Refinancing Operation), by which considerable quantities of liquidity have been injected into the continental banking system. The

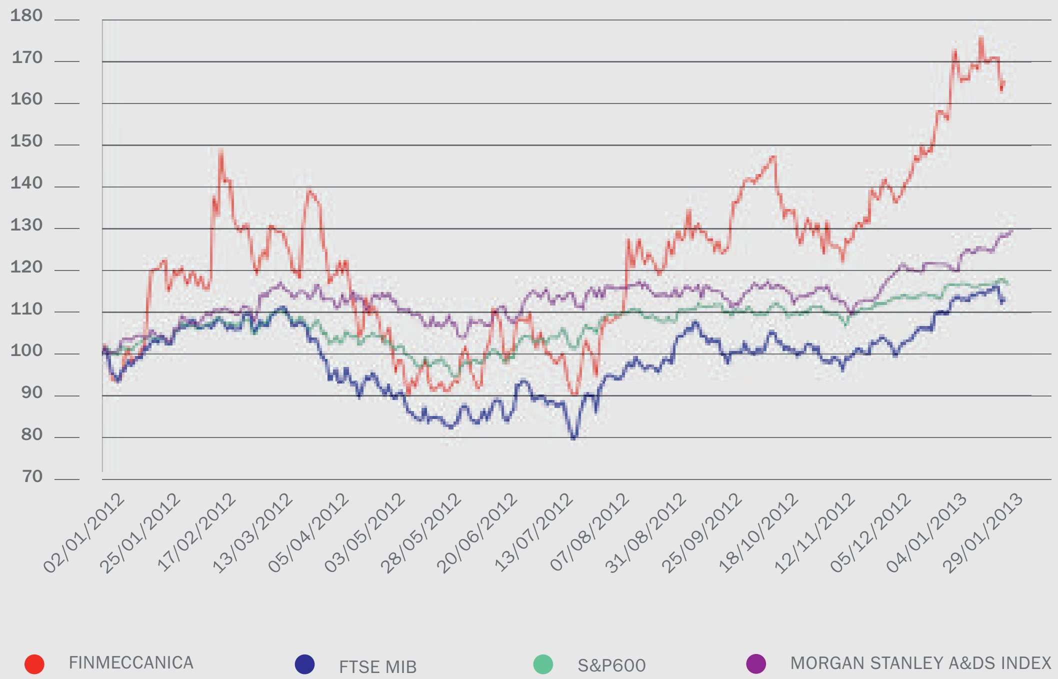
3. It should be noted that the BlackRock Inc. fund has notified that, with reference to the stakes held within the asset management activity, it intends to make use of the exemption laid down under Article 119-*bis*, paragraphs 7 and 8, of the Issuers' Regulations, as amended by CONSOB Resolution 18214, which entered into force on 6 June 2012. Therefore, starting from such date, the BlackRock Inc. fund has requested that any investments, included between 2% and 5%, which were previously reported in the above-mentioned companies, are no longer considered to be relevant for the purposes of Article 120 of the Consolidated Law on Financial Intermediation.

United States saw the restart of the Corporate America on the one hand, while, on the other, they had to address, once again, the age-old problem of public debt, which has now exceeded the threshold of sixteen trillion dollars: the reduction of this level, which is now unsustainable, will be the focus of the second term of the Obama era.

A global macro-context of this type, which is characterised by high levels of public debt of many industrialised Countries, but also by the considerable volatility of exchange rates and by the fact that the prices of some commodities continue to remain at the highest levels of the last decades (e.g. gold, oil) made it necessary to continue to rationalise public spending in order to ensure high qualitative standards in strategically important sectors. The Defence budgets have not been exempt from this trend: as already happened in the past two-year period, they have been the object of a deep process of spending review and reduction. Accordingly, those most under pressure were the companies operating in the Defence business, while recovery continued in the Aerospace – civil aircraft segment, which benefitted from the sound financial position of the main world airlines and of the recovery in air traffic volumes. However, despite this difficult situation, the performance of the Defence stocks has been able to react to uncertainty and has recorded a generally positive trend.
Specifically, in 2012 the performance of the Finmeccanica stock recovered some of the ground lost earlier, thus recording an over-performance with respect to the trend in the relevant sector indexes.

Below is Finmeccanica’s stock performance from the beginning of 2012 to 31 January 2013, the index of the major listings in the Milan Stock Exchange (FTSE MIB), the index composed of the 600 top listings in Europe (S&P600) and the Morgan Stanley A&D Europe Index (rebased at 2 January 2012 = 100).

FINMECCANICA vs Indexes - FTSE MIB, STOXX Europe 600, MSCI Europe A&D Local
January 2012 - January 2013



CORPORATE GOVERNANCE REPORT AND SHAREHOLDER STRUCTURE

Introduction

The purpose of this Report, pursuant to Art. 123-*bis* of the Consolidated Law on Financial Intermediation (Legislative Decree 58/1998), as well as the current laws and regulations governing disclosures concerning compliance with codes of conduct, is to provide the necessary periodic and analytical description of Finmeccanica SpA's corporate governance system and its shareholder structure.

Specifically, the disclosure contained herein is prepared in compliance with the provisions on the contents under paragraphs 1 and 2 of the above-mentioned Art. 123-*bis* and on the basis of the Articles of the current Corporate Governance Code of Listed Companies (hereinafter also referred to as "the Code"). The Company complies with this Code, which was approved in March 2006 by the "Corporate Governance Committee" and finally updated in December 2011.

The aforementioned Code can be found on the Borsa Italiana website (www.borsaitaliana.it).

1. Issuer Profile

The following is a brief profile of the Company. A fuller description is provided in later sections of this Report.

Company organisation

The organisation of the Company, based on the traditional model, is consistent with the applicable laws provided for listed issuers and is as follows:

- **Board of Directors**, which 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 4 May 2011 for the three-year period 2011-2013 and was subsequently integrated on 1 December 2011, 16 May 2012 and 13 February 2013, as illustrated in details in point 4.2 and 15 below.
- **Board of Statutory Auditors**, which 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 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 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 16 May 2012 for the 2012-2014 term.
- **Shareholders' Meeting**, which has the power to pass resolutions in ordinary and extraordinary sessions on the matters reserved to it by law or under the by-laws.
- **Independent Auditors:** the Shareholders' Meeting of 16 May 2012 appointed KPMG SpA to carry out the statutory audit of the Company's accounts for the period 2012-2020.
- **Officer in charge of preparing the Company's accounting documents:** on 14 June 2012, pursuant to Art. 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 appointed Gian Piero Cutillo (the Company's Chief Financial Officer) as the Officer in charge of preparing the Company's accounting documents until the expiry of the term of office of the Board of Directors.

Objectives and corporate mission

Finmeccanica intends to consolidate and strengthen its role as the first Italian industrial Group in the high technology sector, which ranks among the top ten global players in the Aerospace, Defence and Security sectors, developing a synergistic and integrated portfolio of activities through which to efficiently satisfy the needs of domestic customers, to participate in the development of European and international programmes and to compete selectively in the global market.

The Group has a workforce of about 68,000 employees working in more than 50 Countries and is firmly focused on three strategic sectors: Helicopters, Defence and Security Electronics and Aeronautics. Furthermore, Finmeccanica is also the European leader in the Defence Systems sector and enjoys a strong presence in the space sector and in the satellite services market; it also has significant skills in the Transportation and Energy sectors.
Finmeccanica pursues its own mission in strict accordance with the objective of providing innovation, through competitive and advanced products and services that create value for its Shareholders and aiming at protecting and strengthening its competence in the various business areas.

2. Information about the Shareholder Structure

A) Structure of the share capital (Art. 123-*bis*, para. 1, lett. a), Consolidated Law on Financial Intermediation)

The Finmeccanica's share capital is equal to €2,543,861,738.00 and is made up of 578,150,395 common shares with a par value of €4.40 each, all accompanied by the same rights and obligations. The holders of Finmeccanica' shares are entitled to vote at the ordinary and extraordinary meetings of the Company.
The Ministry of Economy and Finance holds a stake of about 30.204% in the share capital of Finmeccanica.
At the date of the approval of this Report the Company owned 32,450 treasury shares, equal to about 0.0056% of the share capital.

B) Restrictions on share transfer (Art. 123-*bis*, para. 1, lett. b), Consolidated Law on Financial Intermediation)

In accordance with Art. 5.1-*bis* of the Company's by-laws, in the application of the special rules under Art. 3 of Decree Law 332 of 31 May 1994, converted with amendments into Law 474 of 30 July 1994, as amended and supplemented, no one, except for the State, public bodies or entities controlled thereby and any other party authorised by law, may possess, on any basis, shares in the Company that constitute a shareholding of more than 3% of the share capital represented by shares with voting rights. The maximum shareholding limit is also calculated in consideration of the total holding of the controlling undertaking, which may be a natural person, legal person or corporation, by direct or indirect subsidiaries and by the subsidiaries of a single controlling undertaking, by affiliated undertakings and by relatives within the second degree of consanguinity or affinity or spouses, provided that the spouses are not legally separated.

With also reference to parties other than companies, the term "control" is held to be within the meaning of Art. 93 of the Consolidated Law on Financial Intermediation. The term "affiliation" is held to be within the meaning of Art. 2359, paragraph 3 of the Italian Civil Code, and is also deemed to exist between parties who, directly or indirectly, through their subsidiaries, other than those which manage mutual funds, sign, with third parties or otherwise, agreements relating to the exercise of voting rights or the transfer of shares, belonging to third parties or otherwise, or other agreements or contracts with third parties or otherwise, as referred to in Art. 122 of the Consolidated Law on Financial Intermediation if such agreements or contracts concern at least 10% of the voting capital for listed companies or 20% of the voting capital for unlisted companies.
For the purposes of calculating the aforesaid shareholding limit (3%), consideration is also given to shares held through trust companies and/or intermediaries or by third parties in general.
Furthermore, on the basis of the new provisions relating to the Government's special powers that are commented on in point D.1) below and, more in particular, pursuant to Article 1, paragraph 5, of Decree Law 21 of 15 March 2012, as amended and converted by Law 56 of 11 May 2012 and

to the Decree 253 issued by the President of the Council of Ministers on 30 November 2012, as amended and supplemented, anyone – excluding the Italian Government, Italian public bodies or any entities controlled by the latter – who holds a stake in the share capital which exceeds the threshold set out in Article 120, paragraph 2, of Legislative Decree 58/98, as amended, or a stake which exceeds the thresholds of 3%, 5%, 10%, 15%, 20% and 25%, is required to notify the acquisition in question to the competent State Administration within the terms and according to the procedures set out in Decree Law 21 of 15 March 2012, as amended and converted by Law 56 of 11 May 2012. The above shall apply in order to allow the competent State Administration to exercise the special powers envisaged in the above-mentioned regulations in the event of a threat of serious damage to the essential interests of the national defence and security.

C) Material shareholdings in the share capital (Art. 123-*bis*, para. 1, lett. c), Consolidated Law on Financial Intermediation)

The persons who, at the date of the approval of this Report, held, either directly or indirectly, a significant stake exceeding 2% of the share capital, on the basis of the notices disclosed pursuant to Art. 120 of the Consolidated Law on Financial Intermediation[4] and of the other available information, are reported in Table 1 attached hereto.

D) Holders of securities that confer special control rights (Art. 123-*bis*, para. 1, lett. d), Consolidated Law on Financial Intermediation)

No securities have been issued conferring special control or any other rights.

D.1) Special powers of the government

Law 56 of 11 May 2012, which converted Decree Law 21 of 15 March 2012, introduced new regulations on the special powers of the Government on the corporate structures in the sectors of the national defence and security, as well as for the activities of strategic importance in the sectors of energy, transportation and communication.
Subsequently, Decree 253 issued by the President of the Council of Ministers on 30 November 2012 identified the activities for the national defence and security system, including any key strategic activities, for the purposes of the exercise of the Government's special powers referred to in the above-mentioned Law.

With respect to the previous structure, which specifically referred to the exercise by the Government of its special powers over the national companies being privatised and operating in the sectors of public services, the special powers defined by the above-mentioned Law tend, more in general, to ensure control over the body of shareholders and on some strategic assets, regardless whether they belong to companies with State-owned or fully private shareholdings.
In particular, the new regulations governing special powers provides, in the event of an actual threat of a serious damage to the essential interests of the national defence and security, for the Government to be entitled to exercise the three special powers described below:

- imposition of specific conditions relating to the security of procurement and information, technology transfers, export control, in the case of the acquisition of stakes in companies that carry out activities of strategic importance for the defence and security sector;
- veto on the adoption of resolutions passed by the Shareholders' Meeting or of the governing body of a company that carries out activities of strategic importance for the defence and security sector relating to extraordinary transactions or transactions of particular importance concerning mergers, demergers, transfer of businesses or branches of business or of subsidiaries, transfer of the registered office abroad, change in the corporate purpose, dissolution of the company, amendments to by-laws clauses that may be adopted on limits on voting rights (pursuant to Article 2351, paragraph 3, of the Italian Civil Code) and assignments of rights *in rem* or of use in relation to tangible or intangible assets or undertaking of obligations that limit their use;
- opposition to the acquisition of stakes in a company that carries out activities of strategic importance for the defence and security sector, on the part of an entity other than the Italian Government, an Italian public body or an entity controlled by the latter, where the buyer holds a

4. It should be noted that the current CONSOB regulations governing material shareholdings (Art. 119-*bis* of the Issuers' Regulations 11971/1999, as finally amended by Resolution 18214/2012) exempt management companies and authorised parties from the obligation to disclose shareholdings acquired within the management activity, which are higher than 2% and less than 5%; with reference to non-EU citizens, this exemption shall apply on condition that they are subject to supervision by a public regulatory authority or recognised by a public authority, in their Country of origin.

stake in the voting capital which is capable of affecting the interests of the national defence and security. For this purpose, the stake held by third parties with which the buyer has entered into a shareholders' agreement is considered to be included.

The new special powers no longer provide for the Government's right to appoint a director with no voting rights: therefore, the director without voting rights of Finmeccanica as appointed by the Ministerial Decree of 27 April 2011 will cease to hold office at the expiry of the relevant term of office, for any reason whatsoever.
From the entry into force of the above-mentioned Decree 253 issued by the President of the Council of Ministers on 30 November 2012, the by-laws clauses that are inconsistent with the new regime of special powers cease to be effective. Therefore, Finmeccanica is making steps to formally bring its by-laws into line with the new regulations of the Government' special powers.

E) Employee shareholding: voting mechanism (Art. 123-*bis*, para. 1, lett. e), Consolidated Law on Financial Intermediation)

No provision is made for any employee shareholding scheme.

F) Voting restrictions (Art. 123-*bis*, para. 1, lett. f), Consolidated Law on Financial Intermediation)

In accordance with the laws on privatisation (Law 474/94 as amended), the Corporate by-laws (Art. 5.1-*bis*) provide that voting rights relating to shares held above the maximum limit of 3% may not be exercised. Article 5.1-*bis* also provides that "voting rights held by shareholders in excess of the shareholding limit shall be reduced proportionally, unless otherwise previously and jointly indicated by all the shareholders concerned. In case of non-compliance, resolutions may be challenged under Art. 2377 of the Italian Civil Code if the required majority would not have been reached had the votes exceeding the maximum limit not been included.
However, non-voting shares shall be included for the purposes of calculating the meeting quorum.

G) Shareholders' agreements (Art. 123-*bis*, para. 1, lett. g), Consolidated Law on Financial Intermediation)

The Company has no knowledge of any shareholders' agreements as referred to in Art. 122 of the Consolidated Law on Financial Intermediation, regarding the shares.

H) Clauses on change of control (Art. 123-*bis*, para. 1, lett. h), Consolidated Law on Financial Intermediation) and bylaw provisions concerning takeover bids (Arts. 104, para. 1-*ter* and 104-*bis*, para. 1, Consolidated Law on Financial Intermediation)

Material agreements entered into by Finmeccanica or its subsidiaries and which will become effective, will be amended or extinguished in case of a change of control of the company concerned are listed below with an indication of the corresponding effects.

PARTIES		AGREEMENT	EFFECTS OF THE CHANGE OF CONTROL CLAUSE
Finmeccanica	BNPP-BNL, Banca Intesa Sanpaolo, UniCredit, Société Générale, The Bank Of Tokyo-Mitsubishi, HSBC Bank Plc, Sumitomo, Royal Bank Of Scotland Plc, Bank Of America-Merrill Linch, Banco Santander	Agreement for the granting of a revolving credit line	After an optional 90-day registration period, each bank may request the cancellation of its commitment and the restitution of its stake, together with any interest accrued until that date.
Finmeccanica	ING Bank NV and ING Bank NV, Milan Branch	Guarantee agreements for AnsaldoBreda	After an optional 90-day registration period, the banks may cancel the agreement and request a refund for guarantees issued.

PARTIES		AGREEMENT	EFFECTS OF THE CHANGE OF CONTROL CLAUSE
Finmeccanica	BAE Systems and EADS	Shareholders' agreement relating to MBDA SAS, a company operating in the missile systems sector	In case of a change of control of Finmeccanica, the other shareholders – BAE Systems and EADS – have the option of deciding whether to extinguish Finmeccanica's right to appoint certain managers and to obtain certain information about MBDA. If this is requested by the shareholders, Finmeccanica can ask these shareholders to buy its stake in MBDA at market price.
Finmeccanica	European Investment Bank (EIB)	Agreement for the granting of a loan for the "development and production of innovative aircraft components" project of Alenia Aermacchi SpA (formerly Alenia Aeronautica)	EIB may cancel the loan and request early reimbursement if a party or group of parties acting in concert acquire control of Finmeccanica pursuant to Art. 2359 of the Italian Civil Code or if the Italian government ceases to hold at least 30% of the share capital of Finmeccanica.
Finmeccanica	Thales	Shareholders' agreement relating to Thales Alenia Space SAS (TAS - Finmeccanica 33%), a company operating in the satellite manufacturing sector	In case of a change of control of Finmeccanica to a competitor of Thales, Thales is entitled to buy Finmeccanica's shares in TAS at a price to be agreed by the parties.
Finmeccanica	Thales	Shareholders' agreement relating to Telespazio SpA (formerly Telespazio Holding Srl - Finmeccanica 67%), a company operating in the satellite services sector	In case of a change of control of Finmeccanica to a competitor of Thales, Thales is entitled to sell its stake in TPZH to Finmeccanica at a price to be agreed by the parties.
Finmeccanica	Thales and Benigni	Shareholders' agreement relating to Elettronica SpA (Finmeccanica 31.33%), a company operating in the defence electronics sector	In case of a change of control, the other shareholders have the right to buy Finmeccanica's shares in Elettronica on a pro-rata basis at a price to be agreed by the parties.
Finmeccanica	Group of banks including: Iş Bankasi, Vakiflar, Yapi Kredi	Guarantee agreement in the interest of Ansaldo Energia SpA (54.55% Finmeccanica)	In case of a change of control of Ansaldo Energia during the first five years of the contract, the banks may ask Finmeccanica to repay their loan share.
Finmeccanica	Chartis Assicurazioni	Agreement for the granting of an insurance credit line for the issue of signature loans (bid bond, performance bond etc.) in the interests of the Finmeccanica Group's companies	In case of a change of control of Finmeccanica, the insurance company may request an immediate cash deposit equal to the amounts of the guarantees in force and to cancel the credit line.

PARTIES SUBSIDIARIES		AGREEMENT	EFFECTS OF THE CHANGE OF CONTROL CLAUSE
AgustaWestland SpA 100% Finmeccanica through AgustaWestland NV	General Electric Company (through the Aviation Business Unit, MA, USA - "GE")	Framework agreement relating to the supply of helicopter engines	Renegotiation of agreements if control of AgustaWestland is acquired by a competitor of GE; Agusta is liable for any breach of confidentiality in relation to GE's proprietary information.
AgustaWestland SpA 100% Finmeccanica through AgustaWestland NV	Bell Helicopter Textron Inc.	License for the production and sale of 412, 412SP, 412HP, 412EP-SAR, 212, 206A, 206B helicopters and spare parts	Termination of the agreement in case of transfer of ownership of AgustaWestland to a third-party helicopter manufacturer and seller, excluding intra-group transfers.
AgustaWestland SpA 100% Finmeccanica through AgustaWestland NV	Boeing Company Defence & Space Group	Agreement for the revision and sale of the CH47C and spare parts	Express cancellation clause, excluding transfer of control within the Finmeccanica Group.
AgustaWestland SpA 100% Finmeccanica through AgustaWestland NV	OJSC "OPK" Oboronprom; LLC "International Helicopter Programmes"; CJSC HeliVert (the JVCompany)	Agreement relating to the joint venture for the licence for production and sale of the civil helicopter AW139 in Russia and in other CIS countries	Termination of the joint venture agreement and winding-up of the JVCompany on the part of the members.
AgustaWestland Tilt-Rotor Company Inc. (formerly AgustaWestland Tilt-Rotor) 100% Finmeccanica through AgustaWestland NV	Bell Helicopter Textron Inc.	Licence agreement for the technology of the helicopter AW609	The transfer of the licence agreement, in the case of change of control in AgustaWestland Tilt-Rotor Company Inc. (formerly AgustaWestland Tilt-Rotor) or of group companies, is ineffective, except with the written consent by Bell Helicopter Textron Inc.
Alenia Aermacchi SpA (formerly Alenia Aeronautica) 100% Finmeccanica	Boeing Company	General Term Agreement concerning Aermacchi's stake (formerly Alenia Aeronautica) in the Boeing 787 programme	Authorisation of Boeing required in the case of change of control of Alenia Aermacchi SpA (formerly Alenia Aeronautica) and Boeing has the right to terminate the contract in the event this clause is violated.
Alenia Aermacchi SpA (formerly Alenia Aeronautica) 100% Finmeccanica	Abu Dhabi UAV Investment LLC	Joint venture agreement concerning the formation of a company (Advanced Male Aircraft LLC) in Abu Dhabi for the development and production of a class of remotely-piloted aircraft	Termination of the agreement at the option of the party not subject to a change in control. Termination is subject to the initiation of a special amicable settlement process and not an arbitration procedure. In the alternative, the nonbreaching party may demand that the breaching party sell its shares at market value less 20%, or that the breaching party purchase the shares of the nonbreaching party at market value plus 20%.

PARTIES SUBSIDIARIES		AGREEMENT	EFFECTS OF THE CHANGE OF CONTROL CLAUSE
Alenia Aermacchi SpA (formerly Alenia Aeronautica) 100% Finmeccanica	Lockheed Martin Aeronautics	Strategic Teaming Agreement that sets out the general terms of the relationship between the parties under the Joint Strike Fire ("JSF") programme to build a 5th generation multirole fighter plane	Termination of the agreement at the option of Lockheed Martin in case of a change of ownership or control of Alenia Aermacchi SpA (formerly Alenia Aeronautica) or sale of assets that would result in a significant loss or decrease in expertise or facilities essential to the performance of Alenia Aermacchi SpA (formerly Alenia Aeronautica).
World's Wing SA 94.94% Finmeccanica through Alenia Aermacchi SpA (formerly Alenia Aeronautica) **Alenia Aermacchi SpA (formerly Alenia Aeronautica)** 100% Finmeccanica	Oao Sukhoi Company, Oao Sukhoi Design Bureau, Zao Sukhoi Civil Aircraft	Joint venture agreement concerning Sukhoi Civil Aircraft Company, a Russian company that produces the Sukhoi Superjet 100	In the event of a change of control of Alenia Aermacchi SpA (formerly Alenia Aeronautica), Sukhoi Company has the right to exercise a purchase option on the shares of Sukhoi Civil Aircraft Company, held by Alenia Aermacchi SpA (formerly Alenia Aeronautica) through World's Wing SA, at a market price, equal to the lessor of fair market value and floor value (which corresponds to the total purchase price of shareholdings in SuperJet International and in Sukhoi Civil Aircraft Company) plus the total contributions paid by Alenia Aermacchi SpA (formerly Alenia Aeronautica) under the Funding Plan, less 10%.
Alenia Aermacchi SpA (formerly Alenia Aeronautica) 100% Finmeccanica	Israel Ministry of Defence	"Strategic purchase contract" for the supply of 30 advanced training M346 aircraft and related systems, services and technical support	In case of a change of control of Alenia Aermacchi (formerly Alenia Aeronautica) the Israel Ministry of Defence may terminate the contract if, as a result of the same, the same becomes subject to the management and control by a party linked to a state defined as an "enemy of the State of Israel" according to the Israeli legislation on "Israeli's trading with the enemy".
Alenia Aermacchi SpA (formerly Alenia Aeronautica) 100% Finmeccanica	Elbit Systems Ltd	"Contractor logistic support contract" for logistic support (supply, repair and service of spare parts) to the Israeli M-346 fleet	In case of a change of control of a party, as result of which the same becomes subject to the management and control by a party linked to a state that does not have diplomatic relations with Israel (in the event that the transaction relates to Alenia Aermacchi) and with Italy (in the

PARTIES SUBSIDIARIES		**AGREEMENT**	**EFFECTS OF THE CHANGE OF CONTROL CLAUSE**
<<<			event that the transaction relates to Elbit Systems Ltd), a prior written consent is required from the party that is not involved in the change of control.
Wing NED BV 100% Finmeccanica through Alenia Aermacchi SpA (formerly Alenia Aeronautica) **Alenia Aermacchi SpA (formerly Alenia Aeronautica)** 100% Finmeccanica	Oao Sukhoi Company, SuperJet International SpA	Joint venture agreement concerning SuperJet International SpA, an Italian company that markets regional jets, including the Sukhoi Superjet 100	In case of a change of control of Alenia Aermacchi SpA (formerly Alenia Aeronautica), Sukhoi Company has the right to exercise a purchase option on the shares of SuperJet International, held by Alenia Aermacchi SpA (formerly Alenia Aeronautica) through Wing NED BV, at a market price, equal to the lessor of fair market value and floor value (which corresponds to the total purchase price of the shareholdings in SuperJet International and in Sukhoi Civil Aircraft Company) plus the total contributions paid by Alenia Aermacchi SpA (formerly Alenia Aeronautica), under the Funding Plan, less 10%.
Alenia Aermacchi North America Inc. (formerly Alenia North America Inc.) 100% Finmeccanica through Alenia Aermacchi SpA (formerly Alenia Aeronautica SpA)	L-3 Communications Integrated Systems LP	Joint venture agreement concerning US company Global Military Aircraft Systems LLC, for undertaking activity in relation to the C27J aircraft	If a stake equal to or more than 50% of the stake of the LLC or assets is transferred to a competitor of the other party, the party not involved will be entitled to a purchase option at the market value on the shareholding of the party that underwent the change of control.
AnsaldoBreda SpA (100% Finmeccanica) as a member of the Trevi Consortium along with: • Alstom Ferroviaria SpA • Firema Trasporti SpA • Bombardier Transportation Italia SpA	Trevi Consortium (in liq.), which has a locomotive supply contract with Trenitalia SpA	By-laws of the Trevi Consortium	The bylaws of the Trevi Consortium stipulate that the shareholders' meeting can decide, by unanimous vote except for the vote of the consortium member, to exclude a member of the consortium in the case of the transfer of the controlling interest of the consortium member itself, unless such transfer takes place within subsidiaries and/or associates or, in any case, the same financial group to which the transferor belongs.

PARTIES SUBSIDIARIES		AGREEMENT	EFFECTS OF THE CHANGE OF CONTROL CLAUSE
AnsaldoBreda SpA 100% Finmeccanica	Bombardier Transportation GmbH	Cooperation Agreement concerning the joint development, manufacture and sale of the new high-speed train	In the case in which more than 50% of the share capital of one of the parties or its parent company is transferred to a competitor of the parties, or in the case of merger of one of the parties with a competitor or in the case of the transfer of the assets to a competitor, the party not involved will be entitled to terminate the collaboration contract.
Ansaldo Energia SpA (formerly Ansaldo Energia Holding) 54.55% Finmeccanica	Group of banks with Banca Imi, BNP Paribas and UniCredit as lead managers	Agreement for the granting of two credit lines, one of which is a revolving line	The banks may request the repayment of the loan should Finmeccanica lose control over Ansaldo Energia SpA (formerly Ansaldo Energia Holding). Furthermore the banks may request the repayment of the revolving credit line in the case of change of control in Finmeccanica.
Ansaldo STS SpA 40.065% Finmeccanica	Naples City Council	Concession agreement for the construction of Line 6 of the metro	Termination of the contract in case of the incorporation or merger with other non-Group companies.
Selex ES Ltd (formerly SELEX Galileo Ltd) 100% Finmeccanica through Selex ES SpA	Northrop Grumman	"Missile Counter Measure (Infrared)" contract	Termination of the contract or alternatively a request for additional performance guarantees, at the discretion of the party not subject to a change in control.
SELEX Systems Integration Ltd 100% Finmeccanica through SELEX Electronic Systems SpA	Lockheed Martin IS&GS (Civil) UK	Teaming Agreement for presenting a bid for the Joint Military Air Traffic Services project	Termination of the contract at the discretion of the party not subject to a change in control.
Telespazio SpA 67% Finmeccanica	DLR GfR	By-laws for Spaceopal GmbH (50% Telespazio SpA; 50% DLR GfR), a company operating in the field of satellite services relating to the Galileo project	Right of the shareholder not subject to a change in control, with the prior authorisation of the shareholders' meeting, to sell its shares to a third party or another shareholder or to withdraw in exchange for a payment to be determined.
Telespazio SpA 67% Finmeccanica	Italian Space Agency (ASI)	Shareholders' agreement relating to e-GEOS SpA (Telespazio SpA 80%, ASI 20%), a company operating in the earth observation satellite field	In case of material changes in the shareholder structure of Telespazio, ASI is entitled at its option: • to repurchase the property, plant and equipment and intangible assets contributed by ASI to e-GEOS;

PARTIES SUBSIDIARIES		AGREEMENT	EFFECTS OF THE CHANGE OF CONTROL CLAUSE
<<<			• to sell the shares to the shareholders of e-GEOS in proportion to the stakes held in the company. The change in the shareholder structure of Finmeccanica SpA or Thales SA is not considered to be a material change.
DRS Systems Management LLC 100% Finmeccanica through Meccanica Holdings Usa Inc.	Sunburst Management Inc.	Partnership Agreement concerning Sunburst Management (formerly Laurel Technologies), a company operating in the circuit card and cable assembly sector	Right of the party not subject to a change of control to purchase the other party's stake at a price equal to the book value of the stake recorded by the other party.
DRS Defense Solutions LLC 100% Finmeccanica through Meccanica Holdings Usa Inc.	Thales USA Inc.	Joint venture agreement concerning Advanced Acoustic Concepts, LLC (formerly DRS Sonar Systems LLC), a company operating in the sonar sector	Option of the party not subject to a change of control (i) to purchase the stake of the other party at the market price as determined by an expert, or (ii) to offer its stake at a reasonable price to the party subject to the change of control which, if it refuses the offer, will be required to sell its stake at the same price (in proportion to the percentage held) to the party not subject to a change of control
DRS Radar Systems LLC 100% Finmeccanica through Meccanica Holdings Usa Inc.	Thales Nederland BV Thales USA Defence & Security Inc.	Technology transfer and licence agreement	Right to terminate the contract.
DRS Defense Solutions LLC 100% Finmeccanica through Meccanica Holdings Usa Inc.	DRS Technologies Inc.	Loan agreement	In case of a change of control, obligation of DRS Defense Solutions of accelerated repayment of the loan to DRS Technologies.
Finmeccanica Group Real Estate 100% Finmeccanica	Finmeccanica	Loan agreement	Right of termination in favour of Finmeccanica in case of change in the control structures of Finmeccanica Group Real Estate or of any transfer of the business to third parties or of a significant branch of business of Finmeccanica Group Real Estate itself.
DRS Technologies Inc. and its subsidiaries 100% Finmeccanica through Meccanica Holdings Usa Inc.	Finmeccanica/Meccanica Holdings USA	Loan agreement	In case of change of control, DRS Technologies is required to immediately repay the loan in favour of Finmeccanica/ Meccanica Holdings USA.

As regards takeover bids, it should be pointed out that the Company's by-laws do not provide for exceptions to the provisions on the passivity rule under Art. 104, paragraph 1-*ter*, of the Consolidated Law on Financial Intermediation, nor any provisions in the application of the neutralisation rules under Art. 104-*bis*, paragraph 1, of the Consolidated Law on Financial Intermediation.

I) Compensation for directors in case of resignation or dismissal without just cause or termination of employment following a takeover bid (Art. 123-*bis,* para. 1, lett. i), Consolidated Law on Financial Intermediation)

The information required by Art. 123-*bis*, paragraph 1, letter i), of the Consolidated Law on Financial Intermediation is contained in the Report on Remuneration published pursuant to Art. 123-*ter* of the Consolidated Law on Financial Intermediation (point 8 hereof).

L) Laws governing the appointment and replacement of directors and amendments to the by-laws (Art. 123-*bis,* para. 1, lett. l), Consolidated Law on Financial Intermediation)

As regards the appointment and replacement of directors, reference is made to paragraph 4.1. below herein.
As regards any amendments to the by-laws, it should be noted that, pursuant to Art. 123-*bis* of the Consolidated Law on Financial Intermediation, they shall be approved by the Shareholders' Meeting pursuant to law.
Under Art. 24.1 of the by-laws, the Board of Directors has the power to adapt the by-laws to legislative provisions.
Under Art. 22.3 of the by-laws, any proposals to amend Articles or to adopt new by-laws are decided by the Board of Directors with the vote in favour of 7/10ths of the directors in office, excluding the director without voting rights.
Finally, note the Government's veto power over the adoption of amendments to the by-laws that revoke or modify the Government's special powers referred to in point D.1).

M) Authorisation for share capital increase and authorisation to purchase treasury shares (Art. 123-*bis,* para. 1, lett. m), Consolidated Law on Financial Intermediation)

The Board of Directors has no authority to make capital increases under Art. 2443 of the Italian Civil Code, nor do the directors have the power to issue equity instruments.
With reference to treasury shares, it should be noted that, on 31 December 2011, the time limit for the purchase expired which had been set by the Shareholders' Meeting on 4 May 2011 in relation to the share buy-back programme authorised on the same date. Subsequently, the Shareholders' Meeting of the Company did not resolve any additional authorisations for the purchase of treasury shares. As mentioned above, the Company held 32,450 treasury shares, equal to about 0.0056% of the share capital, at the date of the approval of this Report.

N) Direction and coordination

Finmeccanica is not subject to direction and coordination pursuant to Art. 2497 *et seq.* of the Italian Civil Code.

3. Compliance

The Board of Directors of Finmeccanica has long since resolved (at the meeting of 17 October 2006) to bring the Company's Corporate Governance model into line with the application criteria and principles of the Corporate Governance Code of Listed Companies, with which the Company complies. This model has been subject to subsequent amendments aimed at approving the instructions given by the Code from time to time, which are currently incorporated in the document "**Rules of Procedure of the Board of Directors**" (hereinafter also referred to as "**Rules of Procedure**"), which was finally approved at the Board's meeting of 19 December 2012, in order to formally bring it into line with the new edition of the Code (December 2011), as well as with the changes made in the organisational structure of the Company.
The text of the Code can be accessed by the public on the website of Borsa Italiana (www.borsaitaliana.it)

The text of the Rules of Procedure may be consulted in the specific Governance section of the Company's website (www.finmeccanica.com).
Neither Finmeccanica nor its subsidiaries with key strategic roles are subject to non-Italian laws affecting the Company's corporate governance structure.

4. Board of Directors

4.1. Appointment and replacement (Art. 123-*bis*, para. 1, lett. l), Consolidated Law on Financial Intermediation)

The Company is governed by a Board of Directors that is made up of between 8 and 12 members who are appointed by the shareholders. The shareholders also establish the number of members and the length of their terms in office. Directors are appointed for a term that does not exceed three financial years and may be re-elected pursuant to Art. 2383 of the Italian Civil Code. In the event that the Shareholders' Meeting has not taken steps to do so, the Board will appoint a Chairman from among its members, excluding the director without voting right[5] appointed pursuant to Art. 5.1-*ter* lett. d) of the Company's by-laws.

Regarding the appointment of the directors, the by-laws (Article 18.4) provide for the specific "list voting" mechanism, as described below.
The directors are appointed by the Shareholders' Meeting on the basis of lists submitted by the shareholders and by the outgoing Board of Directors in which the candidates are to be numbered consecutively. If the outgoing Board of Directors submits a list of its own, this shall be filed with the registered office of the Company at least 25 days before the date of the meeting on first call, and made public by the Company at least 21 days before the date of the meeting, again on first call, according to the procedures provided for by the regulations in force.
Lists submitted by shareholders shall be filed with the registered office at least 25 days before the date of the meeting on first call, and made public by the Company at least 21 days before the date of the meeting, again on first call, according to the procedures provided for by the regulations in force. The time limits and procedures for submitting the lists are specified by the Company in the notice of call of the Shareholders' Meeting.
Each shareholder may submit or contribute to the submission of one list only and each candidate may stand in one list only under penalty of being ineligible for election.
Only shareholders who, alone or together with other shareholders, represent at least 1% of the voting shares in the Ordinary Shareholders' Meeting will be entitled to submit lists, or such lesser number as may be laid down by provisions of law or regulations, where applicable.
By Resolution 18452 of 30 January 2013, CONSOB identified the shareholding required to submit lists of candidates for the election of governing and control bodies of Finmeccanica to the extent of 1%, equal to the percentage provided for in Art. 18.4 of the Company by-laws.
In order to prove ownership of the number of shares necessary for the submission of lists, shareholders must file appropriate certification, proving ownership of the number of shares represented, with the registered office, within the time limit prescribed for the publication of the lists by the Company.
At least two directors must meet the independence requirements as laid down for Statutory Auditors pursuant to law. In this regard, in line with the provisions laid down in the Corporate Governance Code, the Company expressly requires, in the notice of call of the Meeting, to specify, in the lists of candidates to the position of director, their eligibility to be qualified as "independent" directors pursuant to law, as well as pursuant to Art. 3 of the Code. Furthermore, all candidates must meet the honesty requirements laid down by the regulations in force.
Together with each list, and within the time limit prescribed for the filing of such lists, declarations by the individual candidates must also be filed, in which they accept their nominations and certify, under their own responsibility, that there are no grounds for ineligibility for election or incompatibility and that all the requirements prescribed by the regulations in force are met for their respective positions including the independence requirements as required by the by-laws.
The directors appointed shall notify the Company without delay of any loss of the above-mentioned independence requirements and honesty, as well as of the emergence of grounds for ineligibility or incompatibility.

5. See, in this regard, paragraph 2, point D.1) of the Report.

Each party entitled to vote may vote for one list only.
The directors shall be elected as follows:

a) two thirds of the directors to be elected, with fractions being rounded down to the nearest whole number, shall be drawn from the list that has obtained the majority of votes cast, in the order in which they appear in the list;
b) the remaining directors will be drawn from the other lists; for that purpose, the votes obtained by these lists will then be divided by one, two, three and so on, depending on the gradual number of directors to be elected. The scores thus obtained shall be allocated progressively to the candidates of each of the various lists according to the order specified therein. The scores thus allocated to the candidates of the various lists shall be arranged in a single list in descending order. Those who have obtained the highest scores will be elected.
In the event that more than one candidate have obtained the same score, the candidate from the list which has not yet elected any directors or which has elected the lowest number of directors shall be elected.
In the event that none of these lists has elected a director yet or that they have all elected the same number of directors, the candidate will be elected whose list has obtained the highest number of votes. In the event of an equal number of list votes and still with the same score, a new vote will be held by the entire Shareholders' Meeting and the candidate with a simple majority of votes will be elected;
c) if, following the application of the procedure described above, the minimum number of independent directors required by the by-laws has not been appointed, the share of votes to be allocated to each candidate in the various lists shall be calculated according to the system indicated in letter b) and the number of candidates necessary to ensure compliance with the provisions of the by-laws, not yet drawn from the lists pursuant to letters a) and b), who meet the independence requirements and who have obtained the highest scores shall be elected. These shall take the place of the non-independent Directors who have been allocated the lowest scores. In the event that the number of candidates does not comply with the minimum of two independent Directors, the Shareholders' Meeting shall resolve, with the majorities provided by law, to replace the candidates who do not meet the independence requirements and who have obtained the lowest scores.

It should be noted that the described terms and procedures for filing and publishing the lists, as well as the related documentation, appear to be adequate, in compliance with the provisions under Art. 147-*ter*, paragraph 1-*bis*, of the Consolidated Law on Financial Intermediation, to the amendments introduced by Legislative Decree 27 of 27 January 2010 which transposed the Directive 2007/36/EC on certain rights of shareholders in listed companies. Legislative Decree 27/10 also states that the ordinary "privatisation" rules found in the Consolidated Law on Financial Intermediation and in the enacting laws apply rather than the special rules set out in the so-called "law on privatisation" (Law 474/94).

Article 18.5 of the Company's by-laws also provides that "for the appointment of Directors who are for whatever reason not appointed in accordance with the procedure provided for herein, the Shareholders' Meeting shall resolve with the majorities provided by law. If in the course of the financial year, one or more Directors cease to hold office, measures will be taken pursuant to Art. 2386 of the Italian Civil Code. To replace the Directors who have ceased to hold office, the Shareholders' Meeting shall resolve with the majorities provided by law to appoint replacements from those on the same list as that of the Directors who have ceased to hold office, if previously unelected candidates remain on this list. The Board of Directors carries out the replacement, pursuant to Art. 2386 of the Italian Civil Code, by appointing the replacement Directors on the basis of the same criteria as in the previous period, in the first meeting after the termination".

The Shareholders' Meeting of 16 May 2012 amended, during the extraordinary meeting, the by-laws' provisions related to the election and the composition of the Board of Directors

(Arts. 18.4 and 18.5) and of the Board of Statutory Auditors (Arts. 28.3 and 28.3-*bis*) in line with the new provisions introduced by Law 120 of 12 July 2011 and by the CONSOB implementing regulations governing equal access to the governing and control bodies of listed companies.
The new principle provides for the governing and control bodies being elected to be distributed, for three consecutive terms, on the basis of a criterion that ensures gender equality: specifically, for the first term of office, at least 1/5 (at least 1/3 for the two following terms) of the members of the governing and control bodies shall represent the under-represented gender. The new rules will be applied starting from the first renewal of governing and control bodies after 12 August 2012.

With particular regard to the Board of Directors, a mechanism was introduced which is similar to the provisions laid down in Article 18.4 letter c) of the by-laws in order to ensure a minimum number of independent directors.
The new Art. 18.4 letter c-*bis*), indeed, provides that, in order to comply with the current regulations governing gender equality, the lists for the election of directors that present a number of candidates equal or higher than three should include candidates of different gender. The gender equality shall also be ensured in case of replacement of directors who cease to hold their position during the term of office pursuant to Art. 2386.

Furthermore, Art. 34 was introduced in the Company's by-laws, which, as already specified, provides for the new regulations governing gender equality to be applied starting from the first renewal of the Board of Directors and of the Board of Statutory Auditors after 12 August 2012 and for three consecutive terms of office.

The directors thus appointed are joined by a director without voting rights, who is vested with same rights as those granted by the law and/or by the by-laws to the other directors, but he cannot be granted the right to undertake proxies or special offices, even on a supplementary or temporary basis, nor can he in any case chair the Board of Directors or act as a legal representative of the Company. As already described in paragraph 2, point D.1), the director without voting rights of Finmeccanica as appointed by Ministerial Decree of 27 April 2011 will cease to hold office at the expiry of the relevant term of office, for any reason whatsoever, as the new special powers of the Government no longer include this right of appointment.

Succession plan

The Board of Directors of the Company has so far considered not to adopt a plan for the replacement of the executive directors of Finmeccanica SpA, thus submitting these assessments to the shareholders; on the other hand, the Board itself reserved the right to carry out another assessment, after having hear the Appointments Committee that will be established, in accordance with the recommendations under the Code, within the time limit of the current mandate.

4.2. Composition (Art. 123-*bis*, para. 2, lett. d), Consolidated Law on Financial Intermediation)

The Shareholders' Meeting of 4 May 2011 set the number of the members of the Board of Directors at 11. They will serve until the approval of the financial statements for the 2013 financial year.
In addition to the 11 members of the Board of Directors appointed by the shareholders, in accordance with Art. 5.1-*ter*(d) of the by-laws, Carlo Baldocci was appointed as director without voting rights selected by the Ministry of Economy and Finance, together with the Ministry for Economic Development. He may exercise the "special powers" specified by Law 474/1994 as amended, and he is to remain in office until the end of his term for any reason whatsoever.

Following the resignation of the director Marco Iansiti on 11 May 2012, the Company's Board of Directors, in the meeting of 16 May 2012, resolved to co-opt Ivanhoe Lo Bello as director,

pursuant to Art. 2386 of the Italian Civil Code and, therefore, up to the next Shareholders' Meeting (his appointment was subsequently confirmed by the Shareholders' Meeting held on 15 April 2013).
The Shareholders' Meeting held on 16 May 2012 took steps to appoint Alessandro Pansa (who was already co-opted by the Board of Directors' meeting held on 1 December 2011, pursuant to Article 2386 of the Italian Civil Code, as well as Chief Operating Officer from 4 May 2011) as director, who will hold office up to the expiry of the term of office of the current Board of Directors. Starting from 13 February 2013, Alessandro Pansa holds the office of Chief Executive Officer and Chief Operating Officer.
On 21 September 2012 Franco Bonferroni resigned from the office of director.
In this regard, the Board of Directors, after having acknowledged the difficulties encountered in finding persons of adequate experience and expertise in order to appoint them by co-option to replace Franco Bonferroni, resolved, after having heard the Board of Statutory Auditors, not to appoint by co-option a new director pursuant to Article 2386 of the Italian Civil Code and to refer the decision on the related replacement to the Shareholders' Meeting.

Following the additional changes that occurred in the composition of the Board of Directors as from the closing date of the 2012 financial year, for the detailed illustration of which reference is made to paragraph 15 below, the **Board of Directors** which currently holds office is made up as follows:

Guido Venturoni Vice-Chairman	(1)
Alessandro Pansa CEO and COO	
Carlo Baldocci	
Paolo Cantarella	(2)
Giovanni Catanzaro	(1)
Dario Galli	(1)
Ivanhoe Lo Bello	
Silvia Merlo	(2)
Francesco Parlato	(1)
Christian Streiff	(2)

(1) Directors appointed from the **majority list** submitted by the Ministry of Economy and Finance, which holds 30.204% of the share capital.
(2) Directors appointed from a **minority list** submitted by a group of asset management companies and institutional investors, which hold an overall stake of about 1.063% of the share capital.

The summary tables annexed to this Report show the structure of the Board of Directors and its committees, specifying the members serving as at the date of approval of this Report, as well as the directors who ceased to hold office during the 2012 financial year and in the first quarter of 2013.

A brief professional résumé of each member of the present Board of Directors follows, specifying the respective length of service.

GUIDO VENTURONI - Vice-Chairman
Admiral Venturoni was born in Teramo on 10 April 1934. He has been a Director of Finmeccanica since 12 July 2005 and was re-appointed on 6 June 2008 and on 4 May 2011; he was appointed Vice-Chairman of the Board of Directors on 13 February 2013. He attended the Livorno Naval Academy, where he became an officer in 1956. In 1959, he obtained a pilot's licence from the Naval Aviation Branch, which authorised him to operate from aircraft carriers. He was made a Rear Admiral in 1982 and has held positions of increasing responsibility ever since, including Head of Operations at the Navy and later at the Ministry for the Defence, Commander of the 1st Naval Division, Deputy Chief of Staff for the Navy and Commander in Chief

of the Naval Squadron and of the Central Mediterranean. In 1992, he was appointed Navy Chief of Staff and in 1994 became Defence Chief of Staff. He was made Chairman of the Military Committee of NATO in 1999. Admiral Venturoni completed his term in Brussels in 2002 and retired from active service after 50 years in the armed forces. He has held numerous important positions and led a number of military operations nationally and internationally, for which he was awarded many Italian and foreign medals. More specifically, he was in charge of the multinational strategic and operational campaign led by Italy in Albania in 1997. From 2002 until November 2005, he served as Chairman of Selenia Communications SpA (formerly Marconi Selenia Communications SpA).

ALESSANDRO PANSA - CEO and COO

Mr Pansa was born in Mortara (Pavia) on 22 June 1962. Chief Executive Officer and Chief Operating Officer since 13 February 2013. At Finmeccanica he also held the positions of Director-Chief Operating Officer from 1 December 2011, Chief Operating Officer from 4 May 2011, Chief Financial Officer from 2001 to 2011 and Joint Chief Operating Officer from 2004 to 2011.
He holds a degree in Political Economy from the Bocconi University of Milan, where he specialised in Financial and Monetary Economics. He attended the Business Administration Graduate School at New York University. He started his career at Credito Italiano SpA (1987-1989, Economic Research and Planning Service) and then at Euromobiliare SpA (1989-1992, Investment Banking and M&A Division). He was a Senior Partner at Vitale Borghesi & C. from 1993 and Managing Director of Lazard from 1999. He has overseen numerous extraordinary finance transactions on the stock market on behalf of private companies and public bodies (Ministry of the Treasury, Enel, Finmeccanica, Ferrovie dello Stato, Wind, AEM in Turin, Mondadori. He is a member of the Board of Directors of Feltrinelli Editore SpA and of Fondo Strategico Italiano SpA, a member of the Council for Relations between Italy and the USA and a member of the Aspen Institute. In 2006, he became Professor of Finance at the LUISS University of Rome. In 2007, he published the book "La Difesa Europea" (European Defence) published by Il Melangolo. Furthermore, he has published Articles and essays in specialist publications and written books on the subjects of economics, finance and history.

CARLO BALDOCCI - Director [6]

Mr Baldocci was born in Rome on 22 November 1966. He has been a director of Finmeccanica since 4 May 2011, he holds a law degree from the La Sapienza University of Rome and he graduated from the School of Business of Georgetown University of Washington. He entered the diplomatic service after being successful in a competition. At the Ministry of Foreign Affairs he served in the Head Office of political affairs and in the General Secretariat; he served abroad in the Italian embassies in Tehran and Washington. He is a Diplomatic Advisor – a role he has held since 2003 – and an Advisor to the Minister for Economy and Finance on international economic affairs. At the moment, he is, among other things, a member of the strategic committee for the development and safeguarding of national economic interests abroad. Within the EU, he is the Italian representative in the Tax Policy Group and he was a member of the Lisbon Committee for the re-launch of competitiveness in Europe.

PAOLO CANTARELLA - Director

Mr Cantarella was born in Varallo Sesia (Vercelli) on 4 December 1944. He has been a director of Finmeccanica since 4 May 2011, he has a degree in Mechanical Engineering from the Politecnico University in Turin. He started his career in Turin companies operating in the automobile components industry and in 1977 he joined Fiat in the Automobile Components division. From 1980 to 1983 he was assistant to the Chief Executive Officer of Fiat SpA as well as head of the Interdivision Industrial Coordination of the Group. From 1983 to 1989 he was Chief Executive Officer of Comau, a company in the Fiat Group operating in the production resources and systems division. In 1989, he joined Fiat Auto where he was responsible for Purchasing and Logistics and in the same year he was appointed, first, General Manager of Fiat Auto, and then, Chief Executive Officer and manager of the Automobile Division of the Fiat Group. From 1996 to 2002, he held the position of Chief Executive Officer of Fiat SpA and Chairman of Fiat Auto SpA. From 2000 to 2001, he was Chairman of ACEA (European Automobile

6. Director without voting rights pursuant to Article 5.1-*ter*, letter d), of the by-Laws.

Manufacturers' Association). He was a member of the Managing Committee of Confindustria and a member of the Board of Directors of Mediobanca, HdP (holding company of Partecipazioni Industriali SpA), Alcatel, CNH, Polaroid, Terna and TOROC (Turin Olympics 2006). He was also Co-Chairman of the European Union - Russia Industrialists' Round Table. He is Knight of Labour (*Cavaliere del Lavoro*). He is a member of the Board of Directors of Iren SpA as well as a member of the Advisory Board of Mandarin Capital Partners and Operating Partner of Advent International.

GIOVANNI CATANZARO - Director

Mr Catanzaro was born in Mazzarino (Caltanissetta) on 23 October 1944. He has been a director of Finmeccanica since 4 May 2011, from 1968 to 1979 he was a director of large commercial companies and from 1979 to 1992 a director of S.A.I. Assicurazioni SpA in Turin. From 1980 to 1992 he held various positions in the Pozzi Ginori/Richard-Ginori Group in Milan, eventually holding the office of Chief Executive Officer. He was Chairman of Tecnoceram Srl (from 1988 to 1998) and then director (from 2004) and Chairman (from 2006 to 2008) of Lombardia Call SpA, member of the Board of Directors of Lombardia-Servizi SpA (from 2004 to 2007), Chairman of the Supervisory Body of Sicilia e Sanità SpA (2005-2007) and member of the Advisory Board of Lombardia Integrata (from 2002 to 2011), where has held the office of Sole Director (2010-2011).
From 1995 to the present day, he has been Chairman of A.Y.C. Immobiliare SpA, where he initially held the role of Managing Director from 1980. He has been the Managing Director of Lombardia Informatica SpA since 1999 and since 2005 he has been part of Consip SpA, where he has held the positions of director and Deputy Chairman and then (from 2008 to 2011) of Chairman. From 2007 to 2010 he was Chairman of Gelsia Energia SpA.
Finally, he is Chairman of the Auto Yachting Club in Catania.

DARIO GALLI - Director

Mr Galli was born in Tradate (Varese) on 25 June 1957. He has been a director of Finmeccanica since 6 June 2008 and his mandate was renewed by the Shareholders' Meeting of 4 May 2011. He has a degree in Mechanical Plant Engineering at Politecnico of Milan, and since April 2008 he is Provincial President of Varese. He has been a member of Parliament in the Chamber of Deputies (1997-2006) and Senator (2006-2008); between 1993 and 2002 he was Mayor of Tradate. Between December 2009 and December 2012 has held the position of Vice President of the Union of Italian Provinces and, since September 2009, has been a director of Financière Fideuram SA. He was assistant to General Administrative Office of the company Fast in Tradate, Responsible Manager manufacturing system at the Aermacchi in Varese and Head of production and logistics at the Replastic in Milan. He is currently a mechanical contractor. Furthermore, he has been Professor at postgraduate course of the Chamber of Commerce of Varese.

IVANHOE LO BELLO - Director

He was born in Catania on 21 January 1963. He has been a director of Finmeccanica since 16 May 2012. He has been a member of the Board of Director of CRIAS (Cassa Regionale per il credito alle imprese artigiane) since 1996.
He was a member of the Board of Directors of Banco di Sicilia from 1998 to 2001.
He was the President of the Association of Manufacturers of the Province of Siracusa from 1999 to 2005.
He has been a member of the Council of Confindustria since May 2005.
He was a director of the Siracusa Branch of the Bank of Italy from April 2004 to January 2008.
He has been a member of the Board of Directors and of the Chairmanship Committee of CIVITA, a leading non-profit organisation in the management and enhancement of cultural heritage, since 1999.
He has been the Chairman of the Chamber of Commerce of Siracusa since July 2005.
He was a member of the Board of Directors of ASAC, the sole shareholder of SAC SpA (the company that manages the Catania airport) from January 2006 to January 2007.
He has been a member of the Chairmanship Committee and Vice-Chairman of Unioncamere since September 2006.

He was the Chairman of Confindustria Sicilia from October 2006 to March 2012.
He was the Vice-Chairman of Banco di Sicilia SpA (UniCredit Group) from January to April 2008.
He was the Chairman of Banco di Sicilia SpA (UniCredit Group) from April 2008 to November 2010.
He has been a member of the Steering Committee of Confindustria since June 2008.
He was a lead independent director of Luxottica Group SpA from April 2009 to April 2012.
He has been a member of the Board of Directors of Fondazione Rosselli since July 2009.
He has been a member of the Scientific Committee of the Centro per la Cultura di Impresa since December 2009.
He has been a member of the Board of Directors of Fondazione CENSIS since September 2010.
He has been the Chairman of UniCredit Leasing SpA, a member of the Board of Statutory Auditors of Infocamere since December 2010; he has been a member of the Advisory Committee of Infocamere since 2011.
He has been the Chairman of the Sicily Region's Local council of UniCredit SpA since March 2011.
He has been the designated Vice-Chairman of Confindustria with delegated powers for education since April 2012.

SILVIA MERLO - Director
Ms Merlo was born in Cuneo on 28 July 1968. She has been a director of Finmeccanica since 4 May 2011, she holds a degree in Business Economics from the Carlo Cattaneo (LIUC) University in Castellanza (Varese). She is Chief Executive Officer of Merlo SpA Industria Metalmeccanica and Tecnoindustrie Merlo SpA. She holds positions on the Boards of Directors of all the companies belonging to the Merlo group. She has been a member of the Board of Directors and of the Executive Committee of Banca Cassa di Risparmio di Savigliano SpA since 2006.

FRANCESCO PARLATO - Director
Mr Parlato was born in Rome on 17 April 1961. He has been a director of Finmeccanica since 12 September 2007, and was re-appointed on 6 June 2008 and on 4 May 2011. He holds an Economics and Business degree from LUISS University in Rome, and since July 2007 has been the Director of the General Finance and Privatisation Section of the Treasury Department, where he has led the office responsible for the privatisation of groups and companies owned by the Ministry of Economy and Finance since January 2003. For many years prior to that, he held management positions in the IRI Finance Department. He is currently a member of the Policy Committee of Cassa Depositi e Prestiti.
He has also been a director of Gestore dei Servizi Elettrici - GSE SpA, Fincantieri SpA, Tirrenia di Navigazione SpA and Mediocredito del Friuli Venezia Giulia SpA.

CHRISTIAN STREIFF - Director
Mr Streiff was born in Sarrebourg (France) on 21 September 1954. He has been a director of Finmeccanica since 4 May 2011. He graduated with a degree in Engineering from the École des Mines in Paris.
He worked for the Saint-Gobain group from 1979 to 2005 and he started his career as a development engineer and plant manager at the Halberghutte site in Germany (1979-1982). He held the role of Corporate Planning Vice-Chairman for the "Reinforcement Fibre" division located at the Chambery site (France) from 1982 to 1984. He was director of the Gevetex Plant from 1985 to 1988 and from 1988 to 1990 he was General Manager of Gevetex GmbH. He was also General Manager of Vetrerie Italiana SpA (1991-1993) and General Manager of Saint-Gobain Emballage (1994-1996). From 1997 to 2000, he then held the position of Chairman of the Pont-à-Mousson group and from 2001 to 2003 Chairman of the High Performance Materials division. In 2004, he was appointed Vice-Chairman of the Saint-Gobain group, where he remained until 2005.
In 2006, he was appointed Chairman and General Manager of Airbus and from 2006 to 2009 Chairman and General Manager of the car maker PSA Peugeot Citroen. He is also a director of ThyssenKrupp, Crédit Agricole, TI-Automotive and Bridgepoint, as well as the Chairman of "CS Conseils".

The directors of Finmeccanica accept their appointments and remain in office because they believe that they can dedicate the necessary time to the diligent performance of their duties, taking into consideration the commitment connected to their working and professional activities, as well as the overall number of the positions that they hold in the governing and control bodies of other companies listed on regulated markets (including foreign markets), of finance, banking or insurance companies or of other major companies and of the related commitment, also in the light of their participation in the Committees of the Board.

In this respect, the Finmeccanica Board of Directors has expressed an opinion regarding the maximum number of positions as director or auditor that is compatible with the efficient performance of the duties involved in a directorship with the Company, deeming that this number should be no higher than five (5) positions in companies listed on regulated markets, including foreign markets, or in finance, banking or insurance companies or of other major companies (Article 1 of the Rules of Procedure). Any positions held by Finmeccanica Directors in companies either directly or indirectly controlled by Finmeccanica SpA, or in which it holds an equity interest, should not count for the purposes of the calculation of the number of directorships.

Each year, the Board reviews and provides observations on the above-mentioned positions in this Report.
The positions as director or auditor held by the current Board of Directors in companies not belonging to the Finmeccanica Group are shown below:

- **Alessandro Pansa:**
  - Director of Fondo Strategico Italiano SpA
- **Silvia Merlo**
  - Director of Banca CRS SpA
  - Director of BNL SpA
  - Chief Executive Officer of Merlo SpA Industria Metalmeccanica
- **Christian Streiff**
  - Director of ThyssenKrupp AG
  - Director of Crédit Agricole SA
  - Director of Ti-Automotive Ltd

4.3. Role of the Board of Directors (Art. 123-*bis*, para. 2, lett. d), Consolidated Law on Financial Intermediation)

The Board of Directors is vested with the fullest powers for the management of the Company, with the authority to perform any act it considers appropriate for achieving the Company's business purpose, except for the acts reserved to the Shareholders' Meeting by law or the by-laws. The Board is also entitled, as required by section 24.1 of the by-laws, to resolve on:

a) the merger and demerger in the cases envisaged by law;

b) the establishment or closure of sub-offices;

c) capital decreases in the case of withdrawal of one or more shareholders;

d) bringing the by-laws into line with regulatory provisions;

e) the transfer of the registered office in the national territory.

Without prejudice to the issues that cannot be delegated pursuant to law (Article 2381 of the Italian Civil Code) and the by-laws (Article 22.3), the Board reserved the following issues for its exclusive competence:

1. setting corporate strategy and organisation guidelines (including plans, programmes and budgets);
2. key strategic agreements, going beyond normal operations, with Italian or foreign operators in the sector or other companies or groups;
3. capital increases, incorporation, transformation, listing, mergers, demergers, winding up or the execution of shareholders' agreements with regard to direct subsidiaries;

4. designation of new directors with powers, or of directors, statutory auditors or independent auditors in direct subsidiaries;
5. the purchase, exchange or sale of real estate and leases with a duration of more than nine years;
6. medium- and long-term credit and debt financial transactions for amounts in excess of €mil. 25 per transaction;
7. issuance of guarantees for amounts in excess of €mil. 50 per transaction;
8. the engagement, appointment and dismissal of executives responsible for head office functions as defined in the organisational chart; appointing consultants on a continuous basis for a duration of more than a year involving expenditure in excess of €th. 250;
9. the acquisition of equity investments, also by exercising option rights;
10. transfers, contributions, leases and usufruct and all other acts of disposal, including those carried out in the framework of joint ventures or as a result of compliance with corporate restrictions or business segments thereof;
11. transfers, contributions, licences and all other acts of disposal, including those carried out within the framework of joint ventures or as a result of compliance with technology, production process, know-how, patent, industrial project and all other intellectual property restrictions connected with work related to defence;
12. moving research and development work related to defence outside Italy;
13. transfer of equity investments in companies, also by means of the exercise or the waiver of option rights, contributions, usufruct, pledges and all other acts of disposal, including those carried out within the framework of joint ventures or as a result of compliance with restrictions arising from the investments themselves;
14. vote in the shareholders' meetings of subsidiaries, associates or companies in which an equity investment is held (the notions of control and association are meant as understood by Art. 2359 of the Italian Civil Code) that conduct business related to defence with regard to the subject matter referred to in the preceding points 10), 11), 12) and 13).

The Board has also reserved, for its exclusive competence, the execution of acts and agreements for amounts in excess of €mil. 150 per transaction, as well as the settlement of any dispute for amounts exceeding €mil. 25.
Resolutions on matters for which the Board of Directors is solely responsible under the by-laws (Article 22.3) are valid if they are adopted by the favourable vote of seven-tenths of the serving directors (rounded off to the next lowest whole number if this ratio results in fraction).

The Board's meeting is convened by the Chairman, by a notice specifying the issues on the agenda to be discussed and resolved, within the annual planning of the Board's meetings or in any case whenever the same deems it necessary or it is so requested, in writing, by the majority of its members or by the Board of Statutory Auditors.

The individual directors may ask the Chairman to insert issues on the agenda. Where the Chairman deems it appropriate not to grant the request, he/she shall promptly inform the director concerned. The notice of call is usually served on each member of the Board and of the Board of Statutory Auditors at least three days before that set for the meeting pursuant to Article 20.2 of the by-laws, as well as according to procedures that are suitable to ensure confidentiality and timeliness of the call and that allow to verify that the notice has been received; in cases of urgency, at the discretion of the Chairman, the notice will be sent as promptly as possible, according to the specific circumstances.

As required by the by-laws, the Board's meetings may be also attended by tele-conference or video-conference, provided that a prior notice thereof is given to the Secretary to the Board, that all the participants may be identified and that the same are able to follow the discussion and at the same time to take part in the discussion of the issues, as well as to peruse, in real time, such documentation as may be distributed in the course of the meeting.

At the request of one or more directors, the Chairman may invite executives from the Company or from Group companies to participate in the individual Board's meeting, as well as any other persons or external consultants, whose presence is deemed useful in relation to the issues on the agenda. In any case, these persons will be required to comply with the same confidentiality obligations as those laid down for directors and statutory auditors.

The operational practice that has been followed by the Company for some time ensures that Board meetings are held regularly, at least once a month. The annual calendar of the meetings of the Board relating to corporate events is approved and communicated by the Company in the month of January of the related financial year.
In the course of the 2012 financial year, the Board met 13 times for an average of 2 hours and 30 minutes per meeting. In the course of the 2013 financial year, 7 Board's meetings have already been held.
The following are the directors' attendance records for the meetings that took place during 2012:

Guido Venturoni	13 out of 13 meetings
Alessandro Pansa	13 out of 13 meetings
Carlo Baldocci	12 out of 13 meetings
Paolo Cantarella	11 out of 13 meetings
Giovanni Catanzaro	12 out of 13 meetings
Dario Galli	13 out of 13 meetings
Ivanhoe Lo Bello (°)	7 out of 7 meetings
Silvia Merlo	12 out of 13 meetings
Francesco Parlato	13 out of 13 meetings
Christian Streiff	11 out of 13 meetings

(°) In office from 16 May 2012.

DIRECTORS WHO HAVE CEASED TO HOLD OFFICE	
Giuseppe Orsi (1)	13 out of 13 meetings
Francesco Bonferroni (2)	10 out of 10 meetings
Marco Iansiti (3)	4 out of 5 meetings

(1) Outgoing director on 15 February 2013.
(2) Outgoing director on 21 September 2012.
(3) Outgoing director on 11 May 2012.

All absences were excused.
As envisaged in the Rules of Procedure, the Board of Directors:

- examines and approves the Company's strategic, industrial and financial plans and those of the Group that it leads, monitoring its implementation periodically; defines its corporate governance system and the Group structure;
- defines the nature and level of risk compatible with the strategic objectives of the Company;
- evaluates the adequacy of the general organisational, administrative and accounting structure of the Company as well as of its key subsidiaries, paying particular attention to the internal audit system and of the system for risk managing;
- grants and revokes powers delegated to directors, except for those reserved solely to the Board, establishing the limitations on and manner of exercising these powers and determining the frequency with which the delegated bodies must report to the Board on the

actions that have been taken pursuant to the delegation, provided that this will be made at least on a quarterly basis pursuant to Article 24.2, last paragraph, of the by-laws;

- defines the Company's policy governing the fees due to directors and executives with strategic responsibilities, in accordance with the regulations in force and with the Code;
- decides, through the Remuneration Committee that has been appointed for this purpose, the remuneration and conditions of service of the directors provided with delegated powers and those of the other directors holding special positions (in consultation with the Board of Statutory Auditors and in accordance with Art. 2389, paragraph 3 of the Italian Civil Code);
- assesses general performance, particularly taking into account the information received from the delegated bodies, and periodically comparing the results attained with those envisaged;
- resolves as to the transactions that are reserved for the same by the law and the by-laws, as well as to any additional transactions of the Company and subsidiaries, when they are of significant strategic or financial importance or if they are materially important in terms of the Company's assets and financial position, which the Board reserves for itself on the occasion of the granting of delegated powers;
- at least once a year, appraises the functioning of the Board itself and of its Committees;
- in order to ensure the correct management of corporate information, adopts, as proposed by the Chief Executive Officer, a procedure for the internal management and external communication of documents and information concerning the Company, with specific regard to the treatment of inside information;
- provides information, in the Corporate Governance Report and Shareholder Structure, on the procedures for the performance of its duties.

Subject to the opinion of the Control and Risk Committee, the Board of Directors has laid down guidelines for the internal control and risk management system, so that the main risks involving the Company and its subsidiaries are correctly identified and satisfactorily measured, managed and monitored, also defining the degree of compatibility of these risks with the management of the enterprise that is consistent with the defined strategic objectives. In this regard, when preparing the 2013-2017 Budget, the Board defined the nature and level of risk compatible with the Company's strategic objectives.

As illustrated more in detail in paragraph 10 below, to which reference is made for the specific activities and assessments carried out by the Board, the Board of Directors, on the basis of the opinion given by the Control and Risk Committee, has found the organisational, administrative and accounting structure of the Company and of its key subsidiaries adequate, efficient and actually functioning, with specific regard to the internal control and risk management system.
The Board has defined as key subsidiaries those that it directly controls and that are responsible for managing the Group's areas of business – Helicopters, Defence and Security Electronics, Aeronautics, Space, Defence Systems, Energy and Transportation – having regard to all the activities these companies perform either directly or through other subsidiaries.

In assessing general management performance, the Board periodically compared the results attained with those envisaged in the Budget approved by the Board and any subsequent changes.
With regard to the criteria for the identification of the transactions of significant importance, it should be noted that these transactions coincide with those that are already reserved for the Board pursuant to the by-laws or on the occasion of the resolutions granting delegated powers.

Assessment of the functioning of the Board of Directors

As called for in the Corporate Governance Code and its own Rules of Procedure, the Board of Directors of Finmeccanica conducts annual assessments of the functioning of the Board itself and of its Committees, the compliance with its corporate governance model, as well as of the related size and composition, also taking account of the professional, experience and gender characteristics of its members, as well as of their length of service.

The Rules of Procedure also provide for the Board to be entitled to possibly express to the shareholders, at the end of this assessment and before the appointment of the new governing body, opinions concerning the professional qualifications sought in Board members.
In the early part of 2013, this (self-)evaluation was repeated for the second time for the Board currently sitting and was done, with reference to the 2012 financial year, with the support of the independent expert SpencerStuart who was selected by the Board itself.

For the selection of this consultant, the Board adopts the principle of continuity within each three-year mandate and, in the period between two 3-year terms, the principle of turnover between consultants of primary standing with expertise in the specific sector. SpencerStuart also provides additional services to Finmeccanica and to the Group companies, in areas that are not attributable to the Board's activity, and mainly in the selection of personnel and key resources *(executive search).*
As in previous years, in addition to assessing the degree to which the Board follows the principles and conducts defined in the Rules of Procedure and in the Corporate Governance Code, the latest (self-)evaluation of the Company used benchmarking to compare the Group's practices with the best practices seen in the Italian and foreign marketplace, paying particular attention to the identification of the most appropriate actions to improve its functioning, as well as to the assessment of the effectiveness of the recommended actions at the end of the previous assessment and implemented in the course of the 2012 financial year.

The procedure followed for the (self-)evaluation, according to a well-established practice, was fundamentally based on obtaining the different individual opinions by means of interviews and through open discussions with each of the Board members, the Chairman of the Board of Statutory Auditors and the Secretary of the Board, which were then processed by the consultant.

The interviews also focused on giving those interviewed ample room for reflection and stimulating discussion regarding aspects of the structure and functioning of the Board and of the Committees. The appointed consultant also perused the minutes of the meetings of the Board and of the Committees in order to gather further analysis information.

The process conducted with reference to the 2012 financial year highlighted the efficacy of the work carried out, in a particularly complex period, by the Board of Directors, which was engaged in a restructuring and reorganisation plan, as well as in the review of the rules of operation of the Company and of the Group.
At the end of this process, a favourable opinion was expressed as to the efficacy of the activities envisaged in the working programme prepared after the previous evaluation, which were aimed at improving those areas that had been specified as mostly sensitive, as well as additional indications on possible actions to be implemented for improving some specific areas.
The main issues emerged in the course of the (self-)evaluation described above will be the object of specific discussions with the directors in the course of the current financial year.

As required by the Rules of Procedure of the Board, the Chairman encourages participation of directors and Statutory Auditors in actions aimed at providing adequate knowledge of the business area in which the Company operates, of the corporate dynamics and their evolution, as well as of the relevant regulatory framework.

In this regard, induction initiatives were taken during the financial year, for a total number of 6 meetings dedicated to an in-depth analysis of specific issues on the part of the directors and of the Statutory Auditors. Therefore, the recently-appointed directors and Statutory Auditors had the opportunity to deepen their knowledge as to the Group's activities and in particular on issues such as the management and development of Human Resources, the industrial structure, the relevant technology and markets, including in-depth analyses on the sectors of Space, Helicopters, Defence and Security Electronics. Furthermore, two meetings were held with the managers, which were dedicated to the examination of the Budget which was then submitted for the approval of the Board.

Finally, the Shareholders' Meeting has not given general prior permission for any exceptions to the non-competition provision in Art. 2390 of the Italian Civil Code.
In accepting his position, therefore, each director has stated that he does not perform any activity in competition with Finmeccanica, undertaking to inform the Board promptly of any changes to the contents of the statement that he made at the time of his appointment.

4.4. Delegated Bodies

Chief Executive Officer and Chief Operating Officer

Without prejudice to the duties reserved to the Board of Directors, the Chief Executive Officer and Chief Operating Officer, as well as being the legal representative of the Company, in accordance with the law and the by-laws, having signatory powers on behalf of the Company and having the power to implement the resolutions of the governing body, has been granted all the powers necessary to jointly manage the Company, its branches of business and its subsidiary, associate and investee companies, consistently with the strategic guidelines identified by him and approved by the Board of Directors.
The Chief Executive Officer and Chief Operating Officer has been granted the powers required to perform these duties, with some limits on their exercise, including: €mil. 150 as the maximum value of contracts that can be signed on behalf of the Company, €mil. 50 limit on the issue of guarantees, €mil. 25 limit on medium and long-term credit and debt financial transactions, and €mil. 25 limit on settlement of agreements relating to each individual transaction.

Information to the Board of Directors

The Chairman of the Board of Directors, or, in case of absence or impediment, the Vice-Chairman, calls Board meetings, coordinates their work and directs the proceedings at meetings, ensuring that the directors are given satisfactory information in good time so that the Board can express itself in a properly informed manner regarding the matters submitted for its attention.

The Board of Directors of the Company, in its Rules, specifies the methods whereby the members of this body are assured that the utmost fairness is observed both in the phase in which prior information is supplied regarding the items on the agenda and in the procedures for conducting the meetings.
Specifically, for the discussion of the items on the agenda, the Directors and Statutory Auditors are provided with the supporting documentation, which is prepared by the Secretary's Office of the Board and which provides the necessary information to allow them to express themselves in a properly informed manner regarding the matters being resolved on.
The supporting documentation is made available in such a way as to ensure the necessary confidentiality and well in advance of the date of the Board's meeting, which is usually by the third day prior to that set for the meeting, except in urgent cases when the documentation is made available in due time and subject to prior notice within the same time limit.

However, the directors and the Statutory Auditors may access the aforesaid information documentation at the registered office in the days immediately prior to that of the meeting.
The Chairman shall verify that the aforesaid information has been duly made available to the directors and to the Statutory Auditors at the offices.

Moreover, the Chairman, on his own initiative or at the request of the Board members, may set up special meetings in preparation for the Board meeting to explain in greater depth the documentation prepared by the Company's management when particularly complex issues are to be put forth to the Board.

The Chief Executive Officer is also expected to provide the Board of Directors, at least on a quarterly basis, with full information regarding the main activities he has performed in the exercise of his delegated powers, as well as with periodic disclosures in relation to the implementation of the resolutions passed by the Board.

This information is provided at the same time as the periodic accounts (annual, half-year and interim financial statements and management reports) are submitted for the approval of the Board of Directors.

4.5. Other executive directors

The Board of Directors is made up exclusively of non-executive directors (i.e. without delegated operational powers and/or management duties within the Company), with the exception of the Chief Executive Officer and of the Chief Operating Officer Alessandro Pansa. In fact, the Board of Directors' meeting of 13 February 2013 resolved to grant the latter the authority, responsibility and power previously granted to him on 26 May 2011 and on 16 May 2012 as Chief Operating Officer, as well as the authority and power previously granted to Giuseppe Orsi as CEO for the joint management of the Company and of the Group, as reported in paragraph 15 below.

4.6. Independent directors

In accordance with the Company's corporate governance model, which, as mentioned earlier, has been aligned with the recommendations of the new Corporate Governance Code, Finmeccanica's Board of Directors assesses the degree of independence of its non-executive members at the first possible meeting after their appointment. Their independence is reassessed annually in the course of preparing this Report, as well as upon the occurrence of any circumstances that are relevant for independence purposes.
In assessing independence, the Board considers the information given by the individuals concerned regarding circumstances relevant to the assessment. To this end, the Board has defined, after having heard the Board of Statutory Auditors, the contents and procedures according to which the individual directors provide information under their responsibility, as well as the application criteria relating to the Company, as reported in the Rules of Procedure (section 4).

The Board then submits its assessment of the independence of its members to the Board of Statutory Auditors, which verifies that the assessment criteria and procedures have been correctly applied.
In the meeting of 23 April 2013 the Board of Directors assessed the independence of its own members on the basis of the information gathered from the directors themselves.
At the end of the checks carried out with regard to the current 8 non-executive directors, following the appointment by the Shareholders' Meeting of 4 May 2011, as well as of the subsequent additions on 1 December 2011, 16 May 2012 and 13 February 2013 (and therefore excluding Carlo Baldocci, who is a director with no voting right and the Chief Executive Officer and Chief Operating Officer Alessandro Pansa), the Board has assessed and confirmed the existence of the "independence" requirement for the 7 directors who have declared that they meet such requirement and therefore with the sole exception of Francesco Parlato, by virtue of his employment relationship with the Ministry of Economy and Finance, which holds a stake equal to about 30.20% of the share capital.

Therefore, the Company is largely in line with the instruction laid down in the Code (as expressly approved by the Board's Rules of Procedure) which requires the issuers belonging to the FTSE-MIB index to appoint at least one third of independent directors.

It should be noted that, at the time of the filing of the lists of candidates for the appointment of the Board of Directors on the part of the Shareholders' Meeting of 4 May 2011, the candidate Directors also declared that they met the independence requirements set out by law (Art. 148, paragraph 3, of the Consolidated Law on Financial Intermediation).

In its assessment pursuant to the Corporate Governance Code, the Board of Directors has adopted the same application principles and criteria specified in the above-mentioned Code.
As usually, the Board has submitted the independence assessment of its members to the Board of Statutory Auditors, which has positively verified the correct application of the assessment criteria and procedures defined in the Rules of Procedure, without making objections.
It should be noted that none of the serving non-executive directors has any substantial direct or indirect commercial, financial or professional relationship with the Company and/or its subsidiaries.

The Board of Directors has specified additional factors, set out below, in the assessment of independence, in the framework of the appraisal criteria specified in the Code and adopted in the Board's Rules of Procedure.
Persons in a position to "significantly influence" over Finmeccanica are shareholders holding 10%, even indirectly, of its equity and, in any event, the Ministry of Economy and Finance and the Ministry for Economic Development, inasmuch as they have the "special powers" pursuant to the regulations in force.

As regards professional collaboration or consultancy, the Board has stated that it will set quantitative reference parameters for assessment in these cases, while it will use its discretion in evaluating specific situations in the light of the Company's best interests, the significance of the relationship and the likelihood of its affecting the director's independence. The Board, however, set a limit to directors' emoluments (currently equal to €60,000), the maximum amount allowed for any professional assignments, which, in any event, must first be authorised by the Board.

Additionally, again for the purposes of independence assessment, with regard to persons who are or were in the service of the Italian central government, which is a shareholder of Finmeccanica through the Ministry of Economy and Finance, the Board of Directors appraises directors' past or present employment by the Office of the Prime Minister, the Ministry of Economy and Finance, the Ministry for Economic Development and the Ministry of Defence and any past or present positions held by such persons involving influence over authorities' policies or their manner of execution.
Without prejudice to all the above rules, the principle remains that each director acts fully in conformity to his obligation to the Company to attend to his duties with the diligence called for by the nature of the position and by his specific expertise.
Independent directors meet at least once a year, in the absence of the other directors. Meetings are convened at the request of the independent directors or by the Lead Independent Director.

In 2012, the independent directors met 3 times, in all cases as requested by the Lead Independent Director and without the presence of the Chairman and Chief Executive Officer, the Board member - Chief Operating Officer or the non-executive and non-independent directors. During these meetings, the independent directors selected the topics of greatest interest in enhancing their knowledge of the Group and the context in which it operates.
Specifically, in the course of the 2012 financial year, the independent directors submitted to the Chairman some initiatives to improve the knowledge of the Company's and Group's activities and actively participated in the consultations connected with the definition of structure of the proxies.

The independent directors also defined an action plan aimed at improving their knowledge of the Company, of the Group and of the related business dynamics.
In addition, the Company's various internal committees, where appropriate and including matters assigned to them and in the event of particularly important issues, consult with the other independent directors in order to obtain their opinions.

At the end of the 2012 financial year, the independent directors, also in support of the activities carried out by the Control and Risk Committee in its capacity as Committee for Transactions with Related Parties, finally selected a financial advisor to assist them in such valuations as may be required within disposal processes.

4.7. Lead Independent Director

On 26 May 2011, the Board of Directors, with the abstention of the executive and non-independent directors, confirmed the director Admiral Guido Venturoni – the current Vice-Chairman of the Company – as Lead Independent Director, with the task of coordinating the requests and contributions from non-executive directors and in particular from independent directors. In fact, the Rules of Procedure provide for the Board to take steps, in any case, to make this appointment in the event that the Chairman has been granted operating proxies.

Specifically, the Lead Independent Director:

- assists the Chairman in ensuring that directors receive full and prompt information and in taking appropriate actions to allow directors and Statutory Auditors to enhance their knowledge of the Company, of the Group and of the corporate dynamics;
- convenes, independently or at the request of other Board members, special meetings of independent directors to discuss issues relevant to the functioning of the Board or the Company's operations;
- contributes to the process of the assessment of the members of the Board;
- collaborates with the Chairman in the annual planning of the Board's works;
- informs the Chairman of any matters to be submitted to the Board for scrutiny and appraisal.

The Lead Independent Director will serve throughout the term of office of the Board of Directors, that is, until the Shareholders' Meeting when the 2013 financial statements are approved.

The Lead Independent Director met with the Chairman several times throughout the year to explain the requirements of the non-executive directors, particularly the need to enhance their knowledge of the strategic context of the specific sector in which the Group operates, in order for them to be in a better position to evaluate the transactions that are submitted for the Board's attention.

Again in 2012, the Lead Independent Director coordinated the continuation of the activities that had been already started and that were aimed at improving the knowledge by the directors and Statutory Auditors of the Group business sectors, as well as of the corporate structures and dynamics. Specifically, specific meetings were organised with the management of the subsidiaries operating in the Helicopters and Space sectors or at the premises of the companies themselves, which were followed by visits at their production plants. Furthermore, a visit was carried out at an important domestic customer of the Group companies which operate in the Defence and Security Electronics sector, thus giving the possibility of becoming aware of and actually appreciating the operations of a specific system implemented by these companies.

4.8. Handling of corporate information

Inside information

In order to ensure the proper management of corporate information, the Board of Directors' Rules of Procedure provide for the adoption, by the Board and on the proposal of the Chief Executive Officer, of a procedure for the internal management and the external transmission of documents and information concerning the Company, with specific regard to inside information.

For some time now, the Company adopted specific internal procedures to coordinate the management and transmission of this information within the Group, in order to ensure compliance with the special restrictions and disclosure obligations imposed on listed issuers at every structural level, including subsidiaries.

These procedures were updated, in more organic terms, during 2007, by means of a specific directive regarding relations with the media and handling of inside and confidential information about Finmeccanica and the Group companies, which was then updated – during 2010 – in the light of subsequent regulatory changes, as well as of subsequent changes in the organisational structure of the Company and of the Group.

Subsequently, the Company started – in the last months of the 2012 financial year – a process of internal redefinition of roles, responsibilities and operating procedures which had been already regulated and the consequent updating of the above-mentioned Directive. Therefore, the updating process was started once again at the beginning of the current 2013 financial year, as results of the further changes occurred after the closing of the 2012 financial year and of the new organisational structure of Finmeccanica SpA proposed by the Chief Executive Officer and Chief Operating Officer and shared by the Board of Directors on 21 February 2013.

The above process was completed on 26 March 2013, with the adoption by the Board of Directors, on the proposal of the Chief Executive Officer, of the new **Procedure on inside and confidential information***,* whose text can be found in the specific Governance section of the website of the Company (www.finmeccanica.com).

As a result of this approval, the Company then issued (on 27 March 2013) a specific Directive aimed at regulating the issue within the Group[7].

The above-mentioned procedure defines principles, obligations of conduct, roles and responsibilities as to inside and confidential information concerning Finmeccanica SpA and its subsidiaries, with specific regard to the related external communication.

The persons involved, through specific roles and responsibilities, in the management and dissemination of said corporate information are: the Chief Executive Officer and Chief Operating Officer, the organisational units of External Relations and Communication (REC) or Investor Relations (RIN), in agreement with the Chief Financial Officer (CFO)/Officer in charge of preparing the Company's accounting documents, as well as the Legal and Corporate Affairs (LCA) organisational unit. Specifically, the external disclosure of inside and confidential information concerning Finmeccanica and its subsidiaries (in particular through press releases and presentations to the market), which must be approved by the Chief Executive Officer and Chief Operating Officer in advance, shall be carried out exclusively through the above-mentioned REC or RIN units, for the aspects under their responsibility, in agreement with the CFO/Officer in charge and with the LCA unit.
The Procedure also includes specific provisions as to the confidentiality obligations placed on the members of the Corporate Bodies, the Company's employees and external consultants.

Internal Dealing Code

Within the scope of the procedures in force for the management and communication of information pertaining to the Company, it should also be noted that the Board of Directors of Finmeccanica passed a resolution some time ago (on 28 March 2006) to adopt an **Internal Dealing Code** (in order to replace the Code of Conduct), in the implementation of regulatory provisions on Internal Dealing, as well as in compliance with the implementing regulations imposed by CONSOB for the adoption of the provisions of the European Market Abuse Directive.

The Code, which governs the flow of information to the market about transactions involving shares issued by Finmeccanica or other financial instruments connected to these and initiated, also through a third party, by "Key Persons" in the Company or by persons "closely connected" to them, was subject to a specific update with a resolution passed by the Board of Directors on 14 November 2011.

On this occasion, the provisions concerning periods during which transactions cannot be carried out (blackout periods) by Key Persons (or by persons closely connected to them), were significantly extended, in the light of best practice as well as the guidance and requirements of foreign institutional investors in relation to practices adopted in their respective markets.

Compared to the "period of prohibition", which was initially set out for all the "Key Persons" (directors, Statutory Auditors, Chief Operating Officer as well as persons holding the office of Joint Chief Operating Officer), for the fifteen days preceding the date of approval of the mandatory periodical reports by the Board of Directors, a distinct blackout period was introduced for executive directors and for the Chief Operating Officer (as well as for persons closely connected to them), starting from the fourteenth day before the close of each accounting period and ending on the day following the issue of the press release announcing the results achieved in the period; for other Key Persons (non-executive directors, Statutory Auditors and persons closely connected to them) the blackout period was extended to start from the closing date of the relevant accounting period and end on the day after the issue of the press release announcing the relevant results.

7. At Finmeccanica the "Procedure" contains the internal rules adopted by Finmeccanica SpA to regulate its activities; "Group Directive" means the rules issued by the Parent Company to its subsidiaries, so that they can approve them through the adoption of their own internal implementing procedures.

The quantitative threshold identified by the Code for transactions subject to disclosure provides – in compliance with the regulatory provisions – that only transactions with a total value that does not reach €5,000 by the end of the same calendar year are excluded from the obligation.

As regards the deadline for disclosure to CONSOB and to the public, "Key Persons" are required to ensure that their notification reaches the Company within 4 trading days after the transaction, and the Company must inform CONSOB, Borsa Italiana SpA and the press agencies before the end of the trading day after receiving the information.

In order to ensure that the rules are correctly applied, the Company has laid down specific operating procedures to ensure that "Key Persons" are made aware of their obligations and are provided with the help necessary to fulfil them.

The Company promptly publishes the information transmitted on its website, in the specific Governance section (www.finmeccanica.com), where the above-mentioned Internal Dealing Code is also made available.

Register of persons who have access to inside information

Finally, pursuant to Art. 115-*bis* of the Consolidated Law on Financial Intermediation, the Company has created a special Register of persons who have regular or occasional access to inside information owing to their work or profession or by virtue of the functions that they perform. The Register is kept up to date in compliance with current regulations. In this regard, the Company has also issued a specific **Procedure** ("**Keeping and updating of the register of persons who have access to inside information at Finmeccanica**") concerning the management of the Register, which can be found in the Governance section of the website, as well as a Directive aimed at regulating the issues within the Group[8].

4.9. Directors' interests and transactions with related parties

With regard to transactions with related parties, provisions shall apply which are laid down under the specific "Procedure concerning transactions with related parties" (hereinafter referred to as "the Procedure"), as approved by the Board of Directors pursuant to Art. 4 of the CONSOB Regulation 17221 of 12 March 2010 (as amended by Resolution 17389 of 23 June 2010).
At the meeting of 26 November 2010, the Procedure was unanimously approved by the Board of Directors, after having reviewed the favourable opinion supported by the Procedures Committee (as specially established by and composed of independent directors) and also underwent further revision on 13 December 2011 in order to take account of certain formal adjustments due to the changed organisational structure of the Company.
At the same time, the previous "Guidelines and criteria for identifying significant transactions with related parties" were repealed, which the Company had adopted pursuant to Art. 2391-*bis* of the Italian Civil Code, as well as on the basis of the previous recommendations made in the Corporate Governance Code.

The Board also assigned the Control and Risk Committee the task of also serving as the Committee for Transactions with Related Parties.
The Procedure aim to define, based on the principles outlined in the Regulation, rules for ensuring transparency and substantive and procedural fairness in transactions with related parties entered into by the Company, directly or through its subsidiaries. To that end, the Procedure establish the criteria and methods for identifying parties related to the Company (identified in accordance with Annex 1 of the Regulation), as well as the quantitative criteria for identifying transactions of greater or lesser importance entered into by the Company; establishes the procedures for examining and approving transactions with related parties, identifying specific rules for cases in which the Company examines or approves transactions entered into by its subsidiaries; establishes the procedures for meeting the disclosure requirements related to the regime.

The Procedure also set out the types of transactions exempt from the procedural rules as provided for under the Regulation, subject to the regulatory plan concerning disclosure requirements.

8. See note 7 above.

It also established the quantitative criteria for identifying so-called “minor” transactions not subject to the Procedure, i.e. transactions for amounts of not more than €mil. 3, or €th. 250 (per year) for on-going consulting work and other professional services, as well as awarding remuneration and financial benefits to members of the administration and control bodies or executives with strategic responsibilities.

The Surveillance Body monitors whether the procedures adopted comply with the principles set out in the Regulation, as well as whether they have been followed and reports its findings to the Shareholders’ Meeting.
The Procedures Committee assesses the adequacy of the Procedures and the need to amend them at least once every three years in light of any legislative or regulatory changes and future application practices.
The full text of the Procedure is available in the specific Governance section of the Company’s website (www.finmeccanica.com).

Finally, with specific reference to the situations in which a director has an interest in the transaction subject to the examination of the Board, on his own behalf or on behalf of third parties, the Rules of the Board provide for the directors to promptly and exhaustively inform the Board itself of the existence of this interest and of the related circumstances. Furthermore, the directors themselves will abstain from the related resolutions.

5. Internal Board Committees (Art. 123-*bis*, para. 2, lett. d), Consolidated Law on Financial Intermediation)

The Board of Directors has formed Committees from among its members, composed of directors in accordance with the Corporate Governance Code and as laid down in its own Rules of Procedure. Among these Committees are the Control and Risk Committee and the Remuneration Committee, whose functions, work and composition are described in detail below.
The Board also formed the Strategy Committee, which met 3 times in 2012.
The Committee is currently made up of the following members:

Strategy Committee	Attendance
Carlo Baldocci	3 out of 3 meetings
Paolo Cantarella	3 out of 3 meetings
Dario Galli	3 out of 3 meetings
Ivanhoe Lo Bello (1)	2 out of 2 meetings
Francesco Parlato	3 out of 3 meetings

(1) Holding office from 14 June 2012.

Giuseppe Orsi (2)	3 out of 3 meetings
Marco Iansiti (3)	0 out of 1 meeting

(2) Holding office up to 15 February 2013.
(3) Holding office up to 11 May 2012.

This Committee is responsible for assessing the strategy options for the Group’s advancement and the relative business plans drawn up by the Chairman and Chief Executive Officer for submission to the Board of Directors.
During the above-mentioned meetings, the Committee specifically examined the strategic guidelines of the Finmeccanica Group, as well as the development of the disposal programme set out in the plan for the operational and financial strengthening of the Company.

6. Appointments Committee

The Company's Board of Directors, by making use of the specific transitional regime envisaged in the Code, considered the opportunity for the Company to take steps to formally set up the Appointments Committee at a later time, in order to ensure the operation of the new Committee by the date of expiry of the current term of office of the Board of Directors, as contemplated by the Code itself.

7. Remuneration Committee

The Board of Directors has established an internal Remuneration Committee, which met 4 times in the course of the 2012, as well as 3 times in the current 2013 financial year. The average duration of the meetings was about one hour and thirty minutes.

Remuneration Committee	Attendance
Dario Galli - Chairman	4 out of 4 meetings
Francesco Parlato	3 out of 4 meetings
Christian Streiff	2 out of 4 meetings
Franco Bonferroni (1)	4 out of 4 meetings

(1) Holding office up to 21 September 2012.

The composition of the Committee is in line with the provisions of the Code. Also following the subsequent resignation of Franco Bonferroni, the members are all non-executive directors, most of which are "independent" directors, including the Chairman. Furthermore, the composition of the Committee is consistent with the recommendation, made by the Code, as to the presence of at least one member in possession of an adequate knowledge and experience in financial or remuneration policy issues.

The duties of this Committee are:

- submitting proposals to the Board of Directors as to the definition of the Company's policy as to the fees due to directors and managers with strategic responsibilities, in accordance with the current regulations and with the Code;
- determining, under powers delegated by the Board and in the implementation of the remuneration policy set out by the same:
  - the compensation and conditions of service of the directors provided with delegated powers and of the other directors who hold specific positions (in consultation with the Board of Statutory Auditors where required by Art. 2389 of the Italian Civil Code);
  - the performance targets correlated to the variable component of the remuneration due to directors provided with delegated powers and of the other directors who hold specific positions, monitoring the application of any decisions adopted and verifying, in particular, the actual achievement of performance targets;
- assisting the Company in deciding on the best policies for the handling of the Group's management employees, as well as the plans and mechanisms in place for developing the management skills of the Group's key employees;
- preparing, for the approval by the Board, remuneration plans based on the assignment of shares or options for the purchase of the Company's shares to the benefit of directors and executives of the Company and of the Group companies, to be submitted for the subsequent approval of the Shareholders' Meeting pursuant to the regulations in force, as well as defining their implementing regulations;
- assessing, on a periodic basis, the adequacy, the overall consistency and the actual application of the remuneration policy for directors and managers with strategic responsibilities.

The activities of the Committee are regulated by appropriate **Rules**, which were finally updated during the Board of Directors' meeting of 19 December 2012 in order to approve the principles and application criteria recommended in the new edition of the Code.
The Rules (available in the specific Governance section of the Company's website, www.finmeccanica.com) provide, *inter alia*, that the Directors provided with delegated powers are not invited to participate in the meetings in which proposals are submitted in relation to their own remuneration.

Since it was firstly formed in December 2000, the Remuneration Committee has played a role in support of the Company's Top Management with regard to some of the primary issues related to the strategic management of the Group's Human Resources and its salary and retention policies.
In this respect, incentive plans have been implemented based on performance and growth targets set for the Group's share price and value.

Furthermore, in line with the strategic objective of refocusing on management development and planning as one of the key priorities of Finmeccanica, the Committee has supported the creation of a qualified, structured and periodic Management Appraisal process, designed to select the beneficiaries of the long-term incentive programmes objectively and impartially.

In 2012, the Committee:

- determined, by virtue of the proxies granted by the Board of Directors on 1 December 2011 and 16 May 2012, the economic and regulatory treatment of the directors provided with delegated powers granted by the Company – the Chairman and Chief Executive Officer, Giuseppe Orsi, and the director - Chief Operating Officer (currently Chief Executive Officer and Chief Operating Officer), Alessandro Pansa – as illustrated in the Report on remuneration, to which reference is made;
- approved, in the light of the results of the 2011 financial year, the final amount of fees due to the Chairman and Chief Executive Officer Giuseppe Orsi and to the Director - Chief Operating Officer Alessandro Pansa (currently Chief Executive Officer and Chief Operating Officer) within the framework of the management of short-term (MBO) and medium/long-term (Long Term Incentive Plan "LTIP") incentive plans and for the Group's management;
- preliminarily examined the Report on remuneration (prepared pursuant to Article 123-*ter* of the Consolidated Law on Financial Intermediation and pursuant to Article 84-*quater* of the Issuers' Regulations of CONSOB), which was approved by the Board of Directors' meeting of 27 March 2012 and which was submitted for approval of the Shareholders' Meeting on 16 May 2012;
- continued to perform its institutional function of supporting Top Management in priority areas related to the strategic management of the Group's Human Resources, as well as to its compensation and retention policies. It also pursued actions authorised in previous financial years;
- examined the report prepared by the Human Resources organisational unit on the assessment and selection of the Strategic Resources in light of the need for an adequate planning of succession in the various corporate roles, an essential task to ensure the management's continuity and growth.

In the first months of the current financial year, the Committee met 3 times and, specifically:

- examined the Operating Plan of the Human Resources organisational unit focused on the management of processes concerning staff efficiency-improvement and reduction and on the motivation and enhancement of the Human Resources;
- examined the effects of the resolutions passed by the Board of Directors' meeting held on 13 February 2013 concerning the on-going relationship with the Chairman and Chief Executive Officer Giuseppe Orsi;
- preliminarily examined the Report on remuneration to be submitted for approval of the Board of Directors in relation to the 2013 Shareholders' Meeting.

To carry out its activities the Committee makes use of the support from the suitable units of the Company and in particular from the Human Resources organisational unit, as well as of the help of external professionals. No specific budget has been prepared for the Committee's activity, without prejudice to the above-mentioned right to make use of external professionals, which the Board has not yet exercised.
Committee meetings are duly minuted. The manager responsible for the Human Resources organisational unit is regularly invited to participate in the Committee meetings; on the invitation of the Committee through the Chairman and in relation to the issues being discussed, the meetings may be attended by other persons, including the non-executive members of the Board of Directors and the employees of the Company or of Group companies, as well as the Chairman of the Board of Statutory Auditors or any other Statutory Auditor designated by the latter. The Chairman of the Board of Statutory Auditors regularly participates in the Committee meetings.

8. Remuneration of the directors and of the managers with strategic responsibilities

General remuneration policy

In accordance with the regulations on the transparency of remuneration under Art. 123-*ter* of the Consolidated Law on Financial Intermediation, as well as in compliance with Art. 6 of the Corporate Governance Code, the Board of Directors took steps, in the meeting of 23 April 2013, following the valuations made and the proposals put forward by the Remuneration Committee, to approve, with reference to the 2013 and subsequent financial years, the Company's policy on the remuneration of the members of governing bodies, general managers and of the other managers with strategic responsibilities envisaged in paragraph 3, letter a) of the above-mentioned Art. 123-*ter*.

The first section of the above-mentioned Report, containing the Company's remuneration policy, as well as the procedures used for the related adoption and implementation, will be submitted (pursuant to Art. 123-*ter*, paragraph 6, of the Consolidated Law on Financial Intermediation) to the consultative voting at the next Shareholders' Meeting called to approve the 2012 financial statements.
The policy adopted – which is summarised in the following points – is the object of an analytical description, in compliance with the information criteria and elements envisaged in the provisions of laws and regulations referred to above, in the above-mentioned Report to which reference is made in full.

For detailed information as to the remuneration paid out in the 2012 financial year, for any reason and in any form, including that paid by subsidiary and associated companies, to the individual members of the Board of Directors, as well as to the Statutory Auditors, the General Managers and any other managers with strategic responsibilities, reference is made to the second section of the Report on remuneration, which has been prepared pursuant to Art. 123-*ter*, paragraph 4, of the Consolidated Law on Financial Intermediation.

The full text of the Report on remuneration is made available according to the procedures set out by law, also through the publication in the specific Governance section of the Company's website (www.finmeccanica.com), within the time limit of 21 days prior to the date of the Shareholders' Meeting called to approve the financial statements.

Share-based remuneration plans

At the date of this Report, the Company had no incentive plans based on financial instruments.

Remuneration of executive directors

In order to ensure a correct balancing of the Company's interests, aimed at retaining and motivating managers with the necessary skills for managing the Company and business development and at ensuring an alignment of the management's objectives with the creation of

value for shareholders in the medium/long term, the remuneration of the executive directors is determined by ensuring a balanced pay-mix between the fixed component and the variable one, in relation to the strategic objectives set by the Board of Directors.
In particular, the variable remuneration is structured into a short-term component (which is typically annual) and a medium/long-term component.

The short-term variable remuneration for executive directors is mainly conditional on the achievement of predetermined performance objectives of an economic and operational nature, in line with the strategic guidelines determined by the Board of Directors, whose results can be objectively measured and verified.
The medium/long-term variable remuneration is structured into two 3-year monetary incentive plans (Performance Cash Plan and Long Term Incentive Plan) and is subject to the achievement of predetermined performance objectives of an economic and operational nature only.

The performance indicators, which can be objectively measured and verified, are identified among those that mostly represent the Company's ability to create value on multi-year plans and are aligned with the strategic guidelines determined by the Board of Directors.
For more details, reference is made to the specific information provided in the Report on remuneration.

Remuneration of managers with strategic responsibilities

The remuneration of managers with strategic responsibilities is made up, in line with the practices applied at Group level for management staff, of a fixed component and a variable component, in relation to the strategic objectives set out by the Board of Directors and is commensurate, as a whole, with the specific responsibilities assigned. Consistently with the guidelines of the Remuneration Policy adopted by the Company, in accordance with the criteria laid down in the Code, the variable part of the remuneration is linked to the achievement of predetermined and measurable performance targets.
For more information, reference is made to the Report on remuneration.

Remuneration of non-executive directors

The remuneration of non-executive directors is limited only to the fixed component, which is subject to the decision of the Shareholders' Meeting, and is not linked in any way to the achievement of performance objectives. Therefore, non-executive directors do not participate in any incentive plan.

Indemnity due to directors in case of resignation, dismissal without cause or termination of the employment relationship following a takeover bid (pursuant to Art. 123-*bis*, paragraph 1, letter i), Consolidated Law on Financial Intermediation)

There are no agreements previously entered into between the Company and directors which provide for indemnities for directors in the event of resignation or dismissal without cause or the termination of the employment relationship as a result of a takeover bid.
Instead, with reference to the provisions concerning executive directors, as to treatments in case of ceasing to hold office or the early termination of the employment relationship, reference is made to the specific information provided in the Report on remuneration.

9. Control and Risk Committee

The Board of Directors has set up a Control and Risk Committee (previously named Internal Audit Committee) which, in the course of the financial year, met 11 times; from January 2013 until today, the Committee met 2 times. The Internal Audit Committee was set up by a resolution passed by the Board on 6 December 2000 and the name of the same was changed to the current one following the resolution passed by the Board of Directors' meeting held on 19 December 2012. The average duration of the meetings was about one hour and forty minutes.

The Committee is made up as follows:

Control and Risk Committee	Attendance
Paolo Cantarella - Chairman	10 out of 11 meetings
Giovanni Catanzaro	11 out of 11 meetings
Silvia Merlo	10 out of 11 meetings
Giovanni Venturoni	10 out of 11 meetings

The composition of the Committee – all "independent" directors – is in line with the provisions of the Corporate Governance Code; furthermore, this composition is consistent with the recommendation, made by the Code, as to the presence of at least one member who must have an adequate experience in accounting and financial or risk management issues. The activities of the Control and Risk Committee are regulated by Rules approved by the Board of Directors, whose text has been updated in light of the amendments made to the Code in the updated version of December 2011.

The text of the Rules of the Committee is available in the specific Governance section of the Company's website (www.finmeccanica.com).

The Board of Statutory Auditors and the Internal Audit Manager are constantly involved in the Committee's work; the Chairman and Chief Executive Officer may also take part. If appropriate, depending on the items on the agenda, the Committee meetings may also be attended by other persons, including the members of the Board of Directors and the employees of the Company or of Group companies. During the 2012 financial year, on the invitation of the Committee in relation to the issues being discussed, some meetings of the same were attended by the Chairman and Chief Executive Officer, the director - Chief Operating Officer (who is currently Chief Executive Officer and Chief Operating Officer) and some employees, both of Finmeccanica and of Group companies.

The Committee supports, with an adequate preliminary investigation activity, the assessments and decisions made by the Board of Directors in relation to the internal control and risk management system, as well as those relating to the approval of the periodic financial reports. In particular, as regards the activities carried out by the Committee as to the assessment of the adequacy of the internal control and risk management system with respect to the characteristics of the Company and to its risk profile, as well as of its effectiveness, reference is made to paragraph 10 below. The Committee, within the framework of its activity of assistance and support to the Board of Directors, specifically performs the following duties:

a) together with the Officer in charge of preparing the Company's accounting documents and after having heard the Independent Auditors and the Board of Statutory Auditors, assessing the correct use of the accounting standards, as well as their uniformity in preparing consolidated financial statements;

b) expressing opinions on specific issues pertaining to the identification of the main business risks;

c) examining the periodic reports concerning the assessment of the internal control and risk management system, as well as any reports of particular importance prepared by the Internal Audit organisational unit;

d) monitoring the independence, adequacy, effectiveness and efficiency of the Internal Audit organisational unit; the Committee itself oversees its activities should operating powers be granted to the Chairman of the Board;

e) being entitled to ask the same organisational unit to carry out checks on specific operating areas, giving notice thereof, at the same time, to the Chairman of the Board of Statutory Auditors;

f) reporting on the activity carried out to the Board of Directors at least on a six-monthly basis and, in any case, on the occasion of the approval of the draft separate financial statements and of the half-year financial report, as well as on the adequacy of the internal control and risk management system;

g) performing such additional duties as may be assigned to it by the Board of Directors.

The Control and Risk Committee also performs functions as Committee for Transactions with Related Parties, referred to in the Procedure for Transactions with Related Parties adopted by Finmeccanica SpA pursuant to Art. 4 of CONSOB Regulation 17221 of 12 March 2010, as amended and supplemented, by a resolution passed by the Company's Board of Directors on 26 November 2010.

Committee meetings, constantly attended by the members of the Board of Statutory Auditors, are duly minuted.
In performing its duties, the Committee may seek assistance from the outside professionals, provided they are contractually bound by specific confidentiality agreements and are not in such a situation as to impair their independence of judgment.

In carrying out its work the Committee is entitled to access any necessary information to perform its duties and makes use of the Company's organisational units. Consequently, while it retains the right, mentioned above, to avail itself of the services of outside professionals, it has not been necessary to arrange for a special budget for the Committee's activities.
In 2012 and from January 2013 to the date of publication of this Report, the Control and Risk Committee has discussed the main following issues.

For a full description of the activities carried out by the Committee within the framework of the new internal control and risk management system, reference is made to paragraph 10 below.

Specifically, in the course of the mentioned period the Committee:

a) continued the process to check the operations of the internal control and risks management system of Finmeccanica and of the main subsidiaries and of the degree of adoption, on the part of the same, of the Directives of Finmeccanica SpA;

b) held specific meetings with the subsidiaries for the purpose of examining in detail together with the management the functioning of their respective internal audit systems and the underlying controls set to support the development of the business;

c) examined the Report of the Internal Audit organisational unit on the work carried out in the course of 2012 and all the audit reports, including those concerning the cross-section audits conducted on the Finmeccanica Group and issued in the course of such financial year;

d) discussed the obligations of Italian publicly listed companies that have controlling interests in companies based in non-EU countries (Art. 36 of CONSOB's Market Regulation 16191/2007, as amended and supplemented) and noted that the administration and accounting system responsible for the financial reporting process functions effectively and that it essentially meets the requirements of Art. 36, and therefore no special plan to bring it into compliance is needed;

e) performed any additional duties described in paragraph 10 below.

The Committee also reviewed the preparation of the half-year report and the annual financial statements, meeting with the auditing firm to discuss the matter, and issued special reports to the Board of Directors on its conclusions.

Finally, on the basis of reports from the Internal Audit Manager and from the auditing firm, the Committee assessed the adequacy of the accounting principles used and their uniformity for the purposes of preparing annual and half-year financial statements.

10. Internal control and risk management system

In the course of the 2012 financial year, the Rules of Procedure of the Board of Directors and of the Control and Risk Committee were amended in order to approve the provisions laid down in the Code in relation to the internal control and risk management system, taken as the combination of rules, procedures and organisational structures whose purpose is the identification, measurement, management and monitoring of the main risks.

The system outlined in this manner provides, in short, for the Board of Directors to play a general role of guidance and assessment of the adequacy of said system; specifically, subject to the opinion of the Control and Risk Committee, the Board of Directors:

a) defines the guidelines for the internal control and risk management system, so that the main risks involving the Company and its subsidiaries are correctly identified, as well as satisfactorily measured, managed and monitored, also defining the degree of compatibility of these risks with a management of the enterprise consistent with the identified strategic objectives;

b) assesses, at least on an annual basis, the adequacy of the internal control and risk management system with respect to the characteristics of the enterprise and to the assumed risk profile, as well as its efficiency; the results of this assessment are disclosed in the Corporate Governance Report on an annual basis;

c) approves, at least on an annual basis, the work plan prepared by the Internal Audit Manager, after having heard the Board of Statutory Auditors and the Director in charge of the internal control and risk management system;

d) assesses, after having heard the Board of Statutory Auditors, the results presented by the independent auditor in the letter of recommendations (if any) and in the report on the main issues that arose at the time of the statutory audit of accounts.

In this regard, the Board of Directors, with reference to the activities referred to in the aforesaid points a), b) and c) and subject to the favourable opinion of the Control and Risk Committee issued on 11 April 2013, took steps – in its meeting of 23 April 2013 – to define the guidelines of the new internal control and risk management system, to assess the adequacy of the same with respect to the characteristics of the enterprise and to the risk profile, as well as to approve the Work Plan of the Internal Audit unit, after having heard the Board of Statutory Auditors and the Director in charge of the internal control and risk management system.

In addition to the Board of Directors and to the Control and Risk Committee, for the purposes of the assessment of the effectiveness of Finmeccanica SpA’s internal control and risk management systems, the following persons intervene:

- Director in charge of the internal control and risk management systems;
- Internal Audit Manager;
- Officer in charge of preparing the Company’s accounting documents pursuant to Law 262/05;
- Surveillance Body formed pursuant to Legislative Decree 231 of 8 June 2001;
- Board of Statutory Auditors.

In the course of 2012, a more thorough assessment of the efficacy and adequacy of the internal control system was also performed with regard to widespread news reports about the investigation of Group companies being conducted by judicial authorities.

Again in 2012 investigations were continued and started which involved Finmeccanica SpA itself, some subsidiaries and some managers of the Group; in this regard, full cooperation has been provided to the investigating authorities.
To that end, the Control and Risk Committee and the Surveillance Body, together with the Board of Statutory Auditors and with the help of the competent organisational units of Finmeccanica, performed their own investigation into some of these matters through meetings with the Top Management of Finmeccanica and the Group companies involved and with representatives of the

independent auditors. The Board of Statutory Auditors also carried out an independent audit through meetings with the Boards of Statutory Auditors of the Group companies involved.

As already pointed out, with regard to the activities carried out, as presented by the Chairman of the Control and Risk Committee, the Board of Directors confirmed the evaluation of the suitability of the organisational, administrative and accounting structure of the Company, as well as of any subsidiaries having strategic importance, with specific reference to the internal control and risk management system.

The Corporate Governance Report and Shareholder Structure relating to the 2011 financial year and the disclosures additional to the Annual Financial Report provided on the occasion of the Shareholders' Meeting of 16 May 2012 also reported information on the identification of certain areas of improvement and implementation of the Internal Control System of the Group, with respect to which the Group already put in place specific initiatives during 2011 and had more planned for 2012.
In this regard, it should be pointed out that the activities planned for 2012 were actually carried out. In particular, in 2012 Finmeccanica issued the following Group Directives[9], Company Procedures[10], Guidelines and manuals, aimed at regulating sensitive activities in terms of Control Systems:

- Guidelines "Consultants and Business Promoters" issued on 11 January 2012 in the implementation of Directive 17 of 8 February 2011 on the "Execution and management of contracts in support of commercial activities with public administrations, institutional clients and state-owned companies". These Guidelines, drawn up on the basis of national and international regulations as well as best practice (e.g. OECD reports, ASD principles), regulate the following aspects:
  - Definition of consultancy and business promotion; definition of institutional clients.
  - Implementation procedures: only very limited possibilities for companies to deviate from the Directive and from the Guidelines issued by Finmeccanica.
  - Base version of contract: a list of basic elements to be verified in contracts has been drawn up, as has a standard contract.
  - Red Flags: identification of the main risk factors for which evaluation and traceability are obligatory (e.g. personal or family relationships, Countries with a high risk of corruption).
  - Countries with favourable tax systems: reference to the black list of national systems and definition of general rules of conduct with a ban on executing a contract if the Consultant or Business Promoter is resident in a tax haven Country other than the Country of the job order.
  - Record card: a document which summarises the relationship is required, with detailed instructions concerning the restrictions and requirements in executing the contract.
  - Legal opinion with two levels of verification: a database of general opinions regarding the operating conditions in the various Countries which is managed by the Compliance organisational unit of Finmeccanica and an evaluation of the specific task which is carried out by the companies.
  - Questionnaire: standard form to ensure that the companies acquire the key information about the Consultant/Business Promoter;
- Directive 20 on the "enhancement, management and protection of the intellectual property of the Finmeccanica Group", issued on 15 February 2012, with the objective of adopting a combined and coordinated system for the enhancement, management and protection of the intellectual property of Finmeccanica and its Operating Companies;
- Directive 21, "Trade Compliance", issued on 9 March 2012. The directive covers two particularly important areas: (i) the import/export of equipment for military, dual or commercial use which is subject to specific regulatory requirements (with particular regard to ITAR, EAR, OFAC, EU Council and applicable laws in the UK and Italy); (ii) programmes of sanctions or other restrictive measures which affect Countries or persons considered sensitive (above all by the competent authorities of the USA, the EU, the UK and Italy, as well as pursuant to the Resolutions of the UNO Security Council). The objective of the directive in

9. In Finmeccanica, "Group Directive" means the regulations issued by the Parent Company to the subsidiaries so that they approve them through the adoption of their own internal procedures.
10. In Finmeccanica, "Company Procedure" means the internal rules adopted by each subsidiary in an independent manner or in the application of a Group directive; the term "Procedure" itself also means the internal rules adopted by Finmeccanica SpA to regulate its own activities.

question is to establish a system of compliance at Group level, with which the companies of the Group that carry out export activities, which even only potentially fall into the scope of application of the above-mentioned regulations and programmes, implemented the directive through a structured system which envisages the issue of specific procedures on the part of the company;

- Directive 22, "Commissioning and management of professional services" issued on 30 June 2012. The directive has the objective to define the guidelines, the scope of application, the roles and responsibilities connected with the commissioning and management of professional services, other than the business activities that are regulated by Directive 17. This directive was implemented by each subsidiary by issuing or changing its own implementing procedure. The adoption of this directive also entailed a review of the existing consultancy agreements in order to bring them into line with the new provisions;
- Directive 23, "Gifts, hospitality and entertainment expenses" issued on 30 June 2012. The Directive has the objective to define the general principles, the scope of application, the roles and responsibilities connected with the management of gifts, hospitality and entertainment expenses. The implementation of this directive required each subsidiary to issue or change its own implementing procedure;
- Directive 24, "Sponsorships and advertising initiatives and donations to associations and entities" issued on 30 June 2012. The directive has the objective to define the guidelines, the scope of application, the roles and responsibilities connected with the management of sponsorships and advertising initiatives and of grants to associations and entities. Rules are laid down for the identification and formalisation of said initiatives, which take account of the party for which they are intended, also with regard to their traceability. The implementation of this directive required each subsidiary to issue or change its own implementing procedure. The adoption of this directive also entailed a review of the existing sponsorship and consultancy agreements in order to bring them into line with the new provisions;
- Directive 25, "M&A Transactions" issued on 30 June 2012. The directive has the objective to define the scope of application, the guidelines, roles and responsibilities connected with the management of Merger & Acquisition (M&A) transactions, in order to ensure their transparency and consistency with the Group strategies. All the M&A initiatives, even if included in the strategic plan, are subject to an analysis and authorisation process, which is carried out in predefined phases, with detailed duties that must be performed by the responsible organisational units of Finmeccanica and of the Group company involved in the transaction. The above-mentioned directive also constitutes an internal Procedure for Finmeccanica SpA;
- Procedure 18, "Purchases of goods and services and commissioning of professional services" of Finmeccanica SpA issued on 30 June 2012. The procedure is structured into two parts: part A) which regulates the purchases made by Finmeccanica, both directly and through Finmeccanica Group Services SpA and Finmeccanica Group Real Estate SpA and part B), which regulates the commissioning and management of professional services. Rules have been laid down, both for suppliers and for professionals, to regulate the selection, the formalisation of the relationship, the monitoring of the performance and traceability;
- Procedure 1, "Search for, selection and recruitment of the personnel of Finmeccanica SpA" issued on 12 December 2012, which sets out the criteria used by the Company for the purposes of the management of these activities and which is applicable to the personnel to be hired with any title; this procedure cancels and supersedes the similar document issued in 2007;
- Manual for the management of compliance with Law 262/05, which was prepared with the objective to describe the Finmeccanica model relating to the system of Internal Control over Financial Reporting and any activities that the companies falling within the scope of application of Law 262/05, including the Parent Company, must carry out to ensure its correct adoption and implementation.

From an organisational point of view, it should be noted that, with the issue of the Service Order 25 of 15 June 2012 relating to the "Legal and Corporate Affairs" organisational unit of Finmeccanica (which was then renamed "Legal, Corporate and Compliance Affairs" by a subsequent Service Order 5 on 22 February 2013), the specific Compliance organisational unit was set up, under the responsibility of the new position of the Senior Compliance Officer (SCO), with the task and duty:

- to ensure the knowledge, implementation and monitoring of the regulations applicable to the corporate activities, through the dissemination of tools for the management of legal risks in the main business areas of the Group;
- to ensure, in coordination with the competent organisational units of Finmeccanica and of the Group companies, the identification, preparation and updating of the necessary directives and procedures to ensure adequate monitoring of legal risks, in order to prevent any corporate behaviours that do not comply with the rules;
- to control any mechanisms of communication and reporting on the part of the compliance officers of the Group companies, operating as a point of reference for any critical issues relating to the application of regulations or to the adequacy of any protocols with respect to the guidance policies of the Parent Company;
- to ensure adequate information flows concerning compliance issues to the benefit of the Corporate Bodies and of the managers responsible for the Company's organisational units and to report, on a periodical basis, to the Control and Risk Committee and to the Board of Statutory Auditors;
- to ensure controls over trade compliance (exports and programmes of sanctions), providing the necessary legal advice in any proceedings and in any activities under the responsibility of the Parent Company;
- to represent the Parent Company in the ethical committees and in the initiatives that promote the adoption of principles and codes governing business ethics either at national or international level and to provide legal advice in any projects connected with the promotion of sustainability.

In the performance of the provisions under the above-mentioned Directive 21 governing Trade Compliance, the Group companies took steps to identify and appoint a Trade Compliance Officer from among their staff, who shall ensure compliance, at the company, with any national and international regulations governing imports/exports, as well as help promote and implement a compliance system at Group level.
Again from an organisational point of view, it should be noted that on 23 July 2012 the "Directives and Procedures" unit was established within the Human Resources organisational unit, which will be responsible for coordinating the preparation, approval and issue of the Group Directives, the Company Procedures and the Policies/Guidelines.

Within the context of the activities undertaken for the improvement and implementation of the internal control and risk management system, as more specifically reported below, in 2012 and in 2013 the Company's Organisational, Management and Control Model pursuant to Legislative Decree 231/01 was brought into line with the provisions of Legislative Decree 121/11 on the subject of environmental crimes, of Legislative Decree 109/12 as to the "Employment of illegally-staying third-Country citizens" and of Law 190 of 6 November 2012 concerning the "Provisions for the prevention and repression of bribery and illegality in Public Administrations". The current Organisational Model was approved by the Board of Directors at the meeting of 15 April 2013.

The initiatives undertaken and the measures adopted by the Company in the first months of the current 2013 financial year for the improvement and implementation of its own internal control and risk management system, as well as for the achievement of the objective to continue the process for consolidating any procedures of control over the Group's activities and for strengthening the role of direction and coordination towards the Operating Companies included the following activities.

- The implementation of the **new organisational structure of Finmeccanica SpA**, as proposed by the Chief Executive Officer and Chief Operating Officer and shared by the Board of Directors on 21 February 2013, aimed at streamlining decision-making processes, as well as at achieving the best operating efficiency. In fact, the new structure provides for a significant reduction in first-level positions and for the definition of Corporate functions, as well as of functions for the coordination of staff presence abroad and market coordination.

- The establishment of a **Management Committee**, chaired by the Chief Executive Officer and Chief Operating Officer and made up of the Managers responsible for the organisational units of Internal Audit, External Relations and Communication, Human Resources, Strategies, Business Development and Innovation, as well as by the CFO and by the Group General Counsel. This Committee is responsible for the direction and coordination of the Group's governance activities. Furthermore, in relation to the issues dealt with, the Managers responsible for other organisational units of Finmeccanica may be specifically involved.
- The establishment of a **Group Management Committee** (made up of the Chief Executive Officers of the main subsidiaries, as well as, for Finmeccanica SpA, by the CFO and by the two Managers responsible for the organisational units of Human Resource and Strategies, Business Development and Innovation), with the task of consultation and support in assessments and operational decisions for the sharing of business critical issues, as well as of important programmes and initiatives. This establishment, which is part of the new organisational structure of Finmeccanica SpA, responds to the need to involve the managers of the companies in the Group's issues, as well as in the analysis and definition of those projects that are more directly relevant to the achievement of the Group's results.
- During the meeting held on 21 February 2013, the approval by the Company's Board of Directors of the **project to centralise the Group's Internal Audit activities at the Holding Company**, with the objective to strengthen its role of control over the Group, as well as to increase efficiency of the activities themselves. This project is expected to be completed by the end of the current financial year; in full operation, the resources operating at the Group companies will be hired by Finmeccanica SpA, while adopting a structured organisation by business segments with staff turnover. The objectives of the above-mentioned project consist of: *i)* increasing effectiveness of actions and improving operating cost efficiency through a single Audit unit; *ii)* increasing control over the Group's Operating Companies; *iii)* optimising the exchange of knowledge within the working groups, through a more transparent dialogue, the cooperation of all players involved and the sharing of objectives with a single central unit; *iv)* improving the mix of skills through job rotation mechanisms and structured career paths that allow to realise the importance of control in management activities.

  For the purposes of implementing the project, the Company appointed a third-party independent expert to provide consultancy and assistance services in order to define the mission, mandate, roles and related information flows of the new Internal Audit function. In the performance of these services, the following documents were drawn up:
  - centralised Internal Audit organisational structure;
  - interfunctional organisational model (*modello organizzativo interfunzionale*, MOI), which defines the relationships that are maintained between the Group Internal Audit organisational unit of Finmeccanica SpA and the Control and Supervisory Bodies of both Finmeccanica SpA and the Group companies, and outlines both the operational powers granted to the organisational units within the same, and the methods/flows of interaction between the different players during the entire process relating to operating activities (governance, planning, implementation and reporting);
  - service order of the above-mentioned structure.

  The next steps provide for the formalisation of the Internal Audit organisational unit, through a special Service order, and the transmission of the MOI to the Top Management of the Group companies that fall within the scope of application of the project itself. Subsequently, it is expected that about 70 resources, who currently work for the Internal Audit function of the Operating Companies, will gradually be transferred to Finmeccanica SpA.
  The project was shared and positively valued by both the Control and Risk Committee and by the Board of Statutory Auditors.
- The **verification of the adequacy, operation and effectiveness**, with the support of an independent third-party (according to what was provided for by the Company's Board of

Directors in the meetings held on 7 March and 15 April 2013), as to any **existing contracts concluded by the Operating Companies** in the three-year period 2010/2012 for the purchase of intangible assets, such as engineering, software and consultancy services.

In particular, within the process of purchasing services from third-party counterparties, the cost items involved in the investigation relate to the following:
› consultancy services;
› engineering;
› software/IT;
› commercial brokerage and services of agents.

It should be noted that the cost items related to commercial brokerage and services of agents (also in consideration of the strengthening of the Group's internal rules in terms of identification and execution of contracts for relationships with intermediaries and business promoters and given the nature of the services in question) will be subject to separate identification and management.

The investigation has been extended to the years 2010 to 2012 and will involve the following business areas:
› Aeronautics (Alenia Aermacchi group);
› Space (Telespazio group);
› Defence Systems (OTO Melara and WASS group);
› Helicopters (AgustaWestland group);
› Defence and Security Electronics (Selex ES group);
› Transportation (AnsaldoBreda and BredaMenarinibus group).

The extension of the investigation to the Energy sector (Ansaldo Energia) will take place at the end of the first phase of activity. The investigation will be extended both to the Italian companies and to the foreign companies of the Group, with specific regard to Europe.

The investigation shall provide, at the time of its completion, reasonable certainty about:
› the correctness of the implementing procedures of purchase transactions examined in terms of compliance with the procedures in force;
› the inherence and effectiveness of services rendered by counterparties;
› the possibility of supplying evidence and traceability of transactions;
› the counterparties' honesty;
› the fairness (where the type of service so permits) of any transaction values.

The investigation shall be structured into at least three operating phases:

1) preliminary phase – definition of the scope of investigation and selection of individual transactions to be analysed;
2) analysis phase – detailed examination of identified transactions;
3) phase of representation of results – periodical and interim presentations and preparation of the final, fact-gathering and descriptive Report.

Given the complexity of the investigation activity and the extent of its scope (both in terms of time horizon and corporate areas involved), the investigation is structured, from an operating point of view, into two separate modules:

1) pilot module, the activity of which will be carried out in the 12 months after the appointment (and in any case by the expected date for the approval of the financial statements relating to the 2013 financial year) and which provides for the implementation of verification activities with reference to the following three business sectors: Aeronautics (Alenia Aermacchi group), Space (Telespazio group) and Defence Systems (OtoMelara and WASS group). The definition of the pilot module takes account of both the companies that fall within the scope of the Group's core business and the need to involve, but only at a later time, some companies/business sectors that at present are affected by reorganisation/restructuring/merger processes;

2) second module, for which it is expected that verification activities will be carried out with reference to the following business sectors:
   › Helicopters (AgustaWestland group);
   › Defence and Security Electronics (Selex ES group);
   › Transportation (AnsaldoBreda and BredaMenarinibus group).

   In terms of timing, it is expected that this module may be extended to the second year of verification.

- The additional implementation and the strengthening of the Group's internal regulations governing the identification and execution of contracts for the relationships that the Operating Companies maintain with consultants and business promoters, which are based on criteria of transparency, traceability and verification of the subjective requirements of professionalism and honesty.
- The **review of Directive 17/11 and of the related Guidelines**, which are currently being applied, with the objective of strengthening the control measures implemented by the Parent Company as to the contracts entered into by the subsidiaries with agents and business promoters.
- On 12 March 2013, the establishment of a **specific function within the Internal Audit unit** responsible for monitoring and strengthening the audit activities concerning any contracts entered into in support of the business activities of the Group companies, in order to ensure compliance with the group's Directive and Policies/Guidelines.
- The identification of **new rules as to the composition and requirements for appointments within the Corporate Bodies of the Operating Companies**, including – in particular – a limited number of the members of the Boards of Directors, the change in the composition of the Surveillance Bodies (whose members are mostly from outside of the companies and the Group), the obligation of all members of the Corporate Bodies to meet specific requirements of honesty, as well as the expectation of specific events (some of which are connected with judicial investigations), whose occurrence will result in the suspension or removal from the office. In this regard, also note the on-going review of Directive 18/2011 ("Formation and operation of the Boards of Directors and of the Boards of Statutory Auditors of Subsidiaries").
- On 7 March 2013, the establishment of a "**Committee of Corporate Bodies**" (coordinated by the Group General Counsel and made up of the Managers responsible for the organisational units of "External Relations and Communication", "Human Resources", "Strategies, Business Development and Innovation", as well as, limited to the appointments to the Boards of Statutory Auditors, of the CFO), with the task of proposing the appointments to the offices of director, Statutory Auditor or member of the Surveillance Body in first-level or "strategic" subsidiary or investee companies, as well as of selecting – for any other subsidiaries – the proposed appointments submitted by the CEOs of the lead companies of each sector.
- On 15 March 2013, the issue of **Directive (1/13) on the composition and appointment of the members of the Surveillance Bodies pursuant to Legislative Decree 231/01 of the Group's subsidiary companies** incorporated under Italian law, which provides for their respective Bodies to be made up of more than one member. In particular, these Bodies will usually made up of three members: the Manager responsible for the Legal and Corporate Affairs organisational unit of the Company involved and two external members (including the Chairman), identified from among university teachers and professionals with proven expertise and experience in legal, financial and internal audit issues, as well as, in particular, with adequate experience in the application of Legislative Decree 231/01. Furthermore, the external members shall meet specific requirements in terms of autonomy and independence, as well as specific cases will be envisaged for the suspension and removal from the office.
- An **increased number of the members of the Surveillance Body** of the Company, as illustrated on paragraph 10.4 below.
- The expected establishment, as resolved by the Board of Directors' meeting held on 7 March 2013, of a **new organisational unit named Risk Management**, which shall report to the CFO within the Administration, Finance and Control unit, in order to improve the Group's Governance within the management of operating and financial risks.

- On 28 March 2013 the issue of **Directive (3/13) on Environmental Protection**, which defines – also from the point of view of Legislative Decree 231/01 – principles and obligations aimed at environmental protection, pollution prevention and the improvement of environmental performance at the Group companies, in accordance with the provisions under the Group's Environmental Policy.
- On 28 March 2013, the issue of **Directive (4/13) on the legal aid in support of commercial contracts**, which defines the guidelines relating to the conclusion by the Group companies of commercial cooperation contracts and agreements of strategic importance or of significance in economic, equity or financial terms for Finmeccanica and the companies, with specific reference to any contracts concerning supplies intended for Countries that are considered to be "sensitive".
- The **establishment, as resolved by the Board of Directors on 15 April 2013, of a new Committee** that will be responsible for identifying criteria and behaviours with which a Group of global size and presence, operating in the sector of Aerospace and Defense, must comply in order to conform to new and more important best practices. The Committee will focus its analysis – at the end of which it will formulate the necessary recommendations – on the following aspects:
  - identification of measures and actions capable of further increase the principles and standards of conduct which must be complied with in the business operations;
  - identification of additional actions aimed at ensuring the actual implementation of these new principles and standards, with the utmost possible efficacy.

  This Committee will report to the Board of Directors and will be made up of external professionals of recognised independence, authority and competence: Giovanni Maria Flick (who will act as Chairman), Alberto Alessandri, Vittorio Mincato, Giorgio Sacerdoti and Angelo Tantazzi.
  Finally, the Company will appoint an independent third-party to assess the application of any recommendations formulated by the Committee within the Group.

As more specifically described in paragraph 10.1 below, as regards the internal control system for financial reporting (ICFR)[11], this provides, among other things, for administrative and accounting procedures (narratives) which describe the activities, checks, roles and responsibilities, as well as the information and document flows to support the process of drawing up financial reports.
A specific component to manage the risks of fraud has been integrated into this system, as commented more in detail in paragraph 10.1 below.

Below is a summary of the investigations which are being currently conducted in relation to Finmeccanica SpA or which have come to its attention as they relate to Group companies, with specific reference to the events that occurred in 2012 and in early 2013.

Finmeccanica SpA – within the criminal proceedings brought by the Public Prosecutor's Office at the Court of Naples in relation to the supply contracts concluded in 2010 by AgustaWestland, SELEX Sistemi Integrati and Telespazio Argentina with the Government of Panama – in the execution of an order for the production of documents, which must be added to those issued in the course of 2011, delivered, on 9 September 2012, the minutes of the meetings of the Board of Statutory Auditors and Surveillance Body of Finmeccanica and of AgustaWestland and SELEX Sistemi Integrati, as well as updated information on the state of progress of the contracts concluded by the involved companies with AGAFIA to the Public Prosecutor's Office.
Within this investigation, on 23 October 2012 the former Sales Manager of the Company was served with a warrant for remand in custody (*ordinanza di custodia cautelare in carcere*) for the offence under Article 322-*bis* of the Italian Criminal Code. On the same date, a search warrant was executed at the office of Finmeccanica which is used by the former Sales Manager in order to gather the necessary documents for the reconstruction of the relationships maintained by the latter with other persons with whom he maintained the relationships being investigated.
In mid-November 2012 the investigations relating to the contracts concluded between the Group

11. ICFR - Internal Control Financial Reporting.

companies with the Government of Panama in 2010 were transferred to the Public Prosecutor's Office at the Court of Rome.
On 23 January 2013 the warrant for remand in custody issued to the former Sales Manager of Finmeccanica ceased to be applied due to the running of time.

On 28 June 2012 Finmeccanica SpA – within the criminal proceedings relating to the supply by AgustaWestland International Ltd of 12 helicopters to the Indian Government, which were started by the Public Prosecutor's Office at the Court of Naples and which was transferred to the Public Prosecutor's Office at the Court of Busto Arsizio at the end of July 2012 – delivered, in the execution of an order for the production of documents, the documentation relating to: *i*) the findings of the Internal Audit activity carried out by AgustaWestland in relation to the contract for the supply of 12 helicopters in India; *ii*) the international competitive tender for the supply of the above-mentioned helicopters; *iii*) any ancillary contracts that are functional to the aforesaid supply, in which an advisor to AgustaWestland took part, either personally or through companies attributable to him.

In relation to this investigation, on 20 September 2012 Finmeccanica was served with a notice of investigation (*informazione di garanzia*) as to the unlawful administrative act referred to in Article 25 of Legislative Decree 231/01, in relation to the offences under Articles 110, 319 and 322-*bis* of the Italian Criminal Code that were allegedly committed by, among others, the former Chairman and Chief Executive Officer of the Company, who ceased to hold the office of Chief Executive Officer on 13 February 2013 and the office of Chairman on 15 February 2013 and who was previously responsible for the AgustaWestland group.
On 12 February 2013 a warrant for remand in custody was executed, which had been issued by the Judge for Preliminary Investigations (GIP, *Giudice delle Indagini Preliminari*) of the Court of Busto Arsizio against the then Chairman and Chief Executive Officer of Finmeccanica; on the same date, search and seizure activities were carried out at the Finmeccanica offices used by the Top Management and by some executives of the Company, which were aimed at gathering the necessary administrative, accounting, non-accounting, contractual and banking documentation, both in paper and in electronic format, attributable to the aforesaid contract of supply to the Indian Government. The order for search and seizure issued against the former Manager responsible for the Finmeccanica office in India was also served on the latter by way of notice of investigation for the offences under Articles 110, 319 and 322-*bis* of the Italian Criminal Code.
On 26 March 2013 Finmeccanica was served, among others, a notice of request for extension of the time limit of the preliminary investigations for the unlawful act under Article 25 of Legislative Decree 231/01.
In relation to this affair, it results that at the end of February 2013 the Indian Judicial Authority also started criminal investigations that were to involve eleven individuals and four companies. In this context, on 13 March 2013 search activities were carried out at the Finmeccanica offices in New Delhi.

On 7 March 2013 Finmeccanica SpA – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Rome in relation to the supply of 45 trolley buses made by BredaMenarinibus within the competitive tender launched by Roma Metropolitane SpA (see what is stated below in relation to BredaMenarinibus) – was served with an order for search and seizure aimed at gathering the documentation relating to the internal procedures of authorisation for the execution of said supply.

On 27 March 2013 Finmeccanica SpA – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Naples – delivered, in the execution of an order for the production of documents, the administrative, accounting and contractual documentation relating to the relationships maintained by AgustaWestland and by Alenia Aermacchi with a Nigerian company.
Finmeccanica SpA – with reference to the criminal proceedings conducted by the Public Prosecutor's Office of the Court of Rome for the offences referred to in Articles 2 and 8 of

Legislative Decree 74/00, which are still being conducted against the former Director of External Relations (for the description, reference is made to the 2011 Report on Corporate Governance) – has been informed that the case concerning the position of the former Chairman of Finmeccanica, who ceased to hold office on 1 December 2011, was dismissed at the end of 2012.

On 23 April, 15 and 25 May 2012, **AgustaWestland SpA** – within the criminal proceedings started by the Public Prosecutor's Office at the Court of Naples, which was transferred to the Public Prosecutor's Office of Busto Arsizio at the end of July 2012 – provided information and produced documents in relation to: *i*) the organisational structure of the company; *ii*) the corporate procedures; *iii*) some foreign orders, including the contract for the supply of 12 helicopters in India; *iv*) the relationships maintained with foreign suppliers and intermediaries.
On 24 July 2012, following the ruling by the Public Prosecutor's Office at the Supreme Court, the investigation file relating to the supply by AgustaWestland International Ltd of 12 helicopters to the Indian Government was transferred to the competent Public Prosecutor's Office of Busto Arsizio.
On 27 August 2012 AgustaWestland SpA was served with a notice of investigation as to the unlawful administrative act under Article 25 of Legislative Decree 231/01, in relation to the offences under Articles 110, 319 and 322-*bis* of the Italian Criminal Code, which were allegedly committed by the then manager responsible for the AgustaWestland group and by the then Chief Executive Officer of the company, who ceased to hold office on 28 February 2013.
On 12 February 2013, in relation to this investigation, a warrant for remand in custody under house arrest (*ordinanza di custodia cautelare agli arresti domiciliari*) was executed, which had been issued by the Judge of Preliminary Investigations of the Court of Busto Arsizio against the Chief Executive Officer of AgustaWestland SpA who held office at the time of the events.
On the same date, search and seizure activities were also carried out at the offices of AgustaWestland used by the Chief Executive Officer and by some executives, which were aimed at gathering administrative, accounting, non-accounting and contractual documentation, as well as minutes and documents relating to the Surveillance Body's meetings, both in paper and in electronic format, relating to the aforesaid supply relationship. From these orders for search it results that the former Managing Director, the Administrative officer and two executives of the company are under investigation for various reasons.

This investigation also involves the former Sales Manager of AgustaWestland, against which an order for search and seizure has been executed, which has been aimed at gathering the administrative, accounting, non-accounting, contractual and banking documentation, both in paper and electronic format, attributable to the aforesaid supply contract.
On 28 March 2013 AgustaWestland SpA was served, among others, with the notice of request for extension of the time limit of the preliminary investigations for the unlawful act referred to in Article 25 of Legislative Decree 231/01. This measure was also served on AgustaWestland Ltd.
On 13 March 2013, in relation to the recent criminal investigation started by the Indian Judicial Authority, search activities were carried out at the offices of AgustaWestland India in New Delhi.

On 14 March 2013 AgustaWestland SpA – within the criminal proceedings started by the Public Prosecutor's Office at the Court of Busto Arsizio in relation to tax offences – was served with an order for search aimed at gathering the administrative, accounting, non-accounting, contractual and banking documentation, both in paper and in electronic format, referable to the financial and commercial relationships maintained by the company – for the period 2007/2012 – with some suppliers. This order was also served by way of notice of investigation against the administrative officer of the company for the offences under Articles 2 and 4 of Legislative Decree 74/00.

On 1 February 2012 **Ansaldo Energia SpA** – in relation to the judgment issued by the Court of Milan on 20 September 2011, by which the company was sentenced to an administrative pecuniary penalty of €150,000.00 for the unlawful administrative act under Art. 25, paragraph 3 of Legislative Decree 231/01 and to the confiscation of the equivalent of €98,700,000.00 – filed an appeal against this judgment. The hearing before the Court of Appeal of Milan will be held on 3 October 2013.

Although confident that the ruling will be revised, the company has allocated a provision for risk for an amount equal to the entire sum (€86,548,000) as discounted; in its turn, Finmeccanica has allocated an amount equal to 45% of this sum, against the guarantees issued to the minority shareholder at the time of the transfer of the shareholding.

On 16 March 2012 Ansaldo Energia SpA – within the context of proceedings conducted by the Public Prosecutor's Office of the Court of Milan in relation to the Zubair project in Iraq – was served with a request for extension of the duration of the preliminary investigations into the alleged offence under Art. 25 of Legislative Decree 231/01 in relation to Art. 322-*bis*, paragraph 2, no. 2 of the Italian Criminal Code, which was allegedly committed in the first half of 2011 in Milan.

Ansaldo STS – in relation to the collapse of a building that occurred in Naples on 4 March 2013 – saw the involvement of its Chief Executive Officer and of two employees of the company in a notice of investigation served by the Public Prosecutor's Office at the Court of Naples on 7 March 2013, as to the offences under Articles 434 and 449 of the Italian Criminal Code.

On 11 October 2012 **AnsaldoBreda SpA** – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Naples – was served with an order for the production of documents aimed at gathering the documentation relating to the relationships maintained with GADIT AG.

On 25 March 2013 AnsaldoBreda SpA – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Rome in relation to the supply of 45 trolley buses by BredaMenarinibus in the competitive tender launched by Roma Metropolitane SpA – was served with an order for search at the offices used by the company's CFO, who was the CFO of BredaMenarinibus at the time of the events, aimed at gathering the documentation proving the role played by the latter in the events under investigation.

On 26 September 2012 **BredaMenarinibus SpA** – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Rome in relation to the supply of 45 trolley buses in the competitive tender launched by Roma Metropolitane SpA and awarded to a Temporary Business Partnership (ATI, *Associazione Temporanea di Impresa*) made up of companies that do not belong to the Finmeccanica Group – was served with an order for search and seizure aimed at gathering the documentation relating to the aforesaid tender and to the award of the sub-supply contract to the company, as well as copy of the Organisational Model and of the minutes of the Surveillance Body's meetings. The order was also served by way of notice of investigation against, among others, the former Chief Executive Officer of the company, who ceased to hold office on 1 January 2012, for the offence under Articles 110, 319, 321 of the Italian Criminal Code and for the offence under Article 2 of Legislative Decree 74/00, and the company for the unlawful administrative act under Article 25, paragraph 2, of Legislative Decree 231/01.
On 17 October 2012 the company was served with another order for seizure aimed at gathering, *inter alia*, the documentation relating to all the consultancy services connected with the supply of the 45 trolley buses.
On 2 November 2012 the company was served with the notice of request for extension of the time limit of the preliminary investigations. From the latter order it results that the former Director of External Relations of Finmeccanica and the former Chief Executive Officer of Electron Italia Srl are also under investigation.
On 23 January 2013 the former Chief Executive Officer of the company was served with a warrant for remand in custody, which was then converted into an order for house arrest.

On 7 February 2013 the company was served with an order for search and seizure aimed at gathering the accounting and contractual documentation relating to the relationships maintained with Italian Trade Center SRO, as well as a copy of the tax returns relating to the years in which the debt invoices of the aforesaid company were recorded.
On 25 March 2013 the former CFO of the company, which is currently the CFO of AnsaldoBreda, was served with a notice of investigation for the offence under Article 8 of Legislative Decree 74/00.

Electron Italia Srl, 80% owned by SELEX Elsag SpA (now Selex ES SpA) was subject, in 2011, within the context of criminal proceedings conducted by the Public Prosecutor's Office of the Court of Rome, to a search order in relation to a consultancy contract entered into in 2009 with the limited liability company Soluzioni di Business. Notification of the above-mentioned measure was also provided by way of notice of investigation to the then Chairman of Electron Italia Srl, who ceased to hold office on 27 July 2011, for the offences under Art. 8 of Legislative Decree 74/00 and Art. 110 of the Italian Criminal Code.

On 8 January 2013 Electron Italia Srl – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Naples in relation to three contracts awarded to the company for the supply of video-surveillance systems for some municipalities of the province of Naples – was served with an order issued by the Judge for Preliminary Investigations of the Court of Naples concerning the preventive seizure of the amount of €6,250,000.00 pursuant to Articles 19 and 53 of Legislative Decree 231/01 for the unlawful administrative act under Article 24-*ter* of Legislative Decree 231/01.

The order issued by the Judge for Preliminary Investigations of the Court of Naples also provided for the application of personal provisional remedies against, among others, the former Chief Executive Officer, who ceased to hold office on 12 March 2013, as to the offences under Articles 110, 81-paragraph 2, 326, 353 and 416 of the Italian Criminal Code and an employee of the company as to the offences under Articles 110, 81-paragraph 2, 326 and 353 of the Italian Criminal Code.
On 29 January 2013, following a request for review, the Court of Naples provided for the annulment of the order for seizure and ordered the reimbursement of the sum to the company.
On 19 February 2013 the company was served with the notice of conclusion of preliminary investigations for the unlawful act under Article 24-*ter*, paragraph 2, of Legislative Decree 231/01.
On 4 April 2013 the former Chief Executive Officer of the company was served with the notice providing for the immediate trial (*giudizio immediato*). The hearing for discussion before the Court of Naples will be held on 23 May 2013.
On 10 April 2013 the company was served with the notice notifying that a pre-trial examination hearing was to be held on 24 May 2013, in relation to the request for committal for trial filed by the Public Prosecutor for the offence under Article 24-*ter*, paragraph 2, of Legislative Decree 231/01. This order was also served on an employee of the company for the crimes under Articles 353 and 326 of the Italian Criminal Code.

On 8 January 2013 **Elsag Datamat SpA** (then SELEX Elsag SpA, now Selex ES SpA) – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Naples in relation to the contract for the supply of a centralised management system of video-surveillance systems at the CEN in Naples and the contract for the construction of the integrated traffic monitoring system of the city of Naples (for which the company was involved, as early as 2010, in some orders for search and seizure) – was served with an order issued by the Judge for Preliminary Investigations of the Court of Naples concerning the preventive seizure of the sum of €47,255,649.82 pursuant to Articles 19 and 53 of Legislative Decree 231/01 for the unlawful administrative act under Article 24-*ter* of Legislative Decree 231/01.
The order issued by the Judge for Preliminary Investigations of the Court of Naples also provided for the application of personal precautionary measures against, among others, the former Chief Executive Officer of the then Elsag Datamat, who ceased to hold office on 30 June 2010, and an employee of the company in relation to the offences under Articles 110, 81-paragraph 2, 326, 353 and 416 of the Italian Criminal Code and another employee of the company in relation to the offences under Articles 110, 81-paragraph 2, 326 and 353 of the Italian Criminal Code.
On 29 January 2013, following a request for review, the Court of Naples ordered the annulment of the order for seizure and ordered the reimbursement of the sum to the company.
On 19 February 2013 the company was served with the notice of conclusion of the preliminary investigations for the unlawful act under Article 24-*ter*, paragraph 2, of Legislative Decree 231/01.

From the above-mentioned order it results that the investigations involve the persons subject to the precautionary measures, as well as other two employees of the company.
On 4 April 2013 the former Chief Executive Officer and an employee of the then Elag Datamat were served with the notice providing for the immediate trial. The hearing for discussion before the Court of Naples will be held on 23 May 2013.
On 10 April 2013 the company was served with the notice notifying that a pre-trial examination hearing was to be held on 24 May 2013, in relation to the request for committal for trial filed by the Public Prosecutor for the offence under Article 24-*ter*, paragraph 2, of Legislative Decree 231/01. This order was also served on an employee of the company for the crimes under Articles 353 and 326 of the Italian Criminal Code.

Elsag Datamat SpA (then SELEX Elsag SpA, now Selex ES SpA) – within the framework of the investigations started by the Judicial Authority in relation to three tenders launched by the Municipality of Barletta, the Municipality of Lucera and the Municipality of Maiori for the construction of access control systems for the limited traffic area – saw one of its employees receive three notices of investigation for offences linked to supplies that did not conform to the requirements of the contracting authority (Articles 353 and 356 of the Italian Criminal Code).

On 30 November 2011, with reference to the criminal proceedings concerning the construction of the system in the area of the Municipality of Barletta conducted by the Public Prosecutor's Office of Trani, the employee was served with a notice notifying that the pre-trial examination hearing was to be held on 9 February 2012.
On 12 July 2012 the Court of Trani, at the pre-trial examination hearing, provided for the employee to be committed for trial for offences linked to supplies that did not conform to the requirements of the contracting authority (Articles 353, 356 and 483 of the Italian Criminal Code). The first hearing before the competent Court was held on 22 October 2012 and the proceedings is now in the discussion phase.

Elsag Datamat SpA (then SELEX Elsag SpA, now Selex ES SpA) saw one of its former employees, who at the time of the events was the "General Site Services" Manager, who now works for another Group company, receive a notice of investigation issued by the Public Prosecutor's Office of the Court of Genoa for offences under Articles 426 and 449 of the Italian Criminal Code, in relation to the overflow of the Chiaravagna river which took place in Genoa on 5 October 2010.
On 5 October 2012 the former employee was served with the notice of conclusion of the preliminary investigations for the offences under Articles 426 and 449 of the Italian Criminal Code, while on 8 March 2013 he was served with the notice notifying that the pre-trial examination hearing was to be held on 16 May 2013.

On 26 and 30 November 2012, **SELEX Elsag SpA** (now Selex ES SpA) – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Florence as to the offence under Article 16, paragraph 1, of Legislative Decree 96/03 – was served with two orders for search aimed at gathering the contractual, administrative and accounting documentation relating to the activity carried out by the above-mentioned company in Syria with reference to the construction of the technological communication network named "Tetra".
On 6 March 2013 Selex ES was served, at the Florence office, with an order for the request to deliver the server containing a specific software, from which it results that the former Chairman, who ceased to hold office on 31 December 2012, and the former Chief Executive Officer of the then SELEX Elsag, who ceased to hold office on 30 September 2012, and two employees of the company are under investigation.

SELEX Galileo SpA (now Selex ES SpA) – within the context of criminal proceedings conducted by the Public Prosecutor's Office of the Court of Palermo, which was then transferred to the Public Prosecutor's Office of Milan – was subject, in 2011, to search measures aimed at obtaining administrative/accounting, corporate and non-accounting documentation connected with the public financing that the company requested under the integrated package of concessions for innovation ("P.I.A. Innovazione").

Notification of the measure in question was also provided, by way of notice of investigation in connection with offences under Articles 81-paragraph 2, 640-*bis*, 483, 56 and 640 of the Italian Criminal Code, to two former Chief Executive Officers of the then SELEX Galileo, who ceased to hold office on 16 February 2009 and 31 December 2012, respectively, and two employees of the company.
On 5 March and 25 September 2012, the involved persons were served with the requests for extension of the time limit of the preliminary investigations.

On 26 April 2012 **SELEX Service Management SpA** – within the context of criminal proceedings conducted by the Public Prosecutor's Office of the Court of Naples concerning the awarding of the construction and management of the Control System for Waste Tracking, SISTRI, for which the company, as early as 2011, was subject to two orders for search and seizure – was served with an additional order for search aimed at gathering the documentation filed with the Ministry for the Environment, Land and Sea in relation to the project starting from 2006.
This investigation involves, among others, the former Chief Executive Officer of the company, who ceased to hold office on 28 September 2011, for offences under Articles 416, 110, 640, 323 of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/00.
On 17 April 2013 SELEX Service Management SpA was served with an order issued by the Judge for Preliminary Investigations of the Court of Naples, which provided, among others, for the application of the warrant for remand in custody against the former Chief Executive Officer of the company for the offences under Articles 416, 319, 320, 321 and 640-*bis* of the Italian Criminal Code and Articles 2 and 8 of Legislative Decree 74/00, as well as the preventive seizure of the sum deposited in the company's accounts that the investigated person allegedly subtracted to the Tax Office or unlawfully collected for undue reimbursements, equal to €6,955,791.
From this order it results that the company's Director of Operations is also under investigations for the offence under Article 648-*bis* of the Italian Criminal Code.

On 13 January 2012 SELEX Service Management SpA – within the context of criminal proceedings conducted by the Public Prosecutor's Office of the Court of L'Aquila, which was then transferred to the Public Prosecutor's Office of Rome, concerning a number of contracts in place between the company and Abruzzo Engineering SCpA in liquidation (30% owned by SELEX Sema) – was subject to an order for the production of documents, which must be added to those already issued in 2011, aimed at gathering the documentation relating to the checking work carried out by the Surveillance Body.
In relation to this affair are under investigation the Director of Operations, for the offences under Articles 110 and 319 of the Italian Criminal Code, the CFO and two employees of the company.

On 24 May 2012 **SELEX Sistemi Integrati SpA** – within the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Rome in relation to alleged tax offences in the award of works contracts on the part of ENAV SpA – was served, as victim, with a notice notifying that the pre-trial examination hearing was to be held on 22 June 2012, in relation to the request for committal for trial for the offences under Article 8 of Legislative Decree 74/00 and Articles 110 and 646 of the Italian Criminal Code against, among others, the former Chief Executive Officer, who ceased to hold office on 14 December 2011, and the former Sales Manager of the company.
At the hearing held on 22 June 2012 in relation to these proceedings, SELEX Sistemi Integrati formalised its appearance as an aggrieved party acting in criminal proceedings to recover damages.
By an order of 9 November 2012, the Judge for the Pre-trial examination hearing at the Court of Rome allowed the company to appear as an aggrieved party in criminal proceedings to recover damages against the accused persons, while by a Decree of 23 November 2012 he provided for the former Chief Executive Officer and the former Sales Manager to be committed for trial. The hearing for discussion will be held on 22 November 2013.

On 4 October 2012 SELEX Sistemi Integrati SpA – in relation to the criminal proceedings conducted by the Public Prosecutor's Office at the Court of Rome in relation to cases of bribery in the award of works contracts on the part of the ENAV, for which the company has been under investigation for the unlawful act under Article 25, paragraph 2, of Legislative Decree 231/01 (for the description, reference is made to the Report on Corporate Governance relating to the 2011 financial year) – submitted a request for plea bargain in order to define all the positions concerned with trials that had been contested pursuant to Article 25, paragraph 2, of Legislative Decree 231/01. By a judgment of 7 December 2012, the company negotiated the application of the pecuniary penalty of €150,000 and the confiscation of the sum of €1,000,000, acknowledging an amount of €1,000,000 to ENAV by way of compensation for damage.
In relation to the critical issues that arose as to the correct performance of some supplies concerning the contracts entered into by SELEX Sistemi Integrati with the customer ENAV, below are summarised the actions brought after the Report on Corporate Governance relating to the 2011 financial year:

- in relation to the appointment, in February 2012, of an independent third-party, RINA Services SpA, for the analysis of the fairness of the value and works implemented within the sub-contracts awarded to Arc Trade Srl, Print Sistem Srl, Techno Sky SpA and Renco SpA (for a total value of about €138 million) in the period from 1 January 2008 to 30 November 2011, on 31 May 2012 RINA delivered the "Final Report" to the company in relation to the Phase 1 of the assignment. This report pointed out that orders had been checked for €mil. 127, with respect to the scope of activities awarded, while other orders of about €mil. 11 could not be quantified in economic terms and thus could not be checked (as they were lump-sum orders that were not quantified in detail or because they dealt with supplies that could be procured from a single supplier at worldwide level, which did not reply to the requests for quotation). As to the orders that were checked, it was found that orders or a portion of orders of €mil. 32 (equal to about 23% of the total) could not be quantified, while it was found that a portion of orders totalling about €mil. 16 could not be checked (for the reasons reported above). According to the findings of Phase 1, the company took steps to replenish the provisions allocated in the 2011 financial statements for an amount of €mil. 6. After having acknowledged the Final Report of Phase 1, the Board of Directors of SELEX Sistemi Integrati deemed it appropriate to immediately start the Phase 2 of the assignment, which was completed on 15 November 2012, with the delivery of the "Final Report". On the basis of the results of the Phase 2 of the assignment and without prejudice to the scope of activities already awarded for the Phase 1, SELEX Sistemi Integrati allocated an additional provision of €mil. 15.7;
- on 6 July 2012, the Board of Directors of SELEX Sistemi Integrati approved an updated version of the Organisational, Management and Control Model as per Legislative Decree 231/01. This updating, which had been preceded by an important Risk Assessment activity which was also carried out in cooperation with external consultants, involved not only the introduction of environmental crimes in the regulations under examination, but also and above all the adoption of any and all proposed amendments and additions to the Model, which have been submitted, both for its general part and for its special part, in the light of the well-known legal proceedings that have involved the company. Considerable emphasis has been given to the updating of the Special Part relating to the Crimes against Public Administrations; in particular, a targeted in-depth analysis was carried out on the following areas which were considered to be the most critical areas: (i) management of sub-contracts; (ii) acquisition of contracts with public bodies through the participation in negotiated procedures, as well as in public tenders; (iii) financial flows;
- as regards the possible action against directors towards the previous Chief Executive Officer, SELEX Sistemi Integrati appeared in court as an aggrieved party in criminal proceedings to recover damages in the above-mentioned criminal proceedings relating to alleged tax offences. In any case, also in the light of the results of the existing criminal proceedings, the company will remain entitled to bring, in the future, any action against directors, which becomes statute-barred in five years from the date when the director ceases to hold office.

As regards the above, it should be noted that:

- in relation to these pending criminal proceedings – with the exception of the ruling at first instance against Ansaldo Energia SpA and for the plea bargain of SELEX Sistemi Integrati – no rulings have been issued against the Group companies, their directors or managers in relation to such matters and no motions for committal for trial have been filed against the companies involved pursuant to Legislative Decree 231/01;
- as regards the orders for acquisition issued by the Judicial Authority concerning a number of Group company contracts, it should be explained that (except for the contract entered into between AgustaWestland International Ltd and the Indian Ministry of Defence in relation to the supply of 12 AW101 helicopters, for which the Indian Government has notified the company of the suspension of any payments) these are being duly performed and to date no objections in this regard have been filed by the counterparties, nor have any actions been brought by third parties before the Judicial Authority aimed at nullifying their validity or effectiveness.

The Board of Directors, the Board of Statutory Auditors, the Control and Risk Committee and the Surveillance Body of Finmeccanica were kept duly informed about the foregoing events.
In particular, as regards the events concerning the supply of helicopters in India and the subsidiary BredaMenarinibus SpA, the following checks were carried out.
In relation to the first event, the Control and Risk Committee, together with the Board of Statutory Auditors, and the Surveillance Body of Finmeccanica held a meeting with both the Chief Executive Officer of AgustaWestland and the former Chairman and Chief Executive Officer of Finmeccanica; they also carried out additional in-depth analyses, examining, *inter alia*, all the reports prepared by the Internal Audit unit of AgustaWestland and a summarised report prepared by an independent English law firm, which illustrates the results of the in-depth analyses carried out on the contract for the sale of 12 AW101 helicopters in India, the agreements entered into by AgustaWestland for the repurchase of the WG30 helicopters that were sold in India in 1987 and on the services rendered by Global Services FZE (a company established by Christian Michel in Dubai) in the performance of the Post Contract Services agreement entered into following the acquisition by AgustaWestland of the above-mentioned contract for the sale of 12 AW101 helicopters in India. Furthermore, in order to complete the assessments carried out as to this affair, the Control and Risk Committee, in agreement with the Board of Statutory Auditors, asked: *i)* to appoint an independent third-party, RINA Services SpA, to assess the fairness of any prices applied by IDS Infotech (India) and IDS Tunisia and the amount of services actually rendered by the above-mentioned companies; *ii)* to update any relationships maintained by the Group companies with Mr Haschke and with companies that can be associated with the same.

The results of the activities carried out are reported below.
RINA Services SpA completed its activities on the contracts awarded by AgustaWestland SpA to IDS Infotech (India) and to IDS Tunisia from 2007 to 2012; the relevant report points out that the above-mentioned suppliers have actually carried out their activity in favour of AgustaWestland SpA, that the supply activities under examination have substantially covered the period of execution of the works and that AgustaWestland SpA has used in these years, or is about to use, the technical papers (both in paper and in electronic format) that have been the object of the activity of the aforesaid suppliers. Additional in-depth analyses have been required of RINA Services SpA about the value of the above-mentioned papers.

As regards the relationships between Mr Haschke and any companies that can be associated with him and the Group companies, we only confirm the existence of relationships – as already pointed out in the additional information required by CONSOB on 9 May 2012 and made public on 16 May 2012 – with Alenia Aeronautica SpA, OtoMelara SpA, AgustaWestland SpA, Ansaldo Energia SpA and AnsaldoBreda SpA, while it results that from 1 January 2010 there were no relationship between Mr Guido Gerosa – and any companies attributable to him – and any companies in the Finmeccanica Group.

The Surveillance Body also held a meeting with the former Manager responsible for the Sales Department of Finmeccanica in India.
In addition to any activities jointly carried out with the Control and Risk Committee, the Board of Statutory Auditors of Finmeccanica held a meeting with the Board of Statutory Auditors of AgustaWestland and also asked the Chairman of the Board of Statutory Auditors of the same to provide updated information on the initiatives and the audits undertaken by the Board of Statutory Auditors, the governing bodies and the Surveillance Body of AgustaWestland as to the investigations being conducted. On the basis of what has been communicated by the Board of Statutory Auditors of AgustaWestland, according to what it learned during the relevant hearings and the results of the assessments and audits carried out by the responsible bodies, there are no cases of possible commission of crimes, nor any significantly critical issues concerning the internal control system, nor any irregularities concerning the adequacy of, and compliance with, corporate procedures. Also following the request submitted by the Board of Statutory Auditors of AgustaWestland, the company took steps to appoint the above-mentioned independent third-party to assess the fairness of the prices applied by IDS Infotech (India) and IDS Tunisia and the amount of services actually rendered by the aforesaid companies; it also provided for an audit to be started, aimed at establishing whether: *i)* AgustaWestland complied with the corporate procedures and whether the same conformed to the Directives of Finmeccanica; *ii)* the corporate procedures concerning purchases of services can be considered to be reliable and adequate, or whether there are deficiencies in the internal control system.

In particular, the audit on the “Purchase of services”, which started on 15 March 2013 and which is expected to be completed by the end of May 2013, will assess:

- the compliance of the process with the new AW procedures, issued at the end of 2012, within the Purchasing Cycle (Purchase Order Acknowledgement Process, Purchase Order Approval Process, Purchase Order Creation Process, Sourcing Process, Supplier Initial Approval Process);
- the adequacy in terms of organisation, system of proxies and segregation of duties;
- compliance with signatory powers;
- the adequacy of monitoring checks.

In relation to the affair concerning BredaMenarinibus SpA, the Control and Risk Committee, together with the Board of Statutory Auditors, held a meeting with the Chairman of BredaMenarinibus SpA; subsequently, it examined a report containing the results of the audit carried out by the latter company on the consultancy and intermediation relationships subject to the investigations conducted by the judiciary, from which it results that “the current Top Management has full confidence in the judiciary and has confirmed that it believes that the investigations being conducted will demonstrate that the company is fully unrelated to the facts which involve the previous Top Management; at the end of the investigations underway, the current management will consider the commencement of actions (if any) to protect the company and to be compensated for any damage suffered and being suffered”. In this report, the Top Management also acknowledges that a critical issue has been solved, which was linked to the pre-existing lack of independence of the Internal Audit manager with respect to the executive Chairman of the company and to any other corporate operating function.

In addition to the activities jointly carried out with the Control and Risk Committee, the Board of Statutory Auditors of Finmeccanica held a meeting with the Board of Statutory Auditors of BredaMenarinibus SpA within the framework of the periodic meetings with the corresponding supervisory bodies of first-level/strategic companies. Subsequently the Chairman of the Board of Statutory Auditors of Finmeccanica also held a meeting with the Chairman of the Board of Statutory Auditors of the subsidiary as to the consultancy and intermediation relationships subject to the investigations conducted by the judiciary.

10.1. Internal control and risk management system as related to the process of financial reporting

The Internal Control over Financial Reporting (ICFR) system is defined as the set of activities aimed at identifying and evaluating the actions or events that, when occurring or failing to occur, could compromise, in whole or in part, the achievement of the objectives of reliability, accuracy and timeliness of financial reporting.

Within Finmeccanica, there is such an internal audit system governing the financial reporting process that has been defined in accordance with the generally accepted frameworks issued by the Committee of Sponsoring Organisations (CoSO) of the Treadway Commission, as well as the Control Objectives for Information and related Technology (COBIT).
Specifically, in 2012, on the basis of the Fraud Risk Assessment carried out in the previous financial year in relation to the cases of fraud defined in the Group Fraud Library, the administrative and accounting procedures were integrated with a set of additional checks with respect to those existing for the prevention of risks of fraud, in accordance with the provisions under Auditing Standard 5 “An Audit of Internal Control Over Financial Reporting That is Integrated With An Audit of Financial Statements”, issued by the Public Company Account Oversight Board (PCAOB). It puts, among the other things, particular emphasis on the checks related to the prevention, identification and detection of fraudulent activities, to be intended as acts capable of generating misrepresentation from a financial, capital and economic point of view in the financial statements or of misappropriating the corporate assets. These checks are tested within the framework of usual monitoring activities according to the plan defined by the Officer in charge. In addition, the Officer in charge started specific monitoring on purchasing cycle processes aimed at reporting fraudulent acts or significant deficiencies in the ICFR system, which have been already completed on the Parent Company and on AgustaWestland.

As to the results of the antifraud monitoring activities carried out on the 2012 financial statements, with reference both to the testing of controls that mitigate fraud risks and to the Detection Audit activity on the purchasing cycle management process, the following observations should be noted.
Within the antifraud monitoring plan on the 2012 financial statements, Finmeccanica carried out activities, with reference to the Group companies that fall within the scope of application of Law 262/05, of both testing of antifraud controls for the purposes of the compliance with the above-mentioned law (periodical monitoring), and of verification of the purchasing cycle management process, which were aimed at detecting frauds (if any) perpetrated to the detriment of the company and/or deficiencies in the internal control system (specific monitoring) – the so-called Detection Audit.

Within the Test Programme on the 2012 financial statements defined by the Officer in charge for the purposes of the application to Law 262/05, within the Group, tests were conducted – on the half-year financial statements at 30 June and on the financial statements at 31 December – on about 2,300 antifraud controls, divided among the following components of the internal control system for financial reporting (ICFR) adopted by Finmeccanica:

- 1,530 Controls at “Process” level defined by the corporate procedures (the so-called Process Level Control), about 280 of which were tested for the purposes of the half-year financial statements;
- 490 Controls relating to the operation and management of IT systems (the so-called IT General Control);
- 280 Controls at “Entity” level in relation to the structure and organisation of the individual companies (the so-called Entity Level Control).

From the analysis of the findings of the Test Programme on the 2012 financial statements, it results that, in consideration of ineffective controls, the related compensating controls and/or material tests carried out by the Internal Audit function allowed to confirm the overall efficiency of the existing procedures monitoring the risk areas being examined.

Furthermore, consistently with the 2012 Programme, specific monitoring activities (the so-called Detection Audit) were started in the second half of 2012, which were aimed at detecting any fraudulent conduct or any deficiencies in the ICFR system in relation to the process of "Procurement of goods and services" and which provide for the following macro-phases:

a) Mapping: this phase consists of the identification of information flows and systems in support of the processes of Procurement of goods and services of the Group companies, in order to identify the information set (cut-off date 31 October 2012) in relation to which the subsequent analyses must be carried out.

b) Scoping: this phase provides for:
   - › the application of specific indicators (Key Fraud Indicators), which have been developped on the basis of the fraud patterns identified in the Fraud Risk Assessment, to the database identified during the mapping phase, made up of the purchasing cycle transactions recorded in the systems in the three-year period 1 January 2010 - 31 October 2012;
   - › the definition of analyses and correlations to be used for processing data and for extrapolating inconsistencies/potential anomalies (if any).

c) Test: this phase provides for:
   - › the analysis of any anomalies identified after the scoping phase, in order to identify the so-called "False Positives" (justified exceptions) and/or evident errors;
   - › performance of tests for any anomalies in relation to which additional analyses are necessary.

To date, the Mapping and Scoping activities have been completed on all the companies that fall within the scope. The test activities have been completed for Finmeccanica SpA and for AgustaWestland SpA and AgustaWestland Ltd, while they are still being conducted for the other companies within the scope; the related completion is expected to take place at the end of the first half of 2013.
With reference to Finmeccanica SpA, 9,300 suppliers were examined. In particular, the following was analysed for each of them:

- Personal data;
- Requests for Purchase;
- Purchase Orders;
- Incoming goods;
- Invoices;
- Payments.

On the basis of the defined correlations and of fraud patterns, extrapolations were carried out in order to identify inconsistencies/potential anomalies (if any) and to eliminate any cases of false positives (justified exceptions) and/or immaterial errors. A documentary analysis was carried out in relation to about 155 supplier codes in order to verify the causes that generated inconsistencies.

With reference to AgustaWestland SpA, about 25,300 suppliers were analysed using the same method as that used for Finmeccanica SpA. A documentary analysis was carried out in relation to about 27 supplier codes in order to verify the causes that generated inconsistencies. With reference to AgustaWestland Ltd, about 9,900 supplies were analysed. A documentary analysis was carried out in relation to about 6 supplier codes in order to verify the causes that generated inconsistencies.

From the analyses carried out for Finmeccanica SpA and AgustaWestland SpA and AgustaWestland Ltd, it results that the anomalies reported by the Key Fraud Indicators and by the subsequent checks are due to opportunities to improve the internal control system that are attributable to misalignment of procedures which, however, do not impair the purchasing cycle process.

Furthermore, in relation to the provisions under the 2012 Action Plan, a Manual was issued for the management of compliance with Law 262/05, including the component related to the management of risks of fraud; its objective is to strengthen the internal control model on financial reporting within the Group and to ensure it is managed with development in mind.
The responsibilities for establishing and maintaining the ICFR system, on the whole, are governed and distributed throughout the organisation.

In particular, Finmeccanica's model currently calls for the involvement of:

- **Administrative body to which authority has been delegated**
  This refers to the Chief Executive Officer.
- **Officer in charge of preparing the Company's accounting documents**
  Reference is made to paragraph 10.6 below.
- **Financial reporting managers**
  To comply with Law 262/05, within the major companies of the Group, the boards of directors, after having heard the opinion of the Officer in charge and of the Board of Statutory Auditors of the Company, have appointed Financial Reporting Managers (FRMs) responsible for the financial information provided to the Group Parent and for supporting the Officer in charge of preparing the Company's accounting documents.
  As such, the FRMs have the following responsibilities:
  - developing for each Group company administrative and accounting procedures underlying the financial reporting process that ensure that the financial reporting process is suited to the preparation of reliable consolidated annual and interim financial statements and is in line with the actual operations of the company concerned based on the instructions received from the Officer in charge of preparing the Company's accounting documents;
  - defining and implementing any plans for improvement;
  - attesting, with respect to the Officer in charge of preparing the Company's accounting documents of Finmeccanica, together with the Delegated Governing Body of the company, to what is requested by the Parent Company in relation to the internal control system for the governance of the financial reporting process and the preparation of accounting documents.
- **Internal Audit organisational unit of Finmeccanica SpA**
  The Officer in charge of preparing the Company's accounting document has entrusted the Internal Audit organisational unit with responsibility for "independently" assessing the functioning of the internal controls over financial reporting.
  The Internal Audit organisational unit, assisted by the Internal Audit organisational units of the various Group companies and based on indications provided by the Officer in charge, conducts tests of the actual application of the administrative and accounting procedures defined by the Group Parent and other Group companies and coordinates activities within these companies, by means of a specific plan of operations, which defines the methods for verifying the implementation of controls.
  The results of the tests conducted for each company are submitted to its management, which determines what improvements should be made so that a suitable, up-to-date action plan can be prepared.

  On the basis of the overall results of these tests, the Internal Audit organisational unit of Finmeccanica prepares an executive summary that enables the Officer in charge of preparing the Company's accounting documents and the Delegated Administrative Body to assess the adequacy and actual application of the administrative and accounting procedures followed in preparing the individual financial statements, the condensed half-year financial statements, and the consolidated financial statements, for the purposes of the issue of the certifications envisaged in the relevant regulations.

The management of the ICFR system developed by Finmeccanica features the following general stages:
› risk identification and assessment (Financial and Fraud Risk Assessment);
› assessment of the adequacy of related controls;
› testing the functioning of the system of controls.

Risk identification and assessment (Financial and Fraud Risk Assessment)

The risk assessment (Financial Risk Assessment) is the set of activities aimed at identifying and assessing any actions or events, whose occurrence or absence may compromise, in whole or in part, the achievement of the ICFR objectives: specifically, the reliability of financial reporting. Within the framework of risk assessment, particular attention is paid to the Fraud Risk Assessment, identifying and assessing any conditions (risk factors) that could increase the risk of frauds within the Company.
Risks identification and assessment are identified by considering the likelihood that an event will occur and its potential impact on the financial statement items, without taking account, from a prudential perspective, of the existence of controls aimed at reducing the risk to acceptable levels.

Assessment of the adequacy of related controls

On the basis of analyses of potential (Financial and Fraud) risks, control measures have been identified which are aimed at mitigating the same. The adequacy of the control measures is assessed on the basis of their ability to reduce risks, with reasonable certainty, to acceptable levels. The defined controls are attributable to the following macro-types:

- Process Level Controls;
- Entity Level Controls which, as controls that apply to the entire organisation since they are common and cut across it, are structural elements of the ICFR system;
- IT General Controls (ITGC).

In 2012, as already mentioned, additional controls were formalised and implemented with respect to those already in place, in order to strengthen fraud risk management on the basis of the results from the Fraud Risk Assessments carried out in 2011.
Furthermore, the Group issued the Manual for the management of compliance with Law 262/05, including the component related to the management of fraud risks; its objective is to strengthen the internal control model on financial reporting within the Group and to ensure it is managed with development in mind.
In 2013 usual maintenance and development activities are expected to carry out on the ICFR system’s components.

Check the operations of the internal control system and specific monitoring

In order to check and ensure the operations of the system for internal control on financial reporting, specific testing and monitoring activities are expected to be carried out by independent third parties (Internal Audit).
The test plan defined by the Officer in charge provides for checks to be carried out, on a turnover basis, on all the control components of the ICFR system of Finmeccanica; specifically:

- any controls that are considered to be “key” tests as defined in the descriptions are tested on an annual basis;
- the correct segregation of incompatible roles is tested on an annual basis;
- ITGC components that are considered to be necessary to ensure adequate control over applications and the infrastructure are tested on an annual basis; ITGC components that are not subject to systematic changes, as they pertain to structural aspects of the company (e.g. organisation, policy, etc.), are tested on a quarterly basis, on a turnover basis, and in any case, on the occasion of significant changes;
- Entity Level Controls are tested on a quarterly basis and, in any case, on the occasion of significant changes.

Furthermore, to integrate the control model, specific monitoring activities are envisaged which are aimed at reporting the existence of possible fraudulent acts and/or significant deficiencies in the ICFR system (so-called Detection Audit). This activity is carried out on a turnover basis according to a "Top-down-risk based" approach, which allows the application of controls starting from any areas at highest risk; furthermore, the activity is carried out in relation to specific events, including, but not limited to, organisational changes or reports, such as to presuppose the presence of fraudulent acts or significant deficiencies.

10.2. Director in charge of the internal control and risk management system

As required by the Rules of Procedure of the Board of Directors, the Chief Executive Officer also holds the position of Director in charge of the internal control and risk management system, which is responsible for the implementation and maintenance of an effective system.
In particular, the same director:

a) identifies the main corporate risks, in light of the features of the activities carried out by the Company and its subsidiaries, periodically submitting them to the scrutiny of the Board;
b) implements the guidelines defined by the Board and takes care of the planning, creation and management of the internal control and risk management system, constantly verifying its overall adequacy, efficacy and efficiency;
c) sees that the system is adjusted in response to changes in operational conditions and the legislative and regulatory framework;
d) may ask the Internal Audit organisational unit to carry out controls on specific operating areas and to check for compliance with internal rules and procedures in performing business operations, at the same time giving notice thereof to the Chairman of the Board, the Chairman of the Control and Risk Committee and to the Chairman of the Board of Statutory Auditors;
e) promptly reports to the Control and Risk Committee or to the entire Board as to problems and critical issues arisen in performing his duties or of which he has become aware, so that the Committee or the Board may take any appropriate actions.

The Director in charge of the internal control and risk management systems (SCIGR) of Finmeccanica SpA, in particular, has prepared the document named "Guidelines for the internal control and risk management systems".
This document identifies, in an analytical and detailed manner, the following aspects of the SCIGR:

- the methodological tools used for the identification, measurement, management and monitoring of the main risks;
- the agents, showing their respective roles in the light of the current Corporate Governance structure of Finmeccanica, which, in turn, reflects the provisions under the Code of listed companies;
- the process aimed at identifying, assessing and managing the Finmeccanica Group's risks, divided based on their related type as follows:
  - Compliance risks: arising from the performance of ordinary business operations, which relate to the failure by the business activities to comply with the relevant contractual clauses, laws, regulations and rules; this non-compliance may cause the Company to incur administrative and criminal sanctions, as well as to affect the Company's image and the its operations themselves;
  - Strategic risks: affecting the degree of success of the Company's strategies, the processes' ability to achieve the objectives defined by Top Management and the Company's image;
  - Operating risks: concerning ordinary business operations, which affect the efficacy and efficiency of the various corporate areas/processes;
  - Financial risks: arising from the performance of ordinary business operations, which affect economic and financial figures within the management of accounting and reporting, taxation, cash and credit.

The Finmeccanica Group manages 125 macro-risks broken down by category, applied to the different business segments, as follows:

- 16 compliance risks;
- 25 financial risks;
- 46 operating risks;
- 38 strategic risks.

The Management of the Finmeccanica Group's companies, within the related Risk Assessments, assesses the macro-risks and the related control system to monitor the same.
Specifically, risks are assessed considering the impact and the probability of their occurrence, at an inherent (net of on-going controls) and residual (in consideration of the efficiency of the existing controls) level. The risk and control system assessment is carried out with quantitative, qualitative techniques, or with their combination.

10.3. Internal Audit Manager

The Board of Directors' Meeting of 19 December 2012 appointed Giuseppe Bargiacchi, in his capacity as the Internal Audit Manager, to verify that the internal control and risk management system was operational and adequate.
The Board of Directors ensures that the Internal Audit Manager is provided with adequate resources to fulfil his responsibilities and defines his fees, in accordance with the Company's policies, as well as with the duties assigned to the same, as specified in the Rules of Procedure of the Board itself and as listed below:

a) checking, both on an on-going basis and in relation to specific needs and in accordance with international standards, the operations and suitability of the internal control and risk management system, through an Audit plan approved by the Board of Directors, based on a structured process of analysis and prioritisation of the main risks;
b) he is not responsible for any operating area and reports to the Board of Directors and, through the same, to the Chairman, or, should the latter be granted delegated operating powers, to the Control and Risk Committee and, through it, to its Chairman;
c) he has direct access to all useful information to perform his duties;
d) he prepares any periodic reports containing adequate information on his activity, on the procedures according to which the risk management is carried out, as well as on the compliance with any plans defined to limit them; the periodical reports contain an assessment of the suitability of the internal control and risk management system;
e) he promptly prepares reports on events of particular importance;
f) he forwards the reports referred to in points d) and e) to the Chairmen of the Board of Statutory Auditors, of the Control and Risk Committee and of the Board of Directors, as well as to the Director in charge of the internal control and risk management system;
g) he checks, within the framework of the Audit plan, for the reliability of the IT systems, including accounting systems.

In 2012, the Internal Audit Manager performed the following main activities:

- performed audits;
- managed and updated the Register of natural and legal persons that have access to inside information;
- coordinated the Internal Audit Managers of the companies involved in implementing Law 262/05 with regard to verifying that the proper procedures have been followed;
- provided technical support for the Surveillance Body pursuant to Legislative Decree 231/01, including updating the Company's Organisational, Management and Control Model.

As to the Group companies, the Internal Audit Manager reported to the Control and Risk Committee that their three-year plans for risk-based audits and monitoring of activities have been coordinated.

With regard to the profile under Legislative Decree 231/01 and the related activities carried out by the main Group companies, it should be noted that the requirements of this law were being successfully and generally fulfilled, with the adoption by said companies of the Organisational, Management and Control Model and of the Code of Ethics and the appointment of a Surveillance Body by their respective Boards of Directors. For information on updates made to the Model by Finmeccanica SpA and its subsidiaries, please refer to section 10.4.
The above-mentioned manager has financial resources included in the Internal Audit organisational unit's budget, in order to carry out his duties. This Department's activities have not been outsourced. As already reported, the Control and Risk Committee is also responsible for supervising and monitoring the independence, adequacy, effectiveness and efficiency of the Internal Audit organisational unit; the Committee itself oversees the latter's activities should the Chairman of the Board be granted delegated operating powers.

Finally, as previously reported, note the recent establishment of a specific function within the Internal Audit unit, which directly reports to the Internal Audit Manager and which is responsible for monitoring and strengthening the Audit activities with regard to any contracts supporting the Group Companies' business operations.

10.4. Organisational, Management and Control Model as per Legislative Decree 231/01

The Legislative Decree 231/01 introduced, into the Italian legal system, a regime of administrative liability against Entities, for certain types of offences committed in the interests or to the benefit of the same. The Company has adopted appropriate measures to prevent it from incurring any criminal liability through the establishment of specific regulatory systems aimed at preventing the commission of any offences contemplated by this Decree on the part of directors, auditors, management, employees or any other party having contractual/financial/commercial relations with Finmeccanica SpA.

To this end, on 12 November 2003, the Board of Directors of Finmeccanica SpA adopted an Organisational, Management and Control Model as per Legislative Decree 231/01, as updated by resolutions of 26 July 2007, 25 June 2009 and 16 December 2010. In the meeting held on 31 July 2012, the Board updated the Organisational, Management and Control Model as per Legislative Decree 231/01, as reviewed following the entry into force of Legislative Decree 121/11, which introduced Article 25-*undecies* in Legislative Decree 231/01, concerning various types of "environmental crimes" including:

- destruction or deterioration of the habitat within a protected site;
- spills that cause pollution of soils, sub-soils, surface waters and underground waters and the overcoming of the risk threshold concentrations;
- unauthorised waste management;
- breach of the obligations concerning disclosures and the keeping of statutory books and forms;
- unlawful waste traffic;
- breach of the emission limit values or of the rules laid down in the authorisation for operation of plants.

In the light of the additional regulatory amendments to Legislative Decree 231/01 – as introduced by Legislative Decree 109/12 as to the "Employment of illegally-staying third-country citizens" and by Law 190/12 bearing "Provisions for the prevention and repression of bribery and illegality in Public Administrations" – the Surveillance Body and the Board of Directors gave their favourable opinion, in the meetings of 4 October and of 8 November 2012, respectively, to set up a working group made up of internal resources and external consultants with an activity programme aimed at reviewing and updating the Organisational Model, also taking account of the evolution of organisational structure of Finmeccanica SpA.

Furthermore, with a view to expressing the Finmeccanica Group's values, as formalised in the Charter of Values, the review in question makes the Code of Ethics of Finmeccanica SpA independent from the Organisational Model, as an independent control tool of ethical governance. The review and updating process in question was completed with the approval of the current version of the Organisational Model on the part of the Company's Board of Directors on 15 April 2013.

The same procedure is being carried out by the Finmeccanica Group companies and is expected to be completed during the current financial year.
It should be noted that the Organisational Model is based on the guidelines issued by Confindustria (latest update in 2008).

The current Organisational Model is composed of:

- a "General Section" essentially dealing with:
  - the Surveillance Body, the information that has to be sent to it, and its reports on the work it has done with respect to corporate bodies;
  - staff training and the circulation of the Organisational, Management and Control Model within and outside the Company;
  - the disciplinary measures applicable in the event of failure to comply with the requirements in the Model;
- "Special Section A" which covers offences against Public Authorities;
- "Special Section B" which covers corporate crimes;
- "Special Section B1" which covers crimes of bribery between individuals;
- "Special Section C" which covers violations of occupational health and safety laws;
- "Special Section D" which covers crimes of receiving, laundering or using illegal monies or goods;
- "Special Section E" which covers computer crimes and illicit data processing;
- "Special Section F", which covers criminal enterprise;
- "Special Section G", which covers environmental crimes.

The documents supporting the Finmeccanica SpA's Model are:

- the Code of Ethics;
- the Finmeccanica SpA's organisational structure;
- the system of power delegation;
- the report file, a document to be drawn up by first-tier managers, as well as by collaborators (if any), to report regularly to the Surveillance Body for meetings with members and/or representatives of government bodies, including any information on restrictions contained in the Organisational Model pursuant to Legislative Decree 231/01, which can be referred to the other Special Sections of the document referred to by the report file itself;
- the list of "Key Persons" in accordance with the Code of Conduct for Internal Dealing;
- the legislative framework of Finmeccanica SpA;
- the clause that the Company includes in commercial, financial and consulting contracts.

This Model can be found in the specific Governance section of the Company's website (www.finmeccanica.com). In addition, it should be noted that all the Italian subsidiaries have adopted similar Organisational, Management and Control Models pursuant to Legislative Decree 231/01, which can also be consulted on their respective websites, and that the companies have appointed related Surveillance Bodies.
In this regard, on 21 February 2013 the Board of Directors' meeting, while resolving on the appointment of the new members of the Surveillance Body of Finmeccanica SpA following the resignation of the external members Giuseppe Grechi (Chairman) and Manuela Romei Pasetti, took steps to amend the related by-laws by extending the number of the related members up to a maximum number of five members.

The Surveillance Body of Finmeccanica SpA is currently made up of three external professionals, Enrico Laghi (who holds the position of Chairman), Angelo Piazza and Angelo Carmona, and by the Company's Group General Counsel, Mario Orlando (the sole internal member pursuant to the by-laws).
Multi-person compositions of the Surveillance Bodies have been resolved by the Board of Directors of some first-level subsidiaries, while other companies have appointed a member of the Board of Statutory Auditors as Chairman of the Surveillance Body, in any case ensuring a multi-person composition, with the participation, as members, of the managers responsible for the organisational units of Legal and Corporate Affairs and Compliance and, in some cases, of Internal Audit.

Furthermore, with regard to the composition and appointment of the Surveillance Bodies of subsidiaries incorporated under Italian law, reference is made to what has been already reported above as to the recently-issued Directive 1/13.

The duties and functioning of this Body are governed by specific by-laws approved by the Finmeccanica Board of Directors on 15 December 2005 and updated on 25 June 2009, 16 December 2010, 21 September 2011, on 21 February 2013 and on 15 April 2013. The by-laws entrust the Surveillance Body with wide-ranging tasks for the purposes of monitoring the validity and effectiveness of the Organisational Model. Within these tasks, among other things, the Surveillance Body receives reports (if any) on the part of company representatives or third parties, holds periodical hearings to hear the managers responsible for potential areas at risk of offences pursuant to Legislative Decree 231/01, examines reports and disclosures prepared by the corporate units and provides recommendations or instructions to the Top Management and to the corporate bodies, also with respect to appropriate actions for improving or changing checks. The Surveillance Body has also adopted internal rules, which have been communicated to the Board of Directors. Similar rules have been adopted by the respective Boards of Directors of the subsidiaries.

10.5. Independent Auditors

On 16 May 2012 the Shareholders' Meeting appointed KPMG SpA to audit the accounts during the period from 2012 to 2020.
The firm's appointment, therefore, will terminate at the time of the approval of the financial statements for 2020.

The appointment envisages the auditing firm carrying out the following activities:

- auditing of the separated financial statements of Finmeccanica SpA;
- statutory audit of the consolidated financial statements of Finmeccanica SpA;
- limited audit of the condensed consolidated half-year financial report of Finmeccanica SpA;
- periodic review of regular book-keeping.

10.6. Officer in charge of preparing the Company's accounting documents and other corporate roles and organisational units

Officer in charge of preparing the Company's accounting documents

In accordance with Art. 154-*bis* of the Consolidated Law on Financial Intermediation, on 14 June 2012, the Company's Board of Directors appointed Gianpiero Cutillo, Chief Financial Officer of the Company, as the Officer in charge of preparing the Company's accounting documents until the expiry of the term of office of the Board of Directors.
In fact, under Art. 25 of the by-laws, the Board of Directors, having previously obtained the mandatory opinion of the Board of Statutory Auditors, appoints a person to this position, whose mandate expires at the same time as the term of office of the Board of Directors that has designated him.

The choice of an executive for this position is made from among persons who, for a period of at least three years:

a) have performed duties of governance and control or management in companies listed on regulated markets in Italy, in other EU Member States or in OECD Countries with a share capital of not less than €mil. 2; or

b) have had legal powers of control over the accounts of companies such as those specified in letter a), or

c) have been professionals or full university professors in financial or accounting matters; or

d) have performed functions as executives in public or private bodies with expertise in finance, accounting or control sectors.

Also in accordance with the by-laws, the executive in question must satisfy the requirements of good repute laid down for the members of the Board of Directors.
In connection with his appointment by the Board of Directors, Gianpiero Cutillo has been formally vested, in addition to the powers already conferred on him as Chief Financial Officer, with all the powers necessary for the correct performance of the duties for which he is responsible by law.

The Officer in charge of preparing the Company's accounting documents releases the certification required by Art. 154-*bis*, paragraph 2 of the Consolidated Law on Financial Intermediation and, together with the Chief Executive Officer, the attestation under Art. 154-*bis*, paragraph 5 of the Consolidated Law on Financial Intermediation.

As previously reported as to the actions taken by the Company for the implementation of the internal control and risk management system, the **corporate roles and organisational units** which are specifically involved in the system include, in particular:

- the **Compliance organisational unit**, which is led by the new Senior Compliance Officer (SCO) and which is responsible, *inter alia*, for monitoring the regulations applicable to the Company's activities and for disseminating legal risk management tools in the main sectors in which the Group operates;
- the **Risk Management organisational unit**, which is currently being established, which reports to the CFO and which operates within the Administration, Finance and Control unit, with the objective to improve the Group's Governance in the management of operating and financial risks, as well as with the specific mission to support the Company's Top Management in monitoring activities concerning risk identification, assessment and management;
- the **specific function established within the Internal Audit unit**, which directly reports to its Manager and which is responsible for monitoring and strengthening the Audit activities in relation to any contracts supporting the Group companies' business operations.

10.7. Coordination between persons involved in the Internal Control and Risk Management System

In order to maximise efficiency of the Internal Control and Risk Management System and to reduce any duplication of activity, specific procedures have been set out for the coordination between the various persons involved.
In particular, it should be noted that:

- as previously specified, the Board of Statutory Auditors and the Internal Audit Manager regularly participate in the Control and Risk Committee's meetings; joint meetings of these bodies were also held during the financial year;
- the Control and Risk Committee reports to the Board of Directors at least on a six-monthly basis – in any case, on the occasion of the approval of the draft separate financial statements and of the half-year financial report – on the activity carried out, as well as on the adequacy of the Internal Control and Risk Management System;
- the Chairman of the Board of Statutory Auditors or any other Statutory Auditor designated by the same regularly participates in the Surveillance Body's meetings;

- the Board of Statutory Auditors holds periodic meetings, in particular with the Officer in charge of preparing the Company's accounting documents, the Internal Audit Manager and any other corporate functions with specific duties concerning the internal control and risk management System.

11. Appointment of Statutory Auditors

As with the appointment of the members of the Board of Directors, the list voting system has also been adopted for choosing Statutory Auditors. The provisions of the by-laws governing the election of the Board of Statutory Auditors (Art. 28.3) provides for the deadlines and methods for filing and publishing lists, as well as the related documentation, in compliance with the requirements of Arts. 147-*ter*(1-*bis*) and 148(2) of the Consolidated Law on Financial Intermediation (in the text amended by Legislative Decree 27 of 27 January 2010 during the transposition of Directive 2007/36/EC on the rights of shareholders of listed companies).

As explained earlier regarding the appointment of directors, Legislative Decree 27/10 provided that "privatised companies" are also subject to the ordinary rules found in the Consolidated Law on Financial Intermediation, as well as the implementing provisions, in place of the special rules contained in Law 474/94 (so-called "privatisation law").

Therefore Art. 28.3 of the by-laws currently requires that the list of candidates presented by shareholders, together with related supporting documentation, be deposited at the Company's registered office at least 25 days prior to the date set for the first convocation of the Shareholders' Meeting and be published by the Company at least 21 days prior to the Meeting, in accordance with applicable law (it must be made available to the public at the Company's registered office, at the market management company's office and on the Issuer's website).

In order to be able to provide up-to-date information on its website, the Company expressly requests that, when Shareholders' Meetings are called, shareholders deposit résumés of each candidate with exhaustive personal and professional information when they file the lists.

Lists may only be submitted by shareholders holding, either alone or jointly with other shareholders, at least 1% of the share capital with voting rights at Ordinary Shareholders' Meetings, or holding lower percentages if envisaged by applicable laws or regulations.
It should be noted that with regard to the election of the Board of Directors, the minimum shareholding required to present a list of candidates for the election of Finmeccanica's administration and control bodies was set by CONSOB (with Resolution 18452 of 30 January 2013) at 1%, percentage envisaged in Art. 28.3 of the Company's by-laws.

The Board of Statutory Auditors is appointed based on lists submitted by the shareholders in compliance with the procedures described below, in order to ensure the election of two regular members and one alternate member on the part of the minority list. The Chairman of the Board of Statutory Auditors is appointed by the Meetings from among the Auditors elected from the minority list pursuant to Art. 148, para. 2-*bis*, of Legislative Decree 58/98, as well as to Art. 28.3, second-last paragraph, of the Company's by-laws.

Each list, in which candidates are listed in consecutive order, is divided into two sub-lists: one list for candidates to the position of regular Auditor and the other list for candidates to the position of alternate Auditor. At least the first candidate in each sub-list must be registered with the Register of Auditors and must have been performing statutory audits of accounts for a period of no less than three years.

The members of the Board of Statutory Auditors shall be appointed as follows:

a) three regular Auditors and one alternate Auditor will be taken from the list that receives the majority of votes cast, in the consecutive order in which they appear in the list;

b) two regular Auditors and one alternate Auditor will be taken from minority lists; to this end, votes obtained by the lists are subsequently divided by one and by two according to the consecutive order in which the candidates were listed.

The scores thus obtained shall be allocated to the candidates of each of said lists, according to the order of the lists as respectively envisaged. The scores thus assigned to the candidates of the various lists are reported in a single decreasing order. Those who have obtained the highest scores will be elected.
In the event that more than one candidate has obtained the same score, the candidate from the list which has not yet elected any regular Auditor shall be elected.
In the event of an equal number of list votes and still with the same score, a new vote will be held by the entire Meeting and the candidate with the majority of votes will be elected.
In the event of the replacement of a regular Auditor elected from the majority list, the alternate Auditor elected from the same majority list takes his place, while in the event of the replacement of the regular Auditor elected from the minority list, the alternate Auditor elected from the same minority list takes his place.

The new members of the Board, pursuant to Art. 2401 of the Italian Civil Code, shall be appointed by the Meeting from among the candidates in the same list of the Auditor who has ceased to hold office.
In the event that, for whatever reason, the appointment of one or more regular Auditors or alternate Auditors or the integration of the Board of Statutory Auditors cannot be made as required above, the Meeting shall resolve with the majorities prescribed by law, in compliance with the principle of the representation of minorities.
Article 28.1 of the Company's by-laws also requires at least two of the regular Auditors and at least one of the alternate Auditors to be chosen from Registered Auditors of Accounts with at least three years of auditing experience. Auditors that do not satisfy this requirement must have at least three-year experience:

a) in performing duties of governance and control or management in stock companies with a share capital of not less than €mil. 2; or
b) as professionals or full university professors in legal, economic, financial or technical and scientific matters closely connected with the Company's activities; or
c) in performing functions as executives in public or private bodies in the banking, finance and insurance sectors, or in sectors closely connected with the Company's activities, intended as those that are useful for achieving the Company's business purpose.

Furthermore, it is envisaged that persons who serve as auditors for five or more issuers, or who perform governance and control functions for a number of other companies in excess of the limit provided by current law, may not be chosen as regular Auditors.
Furthermore, all the members of the Board of Statutory Auditors must meet the independence requirements laid down for Statutory Auditors in the current regulations. In this regard, the Company (as also reported in relation to the appointment of the directors) expressly requires, in the notice of call of the Meeting, to specify, in the lists of candidates, their eligibility to be qualified as "independent" directors, on the basis of the criteria laid down for directors in Art. 3 of the Code.

As already reported as to the appointment of directors, the Shareholders' Meeting of 16 May 2012 took steps to update the Company's by-laws provisions related to the election and composition of the Board of Statutory Auditors (Arts. 28.3 and 28.3-*bis*) in order to ensure gender equality as required by the new provisions under Law 120/11, according to which at least 1/5 of the members in the first term of office (at least 1/3 in the following terms) shall represent the under-represented gender.
Therefore (on the basis of the new Arts. 28.3 and 28.3-*bis* of the by-laws), any lists that, considering both the sub-list of regular Auditors and that of alternate members, present a number of candidates equal or higher than three, must include, in the sub-list of regular

Auditors, candidates of different gender so as to ensure a composition of the Board of Statutory Auditors in compliance with the current regulations governing gender equality. In the event that the sub-list of alternate Auditors from said lists indicates two candidates, they must belong to different genders.

Furthermore, the new Art. 34 of the Company's by-laws states that the provisions described above shall apply starting from the first renewal of the Board of Statutory Auditors after 12 August 2012 and for three consecutive terms of office.

12. Composition and functioning of the Board of Statutory Auditors (Art. 123-*bis*, para. 2, lett. d), Consolidated Law on Financial Intermediation)

The Board of Statutory Auditors, consisting of five regular and two alternate Statutory Auditors, was appointed by the Shareholders' Meeting of 16 May 2012 for the 2012-2014 term. The Board will, therefore, stand down at the next Shareholders' Meeting, held to approve the financial statements for the period ended 31 December 2014.

The **Board of Statutory Auditors** serving at 31 December 2012 was composed as follows:

Riccardo Raul Bauer Chairman	(2)
Niccolò Abriani Regular Auditor	(2)
Maurilio Fratino Regular Auditor	(1)
Silvano Montaldo Regular Auditor	(1)
Eugenio Pinto Regular Auditor	(1)
Vincenzo Limone Alternate Auditor	(1)
Stefano Fiorini Alternate Auditor	(2)

(1) Auditors appointed from the **majority list** submitted by the Ministry of Economy and Finance, which had a shareholding of 30.20% of the share capital.

(2) Auditors appointed from the **minority list** submitted by a group of asset management companies and institutional investors, which hold an overall stake of about 1.03% of the share capital of Finmeccanica.

The tables annexed to this Report summarise the structure of the Board of Statutory Auditors, showing the Auditors serving at 31 December 2012, their respective positions of regular Auditor held in other issuers (in observance of the restrictions pursuant to Art. 144-*terdecies*, paragraph 1, of the Issuers' Regulations[12]), as well as of the Statutory Auditors who ceased to hold office in the course of the 2012 financial year.
No changes in the composition of the Board of Statutory Auditors have taken place since the end of the 2011 financial year.

Brief résumés of the careers of the members of the Board of Statutory Auditors are given below, specifying their respective length of service.

12. The full list of the offices of administration and control held (at the companies referred to in Volume V, Title V, Chapters V, VI and VII of the Italian Civil Code) pursuant to Article 144-*terdecies*, paragraph 2, of the Issuers' Regulations, is published by CONSOB on its website, as required by Article 144-*quinquiesdecies*, paragraph 2, of the same Regulations.

RICCARDO RAUL BAUER - Chairman

Mr Bauer was born in Milan in 1951. He has been the Chairman of the Board of Statutory Auditors of Finmeccanica since 16 May 2012. He holds an Economics and Business degree and is a Certified Public and Professional Accountant. He is a Contract Professor for Company Audit and Control at the Sacro Cuore University in Milan. He has carried out statutory audit and professional training activities at PricewaterhouseCoopers SpA (1968-1998). He has provided consultancy and assistance services to leading Italian companies. Currently, he is, *inter alia*, the Chairman of the Board of Statutory Auditors of the Union of Italian Jewish Communities and a member of the Board of Statutory Auditors of the Museum of Jewish Heritage and Shoah. He is enrolled in the Register of Intermediaries at the Ministry of Justice. He is the author of various editions of the “Civil Code” and of the “Tax Code” and of numerous publications concerning audits and contracts.

NICCOLÒ ABRIANI - Regular Statutory Auditor

Mr Abriani was born in Turin in 1966. He has been a regular Statutory Auditor of Finmeccanica since 16 May 2012. He is a lawyer and a Professor of Commercial Law at the University of Florence; Lecturer for the Post-graduate course for Business Lawyers at the “Luiss Guido Carli” University in Rome. He was an independent director of Apulia Prontoprestito SpA (2005-2011); member of the Surveillance Board of Ligabue Holding SpA (2006-2010); Chairman of the Surveillance Body of Ama SpA (2006-2009). He has held many academic positions, including: Dean of the Faculty of Economics at the University of Foggia and Director of the Department of Economics and Law at the University of Foggia. Currently, he is a member of the Steering Committee of the Faculty of Economics at the University of Florence and a member of various arbitration boards.

MAURILIO FRATINO – Regular Statutory Auditor

Mr Fratino was born in Alba (Cuneo) in 1952. He has been a regular Statutory Auditor of Finmeccanica since 2009; his term of office was renewed by the Shareholders’ Meeting on 16 May 2012. He is a lawyer and practices in the areas of civil, commercial and corporate law. He is a Certified Public Accountant. An instructor of food and wine law at the University of Turin. He has held numerous positions, including: member of the Committee of Experts for the Creation of the Single Market for the Prime Minister; Statutory Auditor and director of Autostrade SpA; Deputy Executive Chairman of Autostrada Torino Savona SpA; Managing Director of Riccadonna International BV. Current positions include: Vice-Chairman of Banca Regionale Europea SpA (UBI group), Chairman of the Board of Auditors of Federvini, Auditor of Accounts for Federalimentare, Statutory Auditor of Il Sole 24ore SpA, Chairman of the Cassa Rischio Vita of the Food Industry and member of the Tax and Corporate Governance Committee of Confindustria.

SILVANO MONTALDO - Regular Statutory Auditor

Mr Montaldo was born in Laigueglia (Savona) in 1957. He has been a regular Statutory Auditor of Finmeccanica SpA since 2006, having been reappointed on 16 May 2012. He is a Certified Public and Professional Accountant. He has served or currently does serve as Statutory Auditor to numerous corporations, as well as an Auditor of public entities, is a member of the Surveillance Bodies and is a commissioner of firms in the process of bankruptcy. Currently, he is a member of the Board of Statutory Auditors of various companies, including: Aeroporti di Roma SpA, Carige Assicurazioni SpA, Carige Vita Nuova SpA, Autostrade dei Fiori SpA, GSE SpA; member of the Surveillance Board of Autostrada dei Fiori SpA; extraordinary commissioner of Antonio Merloni SpA, IAR Siltal SpA. and Olcese SpA.

EUGENIO PINTO - Regular Statutory Auditor

Mr Pinto was born in Taranto in 1959. He has been a regular Statutory Auditor of Finmeccanica since 16 May 2012. He graduated *cum laude* in Economics and Business. He is a Certified Public Accountant. Currently, he is, *inter alia*, a Permanent Professor of the Business Economics department at the “Luiss Guido Carli” University in Rome. He has held numerous positions as director and Statutory Auditor in many Italian industrial and financial groups. He holds numerous positions, including: Chairman of the Board of Statutory Auditors of Eni Adfin SpA, Stogit SpA and Snam Rete Gas SpA (Snam group); independent director and member of the Internal Audit Committee and of the Remuneration Committee of Astaldi SpA, Chairman of the Board of Auditors at Assonomine, the Italian association of joint-stock companies.

STEFANO FIORINI - Alternate Statutory Auditor
Mr Fiorini was born in Genoa in 1969. He graduated in Economics and Business. He is a Certified Public Accountant. He has gained significant experience in the main sectors of industrial activities and services. He has worked in the auditing sector at KPMG SpA and Arthur Andersen SpA. He has held the position of Investment Director at PM & PARTNERS and ABN Amro Capital Investments NV. Currently, he provides consultancy services in civil and criminal proceedings concerning disputes relating to economics, business and financial issues in the capacity as court-appointed expert (CTU, *Consulente Tecnico d'Ufficio*) or consultant to the Public Prosecutor. He is a regular Statutory Auditor of Iacobucci HF Electronics SpA, Albany International Italia Srl and alternate Auditor of Utilitas - Servizi per il territorio Srl.

VINCENZO LIMONE - Alternate Statutory Auditor
Mr Limone was born in Taranto in 1950. He graduated in Economics and Business. He is a Certified Public Accountant. He is a contract Professor of Securities Market Economics at the University of L'Aquila and Contract Professor of Economics applied to Engineering at the "Tor Vergata" University in Rome. He is currently a General Manager at the General Accounting Office (*Ragioneria Generale dello Stato*).

In compliance with the Corporate Governance Code, the Board of Statutory Auditors assessed, in the first meeting after the appointment (which was held on 14 June 2012), as well as in the current 2013 financial year (in the meeting held on 4 April 2013), the requirements of independence for regular Auditors. In that regard, the Board of Statutory Auditors followed the indications of the Code regarding the concept of independence for Statutory Auditors.
In addition to the supervisory functions (pursuant to Article 149 of the Consolidated Law on Financial Intermediation) already listed in paragraph 1 of this Report, the Board of Statutory Auditors performs the duties attributed to it (pursuant to Article 19 of Legislative Decree 39/10) in the capacity as "Internal Control and Auditing Committee". In this capacity, the Board supervises: a) the financial reporting process; b) the effectiveness of the internal control and risk management systems; c) the statutory audit of annual and consolidated accounts; d) the Independent Auditors' autonomy, with specific regard to the performance of services other than the audit of accounts provided to the Company and to its subsidiaries on the part of the Independent Auditors and of the entities belonging to its network.

Furthermore, the Board of Statutory Auditors: submits the reasoned proposal to the Shareholders' Meeting as to the appointment of the Independent Auditors for the statutory audit of accounts and the determination of the relevant fees; verifies the correct application of the assessment procedures and of the criteria adopted by the Board of Directors to assess the independence of its members.
The Statutory Auditors take part in the meetings of the Board of Directors; in this regard, they are provided, at the same time as the directors, with the documentation on the issues on the agenda of the Board, as well as with periodic information on the legislative and regulatory developments regarding the Company and its corporate bodies.

In performing its work, the Board of Statutory Auditors liaises with the Company's Internal Control organisational unit, the Independent Auditors, the Control and Risk Committee (formerly Internal Control Committee), the Surveillance Body referred to in Legislative Decree 231/01 and with the Officer in charge referred to in Law 262/05. Specifically, the Board of Statutory Auditors receives the necessary operational assistance for the performance of its own auditing work from the Internal Control Manager, obtains all the Audit Reports and examines the Annual Control Plan.

In the course of the financial year, the Board of Statutory Auditors plans meetings with the Boards of Statutory Auditors of the companies that are directly owned or “strategic”, in order to allow a profitable exchange of information with specific regard to the corporate operations, the characteristics of the internal control and risk management system and the corporate organisation.
The Board of Statutory Auditors also takes part in the meetings of the Control and Risk Committee and, in the person of its Chairman or any other Auditor designated by the same, in the meetings of the Surveillance Body under Legislative Decree 231/01.
The Board (pursuant to Article 2404 of the Italian Civil Code) must meet at least every ninety days. The Board of Statutory Auditors’ meetings may be held by tele-conference or video-conference, provided that all the participants may be identified and are able to follow the discussion, to simultaneously intervene in the discussion of the issues dealt with, as well as to peruse the documents in real time.

During the 2012 financial year, the Board of Statutory Auditors held 35 meetings, with an average duration of the meetings equal to about 2.5 hours; as a result of the renewal of the Board of Statutory Auditors (on 16 May 2012), the first 23 meetings were attended by the outgoing members and the subsequent meetings were attended by the newly-appointed members. Furthermore (as already illustrated in paragraph 4.3 above), during the financial year the Statutory Auditors took part, together with the directors, in specific induction actions aimed at encouraging a deeper knowledge of the activities and of specific issues concerning the Group.

In the 2013 financial year, as at the date of approval of this Report, 9 meetings had already been held.

Below are reported the data concerning the presence of the Statutory Auditors in the meetings of the Board of Statutory Auditors, as well as in the meetings of the Board of Directors, which were held in the course of the 2012 financial year:

(meetings)	Board of Statutory Auditors	Board of Directors
Riccardo Raul Bauer (°)	12/12	7/7 meetings
Niccolò Abriani (°)	11/12	7/7 meetings
Maurilio Fratino	33/35	13/13 meetings
Silvano Montaldo	33/35	12/13 meetings
Eugenio Pinto (°)	12/12	7/7 meetings

(°) Holding office from 16 May 2012.

Luigi Gaspari (*)	23/23	6/6 meetings
Giorgio Cumin (*)	22/23	6/6 meetings
Antonio Tamborrino (*)	20/23	6/6 meetings

(*) Holding office up to 16 May 2012.

All absences were excused.

13. Shareholders Relations

In view of the importance, emphasised by the Code, of establishing an on-going professional relationship with the general body of shareholders and institutional investors, a special Investor Relations unit is set up to conduct this activity.

The Investor Relations unit provides the qualitative and quantitative elements about the expected financial and economic performance and the business performance of the Group; furthermore, the Investor Relations supports the financial markets in preparing a perception and valuation of Finmeccanica on the stock exchange which is consistent with the intrinsic value of the Group, as well as through communication of Guidance and monitoring of the market consensus on the Group' expected results.

Information regarding the composition of the Company's management bodies, résumés of their members' careers, internal dealing information and the Corporate by-laws, as well as the Company's Annual Corporate Governance Report, may be found on the Finmeccanica's website in the specific Governance section.
The Board of Directors' reports, minutes of Shareholders' Meetings and other important corporate documents are also published in the same section of the site, as well as a review of the press releases issued by the Company.

In the same Governance section, an interactive platform ("Governance System") is available, which makes it possible to "surf" through the various functions in charge of the management of the Company.
This instrument allows the identification of the role, responsibilities and related composition of each body, as well as access to the résumés of each member.

The Investor Relations section publishes the Company's financial statements and presentations to the financial market with the relevant web-casting, video and audio broadcasts, as well as some information of most interest, such as data related to dividends, shareholding structures and credit rating.

Furthermore, further expansion is expected to be implemented in 2013 in the structure and contents of the Company's website.
In occasion of the Shareholders' Meeting, Investor Relations arranges, in collaboration with the Legal and Corporate Affairs organisational unit, a large section on the Finmeccanica website, reporting all the necessary documentation for the participation in the Meeting itself; in view of the latter, the Investor Relations promotes some initiatives aimed at encouraging active participation from institutional investors (Shareholder Engagement).

During the financial year, Investor Relations organises numerous events aimed at improving the financial community's knowledge of Finmeccanica and at analysing specific issues of common interest. In this context, particular importance is attached to the conference calls on the occasion of the publication of the results of the first and third quarter and on the occasion of the announcement of important transactions, the institutional Roadshows with the Group's Top Management on the occasion of annual and six-monthly results, the Deal Roadshows on the occasion of extraordinary transactions and the Investor Day that is usually organised once a year: the latter sees the participation of the Top Management of Finmeccanica supported by the CEOs of the Companies. This is an opportunity for financial analysts and institutional investors to find out more about the Group's operations and to gain an understanding of its performance and its commercial, industrial, income and financial prospects, as well as to directly access to the company Top Management.

Finally, during the annual International Airshow (which alternates between Farnborough in England and Le Bourget in France), Investor Relations organises individual/private meetings, between the financial community and the Top Management of Finmeccanica and of the Group's main companies.
As required by investors, the above meetings are accompanied by specific presentations of the main products and systems of the companies, which are reported in a dedicated section.

With regard to the relationship with socially responsible funds, the Investor Relations started communication initiatives with the related corporate governance teams, including the

organisation of a focused Roadshow in London with the participation of Alessandro Pansa, CEO - Chief Executive Officer and Chief Operating Officer, as well as a specific telepresence on the functioning of the Board of Directors with the participation of the Vice-Chairman of Finmeccanica, Admiral Guido Venturoni.
These communication activities are being expanded and consolidated, considering the growing number of investment funds that adopt ESG (environmental, social, governance) criteria in their investment policies.

In support of the above, Investor Relations strictly follows the inclusion of the Group in the Dow Jones Sustainability Index, which confirmed Finmeccanica's presence in the prestigious World and Europe indexes in 2012 and for the third consecutive year.
Established in 1999, the Dow Jones Sustainability Indexes are the first and most important stock exchange indexes to assess, on an annual basis, the performance of companies and the maintenance of commitments undertaken in the field of economic, social and environmental sustainability. They are looked after by the rating company SAM - Sustainable Asset Management in Zurich, in cooperation with Dow Jones Indexes in New York.

The Investor Relations Manager is Raffaella Luglini. The Investor Relations unit depends directly from the CEO - Chief Executive Officer and Chief Operating Officer Alessandro Pansa.

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14. Shareholders' Meetings (Art. 123-*bis*, para. 2, lett. c), Consolidated Law on Financial Intermediation)

Significant changes were introduced by Legislative Decree 27 of 27 January 2010 (transposing Directive 2007/36/EC) affecting some of the rights of shareholders of listed companies and how Shareholders' Meeting are to be conducted, which led to important changes for the Company. These regulations have been subsequently subject to amendments and additions (by Legislative Decree 91 of 18 June 2012), which will be applied starting from the next Shareholders' Meetings called in the current 2013 financial year.

The alignment to such law and the CONSOB implementing regulations required that a series of adjustments be made to the Company's by-laws, both mandatory changes and others left to the discretion of the Shareholders' Meeting.

Notice of call and disclosures to shareholders

As required by Article 12.2 of the Company's by-laws, the Shareholders' Meeting is called at least once a year to approve the financial statements within 180 days of the close of the fiscal year.

Shareholders' Meetings are called by means of a notice published on the Company's website (as well as in at least one national daily newspaper), containing the information required by Art. 125-*bis* of the Consolidated Law on Financial Intermediation, at least 30 days prior to the date set for the Shareholders' Meeting on first call, except for any Shareholders' Meetings called: i) to appoint the members of the corporate bodies through the list voting (for which the time limit is of 40 days); ii) to resolve on defence measures in the case of a take-over bid (for which the time limit is of 15 days) and iii) to resolve on capital decreases and the appointment and dismissal of liquidators (for which the time limit is 21 days).
The shareholders who represent, even together with other shareholders, at least a fortieth of the share capital may make, within the time limits and according to the procedures set out in Article 126-*bis* of the Consolidated Law on Financial Intermediation in the Company's notice of call,

additions to the list of issues to be discussed at the Shareholders' Meeting or submit proposed resolutions on any issues that are already on the agenda of the Shareholders' Meeting, specifying the related reasons. In any case, the shareholders will be entitled to submit, regardless of the shareholding held by each of them, proposed resolutions in the course of the Shareholders' Meeting.

In the calling, planning and management of these events, the focus has always been on encouraging as many shareholders as possible to attend Shareholders' Meetings and on ensuring that shareholders are provided with the highest quality information, subject to the restrictions on the methods of disclosure of price sensitive information.

Therefore, as already reported in paragraph 13 above, all the relevant documents regarding the items on the agenda and any information concerning the specific Shareholders' Meeting are promptly made available to shareholders through the Company's website and are simultaneously filed at the Company's registered office and with Borsa Italiana. In particular, the Company takes steps to promptly publish – in an appropriate section that can also be accessed directly from the website's home page – the explanatory Reports of the Meeting's agenda and any other documents to be submitted to the Shareholders' Meeting, proxy forms and information on the amount and composition of its share capital, as required by law or regulations.

As already reported, during 2013 the structure and contents of the institutional site are expected to be expanded, also for the purposes of optimising the procedures and quality of access by the shareholders to any information disseminated before the meeting and, more in general, to all the relevant corporate documentation.

The Board of Directors also sees that shareholders are given accurate and timely information regarding the items on the agenda so that all shareholders are in a position to be well informed and have full knowledge of the facts involved in making the decisions for which the Shareholders' Meeting is responsible.

The Board of Directors and the Company's Top Management participate in the Shareholders' Meetings and regularly report on the activity carried out during the financial year and on the Issuer's future plans at Shareholders' Meeting called to approve the annual financial statements.

Right of attendance at the Shareholders' Meeting

Based on the record date mechanism, the right to attend Shareholders' Meeting and vote is held by those who communicate via an authorised financial broker that they hold shares of the Company seven trading days prior to the date set for the Shareholders' Meeting in first convocation.

The Art. 14.1 of the by-laws provides for the entitled persons to be represented by written proxy, which may be notified to the Company by electronic means (via certified electronic mail or uploading in a special section of the Company's website) as indicated in the notice calling the Shareholders' Meeting. The Company provides the entitled persons with a proxy form for the participation in the individual Shareholders' Meetings.
The Art. 14 of the by-laws also provides for the Company to be entitled to designate a common representative for each Shareholders' Meeting, i.e. a person to which the shareholders may grant a proxy with instructions on how to vote (which the common representative shall comply with) on all or certain of the items on the agenda. Such proxy must be given by the end of the second trading day prior to the date set for the Shareholders' Meeting on first call.

Finally, as required by Article 127-*ter* of the Consolidated Law on Financial Intermediation, the shareholders may also submit questions on the issues on the agenda before the Shareholders' Meeting, within the time limit (so-called cut-off date) and according to the procedures specified by the Company in the notice of call.

Operations and Competences

Shareholders may pass resolutions on all issues reserved to them by applicable laws, except for the Board's right to resolve (pursuant to Article 2365, paragraph 2, of the Italian Civil Code and Article 24.1 of the Company's by-laws) on the issues specified in paragraph 4.3 above.

During Ordinary Shareholders' Meetings, resolutions are passed by an absolute majority of those in attendance, with the exception of the matters specified under Art. 22.3 of the by-laws, for which the favourable vote equal to at least three-fourths of the capital represented at the Meeting is required (Art. 16.5 of the by-laws).
Extraordinary Shareholders' Meetings also require the favourable vote of at least three-fourths of the capital represented in order for resolutions to pass (Art. 16.4 of the by-laws).

The Company adopted **Shareholders' Meeting Rules** some time ago, with the purpose of setting out the appropriate procedures for ensuring meetings are conducted in an orderly and constructive fashion, laying down rules for main aspects (such as the right to take part in meetings or to be present at them, rules for debate, voting methods, arrangements for voting operations, etc.) so that the proceedings are properly conducted and shareholders are assured of the right to speak on the items on the agenda.

In order to ensure that all shareholders are able to exercise this right correctly, the Rules contain special provisions concerning the manner in which requests to speak on the individual items on the agenda should be presented, the maximum time shareholders are allowed to speak and the possibility of asking to be allowed to speak again and to state how they will vote if they wish to do so.
The Rules also contain provisions for special powers held by the Chairman that enable him to settle conflicts among the persons attending the meeting or to prevent them from arising and to repress abuse of any kind.
These Rules are always distributed to all shareholders whenever a meeting is held, and may be viewed in the specific Governance area of the Company's website (www. finmeccanica.com) and were updated in 2010, also for the purposes of incorporating certain provisions under the above-mentioned Legislative Decree 27/10.
Specifically, the Rules exactly define procedures for admittance to Shareholders' Meeting locations by those entitled to attend (Art. 4) and expressly provide for procedures for addressing shareholders' concerns prior to the Meeting (Art. 10) in keeping with the law in force. The time limits related to the exercise of the right to submit questions before the Shareholders' Meeting are set out, as required by the regulations in force (Articles 125-*ter* and 127-*ter* of the Consolidated Law on Financial Intermediation), in the related notice of call.

During the 2012, in the context of the general crisis of the economic conditions and of the financial markets, significant changes were recorded in the market capitalisation of the Company's shares.

It should be remembered that, as already reported in this Report, the percentages envisaged in the by-laws as to the exercise of the rights protecting minority shareholders, in particular the ownership of 1% of the voting share capital required for the submission of lists of candidates for the position of director or Statutory Auditor of the Company (Articles 18.4 and 28.3 of the Company's by-laws), are actually corresponding to (and, in the course of the 2012 financial year, were lower than) the minimum share identified by CONSOB.

The above-mentioned by-laws provisions also set down, as previously illustrated, specific procedures aimed at ensuring, within the described "list voting" mechanism, the appointment of directors and Statutory Auditors drawn from minority lists.

15. Changes occurred from the closing of the relevant financial year

Following the judicial measures that involved Giuseppe Orsi on 12 February 2013, the Company Board of Directors' meeting – which was held on 13 February 2013 – resolved, in order to ensure the full functioning and continuity of the Company's operations, to also grant the director-Chief Operating Officer, Alessandro Pansa, the authority and powers that had been previously granted to the Chief Executive Officer Orsi, for the single management of the Company and of the Group.

Therefore, starting from 13 February 2013, Pansa also holds the position of Chief Executive Officer and Chief Operating Officer.
At the same meeting, the Board of Directors also resolved to appoint the Admiral Guido Venturoni (Senior Director and Lead Independent Director) as Vice-Chairman.

On 15 February 2013, Giuseppe Orsi resigned from the office of director and, accordingly, from the office of Chairman of the Board of Directors.
At the meeting held on 21 February 2013, the Board of Directors, after having acknowledged the resignation of Orsi, deemed it appropriate not to proceed with the co-option pursuant to Article 2386 of the Italian Civil Code and Article 18.5 of the Company's by-laws and to refer the decision as to the related replacement to the Shareholders' Meeting.

Furthermore, the Board of Directors had previously resolved (in the meeting held on 13 February 2013), following the resignation of the director Franco Bonferroni on 21 September 2012, not to proceed with the appointment by co-option of a new director pursuant to Article 2386 of the Italian Civil Code and to refer the decision as to the related replacement to a special Shareholders' Meeting.

On 15 April 2013 the Ordinary Shareholders' Meeting, which had been called to resolve on the new members of the Board of Directors, resolved to refer any decision as to the replacement of the outgoing directors to the Shareholders' Meeting being called for the approval of the 2012 financial statements.
The same Shareholders' Meeting also confirmed the appointment of Ivanhoe Lo Bello as director, as resolved by the Board of Directors on 16 May 2012, pursuant to Article 2386 of the Italian Civil Code, following the resignation of Prof. Marco Iansiti on 11 May 2012.

16. Additional corporate governance practices (Art. 123-*bis*, para. 2, lett. a), Consolidated Law on Financial Intermediation)

The Company's Board of Directors adopted some important decisions aimed at giving a further boost to the ongoing reorganisation process, ensuring the coordination of operations and strengthening control activities. In particular, specific measures were adopted with the objective of continuing the consolidation of the system of control over the Group's activities and strengthening the direction and coordination functions towards the Operating Companies.

In particular, the main actions implemented by the Company to strengthen the Group's Corporate Governance included the setup of the following additional Committees with respect to those identified by the Code: a **Management Committee** (chaired by the Chief Executive Officer and Chief Operating Officer and made up of the Managers responsible for the organisational units of Internal Audit, External Relations and Communication, Human Resources, Strategies, Business Development and Innovation, as well as by the CFO and by the Group General Counsel; a **Group Management Committee** (made up of the Chief Executive Officers of the main subsidiaries, as well as, for Finmeccanica SpA, by the CFO and by the two Managers responsible for the organisational units of Human Resource and Strategies, Business Development and Innovation); a "**Committee of Corporate Bodies**" (coordinated by the Group General Counsel and made up of the Managers responsible for the organisational units of "External Relations and Communication", "Human Resources", "Strategies, Business Development and Innovation", as well as, limited to the appointments to the Boards of Statutory Auditors, of the CFO); finally, a **new Committee, whose setup was resolved by the Board of Directors on 15 April 2013**, made up exclusively of external professionals.

For a more detailed illustration of the duties of the aforesaid Committees, as well as of the additional actions taken in the first months of the current 2013 financial year (at the end of the Board's meetings held on 21 February 2013, 7 March 2013 and 15 April 2013), reference is made to paragraph 10 above, within the framework of the measures adopted as to the improvement and implementation of the Internal Control and Risk Management System.

TABLE 1: INFORMATION ON SHAREHOLDER STRUCTURE

Significant stakes in the share capital	
Shareholders	**% ownership of the ordinary capital and voting capital**
Ministry of Economy and Finance	30.204
Tradewinds Global Investors LLC (1)	4.976
Deutsche Bank Trust Company Americas (2)	3.600
Grantham, Mayo, Van Otterloo & Co. LLC (3)	2.045
Libyan Investment Authority (Arab Bkg Corp/Libyan Investment Management) (4)	2.010

(1) Notice pursuant to Art. 120 of the Consolidated Law on Financial Intermediation: an equity investment held by way of "Discretionary Asset Management”.
(2) Intermediary’s notice for the payment of dividends for the 2010 financial year.
(3) Notice pursuant to Art. 120 of the Consolidated Law on Financial Intermediation: an equity investment held by way of “Discretionary Asset Management”.
(4) Notice of 8 April 2013 from the Arab Banking Corporation (depositary of the equity investment), which confirmed that the Libyan Investment Authority holds the equity investment already specified by Euroclear Bank (as an intermediary participating in the Monte Titoli system) in the name of "Arab Bkg Corp/Libyan Investment Management" on the occasion of the payment of dividends for the 2010 financial year.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES

Board of Directors (triennium 2011-2013) appointed by the Shareholders' Meeting on 4 May 2011, as integrated on 1 December 2011, 16 May 2012 and 13 February 2013

POSITION	MEMBERS	Executive	Non-executive	Independent Corp. Gov. Code	Independent Cons. Law on Fin. Intermed.	Attendance BoD meetings (*)
Vice-Chairman	Guido Venturoni (°)		✓	✓	✓	13/13
Chief Executive Officer and Chief Operating Officer	Alessandro Pansa (°°)	✓		==	==	13/13
Director	Carlo Baldocci (°°°)		(°°°)	(°°°)	(°°°)	12/13
Director	Paolo Cantarella (***)		✓	✓	✓	11/13
Director	Giovanni Catanzaro		✓	✓	✓	12/13
Director	Dario Galli		✓	✓	✓	13/13
Director	Ivanhoe Lo Bello (°°°°)		✓	✓	✓	7/7
Director	Silvia Merlo (***)		✓	✓	✓	12/13
Director	Francesco Parlato		✓	==	==	13/13
Director	Christian Streiff (***)		✓	✓	✓	11/13

Number of meetings held during 2012:	BoD: 13	Control and Risk Committee: 11

***Quorum* for presentation of lists for the appointment of the BoD:**
1% of share capital with voting rights at Ordinary Shareholders' Meetings

(*) All absences from BoD or Committees meetings are excused.

(**) This column contains the number of positions as director or Auditor held by the persons serving in other companies listed on regulated markets, in Italy and abroad, and in finance houses, banks, insurance companies or major companies. The positions are described in full in the Report.

(***) Asterisk indicates a director appointed from a minority list.

(°) Appointed Vice-Chairman by the BoD of 13 February 2013.

(°°) Chief Operating Officer from 4 May 2011, director - Chief Operating Officer from 1 December 2011, appointed Chief Executive Officer and Chief Operating Officer by the BoD of 13 February 2013.

(°°°) Carlo Baldocci was appointed as a director without voting rights by Ministerial Decree of 27 April 2011, pursuant to Art. 5.1-*ter*, letter d), of the by-laws, with effect starting from the date of appointment of the current BoD by the Shareholders' Meeting.

(°°°°) Director from 16 May 2012.

(°°°°°) Member of the Committee from 14 June 2012.

(°°°°°°) Reference is made to paragraph 6.

	Control and Risk Committee		Remuneration Committee		Strategy Committee	
Other positions (**)	Comp.	Attendance (***)	Comp.	Attendance (***)	Comp.	Attendance (***)
=	✓	10/11				
1						
=					✓	3/3
=	✓	10/11			✓	3/3
=	✓	11/11				
=			✓	4/4	✓	3/3
=					✓ (°°°°°)	2/2
3	✓	10/11				
=			✓	3/4	✓	3/3
3			✓	2/4		

Remuneration Committee: 4 Strategy Committee: 3 Appointments Committee: (°°°°°°)

TABLE 3: OUTGOING DIRECTORS IN 2012 AND THE FIRST QUARTER OF 2013

Outgoing directors in 2012 and the first quarter of 2013						
POSITION	**MEMBERS**	**Executive**	**Non-executive**	**Independent Corp. Gov. Code**	**Independent Cons. Law on Fin. Intermed.**	**Attendance BoD meetings (**)**
Chairman and Chief Executive Officer	Giuseppe Orsi (°)	✓		==	==	13/13
Director	Franco Bonferroni (°°)		✓	✓	✓	10/10
Director	Marco Iansiti (*)(°°°)		✓	✓	✓	4/5

(*) Asterisk indicates a director appointed from a minority list.
(**) All absences from BoD or Committees meetings are excused.

(°) Outgoing director on 15 February 2013.
(°°) Outgoing director on 21 September 2012.
(°°°) Outgoing director on 11 May 2012.

TABLE 4: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors (three-year period 2012-2014) appointed by the Shareholders' Meeting of 16 May 2012				
POSITION	**MEMBERS**	**Independent (Corp. Gov. Code)**	**Attendance at BoSA Meetings (**)**	**Number of other positions held (***)**
Chairman	Riccardo Raul Bauer (*)	✓	12/12	=
Regular Auditor	NIccolò Abriani (*)	✓	11/12	=
Regular Auditor	Maurilio Fratino	✓	33/35	1
Regular Auditor	Silvano Montaldo	✓	33/35	=
Regular Auditor	Eugenio Pinto	✓	12/12	=
Alternate Auditor	Stefano Fiorini (*)	==	=	=
Alternate Auditor	Vincenzo Limone	==	=	..

Number of meetings held during 2012: 35

***Quorum* for presentation of lists for the appointment of the current Board of Statutory Auditors:**
1% of share capital with voting rights at Ordinary Shareholders' Meetings

(*) Asterisk indicates an Auditor appointed from a minority list.
(**) All absences from Board of Statutory Auditors' meetings are excused.
(***) This column indicates the positions as auditor (Art. 144-*terdecies*, para. 1, Issuers' Regulations) held in other issuers. The full list of governing and control positions (Art. 144-*terdecies*, para. 2, Issuers' Regulations) is published by CONSOB on its website pursuant to Art. 144-*quinquiesdecies*, Issuers' Regulations.

Control and Risk Committee		Remuneration Committee		Strategy Committee	
Comp.	Attendance (**)	Comp.	Attendance (**)	Comp.	Attendance (**)
				✓(°)	3/3
		✓(°°)	4/4		
				✓(°°°)	0/1

TABLE 5: OUTGOING AUDITORS IN 2012

Outgoing auditors in 2012			
POSITION	**MEMBERS**	**Independent (Corp. Gov. Code)**	**Attendance at BoSA Meetings (**)**
Chairman	Luigi Gaspari (*)	✓	23/23
Regular Auditor	Giorgio Cumin	✓	22/23
Regular Auditor	Antonio Tamborrino	✓	20/23
Alternate Auditor	Maurizio Dattilo (*)	==	=
Alternate Auditor	Piero Santoni	==	=

(*) Asterisk indicates an Auditor appointed from a minority list.
(**) All absences from Board of Statutory Auditors' meetings are excused.

OUTLOOK

At 31 December 2012, the Finmeccanica Group's results were higher than those of the corresponding period of 2011, except for the business trend (also when excluding "**exceptional" costs**, totalling €mil. 1,094, from the 2011 results, as reported in detail in the introduction of this Report) and were substantially in line with the forecasts contained in the Group's budget.

Initiatives undertaken to different extents by the various Group companies during 2011 enabled the Group to improve its efficiency by drawing up and rolling out in-depth and detailed plans to improve competitiveness and to reorganise each company. These plans cover all critical business areas, including production processes (streamlining of facilities, product/component standardisation, lean manufacturing), purchases (streamlining of suppliers and make or buy policies), engineering (lean engineering, streamlining of investments), workforce (streamlining the indirect to direct ratio), controllable costs, overheads and administrative expense (streamlining of personnel and IT systems and the corporate structure).

Guidance and monitoring undertaken during the 2012 financial year by the Parent confirm that the steps are being rolled out as scheduled in terms of physical progress and that the trend of financial statements figures is consistent with the quantitative targets in terms of overall benefits for 2012 as well as for 2013 (note, the objectives for 2013 equal to €mil. 440).

As early as this reporting period, the results were especially significant in the Aerospace and Defence segments, while the *vehicles* line of the Transportation business segment is encountering difficulties in pursuing the objectives of the reorganisation plan, mainly due to production issues.

At 31 December 2012, in financial and economic terms, the effects of such benefits were higher than the budget forecasts and equal to about €mil. 280.

As to the analysis of the trend in the current economic crisis and the possible effects on the Group companies that are expected in 2013, it should be noted that:

- the world economy will still be characterised by a low growth rate in industrialised Countries and emerging markets;
- the slowdown in domestic demand and trade will also affect the most consolidated economies; in this situation, the growth of the United States of America, Japan and of the Countries of the European Monetary Union has been significantly lower than expected and it will also be limited in the short-term period;
- in recent years, the US Defence sector has recorded a significant decrease in spending power, equal to about 5% (Compound Annual Growth Rate 2009-2012); however, it still represents more than 45% of the total spending, while the European Defence sector has recorded a progressive decrease in expenses;
- in the next ten years, growth trends are expected to be confirmed in the cost of Defence investments of about 2% in the Asia Pacific area and in the Middle East, as is stability, in real terms, in the United States of America (after being affected by the effect arising from the start of the sequestration process) and in Western Countries;
- finally, the Security demand is expected to show steady growth of about 5% per year due to persistent asymmetric/terrorist threats exacerbated by the emergence of problems of network security (Cyber) and the integrity of national critical infrastructures (electricity, transportation, etc.).

Consequently, the situation described so far will cause a drop in the Group's revenue volumes in 2013, specifically in the Defence Electronics segment in the three "domestic" markets, but to a large extent in the US market, also following the recent restrictive measures triggered by the sequestration.

In the continuous search for improving their profitability, the Group companies will have also to face higher competition and pressure on prices.

Undoubtedly, strengthening the efficiency-improvement and reorganisation measures that have been implemented so far will be useful; but this will be also accompanied by the adoption of new “structural” measures aimed at improving industrial structures. However, the latter will require a medium-term implementation time frame.

Among the main initiatives, note the following:

- in the Aeronautics sector: the consolidation of the “3R” plan, which will make the expected volume growth solid from an industrial perspective; the actions aimed at reducing product costs through the optimisation of the Engineering and Manufacturing (e.g. should cost, design to cost, make or buy) and Procurement (e.g. global sourcing, vendor management and partnership) processes; the assessment of the business sustainability and the related strategic choices concerning some proprietary products;
- in the Defence and Security Electronics segment, more specifically at Selex ES: the implementation of the integration plan aimed at streamlining the product portfolio, through the integration of technology skills and the focus on strategic businesses; the reduction in purchase costs, both direct and indirect, through the already started Procurement initiative; the elimination of overlaps and redundancies generated from the combination of the 3 companies; the rationalisation of sites; the optimisation of engineering and production activities, assuming an increased efficiency and the simultaneous insourcing of external activities. In the US DRS group, additional actions are already being implemented, which are aimed at updating production and staff resources, so as to ensure adequate profitability levels, despite the above-mentioned restrictive measures;
- in the Energy and Transporation segments, the actions undertaken on the engineering and procurement processes aimed at achieving greater standardisation and at optimising the manufacturing and management of sub-supplies. In respect of the *vehicles* line of the Transportation segment, the efficiency measures on production are functional to ensuring a more efficient management of contracts, even though they were not as successful as it would be hoped in solving the industrial critical issues still marking some orders in portfolio.

More generally, in addition to what has been already pointed out, structural actions of industrial improvement will be started at all Group companies, based on the priorities and requirements analysed. In short, these initiatives will be aimed at: streamlining the product portfolio, reducing product costs, reviewing SG&A and limiting controllable costs, streamlining investments (consolidation of production facilities, activation of excellence centres) and, finally, outsourcing non-core activities.

Equally important is the roll out of the Group’s asset portfolio review, concentrating invested capital in those activities and business segments boasting the technological and production capacities to maximise the creation and extraction of value on the market. This could entail the disposal of assets, thus reducing financial debt and thereby improving the overall cash position.

On the basis of the above considerations, below are reported the forecasts for the full 2013 financial year.
Revenue for the full year is expected to be in the range of €bil. 16.7 and €bil. 17.0. Adjusted EBITA will still increase in the Aeronautics and Helicopters business segments, while it will decrease in the Defence and Security Electronics business segment (specifically at DRS, while a slight improvement is reported at Selex ES) and will still be negative in the *vehicles* line. Adjusted EBITA will thus approximate about €bil. 1.1. FOCF will have a positive value of about €bil. 0.1. Cash flows from ordinary operations will have a positive value near to €bil. 1.1 (after having paid restructuring costs of about €bil. 0.6, of which about half relates to the provisions that were necessary in the 2011 financial year), while net flows from investing activities (substantially in the absence of grants under Law 808/85) will be near to €bil. 1.0. The expected 2013 investment expenses have been limited

to the minimum necessary, which is essential to continue the programmes that are being produced/developed (with particular reference to the B787 aeronautic programme); substantially, no “launches” of new programmes are expected in any sector of the Group.

For the Board of Directors
the Chief Executive Officer and Chief Operating Officer
(Alessandro Pansa)

ACCOUNTING STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2012

CONSOLIDATED INCOME STATEMENT

€ million	Notes	2012	of which with related parties	2011	of which with related parties
Revenue	29	17,218	2,270	17,318	2,193
Other operating income	30	774	6	553	8
Purchases	31	(5,860)	(66)	(5,992)	(24)
Services	31	(5,743)	(159)	(5,925)	(180)
Personnel expense	32	(4,666)		(4,848)	
Amortisation, depreciation and impairment losses	33	(1,896)		(1,781)	
Other operating expenses	30	(1,114)	(8)	(2,261)	(2)
Change in finished goods, work in progress and semi-finished products		324		55	
(-) Internal work capitalised	34	506		495	
EBIT		**(457)**		**(2,386)**	
Financial income	35	615	5	1,010	6
Financial expense	35	(964)	(12)	(986)	(14)
Share of profits/(losses) of equity-accounted investees	11	(13)		(90)	
Operating profit/(loss) before income taxes and discontinued operations		**(819)**		**(2,452)**	
Income taxes	36	33		146	
(Loss)/Profit from discontinued operations		-		-	
Profit/(Loss) for the year attributable to:		(786)		(2,306)	
- owners of the Parent		*(828)*		*(2,345)*	
- non-controlling interests		*42*		*39*	
Earnings/(Losses) per share	38				
Basic		*(1.433)*		*(4.061)*	
Diluted		*(1.433)*		*(4.061)*	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	2012		2011	
Profit/(Loss) for the year		(786)		(2,306)
Other comprehensive income/(expense)				
- Actuarial gains/(losses) on defined-benefits plans:		(184)		27
. plan discounting	(186)		32	
. exchange-rate gains/(losses)	2		(5)	
- Net change in fair value of cash flow hedges:		66		(63)
. fair value gains/(losses)	63		(71)	
. transfers to profit or loss	3		9	
. exchange-rate gains/(losses)	-		(1)	
- Foreign currency translation differences		27		111
Income tax on other comprehensive (income) expense		22		10
. defined-benefit plans measurement/ fair value adjustment	24		7	
. transfers to profit or loss	(1)		1	
. exchange-rate gains/(losses)	(1)		2	
Other comprehensive income/(expense)		**(69)**		**85**
Total comprehensive income/(expense) for the year attributable to:		(855)		(2,221)
- owners of the Parent		(895)		(2,264)
- non-controlling interests		40		43

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ million	Notes	31 Dec. 2012	of which with related parties	31 Dec. 2011	of which with related parties
Non-current assets					
Intangible assets	9	7,388		8,409	
Property, plant and equipment	10	3,201		3,170	
Investment property		-		1	
Equity investments	11	232		263	
Receivables	14	539	192	409	11
Deferred tax assets	36	1,213		1,046	
Other non-current assets	14	142		245	
		12,715		**13,543**	
Current assets					
Inventories	15	5,192		4,486	
Contract work in progress	16	3,526		3,667	
Trade receivables	17	5,050	955	5,265	884
Financial assets at fair value		5		40	
Income tax receivables		160		185	
Loans and receivables	17	631	73	1,071	184
Derivatives	26	107		167	
Other current assets	18	910	6	837	13
Cash and cash equivalents	19	2,137		1,331	
		17,718		**17,049**	
Assets held for sale		**-**		**1**	
Total assets		30,433		30,593	
Equity					
Share capital	20	2,525		2,525	
Other reserves		873		1,776	
Equity attributable to the owners of the Parent		**3,398**		**4,301**	
Equity attributable to non-controlling interests		305		303	
Total equity		**3,703**		**4,604**	
Non-current liabilities					
Loans and borrowings	21	4,309	29	4,492	36
Employee benefit obligations	23	1,070		956	
Provisions for risks and charges	22	1,552		1,774	
Deferred tax liabilities	36	382		479	
Other non-current liabilities	24	960		936	
		8,273		**8,637**	
Current liabilities					
Progress payments and advances from customers	16	8,707		8,213	
Trade payables	25	5,195	193	4,949	160
Loans and borrowings	21	1,837	605	1,393	913
Income tax payables		83		44	
Provisions for risks and charges	22	876		932	
Derivatives	26	82		159	
Other current liabilities	24	1,677	53	1,662	41
		18,457		**17,352**	
Liabilities associated with assets held for sale		-		-	
Total liabilities		26,730		25,989	
Total equity and liabilities		30,433		30,593	

CONSOLIDATED STATEMENT OF CASH FLOWS

€ million	Notes	2012	of which with related parties	2011	of which with related parties
Cash flow from operating activities:					
Gross cash flow from operating activities	39	1,964		1,962	
Changes in working capital	39	(342)	(27)	(376)	(329)
Changes in other operating assets and liabilities and provisions for risks and charges	39	(343)	13	(583)	7
Interest paid		(360)	(10)	(285)	(7)
Income taxes paid		(78)		(186)	
Cash flows generated/(used) from/in operating activities (a)		**841**		**532**	
Cash flow from investing activities:					
Sale of Ansaldo Energia		-		477	
Investments in property, plant and equipment and intangible assets		(848)		(921)	
Sale of property, plant and equipment and intangible assets		86		34	
Other investing activities		(8)	1	(21)	(4)
Cash flows generated/(used) from/in investing activities (b)		**(770)**		**(431)**	
Cash flow from financing activities:					
Issue (redemption) and buy-back of bonded loans	21	476		(198)	
Net change in other loans and borrowings		267	(213)	(154)	19
Dividends paid to the owners of the Parent		-		(237)	
Dividends paid to non-controlling shareholders		(17)		(22)	
Cash flows generated/(used) from/in financing activities (c)		**726**		**(611)**	
Net increase/(decrease) in cash and cash equivalents (d=a+b+c)		797		(510)	
Exchange-rate differences (e)		9		(13)	
Cash and cash equivalents at 1 January (f)		1,331		1,854	
Cash and cash equivalents at 31 December (g=d+e+f)		**2,137**		**1,331**	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ million	Share capital	Retained earnings and consolidation reserve	Cash-flow hedge reserve	Stock-option/ stock-grant reserve	Actuarial reserve	Translation reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
1 January 2011	**2,517**	**4,870**	**16**	**43**	**(96)**	**(536)**	**6,814**	**284**	**7,098**
Other comprehensive income/ (expense) for the year:									
Profit/(Loss) for the year	-	(2,345)	-	-	-	-	(2,345)	39	(2,306)
Other comprehensive income/(expense)	-	-	(48)	-	20	109	81	4	85
Total comprehensive income/(expense)	**-**	**(2,345)**	**(48)**	**-**	**20**	**109**	**(2,264)**	**43**	**(2,221)**
Transactions with owners of the Parent, recognised directly in equity:									
Dividends resolved									
Capital increases	-	(237)	-	-	-	-	(237)	(22)	(259)
Repurchase of treasury shares less shares sold	8	-	-	-	-	-	8	-	8
Stock-option/stock-grant plans:									
- services cost	-	-	-	-	-	-	-	-	-
- stock grants assigned	-	30	-	(43)	-	-	(13)	(2)	(15)
Total transactions with owners of the Parent, recognised directly in equity	**8**	**(207)**	**-**	**(43)**	**-**	**-**	**(242)**	**24**	**(266)**
Other changes	-	(8)	1	-	-	-	(7)	-	(7)
31 December 2011	**2,525**	**2,310**	**(31)**	**-**	**(76)**	**(427)**	**4,301**	**303**	**4,604**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ million	Share capital	Retained earnings and consolidation reserve	Cash-flow hedge reserve	Stock-option/ stock-grant reserve	Actuarial reserve	Translation reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
1 January 2012	2,525	2,310	(31)	-	(76)	(427)	4,301	303	4,604
Other comprehensive income/ (expense) for the year:									
Profit/(Loss) for the year	-	(828)	-	-	-	-	(828)	42	(786)
Other comprehensive income/(expense)	-	-	49	-	(142)	26	(67)	(2)	(69)
Total comprehensive income/(expense)	**-**	**(828)**	**49**	**-**	**(142)**	**26**	**(895)**	**40**	**(855)**
Transactions with owners of the Parent, recognised directly in equity:									
Dividends resolved	-	-	-	-	-	-	-	(17)	(17)
Repurchase of treasury shares less shares sold	-	-	-	-	-	-	-	-	-
Stock-option/stock-grant plans:									
- services cost								-	-
- stock grants assigned								-	-
Total transactions with owners of the Parent, recognised directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(17)**	**(17)**
Other changes	-	(8)	-	-	-	-	(8)	(21)	(29)
31 December 2012	2,525	1,474	18	-	(218)	(401)	3,398	305	3,703

for the Board of Directors
the Chief Executive Officer and Chief Operating Officer
(Alessandro Pansa)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2012

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. Finmeccanica SpA, the holding company responsible for guiding and controlling industrial and strategic operations, coordinates its subsidiaries (the Finmeccanica Group or, simply, the Group), which are especially concentrated in the fields of Helicopters, Defence and Security Electronics, Aeronautics, Space, Defence systems, Energy and Transportation.

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 2012 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 statement of changes in consolidated shareholders' 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 used for preparing these consolidated financial statements are the same that were used in the preparation of the consolidated financial statements at 31 December 2011, except for what indicated below (Note 5).

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

Preparation of the consolidated 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 Note 4.

The consolidated financial statements at 31 December 2012 of the Finmeccanica Group were approved by the Board of Directors on 23 April 2013 that authorised their distribution. Publication is scheduled for 23 April 2013.

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 2012 of the companies/entities included in the scope of consolidation ("consolidation 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 appendix "Scope of consolidation".

3.1.1 Subsidiaries and entities controlled jointly

In particular, 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 a dominant influence through the power to govern the financial and operating policies of an entity and obtain the related benefits 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 (US citizens) 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 DSS, 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. consortiums without shares and controlling interests in equity consortiums 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.

Participating interests in entities (including special-purpose entities) over which control is exercised jointly with other parties are consolidated proportionally (so as to incorporate only the value of the assets, liabilities, costs and income proportional to the percentage held without, therefore, including the holdings of the other parties).

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 Other equity investments

Investments in 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), are accounted for using the equity method. In the case of the equity method, 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.
Any value losses in excess of book value are recorded in the provision for risks on equity investments.
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 (in this case 30 December 2012), 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".

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, Energy, Transportation and Other activities.

3.3 Currency translation

3.3.1 Identification of the functional currency

The balances of the financial statements of each Group company/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, except in situations where there is a persistent unfavourable trend in the exchange rate concerned. If this is the case, exchange differences are recognised in the income statement.

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 when the equity investment is sold.

Goodwill and adjustments to fair value 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 2012 has been marked by significant changes in the euro against the main currencies of interest for the Group. Specifically, the currency exchange rates at 31 December 2012 and the average exchange rates for the period showed, for the main currencies, these changes from 2011: final exchange rates for the period (euro/US dollar +1.97% and euro/pound sterling -2.30%); average exchange rates for the period (euro/US dollar +7.70% and euro/pound sterling +6.57%).

Below are the exchange rates adopted for the currencies that are most significant for the Group:

	31 December 2012		31 December 2011	
	average exchange rate for the year	exact	average exchange rate for the year	exact
US dollar	1.28479	1.31940	1.39196	1.29390
Pound sterling	0.81087	0.81610	0.86788	0.83530

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 its range is between 3 and 20 years. 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, 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 the acquisition of consolidated companies is recognised under intangible assets. Goodwill related to unconsolidated associates 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 of accumulated depreciation and impairment, if any.

3.7 Impairment of intangible assets and property, plant and equipment
Assets with indefinite useful lives are not depreciated or amortised, but are rather subject to impairment tests at least once a year to ascertain the recoverability of their book value.

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 or loss

This category includes financial assets acquired for the purpose of short-term trading transactions, as well as derivatives, which are discussed in the next section. 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 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 eligible for hedge accounting and effective in offsetting the 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 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 hedges

Changes in the fair value of derivatives that have been designated and qualify as fair value hedges are recognised in profit or loss, similarly to 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 hedges

Changes in the fair value of derivatives that have been designated and qualify as cash-flow hedges are recognised – with reference to the "effective" component of the hedge only – in the statement of comprehensive income through a specific equity reserve ("cash-flow hedge reserve"), which is subsequently recognised in the income statement when the underlying transaction affects profit or loss. 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 unchanged quoted prices in an active market for identical assets and liabilities;
- 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 inputs which are not taken from market observable data.

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 Shareholders' 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 stock is recognised as a decrease in Group shareholders' equity. Gains or losses realised in the acquisition, sale, issue or cancellation of treasury stock 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 (Note 3.21).
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 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 in the consolidated financial statements of assets and liabilities and their value for tax purposes as well as on fiscal losses to the extent that the recoverability of such asset is deemed probable on the basis of a prudent valuation of the future tax bases. 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 are recognised to the extent that it is probable the company will post taxable income at least equal to the temporary differences in the financial periods in which such assets will be reversed.

3.16 Employee benefits

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. For the recognition of defined-benefit plans, the Group adopts the so-called "equity

option" approach. According to this option 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 "actuarial 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 determined, when possible, with reference to the market price of the assets or, alternatively, on the basis of assessment techniques.

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.

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. 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.
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.
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.

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 808/85, reference should be made to Note 4.1.

3.21 Financial income and expenses

Interest is recognised on an accruals basis using the effective interest rate method, i.e. the interest rate that results in the financial equivalence of all inflows and outflows (including any premiums, discounts, commissions, etc.) that make up a given operation.
Financial expenses attributable to the acquisition, construction or production of certain assets taking a substantial period of time to get ready for their intended use or sale (qualifying assets) are capitalised together with the related asset.

3.22 Dividends

Dividends are recognised in the income statement as soon as 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.

3.23 Emission rights

The Group recognises only income and expense items and assets and liabilities arising from the sale and/or purchase of emission rights to cover differences, if any, among the shares assigned and the effective emissions produced.

3.24 Costs

Costs are recorded in compliance with the accrual principle.

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
IAS 1 Amendment	Presentation of financial statements	The amendments to this standard require to group differently items recognised in the statement of comprehensive income according to whether they can be or not subsequently reclassified in the separate income statement. The Group will apply this standard from 1 January 2013.
IAS 19 Amendment	Employee benefits	The amendment eliminates the option to apply the corridor method. Therefore, all the actuarial gains and losses will be immediately recognised in the statement of comprehensive income. Moreover, past-service costs have to be immediately recognised. Finally, interest cost, less the expected return on plan assets, will be replaced by a net interest cost calculated by applying the interest rate on the net liability. The Group did not apply the corridor method and no impact is therefore expected from this change. On the contrary, the effects deriving from the other changes are being analysed. The Group will apply this standard as from 1 January 2013.
IFRS 7 Amendment	Financial instruments - Disclosures	The standard requires disclosure on the effects or potential effects due to the offsetting of financial assets and financial liabilities on the financial situation. No significant effects are expected for the Group. The Group will apply this standard as from 1 January 2013.
IFRS 13	Fair value measurement	This standard aims at eliminating the complexity and the risk of inconsistencies in the fair value measurement to which reference will be made in the application of other IFRSs. No significant effects are expected for the Group. The Group will apply this standard as from 1 January 2013.
IAS 12 Amendment	Income taxes	This standard introduces an exception to the current method of valuation of deferred tax assets and liabilities relating to investment property valued at fair value. No significant effects are forecast for the Group. The Group will apply this standard as from 1 January 2014.

IFRS - IFRIC INTERPRETATION		EFFECTS FOR THE GROUP
IAS 27 Revised	Separate financial statements	This standard was revised, at the same time of the approval of IFRS 10, by restricting its scope of application solely to the separate financial statements. Considering the nature of the amendment, no significant effects are expected for the Group. The Group will apply this standard from 1 January 2014.
IAS 28 Revised	Investments in associates and joint ventures	This standard was revised and now sets out new requirements for the application of the equity method. No effect for the Group is foreseen since the standard is exclusively applied to separate financial statements. The Group will apply this standard as from 1 January 2014.
IAS 32 Amendment	Financial instruments - Presentation	The standard clarifies the cases in which it is possible to offset financial assets and liabilities as provided for in IAS 32. No significant effects are expected for the Group. The Group will apply this standard as from 1 January 2014.
IFRS 10	Consolidated financial statements	This standard provides guidance as to determine whether an entity should be included in the consolidated financial statements, clarifying the concept of control and its application in case of actual control, potential voting rights, complex investment structure, etc. No significant effects are expected for the Group. The Group will apply this standard as from 1 January 2014.
IFRS 11	Joint arrangements	By this new standard the proportional consolidation will be eliminated as regards the joint arrangements which will be considered as joint ventures pursuant to IFRS 11, while the consolidated financial statements will include the relevant portion of costs, revenues, assets and liabilities of the joint operations. At present, the Group consolidates its own joint ventures on a proportional basis, with effects on the consolidated figures shown in Note 37. As a result of the application of the new standard the economic values will be summarised in a sole item, which will include the relevant portion of gains and losses of the joint ventures, while the assets will be posted under equity investments with no effect on the shareholders' equity of the Group. The Group will apply this standard as from 1 January 2014.
IFRS 12	Disclosure on interests in other entities	This standard requires to show in the notes to the financial statements all the interests in other entities, including associates, joint ventures, special purpose vehicles, and other unconsolidated structured entities. No significant effects are foreseen for the Group. The Group will apply this standard as from 1 January 2014.

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 underway.

Among these we note:

- *IFRS 9 Financial instruments*: by this standard the IASB intends to amend significantly the treatment of financial instruments. This standard, 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 the amortised cost of financial instruments 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 current version of IFRS 9 will be applicable, subject to the endorsement by the European Union, as from 1 January 2015;
- the 2009-2011 improvement process that envisages the improvement of some standards, among which there are: IFRS 1 *First time adoption of IFRS*, IAS 1 *Presentation of financial statements*, IAS 16 *Property, plant and equipment*, IAS 32 *Financial instruments - Presentation* and IAS 34 *Interim financial reporting*.

4. Significant issues and critical estimates by management

4.1 Non-recurring costs

The Group separately discloses as intangible assets (€mil. 922 at 31 December 2012) 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 808/85 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 808/85 for programmes qualified as functional to national security and similar. The aid under Law 808/85 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 other programmes, non-recurring costs are recognised as “non-recurring costs”, and the funds received are recognised as “other liabilities” at their nominal value, 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 suspended between 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 808/85 and that are classified as functional to national security, the portion of non-recurring costs capitalised which have not been assessed yet by the issuer is shown separately, pending the fulfilment of the legal requirements for the recognition of the amount receivable from the Ministry. The amount shown in other non-current assets (€mil. 132 at 31 December 2012) is calculated based on an estimate made by management that reflects the reasonable probability 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 35. 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 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 (€mil. 289 at 31 December 2012): however, these valuations stem from actuarial, demographic, statistical and financial assumptions that are highly volatile and hardly foreseeable.
Through the MBDA joint-venture, which is consolidated proportionally at 25%, the Group also participates in defined-benefit pension plans in the UK where the main employer is BAE Systems Plc. As envisaged by IAS 19, the Group recognises the deficit amount that is estimated to be related to MBDA (€mil. 101 at 31 December 2012), based on information provided by BAE.

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 9.

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

As from 1 January 2012 the Group adopted IFRS 7 *Financial instruments - Disclosures - Amendment*.
The standard sets out disclosures to provide for transferred financial assets that are not derecognised or for any continuing involvement in a transferred asset. This change has solely effects on disclosures to provide on the consolidated financial statements.

6. Significant non-recurring events or transactions

No significant transactions are reported in the financial year, whereas the year 2011 saw the sale of a 45% stake in the Ansaldo Energia group, which was later consolidated on a proportional basis at 55%. Thanks to this sale, in 2011 Finmeccanica had benefitted from a capital gain of €mil. 422 (€mil. 407 after tax) and a net receipt of €mil. 477.

7. Significant post balance sheet events

On 12 February 2013, a warrant for remand in custody was issued against the former Chairman and Chief Executive Officer of Finmeccanica in the context of the criminal proceedings related to the supply of 12 helicopters to the Indian government by AugustaWestland International Ltd. Following such event, the Finmeccanica Board of Directors, which convened the day after, resolved to assign Mr Alessandro Pansa, the incumbent Chief Operating Officer, also the duties and powers previously held by Mr Orsi (who resigned and stepped down on 15 February 2013). These events, the actions taken by the Group, as well as their effects are described in detail in the “Corporate Governance Report and Shareholder Structure” and in Note 22 below.

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

For the purposes of comparability, it should be noted that in 2011 the Ansaldo Energia group was consolidated on a line-by-line basis until 13 June which is the date of completion of the partial sale to First Reserve. As from that date the Energy business segment includes a proportional quota (based on the 55% ownership) of the Ansaldo Energia group.

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

The results for each segment at 31 December 2012, as compared with those of the same period of the previous year, are as follows:

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
31 Dec. 2012										
Revenues	4,243	5,754	2,974	1,053	1,256	715	1,719	347	(843)	**17,218**
Inter-segment revenue (*)	(5)	(615)	(12)	(25)	(15)	(1)	(5)	(165)	843	-
Third party revenue	4,238	5,139	2,962	1,028	1,241	714	1,714	182	-	**17,218**
Adjusted EBITA	**473**	**384**	**104**	**84**	**164**	**65**	**(67)**	**(127)**	**-**	**1,080**
Investments	250	216	334	31	34	23	22	66	-	**976**

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

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
31 Dec. 2011										
Revenues	3,915	6,035	2,670	1,001	1,223	981	1,877	305	(689)	**17,318**
Inter-segment revenue (*)	(1)	(465)	(16)	(24)	(10)	-	(15)	(158)	689	-
Third party revenue	3,914	5,570	2,654	977	1,213	981	1,862	147	-	**17,318**
Adjusted EBITA	**417**	**303**	**(903)**	**18**	**117**	**91**	**(110)**	**(149)**	**-**	**(216)**
Investments	467	240	263	30	32	23	22	20	-	**1,097**

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

Non-current assets (intangible assets, property, plant and equipment and investment property) may be analysed by business segment as follows at 31 December 2012 and 31 December 2011:

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
31 Dec. 2012										
Non-current assets	2,797	3,870	1,785	510	567	101	162	797	-	**10,589**

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Transportation	Other activities	Eliminations	Total
31 Dec. 2011										
Non-current assets	2,702	5,063	1,681	519	563	94	167	791	-	**11,580**

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

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Transportation	Other activities	Total
31 Dec. 2012									
Adjusted EBITA	**473**	**384**	**104**	**84**	**164**	**65**	**(67)**	**(127)**	**1,080**
Impairment losses	-	(1,148)	-	-	-	-	-	-	**(1,148)**
Amortisation of intangible assets acquired as part of business combination	(8)	(79)	-	(1)	(2)	-	-	-	**(90)**
Restructuring costs	-	(90)	(8)	(12)	(6)	-	(36)	-	**(152)**
Non-recurring income/(expense)	-	-	-	-	-	-	(148)	1	**(147)**
EBIT	**465**	**(933)**	**96**	**71**	**156**	**65**	**(251)**	**(126)**	**(457)**

	Helicopters	Defence and Security Electronics	Aeronautics	Space	Defence Systems	Energy	Transportation	Other activities	Total
31 Dec. 2011									
Adjusted EBITA	**417**	**303**	**(903)**	**18**	**117**	**91**	**(110)**	**(149)**	**(216)**
Impairment losses	-	(701)	-	-	-	-	-	-	**(701)**
Amortisation of intangible assets acquired as part of business combination	(9)	(73)	-	-	(2)	-	-	-	**(84)**
Restructuring costs	(4)	(45)	(184)	(4)	(5)	-	(19)	-	**(261)**
Non-recurring income/(expense)	-	(138)	(461)	-	-	(45)	(444)	(36)	**(1,124)**
EBIT	**404**	**(654)**	**(1,548)**	**14**	**110**	**46**	**(573)**	**(185)**	**(2,386)**

Group revenue can also be broken down geographically as follows (based on the customer's home Country):

	31 December 2012	31 December 2011
Italy	3,119	3,436
UK	2,164	2,060
Rest of Europe	4,475	4,595
North America	4,067	4,001
Rest of the world	3,393	3,226
	17,218	**17,318**

Non-current assets, as defined above, are allocated on the basis of their location:

	31 December 2012	31 December 2011
Italy	4,063	3,897
UK	1,927	1,939
Rest of Europe	2,307	2,301
North America	2,277	3,427
Rest of the world	15	16
	10,589	11,580

9. Intangible assets

	Goodwill	Development costs	Non-recurring costs	Concessions, licences and trademarks	Acquired through business comb.	Other	Total
1 January 2011							
Cost	6,322	1,149	1,128	221	1,185	798	**10,803**
Amortisation and impairment losses	(145)	(476)	(418)	(108)	(243)	(482)	**(1,872)**
Carrying amount	6,177	673	710	113	942	316	8,931
Investments	-	78	208	299	-	94	**679**
Sales	-	(7)	-	-	-	-	**(7)**
Amortisation	-	(71)	(33)	(18)	(84)	(76)	**(282)**
Impairment losses	(701)	(134)	(112)	-		(4)	**(951)**
Increases for business combinations	2	1	-	-	20	2	**25**
Other changes	40	29	(57)	23	30	(51)	**14**
31 December 2011	5,518	569	716	417	908	281	8,409
broken down as follows:							
Cost	6,442	1,204	1,312	539	1,247	795	**11,539**
Amortisation and impairment losses	(924)	(635)	(596)	(122)	(339)	(514)	**(3,130)**
Carrying amount	5,518	569	716 (*)	417	908	281	8,409
Investments	-	120	227	14	-	76	**437**
Sales	-	(18)	-	-	-	(2)	**(20)**
Amortisation	-	(83)	(33)	(20)	(90)	(78)	**(304)**
Impairment losses	(1,148)	-	(6)	-	-	(4)	**(1,158)**
Increases for business combinations	-	-	-	-	-	-	**-**
Other changes	14	(3)	18	3		(8)	**24**
31 December 2012	4,384	585	922	414	818	265	7,388
broken down as follows:							
Cost	6,405	1,214	1,583	545	1,242	820	**11,809**
Amortisation and impairment losses	(2,021)	(629)	(661)	(131)	(424)	(555)	**(4,421)**
Carrying amount	4,384	585	922 (**)	414	818	265	7,388

(*) Broken down as follows: gross amount: €mil. 4,056 - grants €mil. 3,340.
(**) Broken down as follows: gross amount €mil. 4,411 - grants €mil. 3,489.

Goodwill is allocated to the cash generating units (CGUs) concerned, which are determined with reference to the Group's organisational, management and control structure and coincide with the Group's seven business segments. Specifically, in 2012 the Group modified, as a result of the completion of the integration of the Group's European activities into the Defence and Security Electronics segment and consistently with the new strategy, business management and performance monitoring approach, the level at which impairment tests must be performed; it is now identified in the Selex ES group for the European operations. On the contrary, at 31 December 2011 the test had been conducted, with reference to the European operations, at the level of the legal entities falling within the scope of subsequent combinations.
A summary of goodwill by segment at 31 December 2012 and 2011 is as follows:

	31 December 2012		31 December 2011	
Services	115		115	
Manufacturing	247		247	
Space		**362**		**362**
Helicopters		**1,288**		**1,271**
USA	1,230		2,246	
Europe	1,033		1,170	
Defence and Security Electronics		**2,263**		**3,416**
Defence Systems (MBDA)		**368**		**366**
Energy		**4**		**4**
Transportation (Ansaldo STS)		**39**		**39**
Aeronautics		**60**		**60**
		4,384		5,518

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. The only exception is the Ansaldo STS CGU (to which the Transportation segment's goodwill is allocated) where this hierarchy is inverted to take account of the existence of a stock market price that can be used for reference, and greater emphasis is placed on market capitalisation rather than on the carrying value of the Group's net assets. 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 approved by management 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 generated by business activities, in their current conditions and without including the effects of future business restructurings, not yet approved, or future investments for improving future performance, 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 gross yield of government bonds of the geographic market of the CGU at 31 December 2012 (for Italy the gross 10-year yield was used);
- the market premium, calculated using a 5% value, to which an additional risk premium is added, only for the Defence and Security Electronics sector, to take account of the difficulties that characterise both the reference markets and, as regards Selex ES, the success of the integration process;

- the sector beta, determined using data pertaining to our major competitors in each sector;
- the marginal 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 CGU operates, with specific reference to the market of Aeronautics, Space, Defence and Security. These assumptions are based on the internal processing of external sources, making reference to a period of time that is usually ten years. Consistently with the actions taken in previous financial years, even in the presence of higher expected growth rates in some sectors, the g-rates used for the purposes of the impairment test were maintained at 2%, which is considered to be a rate that, in the long term, approximates to the inflation growth in the main Countries in which the Group operates. With specific reference to the DRS CGU, the growth rate was reduced compared to 2011, from 2.9% to 2%, corresponding to a negative growth in real terms, in order to take account of the expected deterioration in the US Defence market. The mostly important assumptions for the purposes of estimating the cash flows used in determining the value in use are summarised below:

	Space	Helicopters	Selex ES	DRS	Defence systems	Energy	Aeronautics
WACC	X	X	X	X	X	X	X
g-rate	X	X	X	X	X	X	X
ROS as per the plan	X	X	X	X	X	X	X
Flat trend in real terms of the Defence budget in domestic markets		X	X	X	X		X
Limited growth in expenditure for structural investments	X					X	
Growth in production rates of mass production of particular importance		X					X
Performance of expenditure for cyclical and continuous maintenance		X				X	
Performance of costs of raw materials	X	X			X	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 2012 and 2011:

	31 December 2012		31 December 2011	
	WACC	g-rate	WACC	g-rate
Services	9.3%	2.0%	9.1%	2.0%
Manufacturing	9.3%	2.0%	9.2%	2.0%
Space				
Helicopters	**10.0%**	**2.0%**	**9.6%**	**2.0%**
USA	8.7%	2.0%	8.2%	2.9%
Europe	9.3%	2.0%	9.4%	2.0%
Defence and Security Electronics				
Defence Systems (MBDA)	**8.6%**	**2.0%**	**9.9%**	**2.0%**
Energy	**8.6%**	**2.0%**	**9.9%**	**2.0%**
Aeronautics	**10.3%**	**2.0%**	**9.4%**	**2.0%**

The tests revealed signs of impairment losses for a total of €mil. 1,148, which is fully attributable to the Defence and Security Electronics segment (DRS for €mil. 993 and Selex ES for €mil. 155), as a result of some cuts reported in the Defence budgets of the main domestic markets. With specific regard to the critical issues that have characterised and that still characterise the US Defence budget, which represents the main source of revenue for DRS, it should be noted that, in March 2013, the US Government approved the start of the so-called sequestration process. This occurred despite the cuts that had already affected this budget as a result of the reduction in the federal public expenditure required by the Budget Control Act and despite the partial agreement that was reached in December in order to reduce some tax benefits (so-called Taxpayer Relief Act) and, consequently, to limit the amount of further cuts to be identified in order to meet the requirements laid down in the Budget Act. According to this procedure, the difference between the overall cuts required by the Budget Control Act and those already identified by the Congress is recovered through a linear reduction in the spending power of the single Administrations, excluding some limited cost items. With particular reference to the Defense budget, the amount of such linear reductions is equal to a total of about $bil. 500 for the 2013-2021 period; however, the amount of reductions attributable to each programme and to the individual cost items will be the result of the analysis and prioritisation activities started by the Government and by the administrations involved. Therefore, to date it is not possible to exactly estimate the effects of this process on the Group. However, in order to consider the uncertainties related to the start of the sequestration process a WACC equal to 8.7% was used for test purposes, which included a significant specific risk premium (3%). The impairment recognised was equal to €mil. 993. Moreover, as a result of the start of the sequestration process occurred after the financial year-end, even though the development of such process and the determination of the related effects will occur only later and according to methods still to be defined, the management deemed right to compare the results of the test with those determined considering a scenario with flows and revenues reduced compared to the basic scenario (also in the determination of the terminal value), based on the best estimate of the overall income and financial deterioration, which could be determined as a consequence of the start of the sequestration process, using a reduced risk premium of two percentage points to take account of the lower risk profile of the flows used compared to the basic ones. Compared to the flows used for the purposes of the impairment test, these assumptions provide for a reduction in revenues equal to about 20%, with specific reference to the first two years of the plan. This analysis confirmed the results previously indicated.

On the contrary, with reference to Selex ES the impairment was determined by an expected reduction in perspective volumes, mainly as a result of the continuation of the global economic crisis and of its extension to other EU Countries, also including the United Kingdom, with the consequent stagnation of the Defence expenditure.
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. If the interest rate used to discount cash flows across all the CGUs were to rise by 50 basis points or if the growth rate used in calculating the terminal value were reduced by 50 basis points, that is in case of a reduction of the operating profit on the terminal value, the results would have been the following:

	WACC + 50 bps	g-rate - 50 bps	ROS TV - 50 bps
Higher impairment loss on DRS	€mil. 144	€mil. 107	€mil. 70
Higher impairment loss on Selex ES	€mil. 202	€mil. 153	€mil. 127

As concerns the other tests, the wide positive margins recorded on the other CGUs for which the value in use has been utilised 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 the same sensitivity analyses conducted on DRS and Selex ES.

				Sensitivity	
		Margin	**WACC**	**g-rate**	**ROS TV**
Space	*Services*	107	86	91	94
	Manufacturing	224	195	200	204
Helicopters		701	511	557	574
Defence Systems		575	529	537	545
Energy		928	854	870	886
Aeronautics		999	924	938	895

In that regard, it should be noted that market capitalisation of Finmeccanica stock is currently below the Group's book equity, even after the recognition of the above-mentioned impairment (market capitalisation of €bil. 2.5 at 31 December 2012, compared with Group capital of €bil. 3.4). However, the stock's market price reflects the depressed and extremely volatile conditions that still plague the financial markets generally, which has led to prices far below what they should be based on the Company's fundamentals, expressed by their value in use. While we acknowledge that the economic environment is a complex one, weighted towards estimating cash flows and discount and growth rates, we believe that impairment tests should be conducted with an eye towards an asset's ability to generate cash flows along its entire period of use, rather than based on stock market values that reflect temporary difficulties and that are focused on short-term expectations.

"Development costs" rose due to the net effect of investments during the period, especially in the Aeronautics (€mil. 61), Helicopters (€mil. 10) segments and the European entities of the Defence and Security Electronics (€mil. 43), and to amortisation for the year.
Investments attributable to "non-recurring costs" related to the Helicopters (€mil. 142), Aeronautics (€mil. 38) and Defence and Security Electronics (€mil. 47) segments. As regards programmes that benefit from the provisions of Law 808/85 and are classified as functional to national security, the portion of capitalised non-recurring costs whose fairness must be assessed yet by the grantor is separately disclosed within other non-current assets (Note 14). Receivables for grants assessed by the grantor in relation to capitalised costs (hereby net of the related grants) are illustrated in Note 30.

Total research and development costs, including the development and non-recurring costs just mentioned, amount to €mil. 1,929, of which €mil. 347 expensed.
"Concessions, licences and trademarks" include in particular the value of licenses acquired in previous years in the Helicopters segment. With regard to the full acquisition of the AW609 programme, this value also comprises the estimated variable fees due to Bell Helicopter on the basis of the commercial success of the programme (Note 24).

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

	31 December 2012	**31 December 2011**
Know-how	83	81
Trademarks	45	45
Licenses	16	16
Backlog and commercial positioning	674	766
	818	**906**

Specifically, “backlog and commercial positioning” essentially refers to the portion of the purchase prices of DRS, the UK component of Selex ES and AgustaWestland allocated to this item.

“Other” mainly includes software, which is amortised over a 3 to 5 year period, satellite capacity use rights (amortised based on actual use), and intangible assets in progress and advances.

The most significant investments were made in the Helicopters (€mil. 166), Aeronautics (€mil. 124) and Defence and Security Electronics (€mil. 113) segments.

Commitments are in place for the purchase of intangible assets for €mil. 12 (€mil. 21 at 31 December 2011).

10. Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment	Other	Total
1 January 2011					
Cost	1,833	1,925	1,474	1,456	**6,688**
Depreciation and impairment losses	(576)	(1,257)	(786)	(799)	**(3,418)**
Carrying amount	**1,257**	**668**	**688**	**657**	**3,270**
Investments	29	79	86	224	**418**
Sales	(3)	(5)	-	(25)	**(33)**
Depreciation	(65)	(136)	(88)	(99)	**(388)**
Impairment losses	(1)	(21)	(7)	(7)	**(36)**
Increases for business combinations	-	-	-	-	**-**
Other changes	11	25	29	(126)	**(61)**
31 December 2011	**1,228**	**610**	**708**	**624**	**3,170**
broken down as follows:					
Cost	1,858	1,885	1,592	1,470	**6,805**
Depreciation and impairment losses	(630)	(1,275)	(884)	(846)	**(3,635)**
Carrying amount	**1,228**	**610**	**708**	**624**	**3,170**
Investments	22	56	139	322	**539**
Sales	(4)	(33)	(1)	(28)	**(66)**
Depreciation	(66)	(129)	(99)	(94)	**(388)**
Impairment losses	(1)	(1)	-	(4)	**(6)**
Increases for business combinations	-	-	-	-	**-**
Other changes	30	83	54	(215)	**(48)**
31 December 2012	**1,209**	**586**	**801**	**605**	**3,201**
broken down as follows:					
Cost	1,898	1,980	1,787	1,480	**7,145**
Depreciation and impairment losses	(689)	(1,394)	(986)	(875)	**(3,944)**
Carrying amount	**1,209**	**586**	**801**	**605**	**3,201**

Property, plant and equipment includes €mil. 13 of assets held under contracts that can be qualified as finance leases in relation to plant and machinery, equipment and other assets.

“Other assets” mainly include the value of assets under construction (€mil. 265 at 31 December 2012).

The most significant investments amounted to €mil. 124 for Aeronautics (mainly for progress on the B787 programme), €mil. 113 for Defence and Security Electronics, €mil. 166 for Helicopters, €mil. 12 for Defence Systems, €mil. 10 for Energy.

Purchase commitments of property, plant and equipment are recorded in the amount of €mil. 137 (€mil. 103 at 31 December 2011).

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

	2012			2011		
	Equity investments	Risk provisions	**Total**	Equity investments	Risk provisions	**Total**
1 January	**263**	**(24)**	**239**	**316**	**(21)**	**295**
Acquisitions/subscriptions and capital increases	2	1	3	8	2	10
- *Eurofighter Jagdflugzeug GmbH*	*5*		*5*	*3*		*3*
- *Elettronica SpA*	*7*		*7*	*5*		*5*
- *International Metro Service Srl*	*4*		*4*	*-*		*-*
- *Joint Stock Company Sukhoi Aircraft*	*(30)*		*(30)*	*(96)*		*(96)*
- *Other minor*		*1*	*1*	*(2)*	*-*	*(2)*
Share of profits/(losses) of equity-accounted investees	(14)	1	(13)	(90)	-	(90)
Impairment losses on other equity investments	(4)		(4)	(12)		(12)
Dividends received	(14)		(14)	(7)		(7)
Disposals	(2)		(2)	(1)		(1)
Other changes	1		1	49	(5)	44
31 December	**232**	**(22)**	**210**	**263**	**(24)**	**239**

LIST OF UNCONSOLIDATED EQUITY INVESTMENTS AT 31 DECEMBER 2012

	Ownership	€mil.	Assets	Liabilities	Currency (**)
SUBSIDIARIES - ASSOCIATES					
Joint Stock Company Sukhoi Civil Aircraft	25.00%	63	1,609	1,762	USD
Elettronica SpA	31.333%	22	772	703	
Metro 5 SpA	31.90%	16	302	252	
Orizzonte Sistemi Navali SpA	49.00%	14	1,790	1,763	
Eurofighter Jagdflugzeug GmbH	21.00%	10	1,496	1,454	
Icarus SCpA	49.00%	7	17	3	
Eurotech SpA	11.08%	4	206	71	
Finmeccanica North America Inc.	100.00%	4	9	4	USD
Finmeccanica UK Ltd	100.00%	3	5	2	STL
Eurosysnav SAS	50.00%	3	35	29	
Elsacom NV	100.00%	2	7	9	
Novacom Services SA (*)	26.62%	3	9	3	
Advanced Air Traffic Systems Sdn Bhd	30.00%	3	54	15	RM
Musinet Engineering SpA	49.00%	3	10	5	
Eurofighter Simulation Systems GmbH	24.00%	3	52	41	
International Metro Service Srl	49.00%	2	18	6	
N2 Imaging Systems LLC	30.00%	2	15	10	USD
Jiangxi Changhe Agusta Helicopters Co. Ltd	40.00%	2	42	4	RMB
NON-CONTROLLING INTERESTS					
Metro C SCpA	14.00%	21			
SIN SpA	4.00%	5			
Roxel SAS (*)	12.50%	5			
Innovazione e Progetti SCpA (in liq.)	15.00%	4			
Panavia Aircraft GmbH	15.00%	3			
Ferromovil 9000 SL	10.00%	2			
Sofresa SA (*)	3.00%	2			
Equity investments in companies and consortiums with value lower than €mil. 2		24			
Total equity investments (less impairment provisions)		**232**			

(*) Investment with % ownership in Group companies.
(**) € millions unless otherwise indicated.

12. Business combinations

There were no business combinations during the reporting period.
The purchase by the Thales Alenia Space joint venture (consolidated on a proportionate basis at 33%) of Thales Deutschland was finalised in the corresponding period of the previous year.
The overall effects of the transactions finalised in the reporting period and the corresponding period of the previous year are as follows:

	2012		2011	
	Goodwill	Cash effect	Goodwill	Cash effect
Acquisitions	-	-	2	1
Payments relating to previous years' acquisitions	-	-	-	3
Total	-	-	**2**	**4**

13. Financial transactions with related parties

In general, commercial relations with related parties are carried out at arm's length, as is settlement of the interest-bearing receivables and payables when not governed by specific contractual conditions. Below are the amounts:

RECEIVABLES AT 31 DECEMBER 2012

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Unconsolidated subsidiaries						
Sesm-Soluzioni Evolute per la Sistemistica e i Modelli Scarl			7	1		**8**
Other companies with unit amount lower than €mil. 5			9	1	1	**11**
Associates						
Eurofighter Jagdflugzeug GmbH				261		**261**
NHIndustries SAS				138		**138**
BCV Investments SCA	181					**181**
Metro 5 SpA		4	1	48		**53**
Iveco - OTO Melara Scarl				39		**39**
Abruzzo Engineering SCpa (in liq.)				22		**22**
Joint Stock Company Sukhoi Civil Aircraft				14		**14**
Orizzonte Sistemi Navali SpA				8		**8**
Abu Dhabi Systems Integration LLC				7		**7**
Macchi Hurel Dubois SAS				6		**6**
Euromids SAS				5		**5**
Other companies with unit amount lower than €mil. 5		2	1	20		**23**
Joint ventures (*)						
Ansaldo Energia SpA			8	10	1	**19**
Yeni Elektrik Uretim Anonim Sirket				21		**21**
MBDA SAS				29		**29**
GIE-ATR				27		**27**
Thales Alenia Space SAS			3	21	1	**25**
SuperJet International SpA			35	2		**37**
Balfour Beatty Ansaldo Systems JV SDN BHD				6		**6**
Telespazio SpA	3		5	1		**9**
Other companies with unit amount lower than €mil. 5	1	1	2	3	1	**8**
Consortiums (**)						
Ferroviario Vesuviano				14		**14**
S3Log				5		**5**
Other consortiums with unit amount lower than €mil. 5			2	21	2	**25**
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato Italiane				120		**120**
Other				105		**105**
Total	**185**	**7**	**73**	**955**	**6**	**1,226**
% against total for the year	*73.1*	*12.6*	*11.6*	*18.9*	*0.7*	

(*) Amounts refer to the portion not eliminated for proportionate consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.

RECEIVABLES AT 31 DECEMBER 2011

	Non-current loans and receivables	Other non-current receivables	Current loans and receivables	Trade receivables	Other current receivables	Total
Unconsolidated subsidiaries						
Elsacom NV			8			**8**
Other companies with unit amount lower than €mil. 5			10	3	1	**14**
Associates						
Eurofighter Jagdflugzeug GmbH				193		**193**
NHIndustries Sarl				91		**91**
Iveco - OTO Melara Scarl				41		**41**
Orizzonte Sistemi Navali SpA				22		**22**
Abruzzo Engineering SCpA (in liq.)				22		**22**
Joint Stock Company Sukhoi Aircraft				15	5	**20**
Metro 5 SpA		2		14		**16**
Macchi Hurel Dubois SAS				5		**5**
Eurosysnav SAS				8		**8**
Abu Dhabi Systems Integration LLC				5		**5**
Other companies with unit amount lower than €mil. 5				18	1	**19**
Joint ventures (*)						
Ansaldo Energia Holding SpA			126			**126**
MBDA SAS				67		**67**
Thales Alenia Space SAS	2		5	18		**25**
GIE-ATR				18		**18**
Rotorsim Srl				15		**15**
Telespazio SpA	4		18	1		**23**
SuperJet International SpA			15	4		**19**
Balfour Beatty Ansaldo Systems JV SDN BHD				9		**9**
Ansaldo Energia SpA				9	3	**12**
Other companies with unit amount lower than €mil. 5	2	1	1	2	1	**7**
Consortiums (**)						
Saturno				14	1	**15**
Ferroviario Vesuviano				14		**14**
S3Log				7		**7**
Other consortium with unit amount lower than €mil. 5			1	19	1	**21**
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato Italiane				150		**150**
Other				100		**100**
Total	8	3	184	884	13	1,092
% against total for the year	*9.5*	*8.0*	*17.2*	*16.8*	*1.6*	

(*) Amounts refer to the portion not eliminated for proportionate consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.

Trade receivables from related parties refer specifically to the non-eliminated portion of receivables from joints ventures and associated companies, lead companies or consortiums of major programmes in which the Group participates. The most important of these relate to:

- the company Eurofighter for €mil. 261 (€mil. 193 in 2011) for the EFA programme;
- receivables from the Iveco OTO Melara consortium amounting to €mil. 39 (€mil. 41 in 2011) for production and post-sales assistance on defence and security ground vehicles (production is currently underway on VBM Freccia and PZH2000 self-propelled vehicle for the Italian Army);
- receivables from Metro 5 amounting to €mil. 48 (€mil. 14 in 2011) for the designing, construction and operation of the new line 5 of the Milan metro;
- receivables from NHIndustries in the amount of €mil. 138 (€mil. 91 in 2011) related to the NH90 helicopter programme;

Loans and receivables from related parties mainly refer to the non-eliminated portion of receivables from joint ventures.

Non-current loans and receivables from related parties chiefly consist of financial instruments issued by the investee BCV Investments SCA (Note 14).

PAYABLES AT 31 DECEMBER 2012

	Non-current loans and borrowings	Other non-current payables	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Sesm-Soluzioni Evolute per la Sistemistica e i Modelli Scarl				7		**7**	
Other companies with unit amount lower than €mil. 5			4	10	1	**15**	
Associates							
Eurofighter Jagdflugzeug GmbH			124	11		**135**	
Consorzio Start SpA				44		**44**	
Avio SpA				21		**21**	
Elettronica SpA				10		**10**	
Joint Stock Company Sukhoi Civil Aircraft (***)	10		1	10		**21**	
Iveco - OTO Melara Scarl				4	7	**11**	
Other companies with unit amount lower than €mil. 5			2	10		**12**	
Joint ventures (*)							
MBDA SAS			299	7		**306**	87
Thales Alenia Space SAS			151	20		**171**	2
GIE-ATR			17	5	12	**34**	
Ansaldo Energia SpA					13	**13**	
Telespazio SpA				1	5	**6**	219
SuperJet International SpA				1	11	**12**	
Other companies with unit amount lower than €mil. 5				4	2	**6**	
Consortiums (**)							
Other consortiums with unit amount lower than €mil. 5				7	1	**8**	
Companies subject to the control or considerable influence of the MEF							
Ferrovie dello Stato Italiane				6		**6**	
Other	19		7	15	1	**42**	
Total	**29**	**-**	**605**	**193**	**53**	**880**	**308**
% against total for the year	*0.7*		*30.7*	*3.7*	*3.4*		

(*) Amounts refer to the portion not eliminated for proportionate consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
(***) Loans and borrowings refer to finance lease payables.

PAYABLES AT 31 DECEMBER 2011

	Non-current loans and borrowings	Other non-current payables	Current loans and borrowings	Trade payables	Other current payables	Total	Guarantees
Unconsolidated subsidiaries							
Finmeccanica North America Inc.				5	1	**6**	
Other companies with unit amount lower than €mil. 5			5	8		**13**	
Associates							
Eurofighter Jagdflugzeug GmbH			47	5		**52**	
Consorzio Start SpA				44		**44**	
Avio SpA				10		**10**	
Iveco - OTO Melara Scarl				1	7	**8**	
Joint Stock Company Sukhoi Civil Aircraft (***)	10			5		**15**	
Other companies with unit amount lower than €mil. 5			2	13		**15**	
Joint ventures (*)							
MBDA SAS			569	11		**580**	96
Ansaldo Energia SpA			139		7	**146**	
Ansaldo Energia Holding SpA					4	**4**	
Thales Alenia Space SAS			132	13		**145**	2
Rotorsim Srl				13		**13**	
Telespazio SpA			6	2	7	**15**	208
SuperJet International SpA			6	1	8	**15**	
GIE-ATR				4	5	**9**	
Other companies with unit amount lower than €mil. 5				2	1	**3**	
Consortiums (**)							
Other consortiums with unit amount lower than €mil. 5				7		**7**	
Companies subject to the control or considerable influence of the MEF							
Other	26		7	16	1	**50**	
Total	**36**		**913**	**160**	**41**	**1,150**	**306**
% against total for the year	*0.8*		*65.5*	*3.2*	*2.6*		

(*) Amounts refer to the portion not eliminated for proportionate consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.
(***) Loans and borrowings refer to finance lease payables.

Trade payables to related parties mainly refer to the non-eliminated portion of payables to joint ventures and to the Start Consortium for €mil. 44 (€mil. 44 at 31 December 2011) for the supply of software for the Defence Systems and Space segments, and to the Avio group for the supply of components in the Aeronautics and Helicopters segments.
Borrowings from related parties include in particular the amount of €mil. 450 (€mil. 701 at 31 December 2011) due by Group companies to the joint ventures MBDA and Thales Alenia Space, for the unconsolidated portion, and payables of €mil. 124 (€mil. 47 at 31 December 2011) to Eurofighter, of which Alenia Aeronautica owns 21%. As regards the latter, under a cash pooling agreement its surplus cash and cash equivalents at 31 December 2012 were distributed among the partners.

14. Receivables and other non-current assets

	31 December 2012	31 December 2011
Financing to third parties	66	83
Guarantee deposits	20	23
Deferred grants under Law 808/85	97	152
Defined-benefit plan assets, net (Note 23)	111	102
Related party receivables (Note 13)	192	11
Other	53	38
Non-current receivables	**539**	**409**
Prepayments	10	24
Non-recurring costs pending under Law 808/85	132	221
Other non-current assets	**142**	**245**
Total other non-current assets	681	654

Deferred grants under Law 808/85 comprise the present value of amounts due from the Ministry of Economic Development under Law 808/85 on national security and similar projects, whose collection is deferred. The portion expected to be collected within one year (€mil. 12) is recognised under other current assets (Note 18). Non-recurring costs pending under Law 808/85 include the portion of non-recurring costs incurred in relation to programmes already considered eligible under Law 808/85 and classified as functional to national security and whose pertinence has not yet been approved by the disbursing body. After the legal requirements for the recognition of a receivable due from the Ministry have been satisfied, the carrying amount will be reclassified under current or non-current, depending on the expected disbursement timetable. The amount shown in this caption is based on management's estimate and takes into account both the reasonable certainty of obtaining the grants and the effects of the time value of money in the event their collection is deferred after more than one year.
The increase in loans and receivables from related parties relates to the hybrid financial instruments issued by BCV Investments, indirectly referable to the Avio group (the latter is 100% held by BCV Investments), which are measured at fair value as a result of the early repayment clauses and the forced conversion these securities are subject to.
At 31 December 2012, following the agreement signed by General Electric and Avio SpA for the sale of the aircraft engines division of Avio, the fair value of these instruments was adjusted to the value arising from these binding arrangements (Note 35). It should be noted that the finalisation of the transaction is currently subject to antitrust and regulatory conditions precedent. Once the transaction is completed, Finmeccanica will recognise a capital gain of about €mil. 90, deriving from the reversal of the portion of the gain considered as not realised during the partial disposal completed in 2006.

15. Inventories

	31 December 2012	31 December 2011
Raw materials, supplies and consumables	2,367	2,195
Work in progress and semi-finished goods	1,707	1,342
Finished goods and merchandise	108	105
Advances to suppliers	1,010	844
	5,192	4,486

Inventories are shown net of impairment charges of €mil. 721 (€mil. 643 at 31 December 2011).

16. Contract work in progress and progress payments and advances from customers

	31 December 2012	31 December 2011
Contract work in progress (gross)	8,573	8,216
Final losses	(82)	(85)
Progress payments and advances from customers	(4,965)	(4,464)
Contract work in progress (net)	**3,526**	**3,667**
Progress payments and advances from customers (gross)	14,738	15,622
Contract work in progress	(6,646)	(7,650)
Final losses	615	241
Progress payments and advances from customers (net)	**8,707**	**8,213**
Net value	**(5,181)**	**(4,546)**

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.
The increase in final losses is also due to the effect of reclassifications reported in Note 22.

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

	31 December 2012	31 December 2011
Costs incurred and margins recognised, net of losses	14,522	15,540
Progress payments and advances	(19,703)	(20,086)
Net value	**(5,181)**	**(4,546)**

17. Trade and financial receivables

	31 December 2012		31 December 2011	
	Trade	Financial	Trade	Financial
Receivables	4,405	572	4,690	910
Impairment	(310)	(14)	(309)	(23)
Related party receivables (Note 13)	955	73	884	184
	5,050	631	5,265	1,071

Financial receivables mainly include receivables from other partners of the joint ventures (€mil. 491 compared with €mil. 764 at 31 December 2011) related to the deposit of cash and cash equivalents of the MBDA and the Thales Alenia Space joint ventures with the other participants in the joint venture (BAE Systems Plc, EADS NV and Thales SA), acquired on a pro rata basis (25% MBDA and 33% Thales Alenia Space respectively) through proportionate consolidation. The ageing of receivables together with an analysis of how the Group manages credit risk is reported under Note 40.

18. Other current assets

	31 December 2012	31 December 2011
Prepayments - current portion	116	126
Grants	96	78
Receivables from employees and social security institutions	53	43
Indirect tax assets	309	293
Deferred grants under Law 808/85	12	29
Other receivables from related parties (Note 13)	6	13
Other assets	318	255
	910	**837**

Deferred grants under Law 808/85 comprise those due from the Ministry for Economic Development for receivables due under Law 808/85 on national security and similar projects expected to be collected within one year. The deferred portion due after one year is recognised under receivables and other non-current assets (Note 14).

19. Cash and cash equivalents

Cash and cash equivalents amounted to €mil. 2,137 and showed a significant increase compared to the 2011 financial statements (€mil. 1,331). The change, which is shown in the statement of cash flows, is due to cash flows from financing activities (mainly as a result of a new €mil. 600 bonded loan placed in December) and from operating activities, which more than covered the investing activities.
The Group does not include overdraft facilities, since it is not systematically used as a form of financing.

20. Equity

SHARE CAPITAL

	Number of ordinary shares	Par value	Treasury shares	Costs incurred net of tax effect	Total
Outstanding shares	578,150,395	2,544	-	(19)	**2,525**
Treasury shares	(32,450)	-	-	-	-
31 December 2011	**578,117,945**	**2,544**	**-**	**(19)**	**2,525**
Repurchase of treasury shares, less shares sold	-	-	-	-	-
31 December 2012	**578,117,945**	**2,544**	-	(19)	**2,525**
broken down as follows:					
Outstanding shares	578,150,395	2,544	-	(19)	**2,525**
Treasury shares	(32,450)	-	-	-	-
	578,117,945	**2,544**	-	(19)	**2,525**

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 32,450 treasury shares.

At 31 December 2012, the Ministry of Economy and Finance owned around 30.204% of the share capital, Deutsche Bank Trust Company Americas around 3.600% and Libyan Investment Authority

(Arab Bkg Corp/Libyan Investment Management) around 2.010% of the shares. Moreover, Tradewinds Global Investors LLC held around 4.976% of the shares on a discretional fund management basis and Grantham, Mayo, Van Otterloo & Co. LLC around 2.045% on a discretional fund management basis.

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 the fair value of derivatives used by the Group to hedge its exposure to currency or interest-rate risk 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

This reserve is used to recognise the exchange-rate differences resulting from the conversion of the financial statements expressed in foreign currencies of consolidated companies. At 31 December 2012, the most significant amounts were the result of the consolidation of the UK component of the AgustaWestland (€mil. -93) and Selex ES (€mil. -265) groups and of the exchange-rate effect on the assets denominated in US dollars of the DRS Technologies group (€mil. -56).

Below is shown the effect for the year by currency:

	2012	**2011**
US dollar	(24)	54
Pound sterling	48	61
Other currencies	2	(6)
	26	109

Tax effects on the gain and loss items recognised in equity

2012			**Group**			**Non-controlling interest**
	Amount before taxes	Tax effect	**Amount net of tax effect**	Amount before taxes	Tax effect	**Amount net of tax effect**
Actuarial gains/(losses) on defined-benefit plans	(183)	41	**(142)**	(1)	-	**(1)**
Changes in cash-flow hedges	69	(20)	**49**	(3)	1	**(2)**
Foreign currency translation difference	26	-	**26**	1	-	**1**

2011			**Group**			**Non-controlling interest**
	Amount before taxes	Tax effect	**Amount net of tax effect**	Amount before taxes	Tax effect	**Amount net of tax effect**
Actuarial gains/(losses) on defined-benefit plans	27	(7)	**20**	-	-	**-**
Changes in cash-flow hedges	(65)	17	**(48)**	2	-	**2**
Foreign currency translation difference	109	-	**109**	2	-	2

21. Loans and borrowings

	31 December 2012			31 December 2011		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	835	3,568	**4,421**	255	3,696	**3,951**
Bank loans and borrowings	319	641	**960**	159	701	**860**
Finance lease payables	1	1	**2**	4	2	**6**
Related party loans and borrowings (Note 13)	605	29	**634**	913	36	**949**
Other loans and borrowings	77	52	**129**	62	57	**119**
	1,837	4,309	6,146	1,393	4,492	5,885

Changes in loans and borrowings are as follows:

	1 January 2012	Increases (*)	Repayments/ Payment of coupons (*)	Other changes	31 December 2012
Bonds	3,951	846	(369)	(7)	**4,421**
Bank loans and borrowings	860	158	(61)	3	**960**
Finance lease payables	6	-	(1)	(3)	**2**
Related party loans and borrowings	949	-	(315)	-	**634**
Other loans and borrowings	119	19	(5)	(4)	**129**
	5,885	1,023	(751)	(11)	6,146

	1 January 2011	Increases (*)	Repayments/ Payment of coupons (*)	Other changes	31 December 2011
Bonds	4,110	264	(469)	46	**3,951**
Bank loans and borrowings	783	162	(84)	(1)	**860**
Finance lease payables	4	3	(1)	-	**6**
Related party loans and borrowings	714	235	-	-	**949**
Other loans and borrowings	190	11	(35)	(47)	**119**
	5,801	675	(589)	(2)	5,885

(*) 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.

Bonds

	1 January 2012	New borrowings	Interest	Repayments /Repurchases	Payment of coupons	Effect of exchange rate	31 December 2012	Fair value at 31 December 2012
€mil. 500 Finmeccanica Finance 2018 (*)	499	-	29	-	(29)	-	499	**549**
€mil. 500 Finmeccanica 2025 (*)	515	-	25	-	(25)	-	515	**489**
€mil. 1,000 Finmeccanica Finance 2013 (*)	821	-	66	(65)	(68)	-	754	**798**
GBPmil. 400 Finmeccanica Finance 2019 (*)	475	-	40	-	(40)	11	486	**541**
€mil. 600 Finmeccanica Finance 2022 (*)	621	-	32	-	(30)	-	623	**616**
€mil. 600 Finmeccanica Finance 2017	-	592	2	-	-	-	594	**632**
USDmil. 500 Meccanica Holdings 2019 (*)	393	-	23	(51)	(24)	(6)	335	**387**
USDmil. 300 Meccanica Holdings 2039 (*)	234	-	17	-	(17)	(4)	230	**216**
USDmil. 500 Meccanica Holdings 2040 (*)	393	-	24	-	(24)	(8)	385	**333**
	3,951	592	258	(116)	(257)	(7)	4,421	4,561

	1 December 2011	New borrowings	Interest	Repayments /Repurchases	Payment of coupons	Effect of exchange rate	31 December 2011	Fair value at 31 December 2011
€mil. 500 Finmeccanica Finance 2018 (*)	498	-	30	-	(29)	-	499	**396**
€mil. 500 Finmeccanica 2025 (*)	514	-	26	-	(25)	-	515	**326**
€mil. 1,000 Finmeccanica Finance 2013 (*)	1,009	-	77	(185)	(80)	-	821	**826**
USDmil. 350 DRS 2016 (*)	10	-	1	(9)	-	(2)	-	**-**
USDmil. 250 DRS 2018 (*)	4	-	-	(4)	-	-	-	**-**
GBPmil. 400 Finmeccanica Finance 2019 (*)	460	-	37	-	(37)	15	475	**430**
€mil. 600 Finmeccanica Finance 2022 (*)	629	-	32	-	(40)	-	621	**406**
USDmil. 500 Meccanica Holdings 2019 (*)	380	-	23	-	(22)	12	393	**301**
USDmil. 300 Meccanica Holdings 2039 (*)	226	-	16	-	(16)	8	234	**231**
USDmil. 500 Meccanica Holdings 2040 (*)	380	-	22	-	(22)	13	393	**356**
	4,110	-	264	(198)	(271)	46	3,951	3,272

(*) Maturity date of bond.

In December 2012 Finmeccanica Finance SA issued a bond for a nominal €mil. 600 maturing in 5 years. Coupons will be paid annually. Moreover, during 2012 nominal €mil. 65 of the bonds maturing in December 2013 were repurchased on the market, coupon 8.125%, for an average purchasing value equal to 106.4 % of the nominal value. This, in addition to 2011 purchases, determines an average amount of the total repurchase equal to 105.88% of the bond's nominal value, thereby reducing the outstanding amount to nominal €mil. 750. During 2012, also Meccanica Holdings USA repurchased, in more than one tranche, total $mil. 66 (€mil. 51) of the bonds maturing in July 2019, coupon 6.25%, that were issued by the company in 2009 for a total of $mil. 500.

Bank loans and borrowings

The item mainly includes the loan executed with the European Investment Bank (EIB) for the Parent's investments (€mil. 467 compared to €mil. 506 at 31 December 2011), aimed at implementing development activities in the Aeronautic segment. Furthermore, the amount includes two loans executed by Ansaldo Energia: a short-term Revolving Credit Facility and a Long Term Loan Facility. The increase is mainly due to the Revolving Credit Facility loan entered into by Ansaldo Energia.

This item also includes subsidised loans (€mil. 54 compared to €mil. 62 at 31 December 2011), borrowings by the joint ventures ATIL Ltd in the Helicopters segment (€mil. 16 compared to €mil. 24 at 31 December 2011) and GIE-ATR in the Aeronautics segment (€mil. 4 unchanged from 31 December 2011).

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

31 December 2012

	Bank loans and borrowings		Bonds (*)		Related parties		Other		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
Within 1 year	282	37	-	835	605	-	77	1	**964**	**873**
2 to 5 years	302	104	-	1,400	22	-	49	1	**373**	**1,505**
Beyond 5 years	99	136	-	2,186	7	-	3	-	**109**	**2,322**
Total	**683**	**277**	**-**	**4,421**	**634**	**-**	**129**	**2**	**1,446**	**4,700**

31 December 2011

	Bank loans and borrowings		Bonds (*)		Related parties		Other		Total	
	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed	Floating	Fixed
Within 1 year	128	31	-	255	913	-	62	4	**1,103**	**290**
2 to 5 years	301	109	-	1,510	26	-	48	2	**375**	**1,621**
Beyond 5 years	127	164	-	2,186	10	-	9	-	**146**	**2,350**
Total	**556**	**304**	**-**	**3,951**	**949**	**-**	**119**	**6**	**1,624**	**4,261**

(*) These bond issues were transformed to floating rates through interest rate swaps, for a nominal value of €mil. 750 (€mil. 750 at 31 December 2011).

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

	Notes	31 Dec. 2012	of which with related parties	31 Dec. 2011	of which with related parties
Cash and cash equivalents	19	(2,137)		(1,331)	
Securities held for trading		(5)		(40)	
LIQUIDITY		**(2,142)**		**(1,371)**	
CURRENT LOANS AND RECEIVABLES	17	**(631)**	(73)	**(1,071)**	(184)
Current bank loans and borrowings	21	319		159	
Current portion of non-current loans and borrowings	21	835		255	
Other current loans and borrowings	21	683	605	979	913
CURRENT FINANCIAL DEBT		**1,837**		**1,393**	
NET CURRENT FINANCIAL DEBT (FUNDS)		**(936)**		**(1,049)**	
Non-current bank loans and borrowings	21	641		701	
Bonds issued	21	3,586		3,696	
Other non-current loans and borrowings	21	82	29	95	36
NON-CURRENT FINANCIAL DEBT		**4,309**		**4,492**	
NET FINANCIAL DEBT		**3,373**		**3,443**	

22. Provisions for risks and charges and contingent liabilities

	Guarantees given	Restructuring	Penalties	Product guarantees	Other	Total
1 January 2011						
Current	34	58	21	136	513	**762**
Non-current	36	9	62	95	191	**393**
	70	**67**	**83**	**231**	**704**	**1,155**
Allocations	15	252	220	63	1,585	**2,135**
Uses	(7)	(54)	(8)	(19)	(53)	**(141)**
Reversals	(3)	-	(5)	(29)	(53)	**(90)**
Other changes	38	(1)	4	(17)	(377)	**(353)**
31 December 2011	**113**	**264**	**294**	**229**	**1,806**	**2,706**
broken down as follows:						
Current	33	104	40	134	621	**932**
Non-current	80	160	254	95	1,185	**1,774**
	113	**264**	**294**	**229**	**1,806**	**2,706**
Allocations	7	96	58	69	270	**500**
Uses	(1)	(114)	(6)	(13)	(48)	**(182)**
Reversals	(5)	(2)	(3)	(69)	(150)	**(229)**
Other changes	56	(29)	5	2	(401)	**(367)**
31 December 2012	**170**	**215**	**348**	**218**	**1,477**	**2,428**
broken down as follows:						
Current	100	127	39	114	496	**876**
Non-current	70	88	309	104	981	**1,552**
	170	**215**	**348**	**218**	**1,477**	**2,428**

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

- the provision for contractual risks and charges of €mil. 841 (€mil. 1,043 at 31 December 2011), mainly related to the Aeronautics business segment, in particular to the B787 programme. The item chiefly decreased as a result of the reclassification of costs among final losses on some orders (principally Meltem) in respect of whose amendments final contracts have been entered into;
- the provision for risks on equity investments of €mil. 22 (€mil. 24 at 31 December 2011), which includes the accruals for losses exceeding the carrying amounts of unconsolidated equity-accounted investments. The movements in the provision are shown in Note 11;
- the provision for taxes of €mil. 134 (€mil. 99 at 31 December 2011);
- the provision for litigation with employees and former employees of €mil. 38 (€mil. 35 at 31 December 2011);
- the provision for litigation underway of €mil. 70 (€mil. 81 at 31 December 2011).

It should be noted that the “Corporate Governance Report and Shareholder Structure” provides information on the investigations conducted by the Judicial Authority against the Group companies during the financial year, and on any activities started and partially completed by Finmeccanica, aimed at establishing inappropriate practices (if any), as well as at a more effective definition of some processes within its own governance system. In this regard, also in consideration of the initial phase of the judicial proceedings and on the basis of the information gathered and of the results of the analysis carried out so far, the directors did not allocate any specific provisions during 2012. In the rest of the paragraph are described the effects, if any, of such proceedings on the existing contracts. 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 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 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 Group is defendant as, based on current knowledge, these disputes are reasonably expected to be resolved satisfactorily and without significantly impacting results.
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 dispute initiated by Telespazio SpA against the Agenzia delle Entrate (Tax Revenue Agency), Rome District 4 challenging a tax assessment regarding direct income taxation (IIDD) for the year 2000, which contained a demand for a total of about €mil. 30 consisting of additional taxes, penalties and interest. The notice of assessment, served on 27 November 2006, relates to a tax audit completed in 2001 in which the Tax Authority challenged the deductibility of the loss regarding receivables from a foreign company taken by Telespazio SpA within the context of a non-recourse sale carried out following many fruitless attempts to recover these receivables. Specifically, the Tax Authority, deeming the actions undertaken by the company to forcibly collect the receivables and therefore the evidence of the foreign debtor's solvency or lack thereof to be insufficient, found that the requirements of certainty and precision under the law were not met to allow the loss to be fully deducted, regardless of the fact that the loss was conclusively realised by Telespazio SpA within the context of the non-recourse sale of the receivables arguing that sale *per se* guarantees certainty only of the legal loss of the receivable but not the financial loss. The court of first instance upheld the company's appeal with ruling filed on 25 September 2008. The ruling was appealed by the Tax Authority, an appeal the Regional Tax Commission denied on 30 March 2010. In the meantime, the Tax Authority has filed an appeal with the Court of Cassation against which the company has filed a counter-appeal and a cross-appeal;

- the appeal filed by AgustaWestland SpA against the 2006 IRES and IRAP assessment report issued by the Lombardy Regional tax office, disallowing the deductibility of certain costs (without however contesting the relevant transactions) that allegedly did not meet the requirements of Article 110, paragraph 11 of the Consolidated Tax Act. According to the tax authorities, their correct treatment would lead to an increase in taxes of approximately €mil. 8.5 (excluding interest), to which penalties of an equal amount are to be added. The company believes that its treatment is correct and filed an appeal to the Milan Local Tax Court on 27 March 2012;

- the dispute initiated by SELEX Sistemi Integrati SpA against the 2007 IRES and IRAP tax assessment reports issued by the Lazio Regional tax office at the end of a general audit on this year, disallowing the deductibility of certain costs that allegedly did not meet the requirements of Article 110, paragraph 11 of the Consolidated Tax Act. These costs related to a specific case for which the Agency itself approved a specific request for a private letter ruling (*istanza di interpello*) submitted by the company in 2004. By the tax assessment reports in question, the tax office has refused to acknowledge costs of about €mil. 5, whose treatment, according to the arguments submitted by the Agency, would lead to an increase in taxes of approximately €mil. 1.7 (excluding interest), to which penalties of an equal amount are to be added. The company has promptly filed an appeal;

- with reference to 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, which was closed in favour of the Group after more than five years, due to the lack of jurisdiction of the Court involved, in May 2007, Reid served Finmeccanica and Alcatel Alenia Space Italia (now Thales Alenia Space Italia) 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.
  Finmeccanica appeared before the Court on 29 June 2007, filing 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

concerning the lack of jurisdiction of the Court of Delaware. Therefore, the discovery phase commenced and is still ongoing. In this respect, after having made the decision reserved after the hearing held on 29 February 2012, the judged allowed the testimonial evidence requested by the counterparty, with an order of 25 May 2012. Witnesses are currently being examined;

- G.M.R. SpA, as the sole shareholder of Firema Trasporti, commenced legal proceedings against Finmeccanica and AnsaldoBreda before the Santa Maria Capua Vetere Court in 2011, 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 Transporti 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 evidently unfounded and asserting, on a preliminary basis, a lack of jurisdiction of the Court appealed to.
  The court, during the hearing held on 30 October 2012, set the hearing for 4 June 2013 to specify the conclusions relating to the objection raised on the lack of jurisdiction;

- in January 2009, Pont Ventoux Scrl commenced an arbitration procedure against the temporary consortium (ATI) set up by Ansaldo Energia (lead contractor, 31%), Alstom Power Italia SpA (17%) and Voith Siemens Hydro Power Generation SpA (52%) in connection with a contract for the provision of two power generators, for a total amount of approximately €mil. 15, as part of the project for the construction of a hydro power plant in Val di Susa (Italy). The claimant requests compensation of alleged direct and indirect damage, and harm to its image, totalling approximately €mil. 90, asserting that the clause limiting the ATI's liability to the contractual consideration is not applicable due to gross negligence. Ansaldo Energia holds that it has duly provided services and fulfilled its lead contractor's duties with utmost diligence and that Pont Ventoux's allegations of delays and breach of contract are unfounded. The court-appointed expert's report was filed on 6 June 2011. The parties subsequently exchanged their briefs. Once the investigation phase of the proceedings was completed, the time limit for filing the award, which had been initially set at 31 December 2012, was postponed to 31 May 2013;

- in September 2011, the French company DCNS commenced an arbitration procedure before the Paris ICC against WASS in relation to the agreement signed by the parties in 2008 for the development of the F21 heavy torpedo for the French Navy Ministry.
  The dispute followed the suspension of supply by WASS, due to the suspension of the export licence by the Italian Ministry of Foreign Affairs. The measure was taken on the basis of a possible Italian-French agreement for the exchange of technology between the two Countries. However, the agreement has never been reached. Therefore, DCNS commenced the arbitration procedure requesting that the agreement be declared terminated due to WASS' default and claiming damages of €mil. 50. WASS appeared before the arbitration tribunal, objecting that the supervening impossibility of performance was due to reasons not attributable thereto and raising, by way of counterclaim, the counterparty's default, therefore claiming damages of €mil. 55.
  The parties reached an agreement on 26 March 2012, whereby DCNS undertakes that it will not use the technology developed for the 2008 agreement. Following the agreement, WASS discontinued the precautionary motion filed as part of the arbitration procedure.
  In light of the documentation produced during the investigation phase which was completed in December 2012, further contractual breaches by DCNS emerged: therefore, WASS increased its counterclaim up to €mil. 75.

During the hearing of 23 January 2013, the Arbitration Board set the final hearing of the proceedings for 24 April 2013, granting the parties a deadline for the filing of further pleadings. Through the act of 29 March 2013 DCNS increased up to €mil. 67 the amount claimed as compensation for demage, deducing to have incurred higher costs due to WASS non-compliance;

- on 7 February 2013, Simmi SpA, subject to a composition with creditors, brought an action before the Civil Court of Nola against AnsaldoBreda, in order to ask the Court to establish the latter's liability and to order it to pay compensation for damage, to be quantified in the course of the proceedings, which is allegedly estimated at €mil. 51.
  Specifically, Simmi SpA states that, within the business relationship that was maintained between the parties for a long time, AnsaldoBreda took advantage of its own bargaining power to impose Simmi contractual supply conditions which were unfairly burdensome. This conduct of AnsaldoBreda, which according to the opposite party constituted an abuse of economic dependence, would have caused, over time, growing financial difficulties to Simmi, such as to force it to start a procedure of composition with creditors.

  AnsaldoBreda, in appearing before the court, raised a preliminary objection concerning the lack of territorial jurisdiction of the Court appealed to, and asked the Court to reject the plaintiff's claims as they were unfounded as of fact and as of right. At the first hearing of the proceedings held on 28 March 2013, the Investigating Judge reserved the right to rule on the demurrer concerning any lack of territorial jurisdiction of the Court of Nola submitted by AnsaldoBreda. By an order dated 12 April 2013, the Court of Nola lifted the above-mentioned reserve and fully accepted the defence arguments submitted by AnsaldoBreda; then, it stated its own lack of territorial jurisdiction and referred the case to the Court of Naples, while granting a time limit of three months from the service of the above-mentioned order to resume the proceedings;

- on 4 March 2013, Mr Pio Maria Deiana, on his own account and in his capacity as director of Janua Dei Srl and of Società Progetto Cina Srl, served a writ of summons on Finmeccanica to appear before the Court of Rome, in order to ask the Court to establish the invalidity of the settlement agreement signed in December 2000; by this agreement, 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) had settled, by way of conciliation, the proceedings brought by these companies before the Court of Genoa in 1998, in order to ask the Court to establish breach of contracts on the part of Ansaldo Industria within agreements aimed at a commercial cooperation for 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 is submitted against Finmeccanica, making reference to a general liability of the same arising from the control exercised by it on Ansaldo Industria at the time of the events being disputed. The required damage, to be quantified in the course of the proceedings, is allegedly estimated at €mil. 2,700. Finmeccanica will appear before the Court and will ask it to reject the plaintiff's claims as they are fully unfounded as of fact and as of law. The date of the first hearing of the proceedings has been set at 25 July 2013.

Furthermore, 2012 saw, without any charges for Finmeccanica, the conclusion of the dispute initiated by Finmeccanica and by the then SELEX Elsag (now Selex ES) before the Court of Rome in October 2010. The dispute was aimed at having the sellers' and former directors' liability established following some irregularities contested by the Tax revenue Agency against the then Datamat for years 2003 and 2004 and at obtaining the consequent compensation for any damage suffered, which has been set at an amount of between €mil. 24 and €mil. 37. In March

2012 SELEX Elsag (now Selex ES) reached an agreement with the Tax Authority and settled the contested irregularities by paying the lower amount of €mil 1.1. The proceedings have been continued because of some objections raised as to the amount of the reimbursement due to Finmeccanica which, in the opinion of the opposite party, should have been limited to 41% on the basis of a clause contained in the contract of sale of the Datamat shares. In December 2012, a settlement agreement was reached according to which the sellers acknowledged, in favour of Finmeccanica, 41% of the amount agreed on with the Tax Authority, as well as the amount of €thou. 180. Therefore, the proceedings will be abandoned.

Moreover, given their complexity, their cutting-edge technological content and the nature of 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. Specifically, the following contracts in progress are affected by uncertainties and issues under discussion with customers that have not been provided for at 31 December 2012:

- contracts of the vehicle line of the Transportation business segment, facing difficulties in meeting customer specifications in due time, for which the Group significantly increased, in 2012, its estimated costs to be incurred. However, the issues related to the achievement of the contractual performance are such that it is possible that losses on these contracts will still increase in the future;
- the contract signed between the Ministry for the Environment, Land and Sea and SELEX Service Management SpA in December 2009 in relation to the design, management and maintenance of the System for Waste Tracking (SISTRI programme), the effects of which were suspended by Legislative Decree 83 of 22 June 2012, as converted by Law 134 of 7 August 2012, which provided for the postponement of the entry into operation of the system, in order to allow further administrative and functional investigations as to the project by 30 June 2013. In consideration of this situation, during the financial year the company provided the Ministry with its wider and more effective collaboration in carrying out the prescribed investigations in order to promptly restart the system, thus reducing any adverse economic and financial effect that arose from said suspension. The investigations performed did not reveal any deficiency in the system, which has been already used on an experimental basis, confirming that the programme should be promptly resumed. By a Decree issued by the Ministry for the Environment on 20 March 2013 and published on 19 April 2013, it was envisaged to gradually restart the programme, according to the hazard of waste and the size of the companies. Specifically, the Decree provides for the producers of hazardous waste with more than ten employees and for any entities and companies that manage hazardous waste to use the SISTRI system starting from 1 October 2013, whereas the system is expected to start for any other companies on 3 March 2014. 30 April 2013 will saw the start of procedures to control the updating of the data of any companies for which the system will start in October; these procedures are expected to be completed by 30 September. From 30 September to 28 February 2014 a similar check will be carried out for any other companies. Finally, on 17 April 2013 SELEX Service Management SpA was served with an order issued by the Judge for Preliminary Investigations of the Court of Naples, which provided, among others, for the application of the warrant for remand in custody against the former Chief Executive Officer of the company for the alleged offences related to the relationships with suppliers in the context of the programme under examination, with particular reference to the actual provision of such services. For these events the Judge for Preliminary Investigations ordered also preventive seizure of the sum deposited in the company's accounts that the investigated person allegedly subtracted to the Tax Office equal to €mil. 7. Against such provisions the company started the necessary analyses, also with the support of independent experts.

At 31 December 2012, the programme reached a percentage of completion of about 70% compared to a total contract value of €mil. 325. The assets relating to the programme recognised at 31 December 2012 are as follows:

Inventories	23
Inventories awaiting contracting	6
Receivables for invoices issued	54
Receivables for invoices to be issued	9

Moreover, the company factored receivables without recourse, which were then derecognised, totalling €mil. 107, of which €mil. 78 has not been collected from the factors. The related factoring agreements include all the typical clauses governing assignments of receivables without recourse against the assignor, without any clauses for the repurchase of the same, unless when the non-existence of the debt or of its characteristics, or the falsity of the statements made by the assignor at the time of the assignment, is demonstrated. The agreements also provide for the assignor's obligation to cooperate with the assignee in order to support debt collection; in this framework, and in order to allow the best protection of the factors' rights in any jurisdiction that is considered to be appropriate against the Ministry, the company subsequently took steps to keep the assignees informed of the development of all the contractual circumstances.
Based on the information currently available and in the light of the above-mentioned provision to restart the programme, these assets are deemed to be completely recoverable;

- the supply contract for 12 helicopters signed between AgustaWestland International Ltd and the Indian Ministry of Defence in 2010, which is the object of investigations before the Public Prosecutor's Office of Busto Arsizio, which is described more in detail in the Corporate Governance Report and Shareholder Structure. The Ministry, by letter of 15 February 2013, asked the company to provide clarifications about the alleged corrupt activities that would have been committed in breach of the provisions under the supply contract. In the letter, the Indian Government notified the suspension of payments and also put forward a possible cancellation of the contract, in the event that the company is not able to provide evidence aimed at excluding its involvement in the alleged corrupt conduct. The company promptly provided the Indian Authorities with said clarifications and held that its conduct fully complied with the contractual provisions and relevant legislation. However, it should be noted that at the end of February the Indian Central Bureau of Investigation (CBI) started investigations on this affair, which was to involve eleven individuals and four companies.
  With reference to this order, at 31 December 2012 the Group recognised, against a contractual value equal to about €mil. 560, accumulated revenue equal to €mil. 329, compared to overall receipts equal to €mil. 250 (covered by bank guarantees to which €mil. 28 of performance bonds are added). In accordance with the time schedule provided for as per the contract, three out of twelve helicopters were delivered, in addition to spare parts, support equipment and training and technical material, already accepted by the customer. From a financial perspective, the activities referable to the contract under consideration were equal to €mil. 203 (including receivables and work in progress), against advances equal to €mil. 100. The recoverability of these assets is significantly affected by the regular continuation of the contractual relationship. However, the assessment of impacts, if any, arising from the threatened termination of the contract depends on the contractual clause that will be possibly referred to by the opposite party. Specifically, should the Indian Ministry intend to submit a request for termination of the contract, the supply would no longer be implemented in the future and the parties would be required to assess any activities that have already been completed and any activities that are still ongoing, through the definition of specific claims. Therefore, in this context, the recoverability of any recognised assets would be connected to the definition of said claims by controverting with the opposite party. On the contrary, should the Government submit a request for cancellation, the overall supply would be cancelled on a retroactive basis, resulting in the reimbursement to the opposite party of any amounts received so far, including interest, as well as in the possible sentence to pay

additional amounts by way of damage in favour of the customer. However, in the latter case, in order to determine the impact, the possibility of re-using in other programmes what has been produced in the performance of the contract in question should also be considered. To date, in the absence of specific objections that the customer could submit before the court, based on the analyses performed, the company considers that its own claims are fully valid. Any analyses and assessments carried out will be updated after any future developments of the case.

23. Employee benefit obligations

	31 December 2012			31 December 2011		
	Liabilities	Assets	Net	Liabilities	Assets	Net
Severance pay provision	542	-	542	512	-	512
Defined-benefit plans	400	111	289	325	102	223
Portion of the MBDA joint venture pension plan	101	-	101	92	-	92
Defined contribution plans	27	-	27	27	-	27
	1,070	111	959	956	102	854

The "severance pay provision" (TFR) refers to the amount accrued till 2006 which is the year of its transformation into a defined contribution plan.
With the defined-benefit plans, the Group assumes the obligation to ensure a specific retirement benefit level for employees participating in the plan, guaranteeing to make good any negative difference between value of plan assets and the agreed-upon benefit level.
Liabilities relating to defined-benefit retirement plans include the share of the total defined-benefit retirement plans managed by BAE Systems Plc allocable to the MBDA joint venture. The valuation of these liabilities entailed the recognition of actuarial losses in equity of €mil. 21 and a cost of €mil. 6 in the income statement (Note 32).

The detail of the defined-benefit retirement plans is as follows:

	31 December 2012	31 December 2011
GBP area	47	(14)
Euro area	126	110
USD area	98	113
Other	18	14
	289	223

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

	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008
Present value of obligations	2,035	1,798	1,567	1,409	1,055
Fair value of plan assets	(1,746)	(1,575)	(1,258)	(1,038)	(846)
Plan deficit	**(289)**	**(223)**	**(309)**	**(371)**	**(209)**
of which related to:					
- net liabilities	(400)	(325)	(341)	(382)	(248)
- net assets	111	102	32	11	39

The increased net deficit relates substantially to the AgustaWestland plan (€mil. 69).

Changes in the defined-benefit plans are shown below:

31 December 2012

	Present value of the obligation	Present value of the the asset	Net liability defined-benefit plans
Opening balance	**1,798**	**1,575**	**223**
Costs of benefits paid	61	-	**61**
Interest expense	85	-	**85**
Expected return on plan assets	-	80	**(80)**
Actuarial losses/(gains) through equity	102	16	**86**
Increases from business combinations	-	-	**-**
Contributions paid	-	81	**(81)**
Contributions from other plan participants	23	23	**-**
Exchange-rate differences	27	29	**(2)**
Benefits paid	(64)	(59)	**(5)**
Other changes	3	1	**2**
Closing balance	2,035	1,746	289
of which related to:			
- net liabilities	1,602	1,202	**400**
- net assets	433	544	**(111)**

31 December 2011

	Present value of the obligation	Present value of the the asset	Net liability defined-benefit plans
Opening balance	**1,567**	**1,258**	**309**
Costs of benefits paid	24	-	**24**
Interest expense	83	-	**83**
Expected return on plan assets	-	80	**(80)**
Actuarial losses/(gains) through equity	105	134	**(29)**
Increases from business combinations	(1)	-	**(1)**
Contributions paid	-	78	**(78)**
Contributions from other plan participants	21	21	**-**
Exchange-rate differences	51	49	**2**
Benefits paid	(51)	(46)	**(5)**
Other changes	(1)	1	**(2)**
Closing balance	1,798	1,575	223
of which related to:			
- net liabilities	1,425	1,100	**325**
- net assets	373	475	**(102)**

The amount recognised in the income statement for defined-benefit plans was calculated as follows:

	31 December 2012	31 December 2011
Costs of current services	63	53
Costs of past services	(2)	(20)
Curtailment	-	(9)
Costs booked as "personnel expenses" (Note 32)	**61**	**24**
Interest expense	85	83
Expected return on plan assets	(80)	(80)
Costs/(Income) booked as "financial income/expense"	**5**	**3**
Total cost to income statement	66	27

Changes in severance pay provision are shown below:

	31 December 2012	31 December 2011
Opening balance	**512**	**610**
Costs of benefits paid	3	3
Interest expense	18	19
Actuarial losses/(gains) through equity	79	(31)
Increases from business combinations	-	(16)
Benefits paid	(69)	(73)
Other changes	(1)	-
Closing balance	542	512

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 2012	31 December 2011	31 December 2012	31 December 2011
Discount rate (annual)	2.2%	3.5%	3.57%-4.7%	2.95%-5.11%
Expected return on plan assets	-	-	3.7%-8.7%	3.27%-7.7%
Rate of salary increase	-	-	3.0%-5.0%	2.0%-4.85%
Rate of turnover	2%-7.9%	2.2%-7.1%	2.3%-9.6%	2.41%-9.24%

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

Assets of defined-benefit plans include:

	31 December 2012	31 December 2011
Shares	352	320
Real properties	9	40
Bonds	604	587
Cash or equivalents	226	150
Other	555	478
	1,746	1,575

24. Other current and non-current liabilities

	Non-current		Current	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Employee obligations	68	56	412	462
Deferred income	43	51	89	102
Amounts due to social security institutions	6	6	289	288
Payables to MED (Law 808/85)	287	259	52	63
Payables to MED for monopoly rights (Law 808/85)	103	112	21	36
Other liabilities (Law 808/85)	158	119	-	-
Indirect tax liabilities	-	-	173	219
Other payables	295	333	588	451
Other payables to related parties (Note 13)	-	-	53	41
	960	936	1,677	1,662

The payables to the Ministry for Economic Development (MED) relate to management costs accrued under Law 808/85 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 808/85. The payables are settled according to a repayment schedule and are not subject to borrowing costs.

"Other liabilities (Law 808/85)" 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 payable due to Bell Helicopter of €mil. 289 (€mil. 336 at 31 December 2011), of which €mil. 248 is recognised under non-current liabilities (€mil. 294 at 31 December 2011). €mil. 18 (€mil. 55 at 31 December 2011) of this payable relates to the "BAAC reorganisation", entailing the acquisition of all manufacturing and marketing rights for the AW139 helicopter previously held by Bell Helicopter (25%) and €mil. 271 (€mil. 281 at 31 December 2011) to the agreements reached in November 2011 for the acquisition of 100% of the AW609 programme, in which the Group already had a 39.7% stake.
This amount also includes the reasonably estimated potential consideration due to Bell Helicopter based on the commercial success of the programme.

25. Trade payables

	31 December 2012	31 December 2011
Trade payables	5,002	4,789
Trade payables to related parties (Note 13)	193	160
	5,195	4,949

26. Derivatives

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

	31 December 2012		31 December 2011	
	Assets	Liabilities	Assets	Liabilities
Forward forex instruments	69	65	101	144
Embedded derivatives	9	-	30	-
Interest rate swaps	29	17	36	15
	107	82	167	159

The small change in the fair value of forward instruments is due to the scarce volatility and related stability of the US dollar against the euro: the exchange rate went from 1.2939 at 31 December 2011 to 1.3194 at 31 December 2012.

The interest rate swaps with a total notional value of €mil. 1,375 (€mil 1,375 at 31 December 2011) were placed into effect to hedge part of bonds issued.

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

		Fair value at 31 December 2012	Fair value at 31 December 2011
Assets			
Interest rate swaps			
	Trading	27	35
	Fair value hedge	-	-
	Cash flow hedge	2	1
Currency forwards/swaps/options			
	Trading	-	-
	Fair value hedge	9	17
	Cash flow hedge	60	84
Embedded derivatives (trading)		9	30
Liabilities			
Interest rate swaps			
	Trading	4	3
	Fair value hedge	-	-
	Cash flow hedge	13	12
Currency forwards/swaps/options			
	Trading	-	-
	Fair value hedge	2	-
	Cash flow hedge	63	144

27. 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 2012		31 December 2011	
	Operat. lease as lessee	Operat. lease as lessor	Operat. lease as lessee	Operat. lease as lessor
Within 1 year	109	2	147	3
2 to 5 years	242	7	230	2
Beyond 5 years	178	-	166	1
	529	9	543	6

Other commitments

The Group is active, through the Telespazio joint venture, in trading satellite capacity and providing related services. As part of this, Telespazio acquired satellite capacity from primary operators, using it to deliver its services to television or telecommunications industry operators through long-term sales contracts. Purchase and sale commitments covered by contract are as follows:

	31 December 2012		31 December 2011	
	Purchase of satellite capacity	Sale of satellite capacity	Purchase of satellite capacity	Sale of satellite capacity
Within 1 year	46	36	38	38
2 to 5 years	148	80	120	79
Beyond 5 years	80	25	89	38
	274	141	247	155

Guarantees

At 31 December 2012, the Group had the following outstanding guarantees:

	31 December 2012	31 December 2011
Guarantees in favour of third parties	22,736	22,652
Other unsecured guarantees given to third parties	604	597
Unsecured guarantees given	23,340	23,249

28. Transactions with related parties

The income statement transactions with Group's related parties for 2012 and 2011 are described below:

31 December 2012

	Revenue	Other operating income	Costs	Other operating expenses	Financial income	Financial expense
Unconsolidated subsidiaries						
Finmeccanica North America Inc.			10			
Finmeccanica UK Ltd			11			
Sesm-Soluzioni Evolute per la Sistemistica e i Modelli Scarl			6			
Other companies with unit amount lower than €mil. 5	1		6			
Associates						
Eurofighter Jagdflugzeug GmbH	880					
NHIndustries SAS	270					
Orizzonte Sistemi Navali SpA	158					
Iveco - OTO Melara Scarl	127		3	2		3
Metro 5 SpA	36		2			
Eurofighter Simulation Sistems GmbH	11		1			
Macchi Hurel Dubois SAS	26					
Fata Gulf CO. W.L.L						
Abu Dhabi Systems Integration LLC	6					
Eurosysnav SAS						
A4Essor SAS						
Euromids SAS	9					
Joint Stock Company Sukhoi Civil Aircraft	5		18			1
Consorzio Start SpA	2		31			
Avio SpA	2		22			
Automation Integrated Solution SpA			9			
Other companies with unit amount lower than €mil. 5	16		8			
Joint ventures (*)						
MBDA SAS	68					4
GIE-ATR	112		23	2		
Thales Alenia Space SAS	31		13			1
Balfour Beatty Ansaldo Systems JV SDN BHD	12					
Telespazio SpA	1		11		1	
Rotorsim Srl	1	3	8			
Ansaldo Energia SpA	7		1		4	
Spaceopal GmbH	5					
Other companies with unit amount lower than €mil. 5	1					
Consortiums (**) and other						
Saturno	9		2			
S3Log	5					
Other with unit amount lower than €mil. 5	5	2	7			
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato Italiane	315		7	4		1
Other	149	1	26			2
Total	**2,270**	**6**	**225**	**8**	**5**	**12**
% against total for the year	*13.2*	*0.7*	*1.9*	*0.8*	*0.8*	*1.2*

(*) Amounts refer to the portion not eliminated for proportionate consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.

31 December 2011

	Revenue	Other operating income	Costs	Other operating expenses	Financial income	Financial expense
Unconsolidated subsidiaries						
Finmeccanica North America Inc.			12			
Finmeccanica UK Ltd			9			
Sesm-Soluzioni Evolute per la Sistemistica e i Modelli Scarl			6			
Other companies with unit amount lower than €mil. 5	2		7			
Associates						
Eurofighter Jagdflugzeug GmbH	800					1
NHIndustries Sarl	309					
Orizzonte Sistemi Navali SpA	153					
Iveco - OTO Melara Scarl	127		2	2		5
Metro 5 SpA	11		1			
Eurofighter Simulation Sistems GmbH	17					
Macchi Hurel Dubois SAS	17					
Fata Gulf CO. W.L.L.			8			
Abu Dhabi Systems Integration LLC	8					
Eurosysnav SAS	5					
A4Essor SAS	8					
Euromids SAS	6					
Joint Stock Company Sukhoi Civil Aircraft						
Consorzio Start SpA	2		44			
Avio SpA	2		16			
Automation Integrated Solution SpA			7			
Other companies with unit amount lower than €mil. 5	12	1	6			
Joint ventures (*)						
MBDA SAS	106					6
GIE-ATR	98		7			
Thales Alenia Space SAS	41		11			1
Balfour Beatty Ansaldo Systems JV SDN BHD	10					
Telespazio SpA	1		7		1	
Rotorsim Srl		2	7			
Ansaldo Energia SpA	5	5	1			1
Ansaldo Energia Holding SpA					5	
Other companies with unit amount lower than €mil. 5	6		2			
Consortiums (**) and other						
Saturno	11		2			
Other with unit amount lower than €mil. 5	11		4			
Companies subject to the control or considerable influence of the MEF						
Ferrovie dello Stato Italiane	275		6			
Other	150		39			
Total	**2,193**	**8**	**204**	**2**	**6**	**14**
% against total for the year	*12.7*	*1.4*	*1.7*	*0.09*	*0.6*	*1.4*

(*) Amounts refer to the portion not eliminated for proportionate consolidation.
(**) Consortiums over which the Group exercises considerable influence or which are subject to joint control.

The most significant revenues relate to the non-eliminated portion of receivables from joint ventures, and to:

- Eurofighter totalling €mil. 880 (€mil. 800 in 2011) in the scope of the EFA aeronautical programme;
- receivables from the Iveco - OTO Melara consortium amounting to €mil. 127 (€mil. 127 in 2011) for production and post-sales assistance on defence and security ground vehicles;
- receivables from NHIndustries amounting to €mil. 270 (€mil. 309 in 2011) in the scope of NH90 helicopter programme;
- receivables from Orizzonte Sistemi Navali amounting to €mil. 158 (€mil. 153 in 2011) relating to the FREMM programme;
- receivables from the Ferrovie dello Stato Italiane group amounting to €mil. 315 (€mil. 275 in 2011) for the supply of trains and systems.

29. Revenue

	31 December 2012	31 December 2011
Revenue from sales	11,806	11,119
Revenue from services	3,740	3,684
	15,546	**14,803**
Change in work in progress	(598)	322
Revenue from related parties (Note 28)	2,270	2,193
Total revenue	17,218	17,318

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

30. Other operating income/(expenses)

	2012		2011	
	Income	Expense	Income	Expense
Grants for research and development costs (*)	117	-	60	-
Other operating grants (*)	23	-	29	-
Gains/(losses) on sales of intangible asset, property, plant and equipment	5	(5)	2	(2)
Reversals/(accruals) to provisions for risks and final losses on orders	290	(692)	88	(1,845)
Reversal of impairment of receivables	28	-	12	-
Exchange-rate difference on operating items	190	(198)	189	(199)
Insurance reimbursements	26	-	87	-
Reorganisation costs	1	(27)	-	(44)
Indirect taxes	-	(60)		(50)
Other operating income/(expenses)	88	(124)	78	(119)
Other operating income/(expenses) from related parties	6	(8)	8	(2)
	553	(2,261)	627	(801)

(*) To which receivables for grants assessed by the grantor in relation to capitalised costs of €mil. 70 (€mil. 43 at 31 December 2011) are added, plus the assessment of "non-recurring costs pending under Law 808/85" (Note 14) equal to €mil. 85 (€mil. 151 at 31 December 2011).

Reorganisation costs also include reversals and accruals to the "provision for reorganisation risks". Costs and accruals relating to personnel are found under personnel expense (Note 32). The significant decrease in net expenses was affected by large accruals made in 2011 in relation to contractual charges and final losses concerning, in particular, the Aeronautics and Transportation sectors.

31. Purchases and services

	2012	2011
Purchase of materials from third parties	5,988	6,038
Change in inventories	(194)	(70)
Costs for purchases from related parties (Note 28)	66	24
Total purchases	**5,860**	**5,992**
Services rendered by third parties	5,321	5,493
Costs of rents and operating leases	175	132
Royalties	31	55
Software fees	12	17
Rental fees	45	48
Services rendered by related parties (Note 28)	159	180
Total services	**5,743**	**5,925**

32. Personnel expense

	2012	2011
Wages and salaries	3,430	3,492
Social security contributions	765	792
Costs related to defined-contribution plans	138	142
Costs of severance pay provision (Note 23)	3	3
Costs related to other defined-benefit plans (Note 23)	61	24
Employee disputes	2	6
Restructuring costs - net	126	217
Other costs	141	172
	4,666	**4,848**

Personnel expense decreased by €mil. 182 in comparison with the prior year.
The overall change is specifically attributable to the decrease in the workforce, also as a result of the change in the consolidation method applied to the Ansaldo Energia group that, beginning in the second half of 2011, is consolidated proportionally and to a decrease in restructuring costs and other early retirement incentives that were partially offset by an increase in costs for other defined-benefit plans, mainly in the UK component and in the seniority bonuses, and the increase in value against the euro of the Group's other major currencies (in particular US dollar and pound sterling).
In particular, the average workforce at 31 December 2012 numbered 67,399 as compared with 71,602 in 2011. The net decrease of 4,203 is mainly due to restructuring and industrial reorganisation processes, started as early as last year, specifically in the Aeronautics and Defence and Security Electronics segments, as well as the change in the scope of consolidation mostly referable to the partial sale of Ansaldo Energia. Below is the average workforce broken down by category:

	2012	2011	Changes
Senior managers (*)	2,112	2,201	(89)
Middle managers	7,790	7,808	(18)
Clerical employees	40,073	43,210	(3,137)
Manual labourers (**)	17,424	18,383	(959)
Total	**67,399**	**71,602**	**(4,203)**

(*) Includes pilots.
(**) Includes temporary employees.

The total workforce went from 70,474 at 31 December 2011 to 67,408 at 31 December 2012, with a net decrease of 3,066 due to a decrease across almost all the Group's business segments, particularly Helicopters, Aeronautics, Defence and Security Electronics and Transportation, mainly as a result of reorganisations. In particular, the reduction concerned the foreign component of the Group (about 74% of the total decrease). Below is the total workforce broken down by category:

	31 December 2012	31 December 2011	Net change
Senior managers (*)	2,058	2,208	(150)
Middle managers	7,771	8,169	(398)
Clerical employees	40,371	41,901	(1,530)
Manual labourers (**)	17,208	18,196	(988)
Total	67,408	70,474	(3,066)

(*) Includes pilots.
(**) Includes temporary employees.

Restructuring costs equal to €mil. 126 (€mil. 217 in 2011) mainly related to Defence and Security Electronics (€mil. 80), Transportation (€mil. 31) and Space (€mil. 12) for costs incurred and provisions allocated against on-going reorganisation activities at various Group companies.

33. Amortisation, depreciation and impairment losses

	2012	2011
Amortisation and depreciation:		
• intangible assets	303	282
• property, plant and equipment	388	388
	691	**670**
Impairment		
• non-current assets and investment properties	16	288
• goodwill	1,148	701
• operating receivables	41	122
	1,205	**1,111**
Total amortisation, depreciation and impairment losses	1,896	1,781

34. Internal work capitalised

	2012	2011
Personnel expense	209	233
Materials	105	79
Other costs	192	183
	506	495

35. Financial income and expense

Below is a breakdown of financial income and expense:

	2012			2011		
	Income	Expense	Net	Income	Expense	Net
Capital gain on sale of Ansaldo Energia	-	-	-	422	-	422
Interest	19	(306)	(287)	21	(303)	(282)
Premiums (paid) received on IRS	46	(30)	16	90	(31)	59
Commissions (including commissions on non-recourse items)	1	(98)	(97)	-	(57)	(57)
Fair value gains/(losses) through profit or loss	177	(54)	123	38	(85)	(47)
Premiums (paid) received on forwards	16	(12)	4	7	(10)	(3)
Exchange-rate differences	329	(344)	(15)	382	(398)	(16)
Interest cost on defined-benefit plans (less expected returns on plan assets) (Note 23)	-	(25)	(25)	-	(22)	(22)
Financial income/(expense) - related parties (Note 28)	5	(12)	(7)	6	(14)	(8)
Other financial income and expense	22	(83)	(61)	44	(66)	(22)
	615	(964)	(349)	1,010	(986)	24

More specifically:

- net interest expenses mainly include €mil. 258 (€mil. 264 in 2011) of interest on bonds, €mil. 14 (€mil. 15 in 2011) related to the interest on the Parent's EIB loan and €mil. 13 (€mil. 5 in 2011) concerning the revolving credit line, following the greater utilisation of such line and the increase in cost;
- net premiums received on interest rate swaps (IRS) benefitted, also in 2012, from the low interest rates on transactions entered into to diversify exposure on fixed-rate borrowings, particularly the bond maturing in 2013. The 2011 figure benefitted from a €mil. 36 gain deriving from the early termination of interest rate swap positions totalling €mil. 250 for bonds maturing in 2025;
- the increase in commissions is due to higher charges on non-recourse sales, as a result of a higher volume of sales (€mil. 1,283 in 2012 compared to €mil. 825 in 2011) and of the nature of the receivables assigned. Most of the latter are medium/long-term non-trade receivables with reference to the current year and in comparison with 2011;
- net income arising from the application of fair value to the income statement break down as follows:

	2012			2011		
	Income	Costs	Net	Income	Costs	Net
Foreign currency swaps	5	(6)	(1)	8	(21)	(13)
Interest rate swaps	-	(9)	(9)	-	(27)	(27)
Ineffective portion of hedging swaps	21	(15)	6	17	(13)	4
Embedded derivatives	-	(24)	(24)	-	(11)	(11)
Other equity derivatives	-	-	-	13	(13)	-
Gains on FVTPL securities	151	-	151	-	-	-
	177	(54)	123	38	(85)	(47)

› expenses deriving from fair value on interest rate swaps reflect, almost exclusively, the value of the transactions expiring in 2013 whose very short duration is no longer subject to the volatility of the interest rates;

› the embedded derivatives relate to commercial contracts denominated in currencies other than the currencies of the contractually involved parties and those generally used in the markets of reference. This component, separated from the commercial contract and valued at fair value through the income statement, did not have any financial impact. The underlying transactions will mostly end in 2014;
› gains on FVTPL securities include the revaluation, as detailed in Note 14, of the hybrid financial instruments of BCV Investments SA, the parent company of the Avio group, following the agreements reached about the sale of the aircraft engines division of Avio;

- other net financial expense mainly refers to the discounting effects on non-current liabilities. The comparative data was affected by the expenses related to the costs arising from the buy-back of a portion of existing bonds issues and to the write-down of financial receivables.

36. Income taxes

Income tax expense can be broken down as follows:

	2012	2011
IRES	(182)	(152)
IRAP	(98)	(79)
Benefit under consolidated tax mechanism	163	127
Other income taxes	(127)	(132)
Tax related to previous periods	83	2
Provisions for tax disputes	(51)	(30)
Deferred tax - net	245	410
	33	**146**

Income from adopting the consolidated tax mechanism for IRES purposes (a tax introduced by Legislative Decree 344/03) from 1 January 2004 was considered in the calculation of income taxes. According to this mechanism, there is only one taxable income for all the Group companies included in the scope of consolidation.
This option makes it possible to offset the tax results (taxable income and losses in the consolidation period), for the IRES purposes, of the participating companies. As a result, the income statement includes the benefit resulting from the losses for the period up to the limit of the taxable income included in the consolidated tax base. This income was then allocated to all the consolidated companies reporting a fiscal loss.
Current taxes related to previous periods mainly include the positive effect from the recognition of the receivable for the refund of the higher income taxes paid by the Group due to the non-deduction of IRAP on prior periods' personnel expenses, as provided for in Law Decree 16 of 2012.

Following is an analysis of the difference between the theoretical and effective tax rate for 2012 and 2011:

	2012	2011
Profit/(Loss) before income taxes	(819)	(2,452)
Percentage impact of Italian and foreign taxes		
IRES (net of tax receipts)	(2.32)%	(1.02)%
IRAP	(11.96)%	(3.22)%
Other income taxes	(15.51)%	(5.39)%
Substitute taxes		
Tax related to previous periods	10.13%	0.08%
Provisions for tax disputes	(6.22)%	(1.22)%
Deferred tax - net	29.91%	16.73%
Effective rate	**4.03%**	**5.96%**

Deferred taxes and their related receivables and payables at 31 December 2012 were the result of the following temporary differences:

	Income statement 2012			**Income statement 2011**		
	Income	Expense	Net	Income	Expense	Net
Deferred tax on tax losses	189	48	141	17	22	(5)
Property, plant and equipment and intangible assets	92	35	57	67	25	42
Financial assets and liabilities	-	-	-	-	-	-
Severance and retirement benefits	5	11	(6)	2	35	(33)
Provision for risks and impairment	96	39	57	445	47	398
Other	42	46	(4)	51	43	8
Deferred taxes recognised through profit or loss	**424**	**179**	**245**	**582**	**172**	**410**

	Balance sheet 2012			**Balance sheet 2011**		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax on tax losses	252	-	252	95	-	95
Property, plant and equipment and intangible assets	58	362	(304)	57	455	(398)
Severance and retirement benefits	21	13	8	26	8	18
Financial assets and liabilities	5	2	3	5	1	4
Provision for risks and impairment	725	-	725	665	-	665
Other	148	81	67	169	45	124
Offsetting	(120)	(120)	-	(80)	(80)	-
Deferred taxes recognised through balance sheet	**1,089**	**338**	**751**	**937**	**429**	**508**
Cash-flow hedge derivatives	3	13	(10)	13	3	10
On actuarial gains and losses	121	31	90	96	47	49
Deferred taxes recognised through equity	**124**	**44**	**80**	**109**	**50**	**59**
	1,213	382	831	1,046	479	567

Deferred tax assets on tax losses that were caused by those companies participating in the national consolidation mechanism and not assessed at 31 December 2012 (€mil. 182) were recognised in the 2012 financial statements. This recognition only regarded those losses deemed recoverable on the basis of a prudent estimate of expectations for future taxable income in line with the Group plan.

37. Jointly-controlled entities

The Finmeccanica Group operates in certain sectors through entities over which control is exercised jointly with other parties and which are consolidated proportionally.
The primary jointly-controlled entities in which Finmeccanica takes part are: the Telespazio group (67%), the Ansaldo Energia group (55% – starting from the second half of 2011), the GIE-ATR Consortium (50%), Aviation Training International Ltd (50%), the Thales Alenia Space group (33%) and the MBDA group (25%).

The impact that these entities had on the consolidated financial statements is as follows:

	2012		2011	
	Amount	% of the consolidated amount	Amount	% of the consolidated amount
Current assets	2,600	14.68%	2,685	15.75%
Non-current assets	2,108	16.58%	2,018	14.90%
Current liabilities	2,700	14.63%	2,544	14.62%
Non-current liabilities	916	11.07%	760	8.85%
Revenue	3,154	18.32%	2,703	15.61%
Net profit	159	n.a.	58	n.a.

38. Earnings/(Losses) 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.

Basic EPS	2012	2011
Average shares outstanding during the reporting period (in thousands)	578,118	577,488
Earnings/(Losses) for the period (excluding non-controlling interests) (€ million)	(828)	(2,345)
Earnings/(Losses) - continuing operations (excluding non-controlling interests) (€ million)	(828)	(2,345)
Basic EPS	(1,433)	(4,061)

Diluted EPS	2012	2011
Average shares outstanding during the reporting period (in thousands)	578,118	577,488
Adjusted earnings/(losses) for the period (excluding non-controlling interests) (€ million)	(828)	(2,345)
Adjusted earnings/(losses) - continuing operations (excluding non-controlling interests) (€ million)	(828)	(2,345)
Diluted EPS	(1,433)	(4,061)

39. Cash flow from operating activities

	For the 12 months ended 31 December	
	2012	2011
Net profit/(loss)	(786)	(2,306)
Amortisation, depreciation and impairment losses	1,896	1,781
Share of profit/(loss) of equity-accounted investees	13	90
Income taxes	(33)	(146)
Cost of defined-benefit plans	71	33
Net financial expense/(income)	349	(24)
Net allocations to the provisions for risks and inventory write-downs	469	2,505
Other non-monetary items	(15)	29
	1,964	1,962

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:

	For the 12 months ended 31 December	
	2012	2011
Inventories	(739)	(296)
Contract work in progress, progress payments and advances from customers	(50)	(231)
Trade receivables and payables	447	151
Changes in working capital	(342)	(376)

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:

	For the 12 months ended 31 December	
	2012	2011
Payment of pension plans	(178)	(171)
Changes in provisions for risks and other operating items	(165)	(412)
	(343)	(583)

40. Financial risk management

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

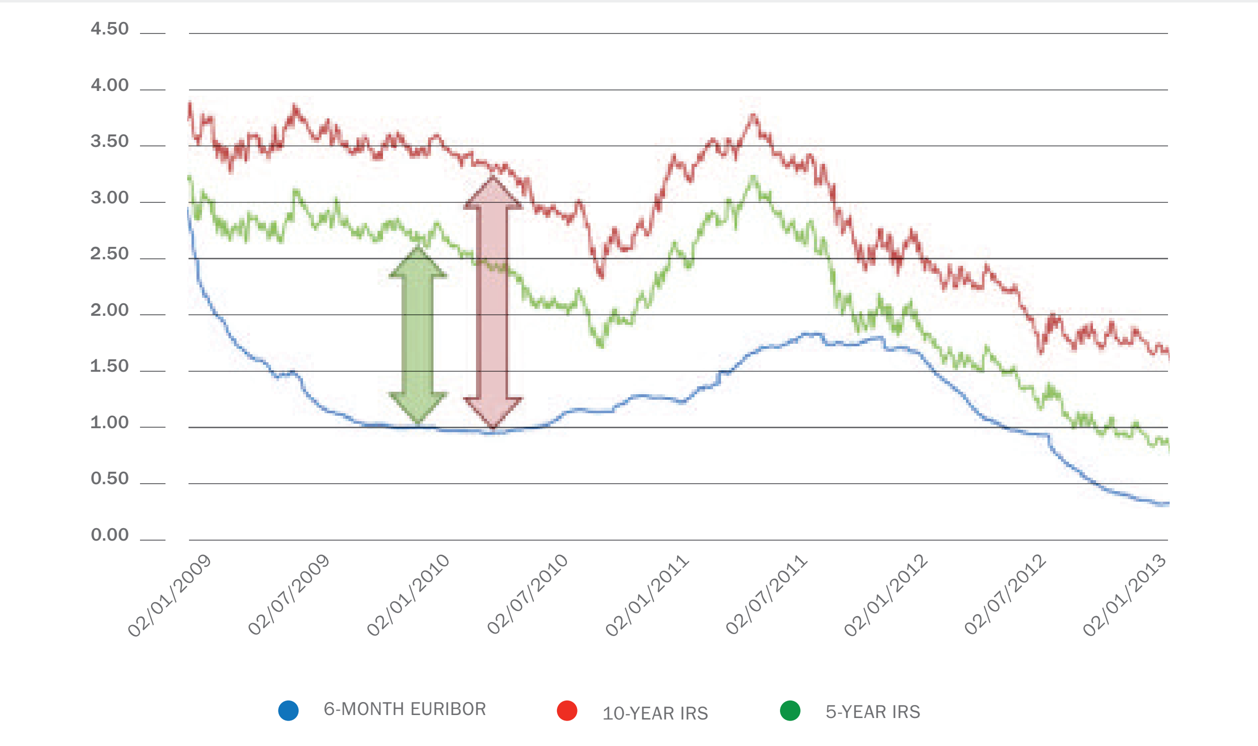
- *interest-rate risks*, related to the Group's financial exposure;
- *exchange-rate risks*, related to operations in currencies other than the reporting currency;
- *liquidity risks*, relating to the availability of financial resources and access to the credit market;
- *credit risks*, resulting from 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. 6,146 at 31 December 2012, prior to interest rate transactions, the fixed-rate percentage amounted to around 76%, while the floating-rate percentage is around 24%. Interest rate transactions, as described below (totalling €mil. 1,375, of which €mil. 750 at a floating rate) shift the floating-rate percentage to 32%.
The switch to floating rates on components of the Group's debt resulted in significant savings in borrowing costs in the last four years (total cash inflows of €mil. 131), consistent with movements in market interest rates which have tended to drop since 2009 through the present. As can be seen in the following chart, the short-term rate (the 6-month Euribor in the chart) fell suddenly by 200 basis points (bps) in 2009, then remained substantially stable until the end of 2010. In early 2011, the ECB announced that it would begin to bring rates up to a more appropriate level. Towards the end of 2011, the rates started to drop again, due to the deteriorated market sentiment in relation to the creditworthiness of the periferical Countries and to the economical crisis becoming more evident. The following chart shows the trend of the short-term rates (6-month Euribor) and of long-term rates (IRS- 5 and 10 years). The arrows represent the spread, that is the difference between particularly significant short and long-term rates (beyond 200 bps) in the period between the second half of 2009 and the first half of 2011. In 2012, the interest rate curve continued to decrease, both in the short and in the medium/long term, thus substantially emphasising the narrowing of the spread between short- and long-term. Accordingly, while in previous years the Group's strategy was to take advantage of this trend by switching a portion of the indebtedness into floating-rate debt, at the current market conditions, this strategy would appear much more risky. In fact, generally, the best time to assess the conversion from fixed to floating rate coincides with the periods when the spread between long-term (fixed) rate and short-term (floating) rate is considerable, as the saving (positive carry) is substantial and the floating rate is high enough to allow reductions.



At 31 December 2012, 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;
- *Interest rate swap fixed/floating rate* for €mil. 750, related to the bond due 2013, for a nominal amount of €mil. 750 (which decreased from an original amount of €mil. 1,000, as a result of buy-back transactions completed in more than one tranche). The transaction enables to benefit from the low costs of floating rates with a saving of more than 2%;
- Interest rate swaps (totalling €mil. 225) related to the bank loan of Ansaldo Energia expiring in 2016. Hedging transactions guarantee a fixed rate of 2.838% on nominal €mil. 150 and of 1.665% on nominal €mil. 75.

The detail of the main interest rate swaps at 31 December 2012 is as follows:

	Notional 2012	Notional 2011	Underlying (maturity)	Fair value at 1 Jan. 12	Changes Income	Changes Expense	Changes CFH reserve	Fair value at 31 Dec. 12
IRS fixed/floating/fixed	200	200	Bond 2018	5				5
Options	200	200	Bond 2025	(3)		(1)		(4)
IRS fixed/floating	750	750	Bond 2013	30		(8)		22
Other (net)	225	225	-	(11)				(11)
Total notional	**1,375**	**1,375**		**21**	**-**	**(9)**	**-**	**12**

	Notional 2011	Notional 2010	Underlying (maturity)	Fair value at 1 Jan. 11	Changes Income	Changes Expense	Changes CFH reserve	Fair value at 31 Dec. 11
IRS fixed/floating/fixed	200	200	Bond 2018	5				5
Options	200	250	Bond 2025	21		24		(3)
IRS fixed/floating	750	750	Bond 2013	32		2		30
Other (net)	255	-	-	(5)		(1)	(5)	(11)
Total notional	**1,375**	**1,200**		**53**	**-**	**(27)**	**(5)**	**21**

The table below shows the effects of the sensitivity analysis for 2012 and 2011 deriving from the 50-basis-point shift in the interest rate at the reporting date:

Effect of shift of interest rate curves	31 Dec. 2012 increase of 50 bps	31 Dec. 2012 decrease of 50 bps	31 Dec. 2011 increase of 50 bps	31 Dec. 2011 decrease of 50 bps
Net result	1	(1)	(6)	6
Equity (*)	1	(1)	(6)	6

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

Exchange-rate risk

Transaction risk

Due to its commercial operations, the Group's companies are exposed to the risk of fluctuations in the currencies in which their orders and costs are denominated (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 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 immediately recognised through profit and loss. 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's Group Finance Department in the interest of the fully owned entities and then matched with the companies of the Group, which incur the relevant costs.
At 31 December 2012, the Finmeccanica Group had outstanding foreign exchange transactions totalling €mil. 6,024 (notional amount) (an increase of 4% over the year-earlier period) as reported in the table below. Overall, the average euro/US dollar exchange rate for hedging purposes ranges from 1.30 to 1.33, relating in particular to Alenia Aermacchi, whose exposure represents about 51% of the Group's portfolio hedging transaction risk.

	Notional			Fair value at 1 Jan. 12	Changes			Fair value at 31 Dec. 12
	Sales	Purchases	Total		Income	Expense	CFH reserve	
Swap and forward transactions	3,110	2,914	**6,024**	**(43)**	26	(21)	49	**11**

	Notional			Fair value at 1 Jan. 11	Changes			Fair value at 31 Dec. 11
	Sales	Purchases	Total		Income	Expense	CFH reserve	
Swap and forward transactions	3,212	2,577	**5,789**	**(6)**	25	(34)	(28)	**(43)**

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

	31 December 2012				31 December 2011			
	Receipts Notional		Payments Notional		Receipts Notional		Payments Notional	
	USD	GBP	USD	GBP	USD	GBP	USD	GBP
Cash-flow and fair-value hedge transactions								
Within 1 year	2,103	23	1,166	1,361	1,928	11	888	1,207
2 to 3 years	1,368	14	310	25	1,180	10	263	105
4 to 9 years	236		67	5	169	-	161	7
Total	**3,707**	**37**	**1,543**	**1,391**	**3,277**	**21**	**1,312**	**1,319**
Trading transactions	356	7	293	1	758	9	292	-
Total transactions	4,063	44	1,836	1,392	4,035	30	1,604	1,319

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 2012 (1.3194 and 0.8161, respectively), and at 31 December 2011 (1.2939 and 0.8353 respectively).

	31 December 2012				31 December 2011			
	Effect of change in the €/GBP rate		Effect of change in the €/USD rate		Effect of change in the €/GBP rate		Effect of change in the €/USD rate	
	increase of 5%	*decrease of 5%*	*increase of 5%*	*decrease of 5%*	*increase of 5%*	*decrease of 5%*	*increase of 5%*	*decrease of 5%*
Net result	10	(8)	6	(7)	(6)	11	1	(1)
Equity (*)	-	3	35	(40)	(5)	11	54	(58)

(*) 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 GBP and USD) can have different values in euros depending on the performance of exchange rates, which affect the equity reserve named "Translation reserve" (Note 20). 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 United States 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 20.

Liquidity risk

The Group 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, the Group has adopted a series of instruments aimed at optimising the management of financial resources. In this regard, note the borrowing activity which was completed in previous years on bank and bond markets, with the last 5-year issue of €mil. 600 which was completed in December 2012 (in this regard, reference should be made to Financial Transactions section of the Report on Operations). As a result of this new issue, the average maturity of the bond debt is about 9 years.
Following said last transaction, at 31 December 2012 the EMTN (Euro Medium Term Program) programme, out of which all the current bonds of Finmeccanica SpA and Finmeccanica Finance SA were issued on the Euromarket, had been used for a total of about €mil 3,440, compared to its total amount of €mil. 3,800; the renewal of the programme for an additional 1-year period is expected to start in the first half of 2013.
It should be noted that, in December 2013, the Group will be required to repay the residual amount of the bond issue of an original amount of €mil. 1,000, which has already been reduced to €mil. 750 as a result of the buy-back transactions carried out in 2011 and 2012; these transactions have already been commented in detail in other sections of the document; furthermore, the refinancing of said residual amount has already been planned through the issue of a total amount of €mil. 600 in December 2012 (for a detailed description of the transaction, see the Financial Transactions section of the Report on Operations). Furthermore, the second repayment of €mil. 46 of the EIB loan, which was signed and used by Finmeccanica in 2010, is expected to be made in 2013.
Furthermore, Finmeccanica, in order to finance its own ordinary and extraordinary operations, can use the cash and cash equivalents of €mil. 2,137 reported at 31 December 2012, as well as its credit line (Revolving Credit Facility) totalling €mil. 2,400, which was entered into in 2010 and which will expire in September 2015. In this regard, it should be noted that the measures taken in 2012 by the Agencies on the rating of the medium/long-term debt of Finmeccanica caused the increase in the cost related to the use of said credit line, with a margin passed from an initial 0.75% to the current 1.47% on the Euribor for the period. At 31 December 2012, unconfirmed credit lines of €mil. 612 were available to the Group. At 31 December 2012 all credit lines described above were entirely unused.
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 2012 Finmeccanica had unconfirmed credit lines for an amount of about €mil. 2,054 at banks.

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 (for both financing and investing activities), and industrial counterparties (for guarantees given on payables or third party commitments) (Note 27).
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 businesses, creating significant outstanding credit positions and the subsequent need for transactions to convert the receivables into cash. In certain cases these delays are the result of special authorisation procedures typically used by government agencies or by the complexity of innovative contractual arrangements.

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 2012, we note the following:

	Libya	Greece	Nigeria
Assets	288	115	11
Liabilities	274	80	13
Net exposure	**14**	**35**	**(2)**

Finally, we do not exclude the possibility that the receivables related to these agreements, as reported in "Finmeccanica and risk management" in the Report on Operations, would not be paid, renegotiated or written off. Currently these events are not foreseeable.

The table below summarises trade receivables at 31 December 2012 and 2011, with most of the balance claimed, as indicated, from public-sector contractors or contractors belonging to public institutions:

€ billions	31 December 2012	31 December 2011
Portion due	3.0	2.9
- of which: for more than 12 months	*0.7*	*0.6*
Portion not yet due	2.0	2.4
Total trade receivables	**5.0**	**5.3**

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. 884 (€mil. 1,164 at 31 December 2011) include €mil. 253 (€mil. 93 at 31 December 2011) classified as "non-current" and consequently excluded from the net financial position. In particular, the non-current portion mainly includes the value of hybrid financial instruments issued by the investee BCV Investments, while the current portion mainly refers to the cash and cash equivalents of the MBDA and Thales Alenia Space joint ventures on deposit with the other partners (BAE and EADS in the first case; Thales in the second case) and financing to other related parties, as shown in the table below:

	2012			2011		
	Total	of which MBDA	of which TAS	Total	of which MBDA	of which TAS
Financial receivables from related parties	185			8		
Other financial receivables	68		1	85		1
Non-current financial receivables	**253**		**1**	**93**		**1**
Financial receivables from related parties	73			184		
Other financial receivables	558	300	191	887	570	194
Current financial receivables	**631**	**300**	**191**	**1,071**	**570**	**194**
Total financial receivables	**884**	**300**	**192**	**1,164**	**570**	**195**

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 gives a breakdown of Group assets by type of recognition.
Except for the financial instruments in BCV Investments SA, 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. The fair value of the hybrid financial instruments in BCV Investments SCA, vice versa, was determined on the basis of the price in the binding takeover bid made in 2012 for a great part of the underlying business (the so-called "Level 3", as defined in IFRS 7).

Liabilities are all valued using the "amortised cost method".

31 December 2012	Fair value through profit or loss	Loans and receivables	Hedging derivatives	Held to maturity	Available for sale	Total
Non-current assets						
Receivables	181	247		-	-	**428**
Other non-current assets	-	142		-	-	**142**
Current assets						
Trade receivables	-	5,050		-	-	**5,050**
Financial assets at fair value	-	-		-	5	**5**
Loans and receivables	-	631		-	-	**631**
Derivatives	36		71			**107**
Other current assets	-	601		-	-	**601**
Cash and cash equivalents		2,137				**2,137**

31 December 2011	Fair value through profit or loss	Loans and receivables	Hedging derivatives	Held to maturity	Available for sale	Total
Non-current assets						
Receivables	-	307		-	-	**307**
Other non-current assets	-	245		-	-	**245**
Current assets						
Trade receivables	-	5,265		-	-	**5,265**
Financial assets at fair value	-	-		-	40	**40**
Loans and receivables	-	1,071		-	-	**1,071**
Derivatives	65		102			**167**
Other current assets	-	544		-	-	**544**
Cash and cash equivalents		1,331				**1,331**

41. Information pursuant to Art. 149-*duodecies* of the CONSOB Issuers' Regulations

The following statement was prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers' Regulations and reports the fees for the year 2012 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.

€ thousands	Entity providing the service	to	Fees for the year 2012	Notes
Auditing services	KPMG SpA	Parent Company	461	
	KPMG SpA	Subsidiaries	9,081	
	KPMG SpA network	Subsidiaries	-	
Certification services	KPMG SpA	Parent Company	810	(1)
	KPMG SpA	Subsidiaries	119	(4)
	KPMG SpA network	Subsidiaries	-	(4)
Tax consulting services	KPMG SpA network	Parent Company	-	
	KPMG SpA network	Subsidiaries	159	(2)
Other services	KPMG SpA network	Parent Company	-	
	KPMG SpA network	Subsidiaries	72	(3)
Total			**10,702**	

(1) Certification services related to the bond issue of December 2012 and related to the Sustainability Report.
(2) Tax assistance services.
(3) Agreed-upon procedures.
(4) Activities connected with the certification of statements in order to tender bids.

Furthermore, before the assignment of the engagement as statutory auditor, KPMG provided consulting services to subsidiaries for a total of €thou. 4,507. These services complied with the regulations in force and mainly regarded IT services. These tasks were completed in 2012.

42. Remuneration to key management personnel

Remuneration paid to persons who have power and responsibility over the planning, management and control of the Company, including executive and non-executive directors, is as follows:

	31 December 2012	31 December 2011
Compensation	60	86
Post-employment benefits	1	1
Severance indemnity	1	17
Stock grants	-	2
Total	**62**	**106**

Remuneration paid to directors and managers with strategic responsibility came to €mil. 59 and €mil. 104 for 2012 and 2011, respectively.
Remuneration to the members of the Board of Statutory Auditors came to €mil. 3 and €mil. 2 for 2012 and 2011, respectively.
These figures include fees and other compensation, pensions and other benefits, including the portion borne by the Company, owed as a result of holding the position of director or Statutory Auditor of the Parent Company and of the other companies included in the scope of consolidation, that represented a cost for the Group.

The Group Parent, Finmeccanica SpA, in order to create an incentive and retention system for Group employees and collaborators, implemented incentive plans providing for the granting of Finmeccanica shares, subject to the attainment of specific objectives.

In 2011, the Performance Share Plan 2008-2010 terminated.

no. of shares	**31 December 2012**	**31 December 2011**
Rights existing at 1 January	-	-
New rights assigned	-	1,589,922
Rights exercised during the year	-	1,589,922
Rights lapsed during the year	-	-
Rights existing at period end	-	-

For the Board of Directors
the Chief Executive Officer and Chief Operating Officer
(Alessandro Pansa)

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-*BIS*, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 AS AMENDED

1. The undersigned, Alessandro Pansa, Chief Executive Officer and Chief Operating Officer, and Gian Piero Cutillo as the Officer in charge of preparing the accounting documents of Finmeccanica SpA, certify, in accordance with Art. 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 2012.

In this respect its is noted that:

2. no significant matters arose.

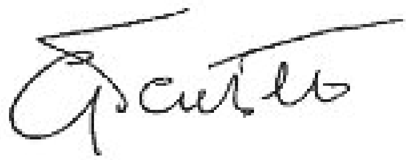
3. It is also certified that:
    3.1 The consolidated financial statements:
        a. were prepared in accordance with International Financial Reporting Standards endorsed by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
        b. correspond to the entries in the books and accounting records;
        c. were prepared in accordance with Article 154-*ter* of the aforesaid Legislative Decree 58/98 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 the companies included in 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 the companies included in 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 Art. 154-*bis*, paragraph 2, of Legislative Decree 58 of 24 February 1998.

Rome, 23 April 2013

The Chief Executive Officer and
Chief Operating Officer
Alessandro Pansa



The Officer in charge of preparing
the Company's accounting documents
Gian Piero Cutillo

ATTACHMENT: SCOPE OF CONSOLIDATION

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
3083683 NOVA SCOTIA LIMITED	Halifax, Nova Scotia (Canada)	CAD	-		100	100
ADVANCED ACOUSTIC CONCEPTS LLC	Wilmington, Delaware (USA)	USD	-		51	51
AGUSTA AEROSPACE SERVICES A.A.S. SA	Grace Hollogne (Belgium)	EUR	500,000		100	100
AGUSTA HOLDING BV	Amsterdam (The Netherlands)	EUR	232,400,000		100	100
AGUSTAWESTLAND TILT-ROTOR COMPANY INC. formerly AGUSTAW. TILT-ROTOR INC.	Wilmington, Delaware (USA)	USD	-		100	100
AGUSTAWESTLAND AMERICA LLC	Wilmington, Delaware (USA)	USD	10,000		100	100
AGUSTAWESTLAND AUSTRALIA PTY LTD	Melbourne (Australia)	AUD	400,00		100	100
AGUSTAWESTLAND DO BRASIL LTDA	Sao Paulo (Brazil)	BRL	11,817,172		100	100
AGUSTAWESTLAND ESPAÑA SL	Madrid (Spain)	EUR	3,300		100	100
AGUSTAWESTLAND HOLDINGS LTD	Yeovil, Somerset (UK)	GBP	40,000		100	100
AGUSTAWESTLAND INC.	New Castle, Wilmington, Delaware (USA)	USD	1,000		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 NV	Amsterdam (The Netherlands)	EUR	80,000	100		100
AGUSTAWESTLAND PHILADELPHIA CO.	Wilmington Delaware (USA)	USD	20,000,000		100	100
AGUSTAWESTLAND POLITECNICO ADVANCED ROTORCRAFT CENTER SCARL	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	Cascina Costa (Varese)	EUR	702,537,000		100	100
ALENIA AERMACCHI SPA formerly ALENIA AERONAUTICA SPA	Venegono Superiore (Varese)	EUR	250,000,000	100		100
ALENIA AERMACCHI NORTH AMERICA INC. formerly ALENIA NORTH AMERICA INC.	New Castle,Wilmington, Delaware (USA)	USD	44		100	100
ANSALDO RAILWAY SYSTEM TRADING (BEIJING) LTD	Beijing (China)	USD	1,500,000		100	40.066
ANSALDO STS AUSTRALIA PTY LTD	Brisbane (Australia)	AUD	5,025,885		100	40.066
ANSALDO STS BEIJING LTD	Beijing (China)	EUR	836,945		80	32.0528
ANSALDO STS CANADA INC.	Kingstone, Ontario (Canada)	CAD	-		100	40.066
ANSALDO STS DEUTSCHLAND GMBH	Munich (Germany)	EUR	26,000		100	40.066
ANSALDO STS ESPAÑA SAU	Madrid (Spain)	EUR	1,500,000		100	40.066
ANSALDO STS FINLAND OY (IN LIQ.)	Helsinki (Finland)	EUR	10,000		100	40.066
ANSALDO STS HONG KONG LTD	Kowloon Bay (China)	HKD	100,000		100	40.066
ANSALDO STS IRELAND LTD	CO KERRY (Ireland)	EUR	100,309		100	40.066
ANSALDO STS MALAYSIA SDN BHD	Kuala Lumpur (Malaysia)	MYR	3,000,000		100	40.066

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office	Currency	Share capital	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
ANSALDO STS-SINOSA RAIL SOLUT. SOUTH AFR. (PTY) LTD formerly ANS. STS SOUTH AFR.(PTY) LTD	Sandton (ZA - South Africa)	ZAR	2,000		100	40.066
ANSALDO STS SOUTHERN AFRICA (PTY) LTD	Gaborone (Botswana - Africa)	BWP	100		100	40.066
ANSALDO STS SWEDEN AB	Solna (Sweden)	SEK	4,000,000		100	40.066
ANSALDO STS TRANSPORTATION SYSTEMS INDIA PRIVATE LTD	Bangalore (India)	INR	1,312,915,050		100	40.066
ANSALDO STS UK LTD	Barbican (UK)	GBP	1,000,000		100	40.066
ANSALDO STS SPA	Genoa	EUR	80,000,000	40.066		40.066
ANSALDO STS USA INC.	Wilmington, Delaware (USA)	USD	1		100	40.066
ANSALDO STS USA INTERNATIONAL CO	Wilmington, Delaware (USA)	USD	1,000		100	40.066
ANSALDO STS USA INTERNATIONAL PROJECTS CO	Wilmington Delaware (USA)	USD	25,000		100	40.066
ANSALDOBREDA ESPAÑA SLU	Madrid (Spain)	EUR	3,010		100	100
ANSALDOBREDA INC.	Pittsburg, California (USA)	USD	5		100	100
ANSALDOBREDA SPA	Naples	EUR	55,839,139	100		100
AUTOMATISMES CONTROLES ET ETUDES ELECTRONIQUES SAS (ACELEC)	Les Ulis (France)	EUR	167,694		100	40.066
BREDAMENARINIBUS SPA	Bologna	EUR	1,300,000	100		100
CISDEG SPA	Rome	EUR	120,000		87.5	87.5
CYBERLABS SRL formerly SELEX ELSAG CYBERLABS SRL	Milan	EUR	20,000		100	100
DRS C3 & AVIATION COMPANY	Wilmington, Delaware (USA)	USD	1		100	100
DRS CENGEN LLC	Wilmington, Delaware (USA)	USD	-		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 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 RSTA INC.	Wilmington, Delaware (USA)	USD	1		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 SONETICOM INC.	Tallahassee, Florida (USA)	USD	5,629		100	100

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
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 GLOBAL SERVICES INC.	Plantation, Florida (USA)	USD	10		100	100
DRS TACTICAL SYSTEMS INC.	Plantation, Florida (USA)	USD	200		100	100
DRS TACTICAL SYSTEMS LIMITED	Farnham, Surrey (UK)	GBP	1,000		100	100
DRS TECHNICAL SERVICES GMBH & CO KG	Baden-Wurttemberg (Germany)	EUR	-		100	100
DRS TECHNICAL SERVICES INC.	Baltimora, 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	49
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 TEST & ENERGY MANAGEMENT LLC	Wilmington, Delaware (USA)	USD	-		100	100
DRS TRAINING & CONTROL SYSTEMS LLC	Plantation, Florida (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
ECOSEN CA	Caracas (Venezuela)	VEF	1,310,000		50.5	20.23
ED CONTACT SRL	Rome	EUR	600,000		100	100
ELECTRON ITALIA SRL	Rome	EUR	206,582		80	80
ELSAG NORTH AMERICA LLC	Madison, North Carolina (USA)	USD	3,000,000		100	100
ENGINEERED COIL COMPANY	Clayton, Missouri (USA)	USD	1,000		100	100
ENGINEERED ELECTRIC COMPANY	Clayton, Missouri (USA)	USD	1,000		100	100
ENGINEERED SUPPORT SYSTEMS INC.	Clayton, Missouri (USA)	USD	1		100	100
E-SECURITY SRL	Montesilvano (Perugia)	EUR	128,000		79.688	79.688
ESSI RESOURCES LLC	Louisville, Kentucky (USA)	USD	-		100	100
FATA ENGINEERING SPA	Pianezza (Turin)	EUR	1,092,000		100	100
FATA GULF CO. WLL	Doha (Quatar)	QAR	200,000		49	97
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	Luxembourg (Luxembourg)	EUR	12,371,940	100		100
FINMECCANICA GROUP REAL ESTATE SPA	Rome	EUR	49,945,983	100		100
FINMECCANICA GROUP SERVICES SPA	Rome	EUR	21,000,000	100		100

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office	Currency	Share capital	% Group ownership Direct	% Group ownership Indirect	% Group shareholding
GLOBAL MILITARY AIRCRAFT SYSTEMS LLC (IN LIQ.)	Wilmington, Delaware (USA)	USD	10,000		51	51
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	-		80	80
MECCANICA HOLDINGS USA INC.	Wilmington, Delaware (USA)	USD	10	100		100
MECCANICA REINSURANCE SA	Luxembourg (Luxembourg)	EUR	4,000,000		100	100
NET SERVICE SRL	Bologna	EUR	110,000		70	70
ORANGEE SRL	Rome	EUR	99,000		100	100
OTO MELARA IBERICA SAU	Loriguilla, Valencia (Spain)	EUR	120,000		100	100
OTO MELARA NORTH AMERICA INC.	Dover, Delaware (USA)	USD	10,000		100	100
OTO MELARA SPA	La Spezia	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 ŚWIDNIK SP.ZO.O.	Mechaniczna 13 - U1, Świdnik (Poland)	PLN	7,072,000		72.0588	72.0588
SELEX COMMUNICATIONS GMBH	Backnang (Germany)	EUR	2,500,000		100	100
SELEX COMMUNICATIONS INC.	San Francisco California (USA)	USD	650,000		100	100
SELEX COMMUNICATIONS ROMANIA SRL (***)	Bucharest (Romania)	RON	42,370		99.976	99.976
SELEX ELECTRONIC SYSTEMS SPA	Rome	EUR	1,000,000		100	100
SELEX ELSAG LTD	Chelmsford, Essex (UK)	GBP	25,800,100		100	100
SELEX ELSAG SPA (*)	Genoa	EUR	60,000,000		100	100
Selex ES DO BRASIL LTDA formerly SELEX COMMUNICATIONS DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	3,621,000		100	100
Selex ES INTERNATIONAL LTD formerly SELEX ELSAG HOLDINGS LTD	Chelmsford (UK)	GBP	60,000,000		100	100
SELEX GALILEO INC.	Wilmington, Delaware (USA)	USD	17,750,000		100	100
SELEX GALILEO LTD (***)	Essex (UK)	GBP	270,000,100		100	100
SELEX GALILEO MUAS SPA (***)	Rome	EUR	150,000		100	100
SELEX GALILEO SPA (**)	Campi Bisenzio (Florence)	EUR	231,464,449		100	100
Selex ES ELKTRONIK TURKEY AS formerly SELEX KOMUNIKASYON AS	Golbasi (Turkey)	TRY	56,501,808		99.999	99.999
SELEX SERVICE MANAGEMENT SPA	Rome	EUR	3,600,000	100		100
SELEX SISTEMI INTEGRATI SPA	Rome	EUR	143,110,986		100	100
SELEX SYSTEMS INTEGRATION GMBH	Neuss (Germany)	EUR	1,891,900		100	100
SELEX SYSTEMS INTEGRATION INC.	Delaware (USA)	USD	1		100	100
SELEX SYSTEMS INTEGRATION LTD	Portsmouth, Hampshire (UK)	GBP	71,500,001		100	100
S.C. ELETTRA COMMUNICATIONS SA	Ploiesti (Romania)	RON	10,847,960		50.5	50.4997
SIRIO PANEL SPA	Montevarchi (Arezzo)	EUR	447,228		100	100
SO.GE.PA. SOCIETÀ GENERALE DI PARTECIPAZIONI SPA (IN LIQ.)	Genoa	EUR	1,000,000	100		100
SISTEMI SOFTWARE INTEGRATI SPA	Taranto	EUR	1,664,000		100	100
T - S HOLDING CORPORATION	Dallas, Texas (USA)	USD	280,000		100	100
TECH-SYM LLC	Reno, Nevada (USA)	USD	10		100	100

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
UNION SWITCH & SIGNAL INC.	Wilmington, Delaware (USA)	USD	1,000		100	40,0656
VEGA CONSULTING SERVICES LTD	Hertfordshire (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
WESTLAND TRANSMISSIONS LTD	Yeovil, Somerset (UK)	GBP	1,000,100		100	100
WHITEHEAD SISTEMI SUBACQUEI SPA	Livorno	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		94.944	94.944
WYTWORNIA SPRZETU KOMUNIKACYJNEGO "PZL-ŚWIDNIK" SPOLKA AKCYJNA	Aleja Lotnikow, Świdnik (Poland)	PLN	86,006,050		96.09166	96.09166
ZAKLAD OBROBKI PLASTYCZNEJ SP.ZO.O.	Kuznicza 13 - U1, Świdnik (Poland)	PLN	3,800,000		100	96.09166

(*) From 1 January 2013 it was merged into SELEX Electronic Systems SpA.
(**) From 1 January 2013 it was merged into SELEX Electronic Systems SpA.
(***) From 1 January 2013 it changed its name, the suffixes "COMMUNICATIONS" and "GALILEO" were replaced with "ES"

LIST OF THE COMPANIES CONSOLIDATED USING THE PROPORTIONATE METHOD

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
THALES ALENIA SPACE SAS	Cannes La Bocca (France)	EUR	979,240,000	33		33
THALES ALENIA SPACE FRANCE SAS	Paris (France)	EUR	905,746,395		100	33
THALES ALENIA SPACE ITALIA SPA	Rome	EUR	204,007,999		100	33
THALES ALENIA SPACE ESPAÑA SA	Madrid (Spain)	EUR	4,507,500		100	33
THALES ALENIA SPACE ETCA SA	Charleroi (Belgium)	EUR	24,000,000		100	33
THALES ALENIA SPACE NORTH AMERICA INC.	Wilmington, Delaware (USA)	USD	200,000		100	33
THALES ALENIA SPACE DEUTSCHLAND SAS	Germany	EUR	25,000		100	33
FORMALEC SA	Paris (France)	EUR	n.d.		100	33
TELESPAZIO FRANCE SAS	Toulouse (France)	EUR	33,670,000		100	67
TELESPAZIO SPA	Rome	EUR	50,000,000		100	67
SPACEOPAL GMBH	Munich (Germany)	EUR	500,000		50	33.5
TELESPAZIO VEGA UK LTD formerly VEGA SPACE LTD	Welwyn Garden City, Herts (UK)	GBP	30,000,100		100	67
TELESPAZIO VEGA UK SL formerly VEGA CONSULTING & TECHNOLOGY SL	Madrid (Spain)	EUR	3,100		100	67
TELESPAZIO VEGA DEUTSCHLAND GMBH formerly VEGA SPACE GMBH	Darmstadt (Germany)	EUR	44,150		100	67
E-GEOS SPA	Matera	EUR	5,000,000		80	53.6
GAF AG	Munich (Germany)	EUR	256,000		100	53.6
EUROMAP SATELLITENDATEN-VERTRIEBSGESELLSCHAFT GMBH	Neustrelitz (Germany)	EUR	127,823		100	53.6
TELESPAZIO ARGENTINA SA	Buenos Aires (Argentina)	ARS	9,900,000		100	66.958
TELESPAZIO BRASIL SA	Rio de Janeiro (Brazil)	BRL	58,724,000		98.774	66.1786
TELESPAZIO NORTH AMERICA INC.	Doover, Delaware (USA)	USD	10		100	67
TELESPAZIO HUNGARY SATELLITE TELECOMMUNICATIONS LTD	Budapest (Hungary)	EUR	100,000		100	67
RARTEL SA	Bucharest (Romania)	RON	468,500		61.061	40.911
TELESPAZIO IBERICA SL formerly AURENSIS SL	Barcelona (Spain)	EUR	2,230,262		100	67
AMSH BV	Amsterdam (The Netherlands)	EUR	36,296,316	50		50
MBDA SAS	Paris (France)	EUR	53,824,000		50	25
MBDA TREASURE COMPANY LTD	Jersey (UK)	EUR	290,000		100	25
MBDA FRANCE SAS	Paris (France)	EUR	36,836,000		99.99	25
MBDA INCORPORATED	Wilmington, Delaware (USA)	USD	1,000		100	25
MBDA INTERNATIONAL LTD	UK	GBP	1,000,000		100	25
MBDA ITALIA SPA	Rome	EUR	120,000,000		100	25
MBDA UK LTD	Stevenage (UK)	GBP	5,345,292		99.99	25
MBDA UAE LTD	London (UK)	GBP	100		100	25
MATRA ELECTRONIQUE SA	Paris (France)	EUR	1,525,000		99.99	25
MBDA INSURANCE LTD formerly MBDA REINSURANCE LTD	Dublin (Ireland)	EUR	3,500,000		100	25
MBDA SERVICES SA	Paris (France)	EUR	38,000		99.68	24.92
MBDA DEUTSCHLAND GMBH formerly LFK-LENKFLUGKORPERSYSTEME GMBH	Unterschleissheim (Germany)	EUR	1,001,000		100	25
BAYERN-CHEMIE GMBH	Germany	EUR	511,292		100	25
TAURUS SYSTEMS GMBH	Germany	EUR	511,292		67	16.75
TDW GMBH	Germany	EUR	2,556,459		100	25
MBDA Spain	Madrid (Spain)	EUR	6,300		100	25
AVIATION TRAINING INTERNATIONAL LTD	Dorset (UK)	GBP	550,000		50	50

LIST OF THE COMPANIES CONSOLIDATED USING THE PROPORTIONATE METHOD

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
ROTORSIM SRL	Sesto Calende (Varese)	EUR	9,800,000		50	50
CONSORZIO GIE-ATR e SPE	Toulouse (France)	USD	-		50	50
SUPERJET INTERNATIONAL SPA	Tessera (Venice)	EUR	6,424,411		51	51
BALFOUR BEATTY ANSALDO SYSTEMS JV SDN BHD	Ampang (Malesia)	MYR	6,000,000		40	16.0262
KAZAKHASTAN TZ-ANSALDO STS ITALY LLP	Astana (Kazakhstan)	KZT	22,000,000		49	19.632
ANSALDO ENERGIA SPA	Genoa	EUR	100,000,000	54.55		54.55
ANSALDO SWISS AG formerly ANSALDO ESG AG	Wurenlingen (Switzerland)	CHF	400,000		100	54.55
ANSALDO NUCLEARE SPA	Genoa	EUR	500,000		100	54.55
ANSALDO THOMASSEN BV	Rheden (the Netherlands)	EUR	90,800		100	54.55
ANSALDO THOMASSEN GULF LLC	Abu Dhabi (United Arab Emirates)	AED	150,000		48.667	26.548
ASIA POWER PROJECTS PRIVATE LTD	Bangalore (India)	INR	3,140,300		100	54.55
YENI AEN INSAAT ANONIM SIRKETI	Istanbul (Turkey)	TRY	5,000,000		100	54.55

LIST OF COMPANIES CONSOLIDATED USING THE EQUITY METHOD

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
A4ESSOR SAS	Neuilly Sur Seine (France)	EUR	100,000		21	21
ABRUZZO ENGINEERING SCPA (IN LIQ.)	L'Aquila	EUR	1,100,000		30	30
ABU DHABI SYSTEMS INTEGRATION LLC	Abu Dhabi (United Arab Emirates)	AED	1,150,000		43.043	43.043
ADVANCED AIR TRAFFIC SYSTEMS SDN BHD	Darul Ehsan (Malaysia)	MYR	5,000,000		30	30
ADVANCED LOGISTICS TECHNOLOGY ENGINEERING CENTER SPA	Turin	EUR	552,223		51	16.83
AGUSTAWESTLAND AVIATION SERVICES LLC	Abu Dhabi (United Arab Emirates)	AED	10,000		30	30
ALENIA NORTH AMERICA-CANADA CO.	Halifax, Nova Scotia (Canada)	CAD	1		100	100
ALIFANA DUE SCRL	Naples	EUR	25,500		53.34	21.371
ALIFANA SCRL	Naples	EUR	25,500		65.85	26.38
ANSALDO AMERICA LATINA SA	Buenos Aires (Argentina)	ARS	150,000		99.993	54.546
ANSALDO – E.M.I.T. SCRL (IN LIQ.)	Genoa	EUR	10,200		50	50
ANSALDO ENERGY INC.	Wilmington, Delaware (USA)	USD	1,000		100	54.55
AUTOMATION INTEGRATED SOLUTIONS SPA	Pianezza (Turin)	EUR	100,000		40	40
BCV INVESTMENTS SCA	Luxembourg (Luxembourg)	EUR	5,446,513	14.321		14.321
BRITISH HELICOPTERS LTD	Yeovil, Somerset (UK)	GBP	6		100	100
CANOPY TECHNOLOGIES LLC	Wilmington, Delaware (USA)	USD	-		50	50
CARDPRIZE TWO LIMITED	Basildon, Essex (UK)	GBP	1		100	100
COMLENIA SENDIRIAN BERHAD	Selangor Darul Ehsan (Malaysia)	MYR	1,500,000		30	30

LIST OF COMPANIES CONSOLIDATED USING THE EQUITY METHOD

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
CONSORZIO START SPA	Rome	EUR	100,000		43.96	43.96
DEVELOPMENT & INNOVATION IN TRANSPORT SYSTEMS SRL	Rome	EUR	40,000		24	16.8079
DISTRETTO TECNOLOGICO AEROSPAZIALE SCARL	Brindisi	EUR	150,000		24	24
DOGMATIX LEASING LIMITED (IN LIQ.)	Mauritius Islands	USD	2		100	50
ELETTRONICA SPA	Rome	EUR	9,000,000	31.333		31.333
ELSACOM HUNGARIA KFT (IN LIQ.)	Budapest (Hungary)	HUF	3,000,000		100	100
ELSACOM NV	Amsterdam (the Netherlands)	EUR	4,537,802		100	100
ELSACOM SPA (IN LIQ.)	Rome	EUR	3,731,644		100	100
ELSACOM-UKRAINE JOINT STOCK COMPANY	Kiev (Ukraine)	UAH	7,945,000		49	49
EURISS NV	Leiden (the Netherlands)	EUR	500,000		25	8.25
EUROFIGHTER AIRCRAFT MANAGEMENT GMBH	Hallbergmoos (Germany)	EUR	127,823		21	21
EUROFIGHTER INTERNATIONAL LTD	London (UK)	GBP	2,000,000		21	21
EUROFIGHTER JAGDFLUGZEUG GMBH	Hallbergmoos (Germany)	EUR	2,556,459		21	21
EUROFIGHTER SIMULATION SYSTEMS GMBH	Unterhaching (Germany)	EUR	260,000		24	24
EUROMIDS SAS	Paris (France)	EUR	40,500		25	25
EUROSATELLITE FRANCE SA	France	EUR	40,000		100	33
EUROSYSNAV SAS	Paris (France)	EUR	40,000	50		50
EUROTECH SPA	Amaro (Udine)	EUR	8,878,946	11.08		11.08
FATA HUNTER INDIA PVT LTD	New Dehli (India)	INR	500,000		100	100
FINMECCANICA DO BRASIL LTDA	Brasilia (Brazil)	BRL	1,203,200	99.999		99.999
FINMECCANICA NORTH AMERICA INC.	Dover, Delaware (USA)	USD	1,000	100		100
FINMECCANICA UK LTD	London (UK)	GBP	1,000	100		100
GRUPO AURENSIS SA DE CV	Bosque de Duraznos (Messico)	MXN	50,000		100	67
IAMCO - INTERNATIONAL AEROSPACE MANAGEMENT COMPANY SCRL	Mestre (Venice)	EUR	260,000		20	20
ICARUS SCPA	Turin	EUR	10,268,400		49	49
IMMOBILIARE CASCINA SRL	Gallarate (Varese)	EUR	46,800		100	100
IMMOBILIARE FONTEVERDE SRL (IN LIQ.)	Rome	EUR	10,200		60	48
INTERNATIONAL METRO SERVICE SRL	Milan	EUR	700,000		49	19.63
I.M. INTERMETRO SPA (IN LIQ.)	Rome	EUR	2,461,320		33.332	23.343
IVECO - OTO MELARA SCRL	Rome	EUR	40,000		50	50
JIANGXI CHANGE AGUSTA HELICOPTER CO LTD	Zone Jiangxi Province (China)	USD	6,000,000		40	40
JOINT STOCK COMPANY SUKHOI CIVIL AIRCRAFT	Moscow (Russian Federation)	RUB	3,065,725,000		25.0001	25.0001
LIBYAN ITALIAN ADVANCED TECHNOLOGY CO	Tripoli (Lybia)	EUR	8,000,000	25	25	50
LMATTS LLC	Georgia (USA)	USD	100		100	100
MACCHI HUREL DUBOIS SAS	Plaisir (France)	EUR	100,000		50	49.99
METRO 5 SPA	Milan	EUR	50,000,000		31.9	17.16
METRO BRESCIA SRL	Brescia	EUR	500,000		50	25.787
MUSI NET ENGINEERING SPA	Turin	EUR	520,000		49	49
N2 IMAGING SYSTEMS LLC	Wilmington, Delaware (USA)	USD	-		30	30
NGL PRIME SPA	Turin	EUR	120,000	30		30
NHIndustries SAS	Aix-en-Provence (France)	EUR	306,000		32	32

LIST OF COMPANIES CONSOLIDATED USING THE EQUITY METHOD

Company name	Registered office	Currency	Share capital	% Group ownership		% Group shareholding
				Direct	Indirect	
NICCO COMMUNICATIONS SAS (IN LIQ.)	Colombes (France)	EUR	38,200		50	50
NNS SOCIETE DE SERVICE POUR REACTEUR RAPIDE SNC	Lyon (France)	EUR	76,200		40	21.82
NOVACOM SERVICES SA	Toulouse (France)	EUR	5,217,200		39.73	26.62
ORIZZONTE SISTEMI NAVALI SPA	Genoa	EUR	20,000,000		49	49
PEGASO SCRL	Rome	EUR	260,000		46.87	18.778
POLARIS SRL	Genoa	EUR	100,000		49	26.73
QUADRICS LTD (IN LIQ.)	Bristol (UK)	GBP	3,250,000		100	100
ROXEL SAS	Le Plessis Robinson (France)	EUR	52,595,100	50	12.5	
SAPHIRE INTERNAT. ATC ENGINEERING CO LTD	Beijing (China)	USD	800,000		65	65
SC POLARIS - ANSERV SRL	Bucharest (Romania)	USD	50,000		20	10.91
Selex ES AUSTRALIA PTY LTD	Canberra (Australia)	AUD	2		100	100
SELEX GALILEO ELECTRO OPTICS (OVERSEAS) LTD (***)	Basildon, Essex (UK)	GBP	15,000		100	100
SELEX GALILEO INDIA PRIVATE LTD (***)	New Delhi (India)	INR	30,100,000		100	100
SELEX GALILEO INFRARED LTD (***)	Basildon, Essex (UK)	GBP	2		100	100
SELEX GALILEO (PROJECTS) LTD (***)	Basildon, Essex (UK)	GBP	100		100	100
SELEX GALILEO SAUDI ARABIA COMPANY LTD	Riyadh (Saudi Arabia)	SAR	500,000		100	100
SELEX PENSION SCHEME (TRUSTEE) LTD	Basildon, Essex (UK)	GBP	100		100	100
SELEX SISTEMI INTEGRATI DE VENEZUELA SA	Caracas (Venezuela)	VEF	321,000		100	100
SERVICIOS TECNICOS Y ESPECIALIZADOS Y DE INFORMACION SA DE CV	Bosque de Duraznos (Mexico)	MXN	50,000		100	67
SEVERNYJ AVTOBUZ Z.A.O.	St. Petersburg (Russia)	RUB	84,000		35	35
SIRIO PANEL INC.	Dover, Delaware (USA)	USD	10,000		100	100
SISTEMI DINAMICI SPA	San Piero a Grado (Pisa)	EUR	200,000		40	40
CONSORZIO TELAER	Rome	EUR	103,291		100	67.52
CONSORZIO TELAER SISTEMI DI TELERILEVAMENTO AEREO	Rome	EUR	120,000		62	47.152
TELESPAZIO NETHERLAND BV	Enschede (the Netherlands)	EUR	45,378		100	67
TRIMPROBE SPA (IN LIQ.)	Rome	EUR	1,576,002	100		100
TURBOENERGY SRL	Ferrara	EUR	5,846,990		21.443	11.79
WIN BLUEWATER SERVICES PRIVATE LIMITED	New Delhi (India)	INR	12,000,000		99.99	99.99
WESTERN INVESTORS TECHNOLOGY GROUP INC	Kent, Dover, Delaware (USA)	USD	100,000		24	24
WESTERN INVESTORS TECHNOLOGY GROUP LTD PARTNERSHIP	Kent, Dover, Delaware (USA)	USD	500,000		20	20
XAIT SRL	Ariccia (Rome)	EUR	50,000		100	100
ZAO ARTETRA	Moscow (Russian Federation)	RUB	353,000		51	51

(***) From 1 January 2013 it changed its name, the suffixes "COMMUNICATIONS" and "GALILEO" were replaced with "ES".

LIST OF SUBSIDIARIES AND ASSOCIATES VALUED AT COST

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	49
AGUSTAWESTLAND UK PENSION SCHEME (TRUSTEE) LTD	Yeovil (UK)	GBP	1		100	100
ANSALDOBREDA FRANCE SAS (IN LIQ)	Marseilles (France)	EUR	200,000		100	100
CCRT SISTEMI SPA (IN BANKRUPTCY)	Milan	EUR	697,217		30.34	30.34
EUROPEAN SATELLITE NAVIGATION INDUSTRIES GMBH (IN LIQ.)	Ottobrunn (Germany)	EUR	264,000	18.94	18.94	25.19
EUROPEAN SATELLITE NAVIGATION INDUSTRIES SA (IN LIQ.)	Bruxelles (Belgium)	EUR	264,000	18.94	18.94	25.19
INDUSTRIE AERONAUTICHE E MECCANICHE RINALDO PIAGGIO SPA (EXTR. ADM.)	Genoa	EUR	103,567	30.982		30.982
SAITECH SPA (IN BANKRUPTCY)	Passignano sul Trasimeno (Perugia)	EUR	2,582,284		40	40
SELEX SISTEMI INTEGRATI DO BRASIL LTDA	Rio de Janeiro (Brazil)	BRL	500,000		99.9998	99.9998
SEL PROC SCRL (****)	Rome	EUR	300,000		100	100
SESM - SOLUZIONI EVOLUTE PER LA SISTEMISTICA E I MODELLI - SCRL	Naples	EUR	323,440		100	100
YENI ELEKTRIK URETIM ANONIM SIRKETI	Istanbul (Turkey)	TRY	145,000,000		40	21.82

(****) From January 2013 it changed its legal status from a limited liability consortium company (SCRL) to a limited liabity company (SRL).

Below are the main changes in the scope of consolidation at 31 December 2012 in comparison with 31 December 2011.

Companies which entered the scope of consolidation:

Company		Month
Turboenergy Srl	change in ownership interest	January 2012
DRS Technologies Saudi Arabia LLC	newly set up	January 2012
Development & Innovation in Transport Systems Srl	newly set up	February 2012
AgustaWestland Aviation Services LLC	newly set up	March 2012
Selex ES Australia PTY Ltd	newly set up	December 2012

Companies which left the scope of consolidation:

Company		Month
MSSC Company	deconsolidated	January 2012
Ansaldo STS Sistemas de Transporte e Sinalizacao Limitada	deconsolidated	January 2012
Ansaldobreda France SAS (in liquidation)	not operating	January 2012
Elsacom Slovakia SRO (in liquidation)	deconsolidated	January 2012

Merged companies:

Company		Month
Alenia SIA SpA	merged into Alenia Aeronautica SpA	January 2012
Alenia Aermacchi SpA	merged into Alenia Aeronautica SpA	January 2012
Fileas SAS	merged into Telespazio France SAS	January 2012
Vega Technologies SAS	merged into Telespazio France SAS	January 2012
PZL Invest SP. Z O.O.	merged into PZL Świdnik	January 2012
Zaklad Utrzymania Ruchu SO. Z O.O.	merged into PZL Świdnik	January 2012
Swidtrans SP. Z O.O.	merged into PZL Świdnik	January 2012
Zaklad Remontowy SP. Z O.O.	merged into PZL Świdnik	January 2012
Seicos SpA	merged into SELEX Elsag SpA	January 2012
Telespazio Holding Srl	merged into Telespazio SpA	January 2012
Amtec SpA	merged into SELEX Elsag SpA	January 2012
Night Vision Systems LLC	merged into DRS RSTA Inc.	April 2012
Ansaldo Energia Holding SpA	merged into Ansaldo Energia SpA	June 2012
Telespazio Deutschland GmbH	merged into Vega Space GmbH	January 2012
AgustaWestland Tilt-Rotor Company LLC	merged into Agusta US Inc.	July 2012
Zaklad Narzedziowy w Swidniku SP. Z O.O.	merged into PZL Świdnik	December 2012

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2012

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(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Finmeccanica S.p.a.

1 We have audited the consolidated financial statements of the Finmeccanica Group as at and for the year ended 31 December 2012, comprising the income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes thereto. The parent's directors are responsible for the preparation of these financial statements 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. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report of other auditors dated 20 April 2012 for their opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Finmeccanica Group as at and for the year ended 31 December 2012 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Finmeccanica Group as at 31 December 2012, the results of its operations and its cash flows for the year then ended.

4 Without qualifying our opinion, we draw attention to the disclosures provided by the parent's directors in the notes to the consolidated financial statements and in the corporate governance report and shareholder structure included in the report on operations, to which reference is made, with regards to the judicial investigations involving Finmeccanica S.p.a. and certain subsidiaries, as well as some former directors and managers of these companies.

5 The directors of Finmeccanica S.p.a. are responsible for the preparation of a report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and its specific section on corporate governance and shareholder structure, to the extent of the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the report on operations and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the specific section of such report are consistent with the consolidated financial statements of the Finmeccanica Group as at and for the year ended 31 December 2012.

Rome, 30 April 2013

KPMG S.p.A.

(signed on the original)

Riccardo Cecchi
Director of Audit

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